America is in the midst of sweeping demographic changes, and will be a much older and more diverse nation by 2050. In addition, social, economic and technological changes will reshape the domestic and global economy. At a time when we face myriad critical challenges, how can we secure our country’s leading economic role and ensure well-being for succeeding generations? This expert panel will include an in-depth look at current demographic trends and an exploration of rising socio-economic concerns including inequality and opportunity, and the key policy areas to address these structural changes for a stronger future for America.

This panel discussion with Bill Frey, Heather Hahn, Philip N. Jefferson, and Margaret Spellings was conducted by Stef Kight, reporter for Axios, as part of the 2019 Fiscal Summit.

ANNOUNCER: Ladies and gentlemen, please welcome Axios reporter Stef Kight and her panel.

STEF KIGHT: Hello. Yes, I am Stef Kight and I’m a reporter from Axios, where I cover demographics and immigration. And yes, I am one of those millennials that you were just hearing about. So I’m very happy to be here talking about these important topics with all of you, and I’m especially grateful to be here with this wonderful panel that I want to take a minute to introduce.

So here we next to me Bill Frey from the Brooking institution. And next to him, Heather Hahn, a senior fellow at the Urban Institute. And beside her we have Philip Jefferson, who is a professor of economics at Swarthmore College. And last but not least, Margaret Spellings, a senior consultant at Texas 2036 and the former secretary of the Department of Education. So thank you all for being here.

So there are a lot of changes happening in this country. In just the past 20 years, the iPhone came into existence. Donald Trump both premiered on “The Apprentice” and is now president of the United States. We no longer have the Twin Towers, and Brexit is a thing. Just in the past 20 years. And now, looking at the next 20 to 30 years, and we’re expecting even more significant changes, to what we look like as Americans, what we believe and where we spend our money. And to kick us off, I’d love to have Bill Frey, who has spent a lot of time researching and writing about these topics, run through some of the most significant trends that we’re watching in the U.S.
BILL FREY: Well, thanks Stef. I have an admission to make. I'm not an economist. I know that a lot of people here are economists. I'm a demographer. I'm going to talk about demographics in the U.S. and the big picture of demographics in the U.S. And I think the main theme is that we're getting older, but the younger part of our population is coming much more racially diverse. And I think that's something people don't keep in mind. And that's going to be the theme for a couple of the slides that I'm going to present. One thing I think people should understand is that we're getting older as a country. And last year we had the lowest rate of growth in the United States that we've had in over 80 years. As we move into the middle part of this century we're going to be growing even less fast, and we have to keep that in mind.

And one of the reasons, probably the main reason we're growing so slowly is we're aging rapidly. Older people die more. And as we move into the future, we're going to have a higher rate of deaths. More people dying. Fertility declining just a little bit, and immigration's what's keeping us growing at all, probably, after the next decade or so.

But to sort of accentuate this, let's put a slide up and show you some of the growth trends. The next slide we can put up. And what we can see here is for four decades, between 2010 and 2050, the decade growth for different age groups. Children, working age population and seniors. And what sticks out at you is the very fast growth of seniors. In the decade that's just about to end seniors will have increased by almost 40%. That's the baby boomers moving into the 65 and over population. That's the first half of the baby boomers. The second half of the baby boomers are going to move in in the next ten years, and that's that growth in 30%.

But even 30 years out and 40 years out, the senior population, the older population, is going to be growing much faster than the working age or the child populations. So as we look ahead into the future, we're going to be talking about age dependency rather than child dependency, which is what we've been thinking about before.

Now, I think the next piece of this, which I think most people don't really realize as much, is that interacts with diversity. The age interaction with diversity. I wrote this book called Diversity Explosion, which you could get from Brookings Institution Press. And one of the best, most important charts in that book, the most important charts that I think we should think about in the future of the United States, is the growth of minority populations. Racial minorities.

The three bars at the right side of this chart are what I call new minorities. Hispanics, Asians, people of two or more races. Over the next 45 years those groups are going to almost double or triple in size. In fact, those groups together accounted for 80% of the growth in the United States since 2000. The two other minority groups, blacks and American Indians or Alaskan natives, will also grow, but not nearly as fast as the new minorities.
BILL FREY:

And on the left side of the chart you’ll see that the white population over that period of time will be declining. In fact, the Census Bureau says that after the year 2024 we’re going to have an absolute decline in our non-Hispanic white population. Since 2000, we’ve actually seen a decline in the youthful white population, that is the under age 18 white population has declined.

More whites, more young whites have graduated to above 18 than have been born or immigrated into the United States because of this aging population. And in the next ten years we’re going to see a decline in whites who are age 20-something, and then the next 20 years we’re going to see a decline in whites who are age 30-something. The only part of the white population that’s going to be growing in the near-term in the longer-term is the 65 and over population. And this is going to be an accentuated aging of the white population.

Now, when you put these two things together, the aging of the population and the very severe aging of the white population, and the high diversity, what you’re going to get is a age profile of the United States-- this is the race profile of different age groups, going from zero to nine to 70 and over. This is what we’re going to see in the 2020 census, probably. And that is the under ten population will be minority white. The ten to 19 population will be about half white. And then the millennial population, which will be in the late 20s and 30s during that period, they I think are the bridge generation. They’re 44% minority. And they’re the bridge between the largely white older population and the more diverse younger population.

So the picture the I’ve tried to paint for you here is what’s going on in the U.S. is a rapidly growing older population, a very tepidly growing younger population, but all of the future growth in the young, working age population and in the youth population will be coming for racial minorities. And that’s good, perhaps, but it’s not so good, let’s move to this next slide, when we look at the disparities between racial groups among this young generation. This looks at the percent college graduates by race, and you can see that Asians and whites have a higher rate of college graduation than Latinos and blacks.

When you think of the future generations going into those years, they’re going to be at least 40% Hispanics and blacks. This says that we have a lot of work to do. I could show similar slide to show the home ownership disparities by race for the younger generation, or child poverty for the younger generation.

And it means we need to have policies that focus like a laser beam on things like education, workforce, childcare, stuff like that. And I would have to say that if we look at our politics today, our very divided politics today, this is not a top priority that we see. I think we have very much kind of a racial and generational identity politics kind of thing going on, where the older, largely white population is worried about their taxes.
BILL FREY:

Not worried about paying for generations who they don’t see as their children or their grandchildren.

Political writer Ron Brownstein writes about this, and he calls it about the disparity between the grey and the brown. And he uses that as a lens to analyze a lot of the presidential and local elections that we’ve seen in the last two, three, four years across the United States.

And what I think is that if we don’t close this cultural generation gap, is what I like to call it, we’re going to be in difficulty. And I think if you just look at the projected eligible voter population, here is a comparison between 2016 and 2018 and the size of the eligible voter population and in the racial profiles of the eligible voter population for different age groups. Certainly for the younger age groups, the eligible voter population becomes more racially diverse, gets a little bigger. But I want you to focus on those two bars at the right. Those are the sizes of the eligible voter population age 65 and over, between 2016 and projected to 2018.

It’s a group that turns out to vote a lot. And when you see that group there and you see that they may still have some difficulty with investing in our diverse youth that we’re seeing today in our politics, both local and national, it’s going to be a difficult time.

So I’m not as optimistic as I was maybe four or five years ago that we were going to come together on all this. I really do think we have a generation al co-dependency. Investing in our racially diverse younger population in order to over the longer term be able to have them be able to have them improve their own economic circumstances, but also contribute to the older population’s Social Security trust funds, to Medicare and all of those sort of things.

That’s what we really need, is people to understand that. We need leaders, national, local, state level leaders and corporate communities and in the political environment to make this kind of demographic case. And I don’t see it as much as I think we should. But at least I’m hopeful that maybe in another five, ten years people will come to see this as what we need to do as a top priority. So that’s my demographic story.

STEF KIGHT:

Thank you, Bill. That is fascinating. We have a lot to unpack here, and I promise we will spend time kind of going through each of these trends, and-- and getting insight from our other panelists on why these matter. First, though, we’re going to take a look at a poll that we asked all of you all to answer. Asking what you think the trends are that are going to have the biggest impact on our economy.
STEF KIGHT: So can we take a look at the question three polling question? So climate change to all of you is what you think will have the biggest impact on the economy in the U.S., followed by artificial intelligence, and then income inequality, and then changing demographics. And I’d love to get some reactions from some of our panelists. Perhaps Heather you’d like to start off. What would you have chosen, given this question? And are you surprised by these answers?

HEATHER HAHN: These really do give some food for thought. But I think they’re really interconnected. You know? And I think, as Bill was saying about the political environment and a sense of racial and age identity, that that view of the world affects how we view these other issues and how we might approach issues of climate change and so forth.

STEF KIGHT: Yes. Absolutely. Margaret, do you want to react to this?

MARGARET SPELLINGS: If you ask people in Texas, they would say income inequality and changing demographics. As you know, we’re a giant oil and gas state down there, so maybe a little less interest or a little less emphasis on climate change, but I agree, they’re interrelated.

STEF KIGHT: Yes.

PHILIP JEFFERSON: Well, if you look over the past few decades, what’s been very important in the U.S. economy has been technological change and globalization. And these are factors that have had a great impact on income inequality. So I would view some of these measures that you’re looking at here as sort of outcomes.

So changing demographics also has to do with globalization. The increased mobility of people and capital around the world. And income inequality is a result of a changing return to skills based on the expansion of trade and with respect to the introduction of new technologies that benefit people with certain skill sets relative to others.

STEF KIGHT: Yes. So let’s start going through some of these big trends that Bill spent some time walking us through. And starting off with the aging population in the U.S., as he mentioned, we’re going to see the number of people over 65 surpass the number of people who are under the age of 18, just in the next several years, which is a significant change, and has impacts in the way we spend our money. And so first, Heather, I want to know does per capita government spending always rise as populations get older?

HEATHER HAHN: Well, so I think that right now per capita the federal government spends $6 for every senior compared to $1 for every child. And when we’re looking across the generations and looking at how much we spend on people of different ages, I think we need to keep in mind the needs of different ages, they certainly do change over time, and the costs associated with those.
HEATHER HAHN: Well, so I think that right now per capita the federal government spends $6 for every senior compared to $1 for every child. And when we’re looking across the generations and looking at how much we spend on people of different ages, I think we need to keep in mind the needs of different ages, they certainly do change over time, and the costs associated with those.

So the six to one ratio in federal funding, when we add in the state and local, because states and localities actually pay the majority of public spending on children, it’s two to one. But it’s still $2 for every senior compared to $1 for child. Part of that reflects our national priority that we made decades ago about supporting seniors and reducing elder poverty, which was a really important thing to do, and has been effective. There’s more to do there, but it has been effective.

The other thing that contributes to that, and my colleague, Gene Steuerle, who I see is here, will make this point very strongly, is that part of why we are spending more on seniors than on children is because of the budget policy that makes those payments automatic. As healthcare costs rise and as senior costs rise, those payments are automatic. Spending on children often has to be negotiated each year.

So Medicare, Medicaid, Social Security and interest on the debt are the only areas that are growing in the future. And spending on seniors is a big part of that. That growth in spending on seniors is squeezing out everything else. So investments in children, but investments in everything else as well. So I think that’s something we need to keep in mind.

STEF KIGHT: I’m wondering if any of the rest of you would like to comment on that? Are you expecting us to just have to pay for a growing elderly pipeline? And how do you balance that with the need to invest in the younger generations, as Bill was talking about?

MARGARET SPELLINGS: One of the things that I think is surprising, having been involved in public policy for a long time at the state and the federal level, is how little we know about these giant enterprises. Texas has just passed a $250 billion biannual budget. That’s big by any measure.

And we at Texas 2036 have assembled more than 300 publicly available data sets that we’re now trying to use the era of big data to be smarter about government. But when you think about it, we don’t have a plan for our $250 billion investment in Texas. It’s just sort of this random the pig-gies come to the trough at the legislature, and we, you know, duke it out.

And so I think bringing big data to bear on public policy so people understand, you know, how are we really spending our resources.
Heather’s just given some good examples on the six to one and the two to one. But I think those are not well known and understood by the public generally, and when you start to say, “Where should our first dollar investment be?” people get it.

We just invested $11.5 billion in public education in Texas in a very bipartisan way. And I think people see, Bill, to your point, that, you know, we have storm clouds on the offing. And if we don’t get our act together, you know, we’re not going to live in a very prosperous place.

I would simply add to this that where you think about spending on seniors, what’s really important from the fiscal perspective is our capacity to pay for that spending. And what that depends on crucially is the number of workers that are in the economy who are working age and very productive, and paying into the systems that we use to support senior citizens.

So in this regard, there are two things that matter. The number of young people working and their productivity. So this is where spending on the young becomes very important, because we have to come to understand that spending as investment in our future workforce. And so funds allocated there will pay for themselves, if you will, because those people will grow up to be productive adults, they’ll pay into the system and allow us to finance the spending that we’re making on seniors.

And given that we will rely on a young workforce in the future to help pay for the costs of a retired generation, how concerned are all of you with the falling fertility rates that we’ve seen over and over again? And what do you propose as a solution that will be necessary to ensure long-term economic growth?

I think we do need to invest in all of our children. And right now, if we stay on our current course, under current law, spending on children is projected to decline over the next decade. It’s been declining already for most of the past decade.

It’s about 9% of federal spending now. It’s going down to under 7% of federal spending in 2028. And so I think thinking about the investment in children and what that gets us in return is a really critical question. And thinking about investing in all of our children.

We know, as I mentioned, the states provide 2/3 of the public support for children, primarily through K through 12 education. And we know that differences in state spending are associated with differences in children’s outcomes. What we see now is that states in the Northeast tend to spend more on children. States in the South and the West tend to spend less on children.
ANDpopulations are growing in the South and the West where there’s historically been that smaller investment. They’re shrinking in the states that have historically had the higher investment. So if we continue these trends, they are all leading us to less investment in our children, which is the opposite direction that we need to be going.

MARGARET SPELLINGS: And why we need to bring, you know, facts to bear and information to bear. We in Texas are certainly not looking to the federal government to solve our issues around youth, given the mix, funding mix that you just mentioned. So I think this kind of information, this kind of forum has to be more, you know, broadly distributed to the folks. I’m glad I live in a place that’s growing and that’s getting more diverse and that has a very well-developed and diverse population in terms of business community and so forth. So I’d rather be in Texas than Massachusetts, I’ll say that.

BILL FREY: Can I say (UNINTEL)?

MARGARET SPELLINGS: Yes, I probably wouldn’t be invited there anyway.

BILL FREY: Yes, I just wanted to throw in that one of the points that I tried to make is that this younger generation is much more racially diverse than has ever been the case before. And there are still very sharp disparities in the opportunities for these young people. The kinds of public schools they go to. The kinds of availability of childcare that may be available to their parents.

So it’s not just so much should we have more children because the fertility rate is declining. But what are we doing with the children that we have, given that’s a different demographic than we’ve ever seen before. And I think that’s something we need to keep on the top of our consciousness too.

STEF KIGHT: Yes. And we look at these changing demographics, when we look at a future where the U.S. is minority non-Hispanic white, some people take this and become fearful. And we’ve seen people kind of spin this narrative in a negative way. What do each of you say to those people, maybe start with you, Margaret, because Texas is already minority non-Hispanic white. How do you address those concerns that this is something bad?

MARGARET SPELLINGS: Yes, it’s a huge asset for us, and why we, you know, are often ranked at or near the top on economic growth, wage growth, whatnot. Not spread well enough across the spectrum. And as I say, with 1,200 miles of border with Mexico, obviously we’re the front door, the back door of the United States of America.

And, you know, our growth has been because of international and domestic immigration because of the kind of business climate that we’ve created there. And we get that the coin of the realm is how well we develop human capital. And that we have to raise expectations that we’re going to invest, and it’s possible and morally right to educate all children to high levels. And we’re going to work hard at doing that.
STEF KIGHT: Yes.

PHILIP JEFFERSON: Well, I think it’s the case that a lot of the fear and concern that we see with respect to the changing population has to do with the perception that the differences between new populations or new minorities, to use the term, versus traditional ones will somehow impact traditional populations in a negative way.

And so there’s this view that there’s a substitutability between what was done before, particularly in the labor force, versus what is going to happen now with a more diverse population. Now, I would put forth the argument that diversity is complementary to what has come before, and that particularly as new populations come into the economy, they have skills that complement those of natives. And that as a result of that, traditional populations can actually be more productive, and therefore this could be a net benefit to society in the labor market and beyond.

STEF KIGHT: Wow. So given these two trends, the aging of the population and the changing racial makeup of the U.S., how do you expect this to play out in politics and elections and among the demographic that we know that will be voting? How are you going to convince the older white voters that it’s important to invest in these young people’s education? How does that come together? And what needs to be done to ensure that that point is understood?

HEATHER HAHN: Can I just back up to your question about this trend of being fearful of the U.S. becoming minority white. I mean directly to that issue of becoming fearful of the U.S. becoming minority white, I just have to say get over it. Right? But if the issue is really about the trends that Bill was showing continuing, where if your race and ethnicity is a predictor of your outcomes and your well-being, that’s the problem we have to solve. Not the radical demographic mix, but the problem that your race and ethnicity affects your outcome. So we need to address the underlying structural racism that creates these outcomes.

And that I think is the answer to your next question too, but it’s a very difficult one. Because to do that we really have to have the political and the social will to do that. And I think the younger generation, because they are themselves more diverse and have exposure to people who aren’t exactly like them, that that helps to mitigate that. The older generation, you know, what do others think? How do we help them?

PHILIP JEFFERSON: You’re talking.

MARGARET SPELLINGS: Bill will speak on behalf of all of us.

HEATHER HAHN: Okay.
MARGARET SPELLINGS: True enough.

BILL FREY: I think it gets encouraged by politicians. I think particularly right now it’s getting curried by a lot of politicians. Not just the president of the United States, but a lot of other politicians. And it’s probably not as real as maybe the media might think, and it’s also I think that when you look at the population, it’s clearly the people that have this attitude tend to be older rather than younger. The people who kind of think the diversity of this country is putting it in the wrong direction, changing our culture and values and all of this sort of thing.

But the people who are most likely to think this are people who are living in parts of the country that aren’t very diverse. That are not experiencing the benefits of this diversity. They tend to be in smaller towns and rural areas in middle parts of the country. And I think sort of older parts of the population.

And as we found in states like Texas or California or places like that, those kinds of attitudes aren’t as strong. And my feeling is that over time, it’s an often used phrase, demography is destiny. And demography certainly doesn’t, you know, determine destiny, but it shapes it pretty well.

And I think as we see these shifts going across the country, maybe those kinds of divides will fall apart. But it’s not there now. And I think we have some work to do to create this message so people understand the importance. Not because to deal fairly with people of different racial and ethnic groups is the right thing to do, but it’s the way that we can survive as a country.

MARGARET SPELLINGS: Can I pick up on that quickly?

STEF KIGHT: Yes.

MARGARET SPELLINGS: And I know you all get sick of hearin’ Texans talk about Texas, but anyway. But it’s an excellent case study, in that is everybody has followed the famous Beto O’Rourke, Robert Francis O’Rourke. Who got within a hair’s breath of beating Ted Cruz. And because he got the close, lots of changes happened in the state legislature and our Congressional delegation, et cetera.

And we have had no state-wide elected Democrat in Texas for a long time. Well, this scared the you know what out of the state-wide electeds, so much so, who see this demographic shift, that our very conservative lieutenant governor called for a $5,000 across the board teacher pay increase. That ultimately did not happen, but teachers got a big pay raise. $11.5 billion investment in public schools. More than $1,000 more per kid, et cetera. And so I do think our politicians can and do and will take signals when people go to the polls and vote with their feet.
STEF KIGHT: Awesome. We’re going to transition to looking at another poll result and look at kind of what you all think we need to be doing. What should be a priority moving forward. And I just want to also remind everyone that if you have questions to text them to the number on the screen, 22333, and I will leave a few minutes to address some of your questions.

But could we take a look at the question four poll results? So which of the following policy goals is most important as we prepare for America’s changing demographics. And it looks like there was a tie for increase investment in education, infrastructure and research, which is something we have all talked about, and transform the economy to adapt to automation and technological change. I wonder if any of you have any other reactions to these results. Do you agree with our audience?

MARGARET SPELLINGS: It’s all the same thing. (UNINTEL PHRASE).

STEF KIGHT: Yes? All the same thing?

MARGARET SPELLINGS: Yes. I mean--

(OVERTALK)

STEF KIGHT: So then I have a question. So if you all have talked a lot about investing in education, and if we are to be investing more in education in our communities, where should those funds be coming from? Is there something that we should be cutting? How do you address that? Where should this money be coming from to invest in education of our young and more diverse generations?

MARGARET SPELLINGS: Well, again, I think most states, most governors, you know, do not understand. You know, if you had to force rank your priorities of investments in the state budget, how would they look? And some of it’s accidental, vis-à-vis federal policy and requirements and things that just drive on.

But one of the things I think we in the policy arena can do is bring more facts together and show-- you know, we say we’re for education above all. You certainly have. I agree. Do we put our money where our mouths are? And so I think that’s what groups like this can and should try to do. And what we’re trying to do at Texas 2036.

PHILIP JEFFERSON: Awesome.

Well, you know, I would make the argument that particularly at the state and local level, it is worthwhile investing in particular neighborhoods. Research has shown that within the state and local communities, there are particular neighbors where there’s concentrated pockets of poverty. And it has been persistent over time.
Awesome. Yes. All right. I have rapid response questions. So be prepared. When you look at the next 20 to 30 years what is most concerning to you, and what makes you the most optimistic? I know that that’s a big question, but if someone would be brave enough to go first.

I’ll go first.

Okay.

The thing that’s most concerning to me is the inability of our political process to deal with big problems. The thing that I’m most optimistic about is that there is a generation of young people who are being raised in a more multicultural environment, who are energetic and smart, and that I believe will save us from ourselves.

I have almost the same answer. So I think our polarization is the thing that is most concerning to me, because these are big problems. And to solve real problems we need compromise. We need creative solutions. Everybody’s got to give a little bit, and it’s hard.

And to do that we have to realize that we’re in this together. And I do think that young people may recognize that togetherness more. And as long as we are polarized we’re not going to be able to come together and make those hard choices and those compromises that are absolutely necessary.

I would say, I mean, I think, you know, we’ve got an old versus young setup. And right now, old people are winning. And we’re going to have to change that, and it’s going to make some hard decisions. And we’re going to have to raise ages and do things like that to curtail some of this, because it’s going to eat the cabbage that ate the United States government if we’re not careful. And we’re already there.

So that’s what I worry about. I’m optimistic because I think politicians and policy makers, when you’re presented with the facts, I mean they’re immutable. And they deserve solutions. And I think we’re going to see ‘em across the aisle. I mean we’re on the cutting edge of it. And as I just said, it happened like that. We went from talking about transgender bathrooms to investigating $11.5 billion in public education.

All I can just say is ditto to what these folks have said. I mean I do think that the current political environment is not the best, particularly given the demography that we’re facing. Maybe it’s the demography that created it. I don’t know. But I think when we get through more election cycles, I always like to say that politicians are the best demographers. They know how to count the votes. And when that shifts, I think that’s going to change it--

Yes.

--in a good way for the younger generation.
Awesome. All right, well I got one question from the audience that I’ll post. We have a tiny bit of time left. “Many young adults delay or put off having children altogether because of unaffordable childcare. Do you believe a substantial federal investment in early childhood programs would help slow the aging of America’s population? And how would that transform our fiscal picture?”

(OFF-MIC CONVERSATION)

PHILIP JEFFERSON: Well, you know, since we’re looking at the long time, I mean one possibility is to shift public policy towards a more pro-natal stance. And, you know, that could be a good thing.

HEALTHER HAHN: I think that investigating in childcare is important, not just for encouraging people to have children, but more so for supporting the people, no matter how few children you have, so that you can go to work. And I think that childcare policy can help with the income inequality issues.

So many of the people who are living in poverty are working, but are in and out of jobs, partly because the jobs themselves are unstable, but also because of the mismatch between the availability and affordability of childcare, as well as transportation that makes it difficult to keep those jobs. So I think childcare is an incredibly important part of the answer, but not necessarily related to birth rates.

STEF KIGHT: Awesome. Anyone else? No. All right. Well, thank you all so much for listening. Thank you all of you for sharing your expertise. Enjoy the rest of your day. (MUSIC)

* * *END OF TRANSCRIPT* * *