

Joel Kotkin's "The Next Hundred Million - America in 2050" is a must on your summer reading list

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On vacation in Stowe, VT., I was able to sit down and read Joel Kotkin's *The Next Hundred Million - America in 2050* (Penguin Books, 243 pages, \$16). Kotkin had spoken at the Counselors of Real Estate Spring meeting in Chicago in late April. I have read all his books and follow his column at Forbes.com. I was pleasantly surprised to hear that he is optimistic about America's future. Kotkin is a geographer and demographer. His thesis is that the U.S. will grow by 100 million population in the next 40 years. This will be "high-end" immigration, mostly of foreign students who come here for advanced degrees and many stay. It will also be "lower-end" immigration, some from Mexico and other South and Central American countries, as well as political refugees from Africa and the Middle East. He does not sort these folks. He feels they all, or mostly all, can contribute positively to the U.S. economy and quality of life. He is a firm advocate for immigration, unequivocally stating that the benefits far outweigh the disadvantages.

As a geographer, Kotkin spends much of his time looking at where these new residents will live. The dense, built-out cities of Boston, New York, Chicago, Atlanta and Los Angeles will take some, but most/many will go to new cities - Raleigh/Durham, Charlotte, Dallas, Phoenix, Boulder and even the Dakotas. These communities have land, a much lower cost of living and much of the country is experiencing an energy and agricultural boom. This economic boost provides opportunity for all types of entrepreneurs. Kotkin describes four regions in the U.S. - the Great Plains (energy and agriculture); the Intermountain West (energy and/or the West Coast technology) called the "Third Coast"; the Gulf Coast (again cheap natural gas); and the industrial Southeast - Alabama, North Carolina, South Carolina and lower Virginia. These areas are poised for growth because they are open to development, have affordable land, low construction costs and mostly reasonable climates (tornadoes and hurricanes aside). This is a positive, upbeat thesis.

Now for those of us in the Northeast, not so much! High housing costs (\$333,000 average), high energy costs and cost of living. We are aging. New Hampshire is the third grayest state. Now this "Baby Boomer Bubble" is a double-edged sword. On the front end (now) there is considerable wealth, but as we dial forward 10 to 15 years, the aging will drive up medical care costs which can be a big drag if the state(s) are not adding new, younger workers to support the older cohort. Kotkin elaborates on the unique American small government approach (over 65,000 general purpose government units). This contrasts greatly with Europe (i.e. the European Union) and China, etc. Kotkin sees this as a big plus for the U.S.

"The trend toward all things local is part of a distinct American tradition that sees the small units of society as absolutely vital. Most academic planners, policy gurus and national media have a tendency to favor larger government units as the best way to regulate and plan for the future. They consistently seek to reduce the influence exercised by the plethora of villages, towns and cities in

the U.S. With so many small towns, the average local jurisdiction population in the U.S. is 6,200, small enough that non-professional politicians can have a serious impact on local issues."

"In the 21st Century world many countries will tend toward a hierarchical system in which national (or global) elites simply dictate results. Here the American desire for local control could well seem an outlier and will be challenged by many in the policy community within the country, couched largely in environmental rationales. This style of top-down control is already well-established in China, Russia and many developing countries. A more benign trend toward continental centralization can be seen in Europe (although many Europeans are likely to strongly resist it), where the model calls for more power to be concentrated in Brussels."

"The federal government has played an important role in developing the American landscape through public works, the interstate highways, and the defense and space programs. But, for the most part, Americans generally tend to believe that local communities, neighborhoods and parents should possess the power to craft appropriate solutions to local problems. Democracy in America has been largely self-created and dispersed; in many countries in Europe, and more recently in parts of Asia, it was implemented by the state. As a result, in the U.S. the individual, the community and even the political locality have been stronger and more fundamental."

Kotkin feels class (i.e., the middle-class), not race, will be the growing force for the U.S. economy. Kotkin brings it all home in his discussion about "Reviving the Real Economy". "To succeed in the mid-21st Century, Americans will need to attend to the country's basic investments in industries. Some assume that the American future can be built around a handful of high-end "creative" jobs and that it will not require reviving the old industrial economy or the basic infrastructure for the successful dispersion of the economy. In the America envisioned by the advocates of the creative economy, our productive facilities would serve mainly as tourist attractions, much as we now visit restored pioneer villages."

"In reality a more prosperous future is possible, but only if the country focuses both on developing the intellectual prowess of its citizenry and on maintaining the physical infrastructure necessary for basic production and transportation. A single-minded emphasis on non-tangible industries is a dangerous delusion, particularly for a country that must accommodate 100 million more people over the next few decades."

"One danger sign of misguided priorities is the increasing dominance of finance over all other activities. By mid-2000s finance accounted for some 41% of all American profits, three times the percentage in the 1970s. Financial activities' share of total income grew by a similar amount."

"But the massive collapse of the financial sector - and the ensuing gargantuan government effort to prop it up - reveals the limitations of this approach. An over emphasis on finance tends to create a misallocation of resources, and massive credit bubbles intensify a growing dependence on foreign countries for both manufactured goods and commodities. In 1970 the U.S. enjoyed a modest \$3.4 billion manufacturing trade surplus. Just 14 years later, it had amassed a then unthinkable large \$80 billion industrial deficit. That deficit now stands at more than \$800 billion."

"This approach is unsustainable: an economy based on financial services cannot provide the necessary wealth for a growing population, or pay for the education of the young or the retirement of its elderly. After the great bubble crash that began in 2007, even some top corporate executives admitted that the finance-centered approach was severely limited. "I believe a popular, 30 year notion that the U.S. can evolve from a technology and manufacturing leader into a service leader it is just wrong", admitted Jeffrey Immelt, the CEO of General Electric, a company that had

investments in both in early 2009."

This is a positive upbeat thesis and one to put on your summer reading list. Let's hope he is right.

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