Joel Kotkin’s inherent optimism is a welcome antidote to the gloom and doom that’s taken hold of so many in the wake of the great recession. In *The Next Hundred Million: America in 2050*, he uses copious reference material and broad strokes to paint a relatively cheery vision of America’s future, which he believes will be driven largely by people, place, and national character.

Kotkin is a scholar on urban development, currently a fellow at Chapman University in Orange, CA and the Legatum Institute, a London-based think tank.

The U.S.’s population will grow more than those of most other advanced countries, and we will benefit from our unique capacity for attracting and assimilating talented and ambitious people from diverse backgrounds. The U.S. possesses vast undeveloped space compared to most advanced nations, which will foster a higher rate of household formation. And America will continue to demonstrate a unique and powerful ability to reimagine, reinvent and reinvigorate itself.

Embodying the saying that “America is a country founded on and sustained by optimism,” Kotkin argues that “America in the 21st century may become, as it was in its first century … exceptional in everything from culture and science to agriculture and politics. … The America of 2050 may not stride the world like a hegemonic giant, but it will evolve into the one truly transcendent superpower in terms of society, technology, and culture.”

The power of people

By 2050, the U.S. will have over four hundred million residents, roughly a third more than today, according to Kotkin. This rate of population growth, driven by both native births and immigration, will exceed other advanced nations such as Japan and those of western Europe, and looming rivals like China.

Increasing ethnic diversity, along with rising economic challenges and environmental stresses, will create risks but also tremendous opportunities, Kotkin forecasts. He firmly believes, however, that the innovative and entrepreneurial spirit of America, combined with its impressive ability to absorb and integrate new immigrants and foreign cultures, will enable it to meet these challenges and then some.

The power of place

A particularly interesting and controversial aspect of Kotkin’s vision is the importance he places on suburban and exurban development. He foresees that people’s desire for space and a home-based work environment will combine with high relative costs of living on the coasts and employers’ increasing amenability to telecommuting. While he’s a proponent of the revitalization of rundown city centers (“infilling”) and sees some upside for old urban centers, he predicts that, like Houston, Dallas, Phoenix, Atlanta, Las Vegas, and others, new American cities will continue to follow the sprawling development model pioneered in Los Angeles, with downtown cores dedicated mainly to entertainment, while the more intensive investments in residential and business capital occur in the outer rings. Although urban renewal and greening efforts seem to receive far more press coverage, current trends in suburban development, as well as survey data, lend plenty of support to Kotkin.

Kotkin also predicts that the American heartland, most of which has been hemorrhaging people for generations, will experience a profound renewal between now and 2050, thanks to better economic opportunities, cheaper land, and lower costs of living. As evidence he points to the rise of rural Midwestern cities like Omaha, Kansas City, Fargo, Sioux Falls, and Des Moines.

My personal experience suggests that Kotkin is right. I recall meeting a fellow traveler at the Oakland Airport who had relocated from California to Kansas City at the turn of the millennium, where she was able to buy a house five times as nice as she would have been able to otherwise. Five years later, she was still thrilled with her decision. I heard a similar story from some retirees I met who had decided to move to Tennessee rather than Florida. Empirically, if we take average commute time as a valid quality of life component, the five states with the shortest average commute are North and South Dakota, Nebraska, Wyoming, Kansas, and Iowa. Like the modern style of urban development in the U.S., the sprawling and...
uncrowded geography of the Midwest parallels what Kotkin sees as the essential character of the American economy and polity: flat and decentralized.

Kotkin versus the “Urbanists”

Of course, Kotkin is not the first scholar to point out that the changing nature of work contributed to the development of dense and sometimes vibrant urban cores during the industrial revolution, or to the development of more modern cities and suburbs in the information age. But at a time when many environmentalists and policy wonks favor denser human settlement, including re-urbanization and city center renewals, Kotkin is fairly unique (although as he points out, his position is reflective of the preferences of a majority of individuals). To him, the term “sprawl” is clearly not a four letter word, a fact that has not endeared him to those who view dense urban living as a key to environmental sustainability.

Urbanists, unsurprisingly, argue that there are greater ecological costs to suburban and exurban development, and many environmentalists favor denser human settlement patterns. Surely there are many tradeoffs, some of them complex, and where you come out on this issue often depends on what measures you consider. Kotkin does not rehash that debate in detail, but anyone concerned with development policy must dig deeply and honestly enough to understand the tradeoffs. Kotkin has a reputation in some circles for obscuring the economic factors that drive his preferences (one anonymous web critic cleverly quipped that asking him for his opinion on suburbs was akin to asking Joe Camel’s opinion on smoking). Some of the aspersions are clearly overblown – as Kotkin points out, support for the book came from fairly diverse institutions – but as any good financial advisor understands, he would do well to offer full disclosure of any economic interests in the positions that he stakes out publicly.

Kotkin frequently mentions his ecological debates with urbanists. The arguments are well established and fairly obvious, though they should continue to evolve in interesting ways; for example, as Christopher Leinberger of the Brookings Institution recently acknowledged, Kotkin agrees with many urbanists on the importance of pedestrian-friendly environments. But with a bit of reflection, it becomes apparent that Kotkin’s vision, as optimistic and compelling as it is, raises other important questions, only some of which he addresses, but usually only in passing. He does not usually deal with them head on.

How many people?

While Kotkin appears to be on solid ground in arguing that most people prefer to live in less dense surroundings – a 2009 Pew Research Center study found that only 23% of respondents desired to live in cities – there is a limit to the number of people that America’s historically plentiful real estate can accommodate? As one anti-immigration reviewer argued:

Benjamin Franklin observed in 1751 that Americans were happier than Europeans because a larger proportion of Americans could afford to own land, to marry, and to have children. Why? Because there were fewer Americans per acre. Franklin’s logic about high wages and cheap land being conducive to marriage still applies. Yet his insight has been forgotten in the bipartisan elite consensus in favor of lax immigration policies that inflate the supply of labor and the demand for land.

At what point would the U.S. population stop growing in response to higher density? We should indeed enjoy a demographic dividend between now and 2050, at least when compared to other developed economies. But then what?

And while expanded labor supply and greater demand for real estate have some obvious benefits, economics is about inevitable tradeoffs; Kotkin does not spend much time reflecting on those longer term implications.

The Pew study also found high levels of dissatisfaction in rural areas. Will there be stubborn pockets of frustration and poverty among Kotkin’s suburban, township, and new city archipelagos? If so, he doesn’t mention them.

What kinds of people?

Besides the objections of immigration opponents, questions need to be addressed from a pro-immigration standpoint. For example, economist Reuven Brenner has argued that historically, one of the strongest drivers of national economic performance is the immigration of talented and creative individuals. In other words, the quality of the immigrants who make up part of the next hundred million is at least as important as their quantity, if not more so (this is usually a point of agreement between the two sides of the immigration debate). In an article entitled Our Muddled Masses, Brenner wrote that:

Without innovation, America faces prolonged stagnation. The outlook seems bleak. Between 1988 and 1998, manufacturing productivity growth rose from less than 2 percent to more than 5 percent per annum. By 2008, it had fallen
back to the 2 percent range as the great wave of innovation abated. This outcome is not inevitable, however. America has been obtaining a disproportionate flow of skilled innovators by attracting these "vital few" to its shores. Without their contribution, America may neither sustain the economic growth required to absorb the penurious many nor raise their standards of living. The impact of the vital few does trickle down.

Brenner also raised a point that is critically important to Kotkin’s thesis – America’s ability to attract the vital few will no longer go unchallenged, as it has for many decades, and we risk worsening our competitive position through serious immigration policy errors. This risk is heightened in times of recession and high unemployment:

…would-be migrants’ opportunities at home are growing, and America’s ability to continue to attract talent is hindered by a misguided immigration policy. This is illustrated, in part, by the fact that, at present, applications by American businesses for specialized work visas for immigrants have a backlog of over five million.

In fact, some of the same technological and cultural advances that Kotkin uses to support his thesis will help to improve the competitive position of other countries relative to the U.S. American culture and our political system are surely unique, but Kotkin assumes that this competitive advantage will remain untouched in the decades ahead. Perhaps, but history makes it clear that cultures and countries can change, adapt, and evolve (see Singapore, for example). If there’s an Achilles heel in Kotkin’s outlook, it’s this.

A closer look at demographics

Important questions on demographic trends are left untouched. While most, including Kotkin, agree on the importance of immigration quality, it’s easy to overlook the quality of a population’s underlying age structure. New household formation is a powerful driver of credit cycles and GDP growth. Thus, the proportion of young adults in a population plays a critical role in driving expectations and business cycles. A high proportion of older working age adults may support asset prices and productivity. Given that we are exiting the decades when baby boomers formed households and entered their peak earning years, it’s far from assured that real U.S. GDP will maintain the 3% to 4% annualized that it has managed since the 1960s.

Yet another unsettled demographic issue is how the current jobs recession will impact the child-rearing decisions of young adults in the years ahead. For example, a surprisingly large proportion of young adults in Japan continued to live with their parents during its lost decade (a period of poor economic performance due, at least in part, to unfavorable demographics).

How might Kotkin’s vision for 2050 change if shifts in age structure were better accounted for, or if larger numbers of young adults decide to forego child rearing or even household formation?

Still cause for optimism

I suspect that such changes wouldn’t alter the big picture much. Against other advanced countries, America should have little problem maintaining its competitive edge in attracting and assimilating immigrants. Its demographic advantage may wane, but America still has strong geographic, political, social, cultural, and economic forces working in its favor (and demographic trends in China, its fastest rising rival, look horrendous by comparison).

As Kotkin is careful to admit, challenges will arise, both expected and unforeseen. As he notes, however, when one weighs America’s strengths against those risks, it certainly doesn’t argue for her imminent demise:

The notion of inevitable American decline…consistently underestimates America’s proven adaptability, its sokojikara [self-renewing power]. The United States still possesses the fundamental tools – human and material resources, entrepreneurship, and stable political institutions – to overcome the likely potential threats to its preeminence. Perhaps the greatest danger would be to take the notion of inevitable decline to heart and in the process lose the motivation to meet the coming challenges.

While not a must read for every investor, Kotkin’s book will be very useful to real estate investors, policymakers and planning specialists. It’s a strong antidote to rampant pessimism, and it might make an especially nice gift for any doom-and-gloomers on your shopping list.

Art Patten is the co-founder and president of Symmetry Capital Management, LLC, an emerging RIA in Jenkintown, PA. He is also an adjunct professor of business strategy at Villanova University, and an adjunct lecturer in mathematics at Holy Family University.