

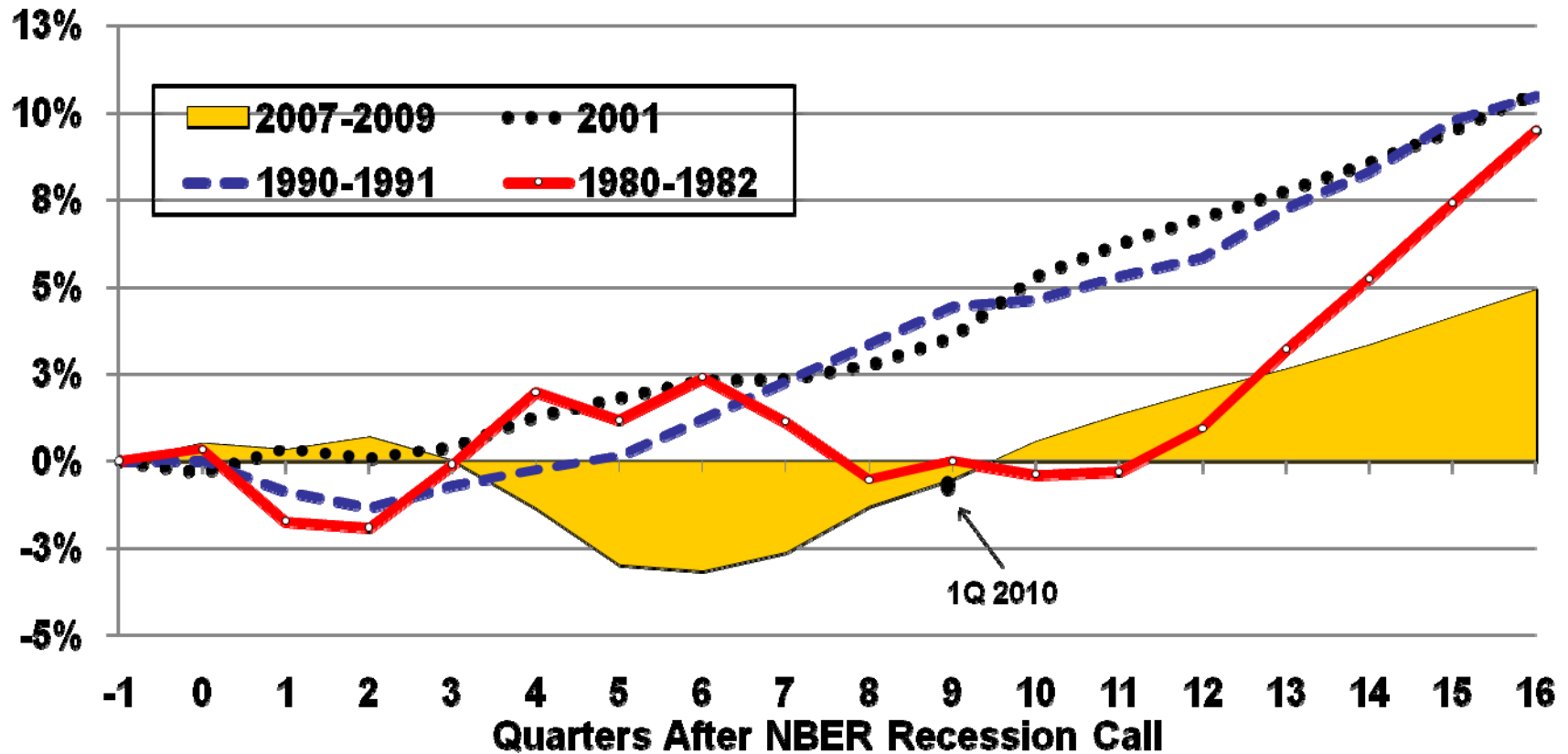
# **Minnesota and the New Normal**

**Tom Stinson, State Economist  
Tom Gillaspay, State Demographer  
October 2010**

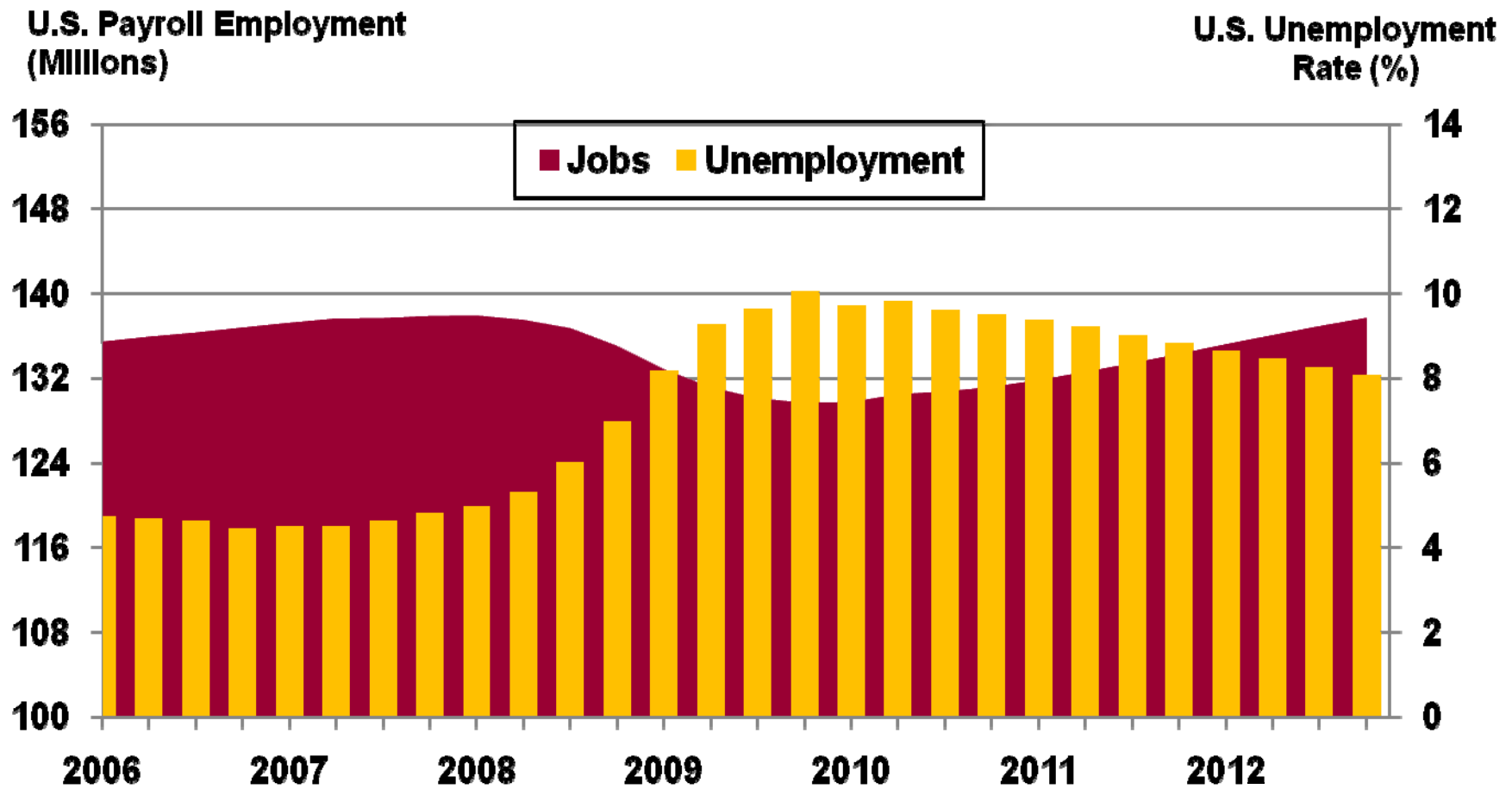
**Recent Economic and  
Demographic Events Have  
Changed the Outlook for as Far  
as We Can See**

# This Recession Was More Severe Than Those of 1990-91 and 2001

Percent Change from Quarter Preceding NBER Recession Call

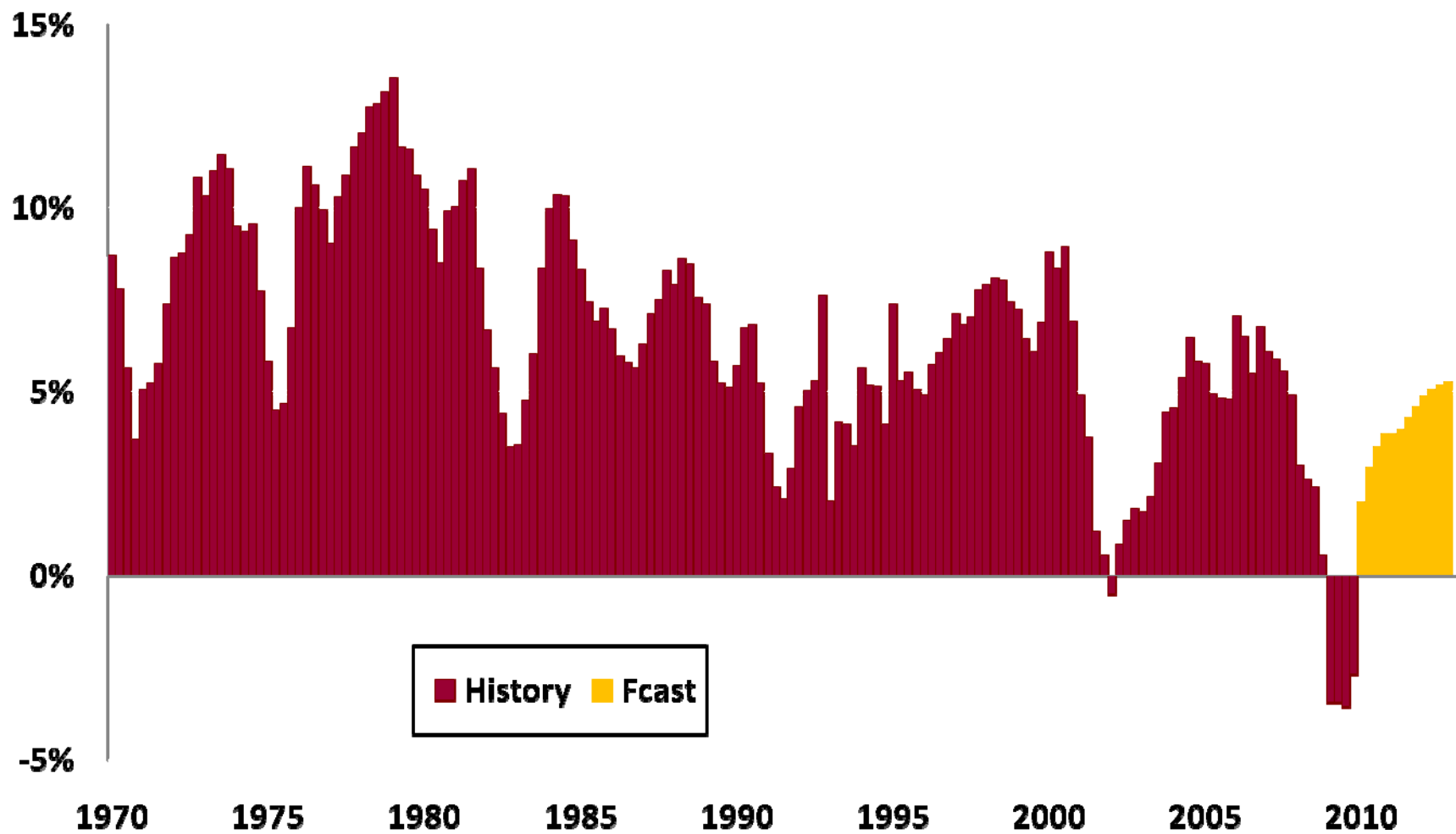


# The U.S. Economy Lost 8.4 Million Jobs in the Great Recession

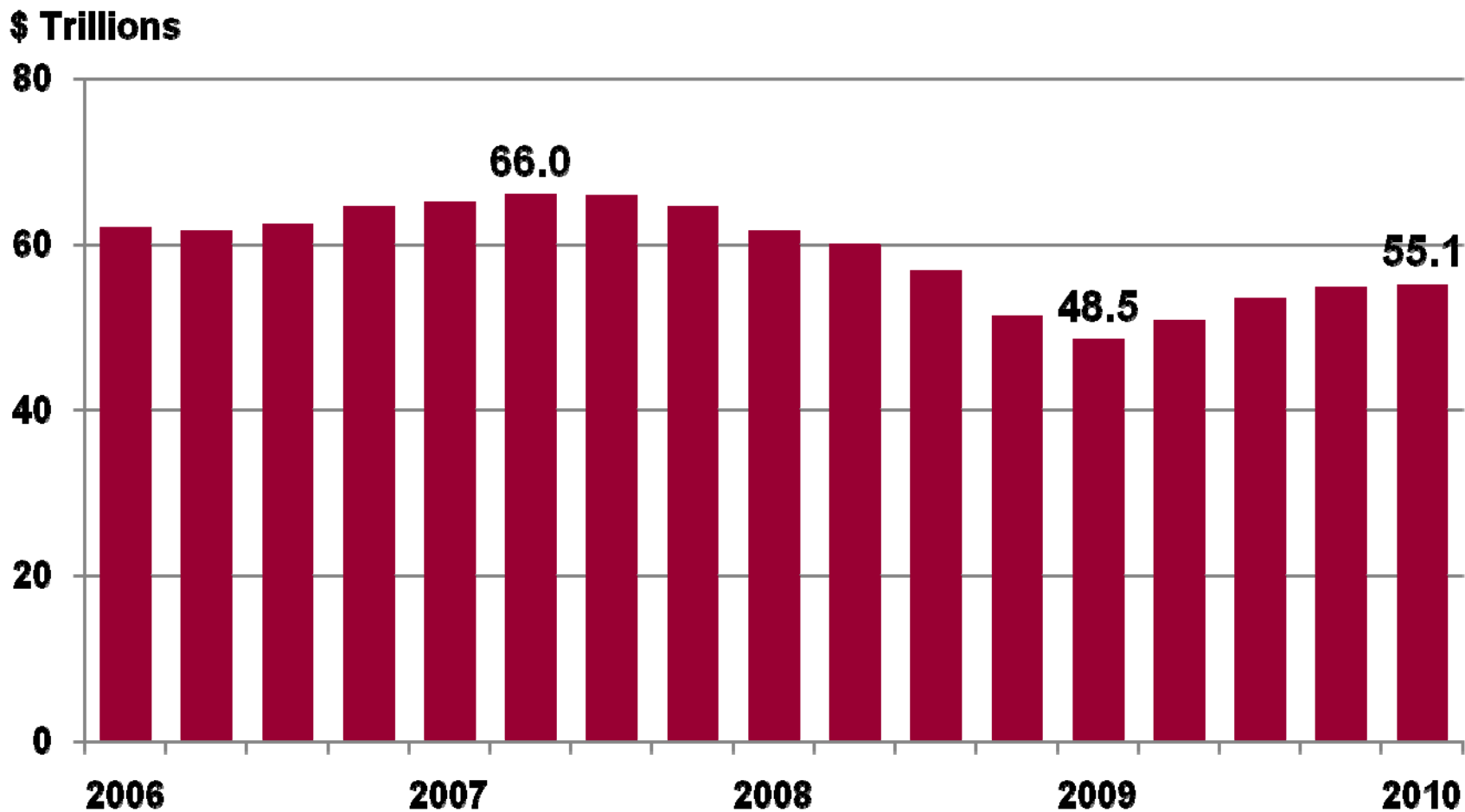


# Total U.S. Wages Fell in 2009

Quarterly Year-Over-Year  
Percent Change

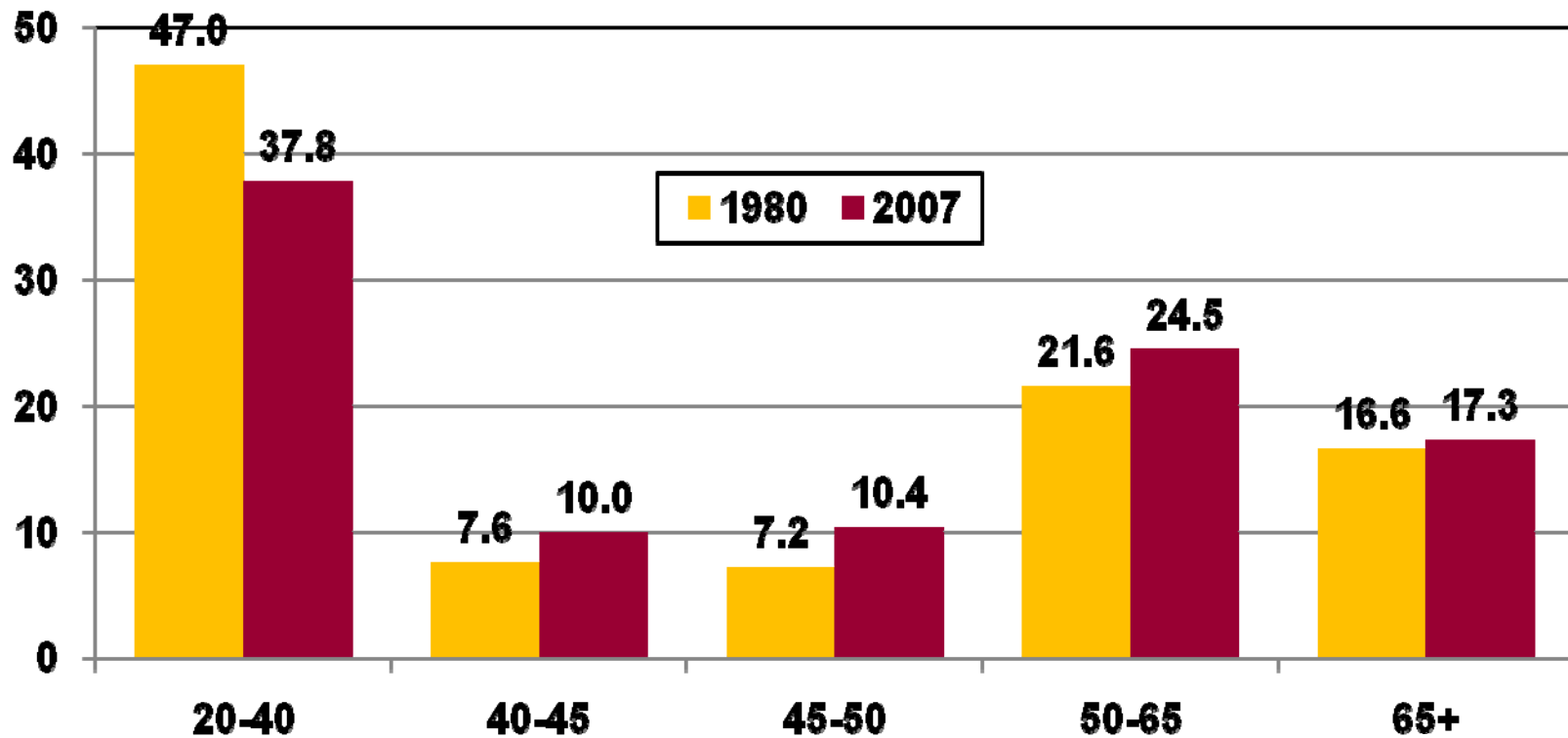


# Household Net Worth Fell by More Than \$17 Trillion Dollars

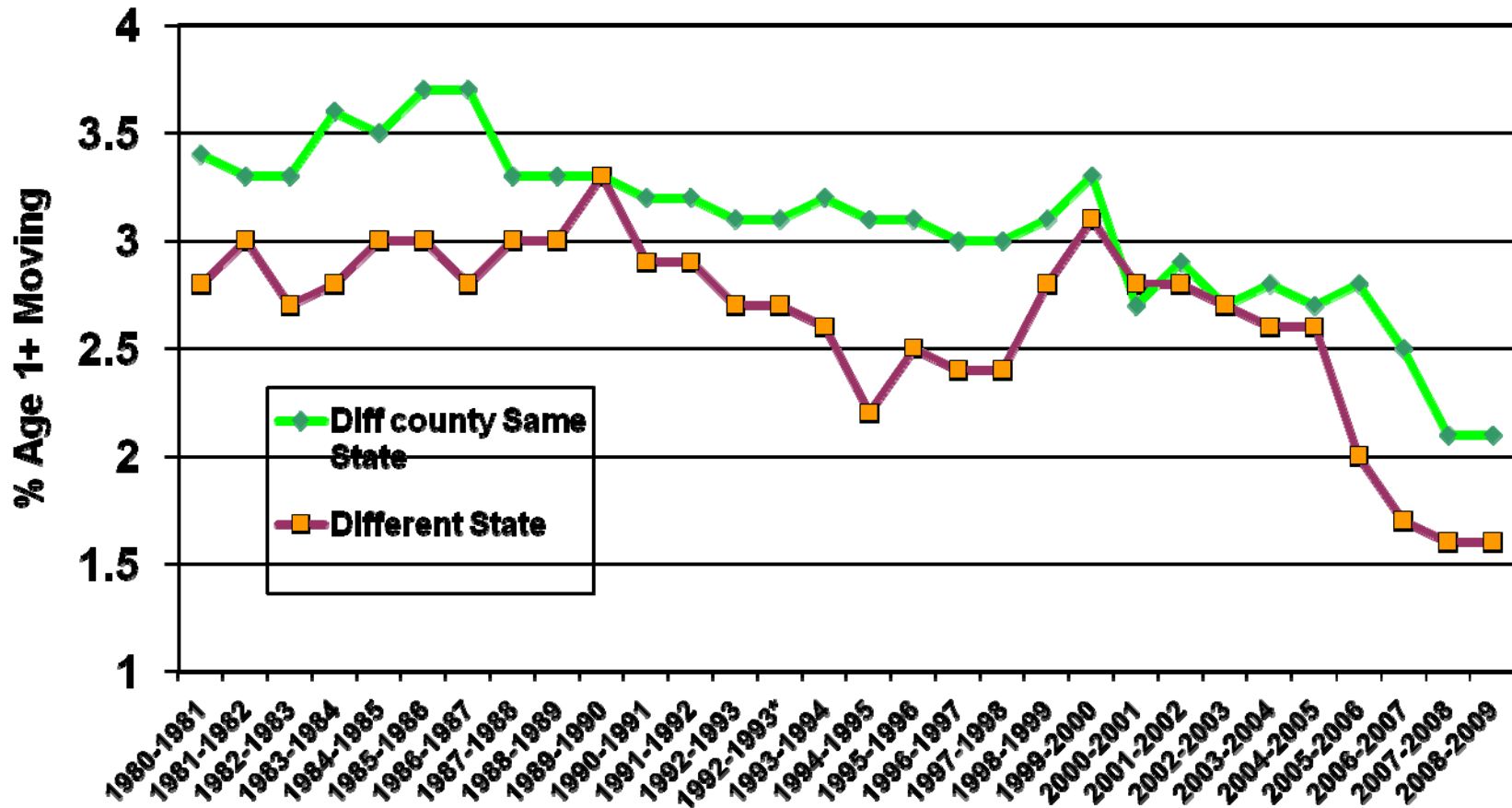


# The Age Distribution Has Changed

**% of Population  
Over Age 20**



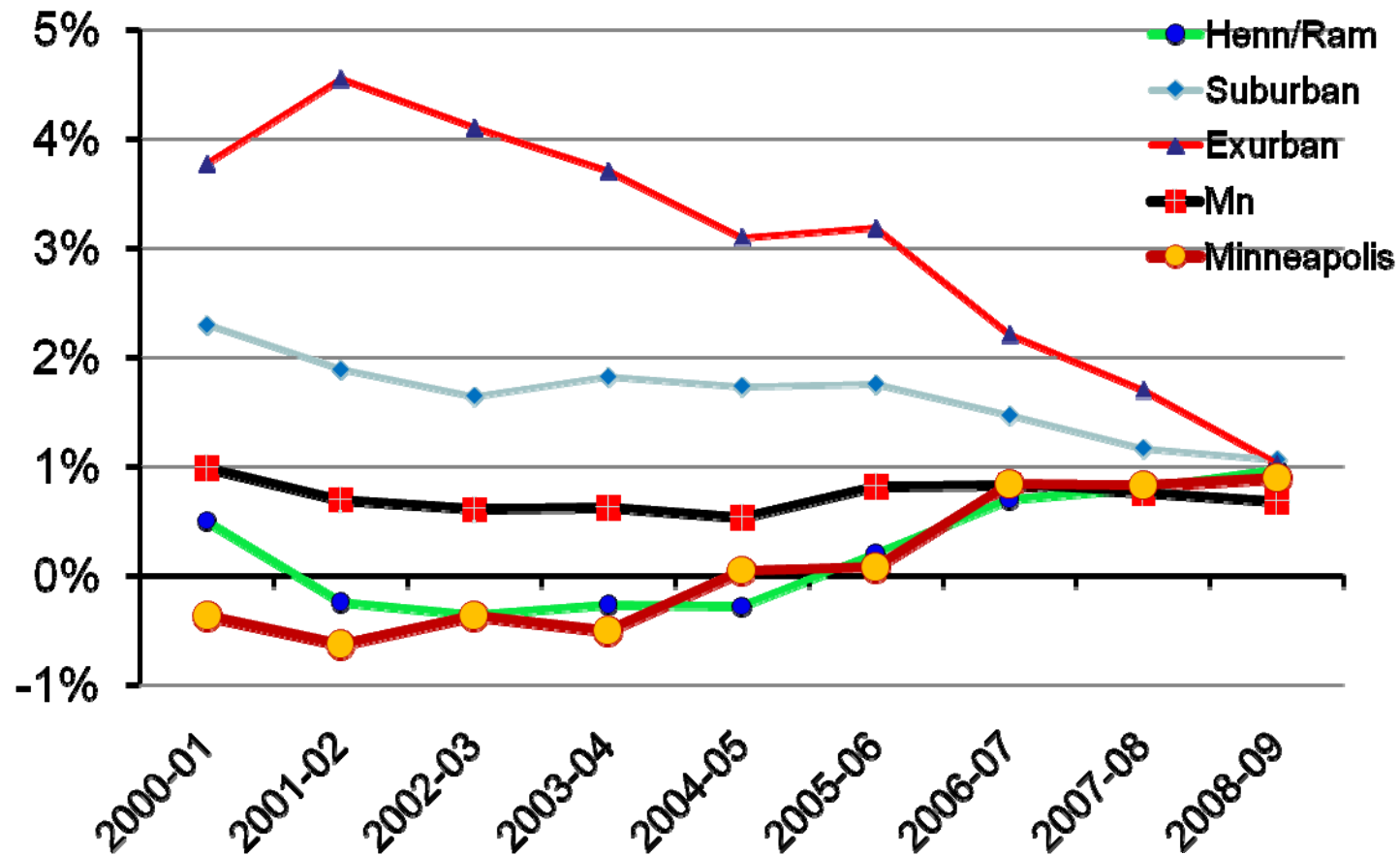
# National Mobility Has Fallen To Its Lowest Point Ever Recorded



Census Bureau, 2009 CPS and historical

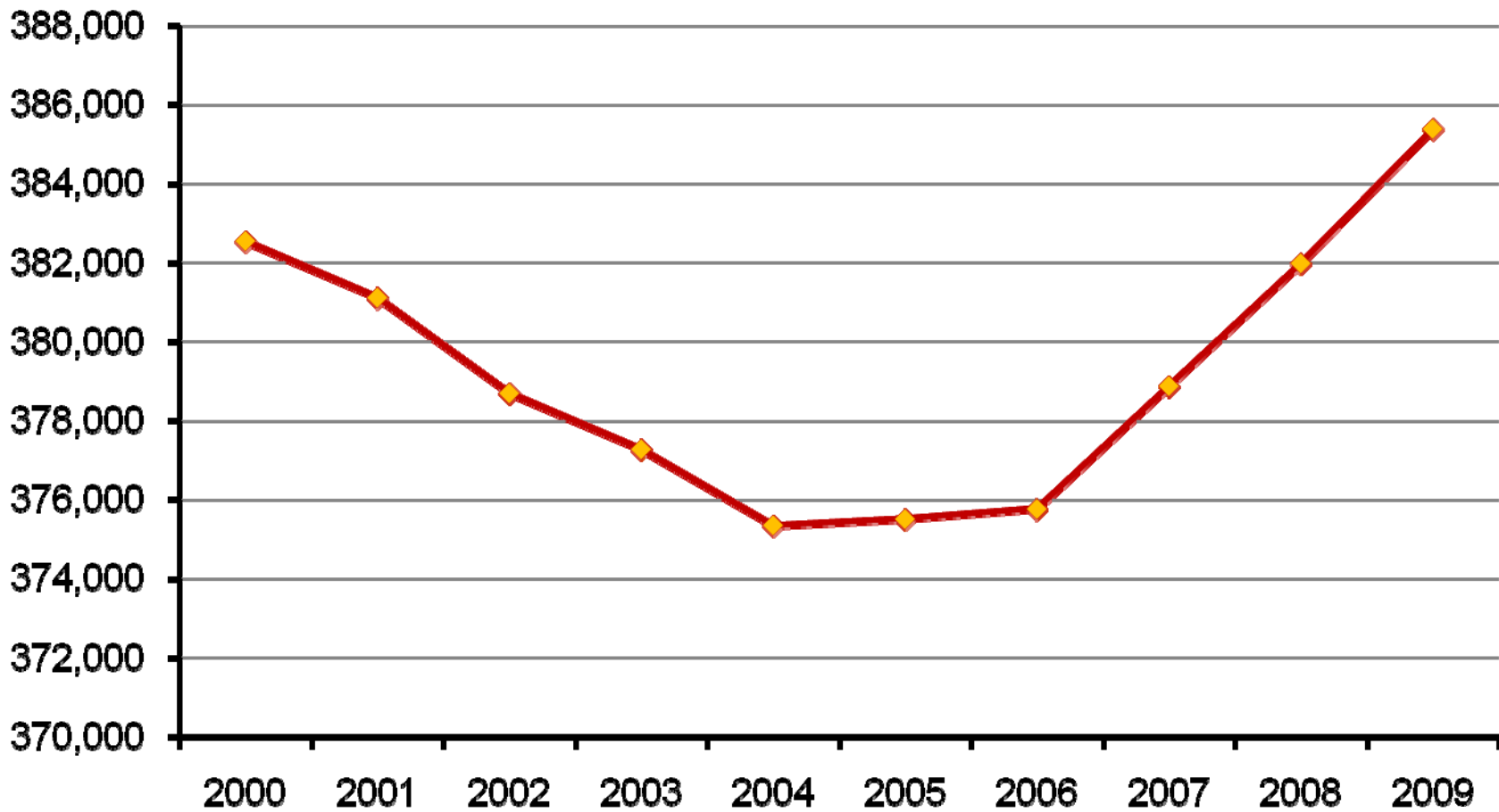


# Convergence In Population Growth Rates



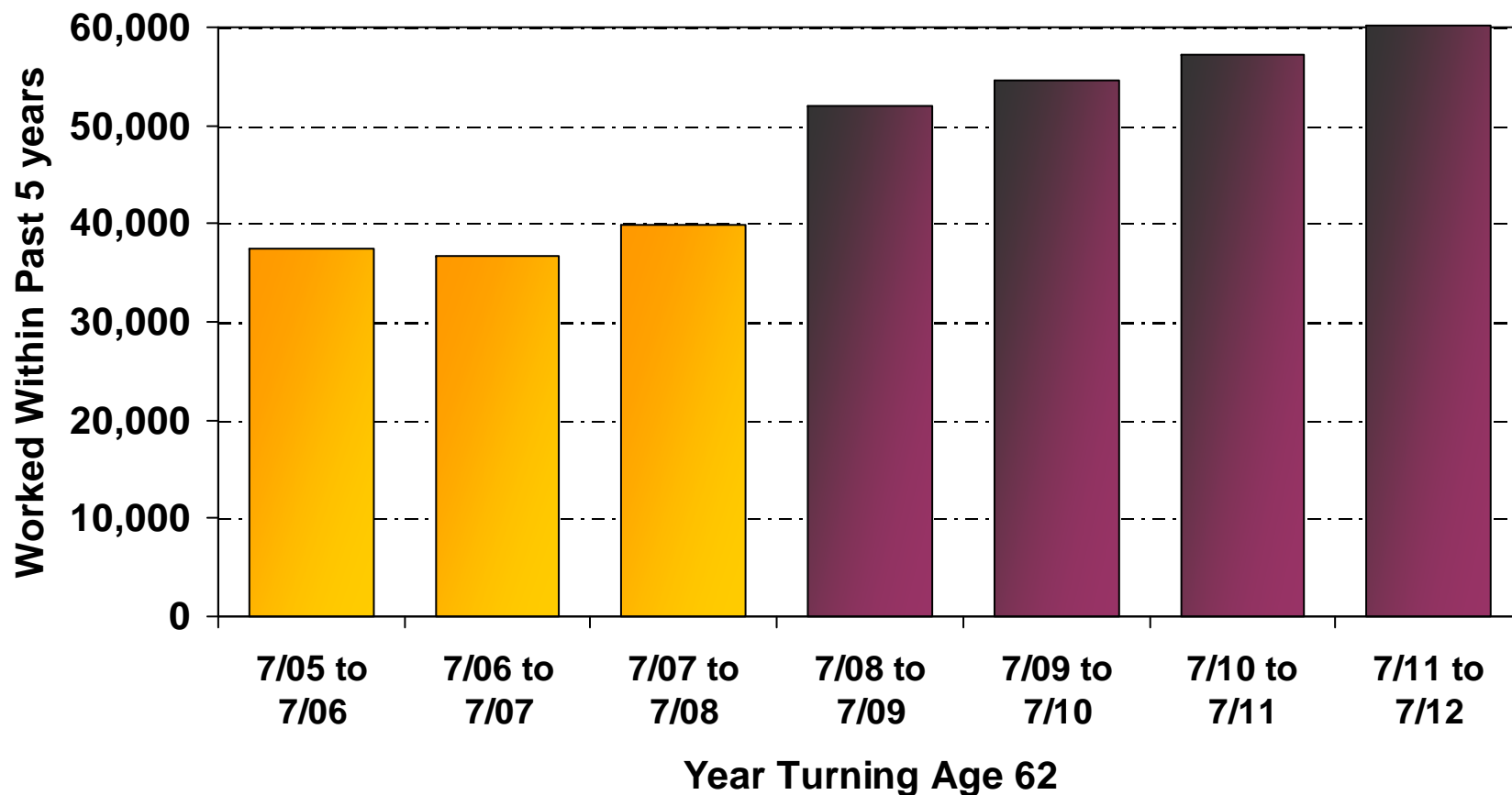
Census ests, Exurban includes Isanti, Chisago, Sherburne, and Wright.

# Minneapolis Population



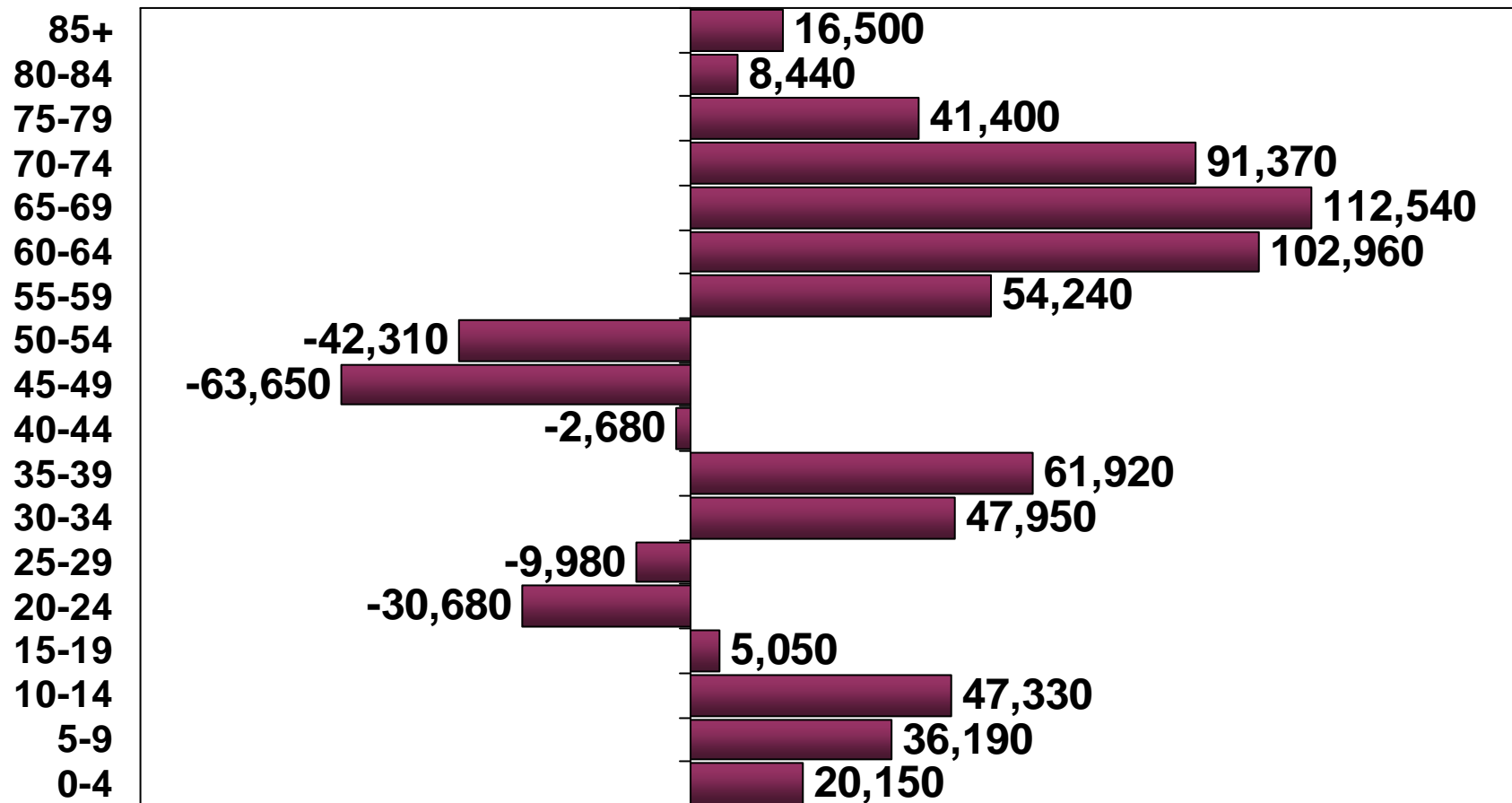
Census Bureau estimate

# Minnesota Saw a 30 Percent Jump in Workers Turning Age 62 in 2008



2005 ACS

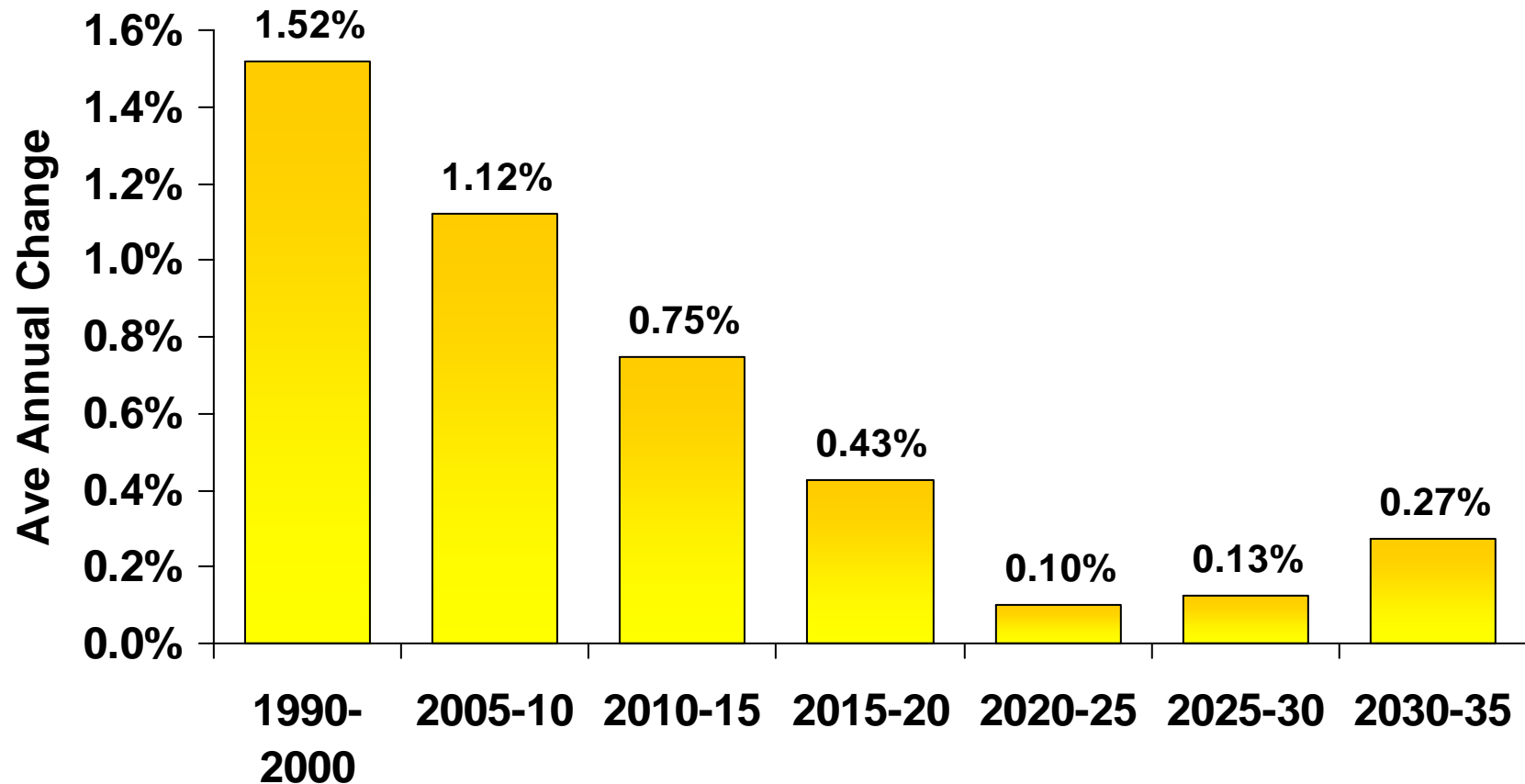
# From 2010 to 2020, Minnesota Will See Large Increases Age 50s and 60s



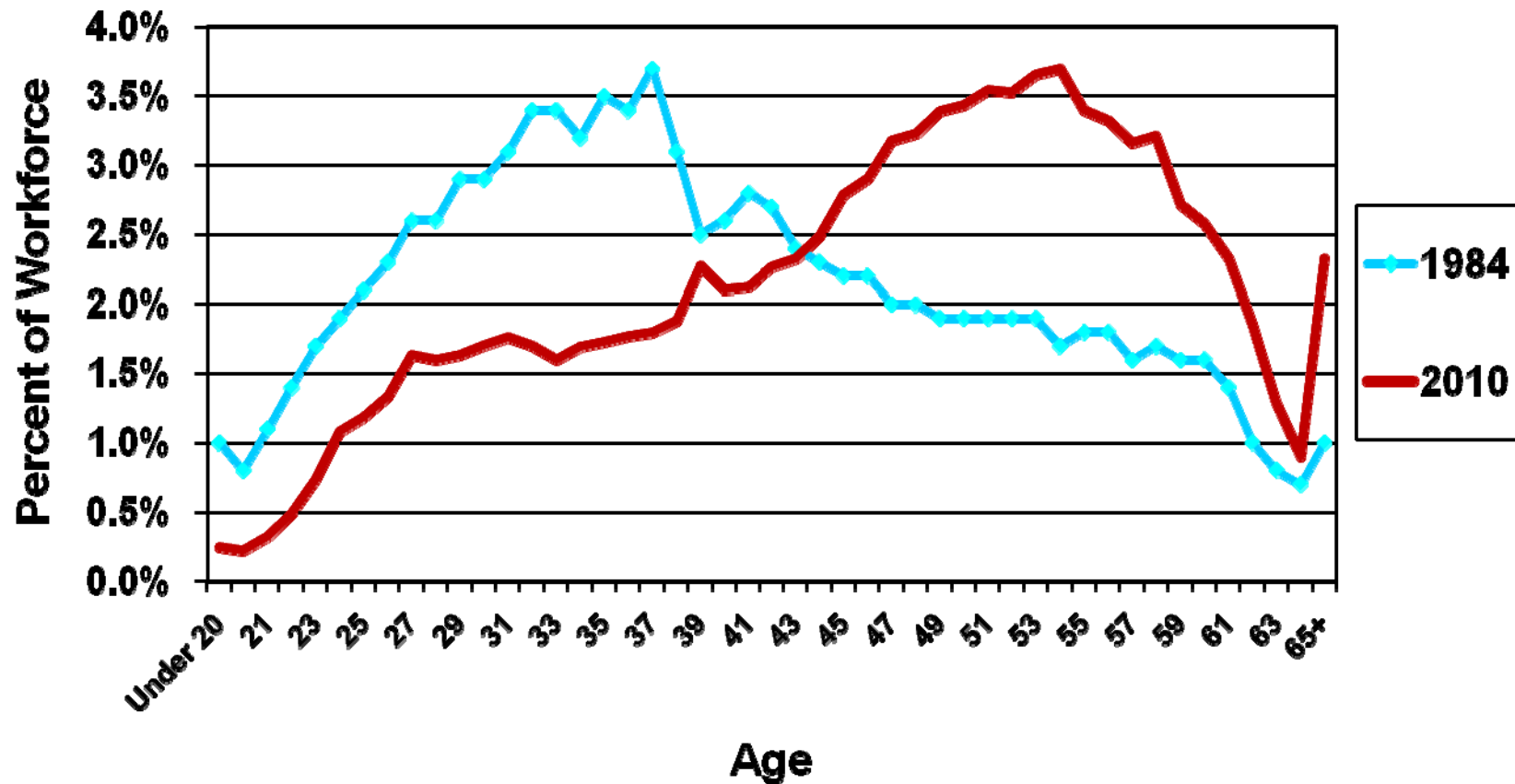
Source: Minnesota State Demographic Center, rev 2007

Numbers are rounded

# Labor Force Growth Is About To Slow Sharply



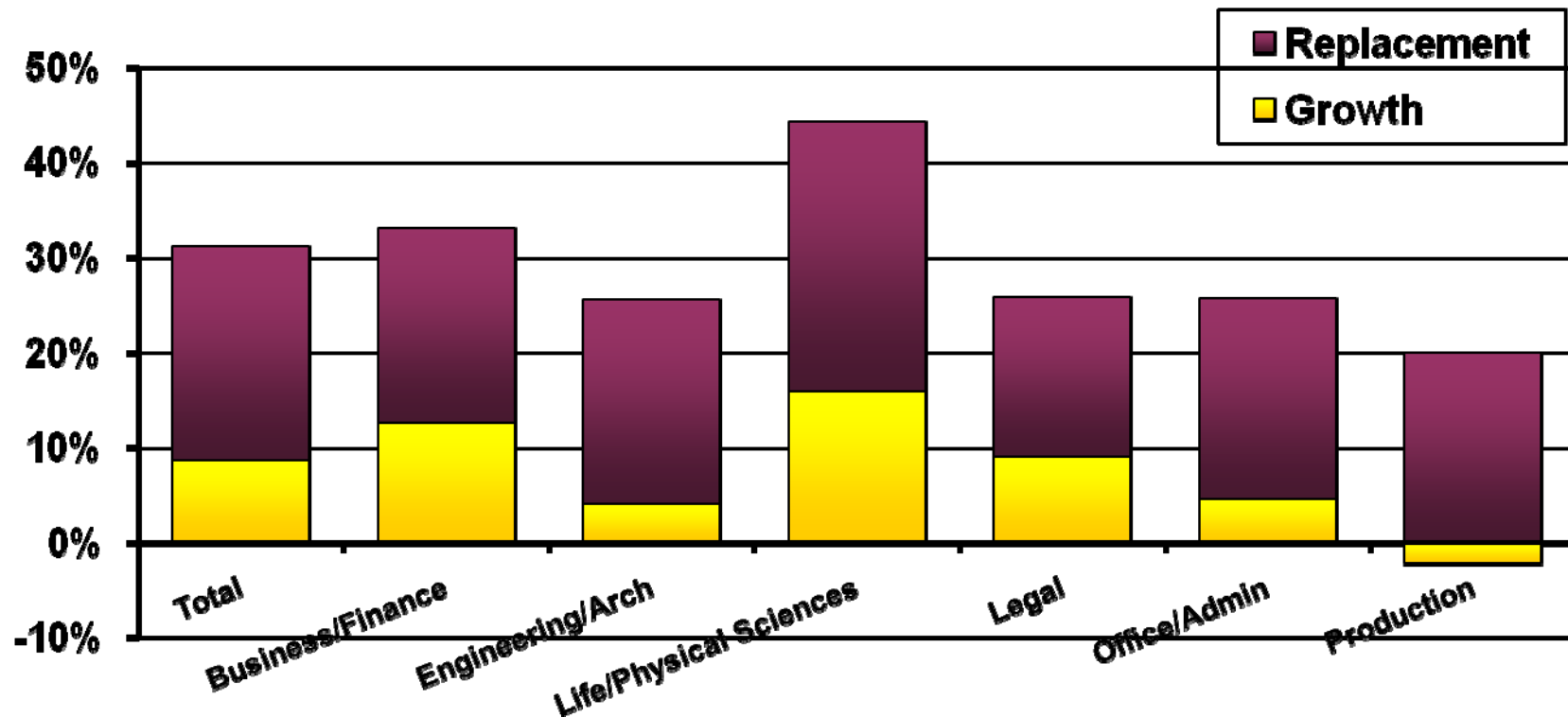
# Minnesota State Government Workforce Is Aging



MSRS active employees

# For Many Occupations, Replacements Will Outnumber New Job Growth

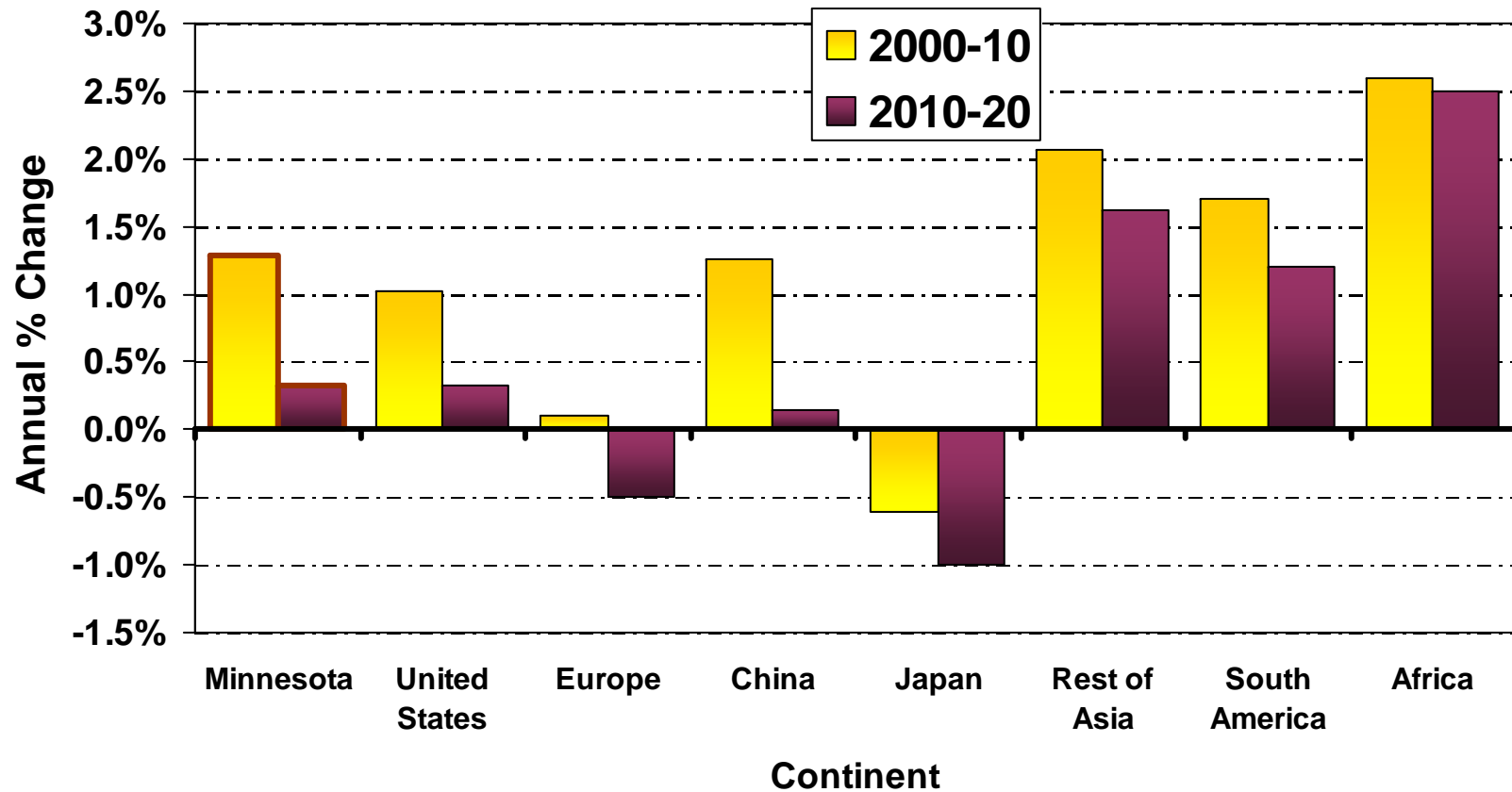
## Projected Openings In Minnesota Occupations 2009-19



DEED projections. Percent of 2009 level

# World Labor Force Growth Slowing

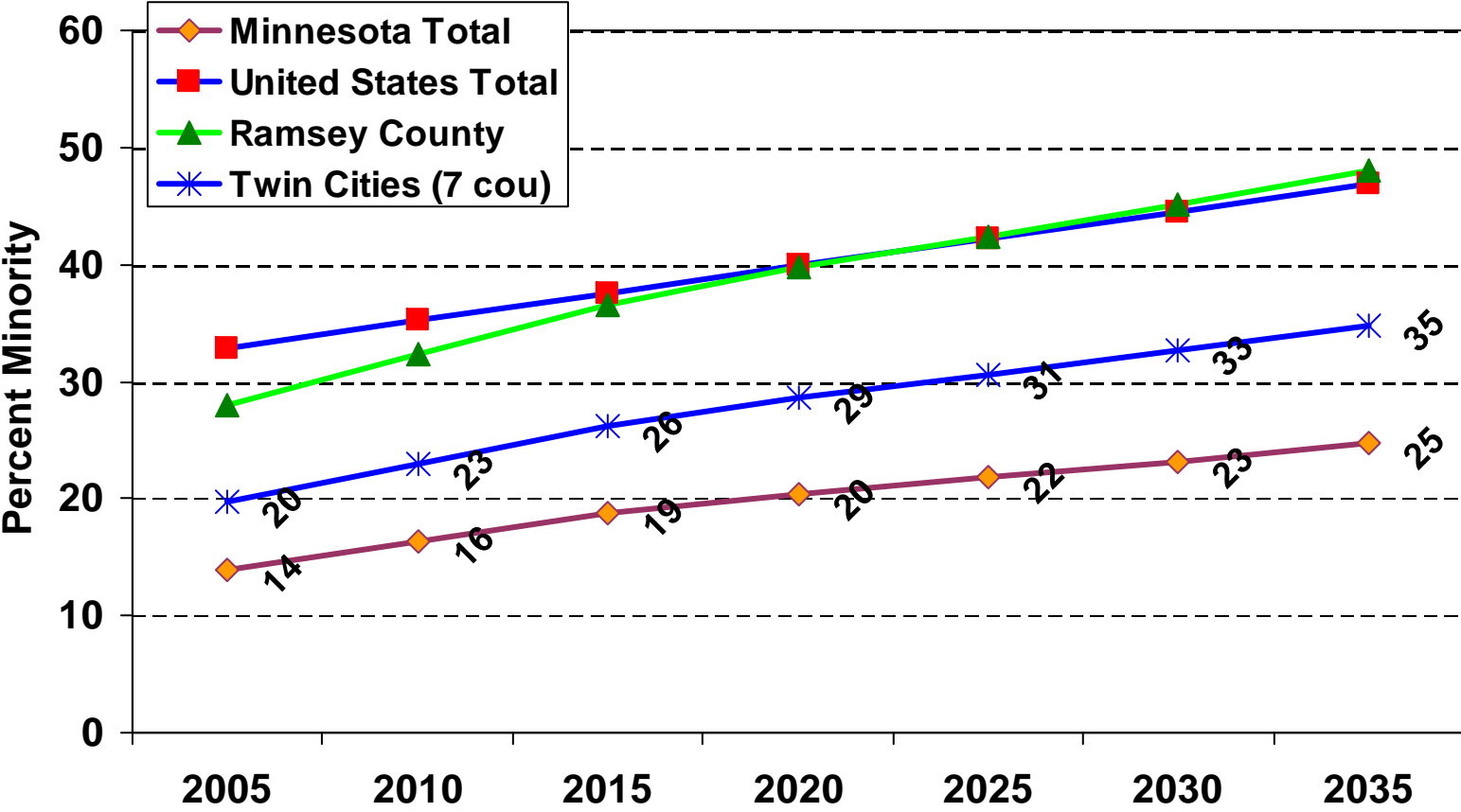
## Projected Change In Working Age Population (15-64)



U.S. Census Bureau



# Minnesota Will Grow More Diverse; Remain Less Diverse Than The Nation



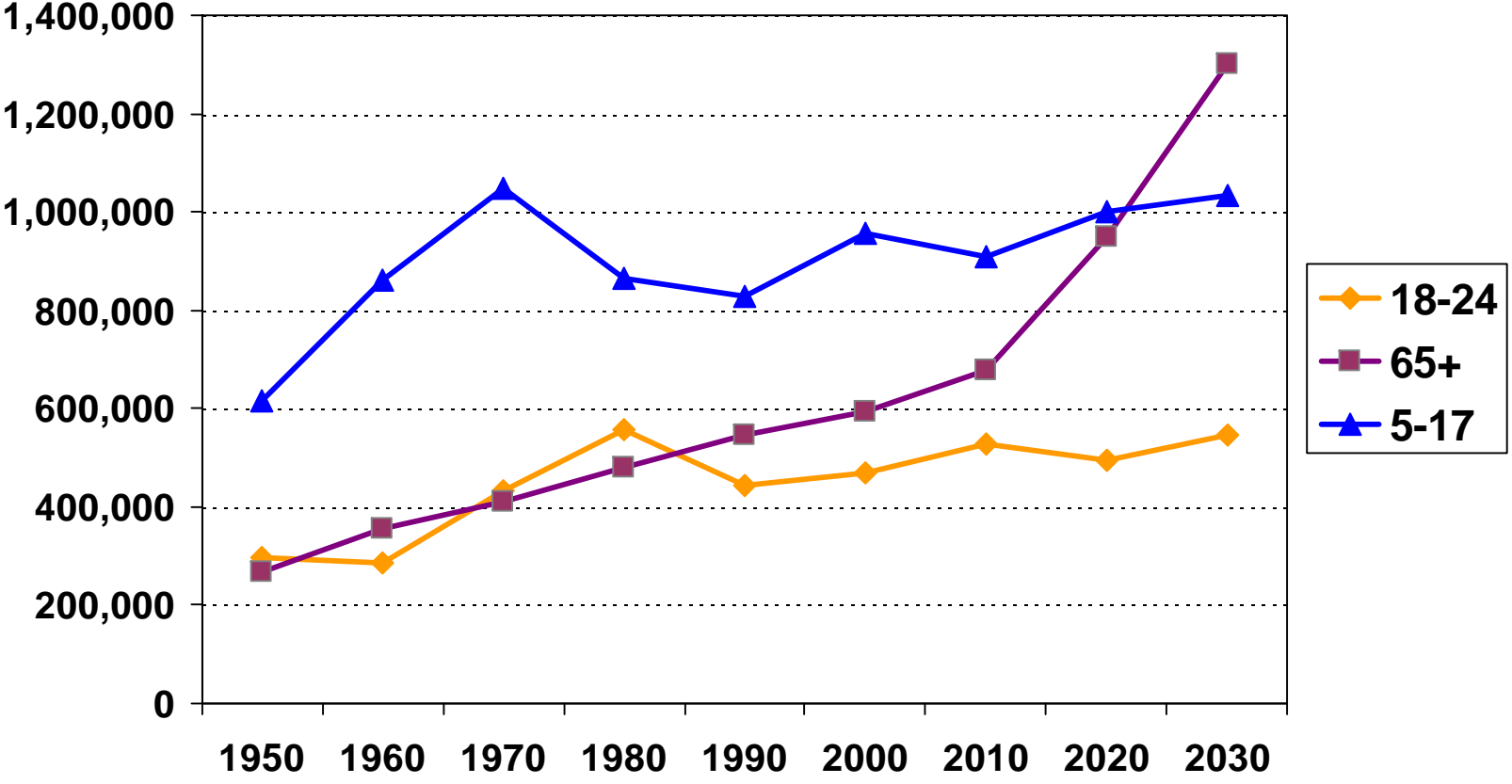
State Demographer & Census Bureau projections

**The Old Normal**  
**+ The Great Recession**  
**+ Long Run Demographic Changes**  
**= The New Normal**

# The “New Normal” Probably Means

- Higher interest rates
- Slower economic growth
- Increasing numbers of retirees
- Less consumption; more saving
- A more diverse population
- More uncertainty in our personal & national futures
- More uncertainty about the future

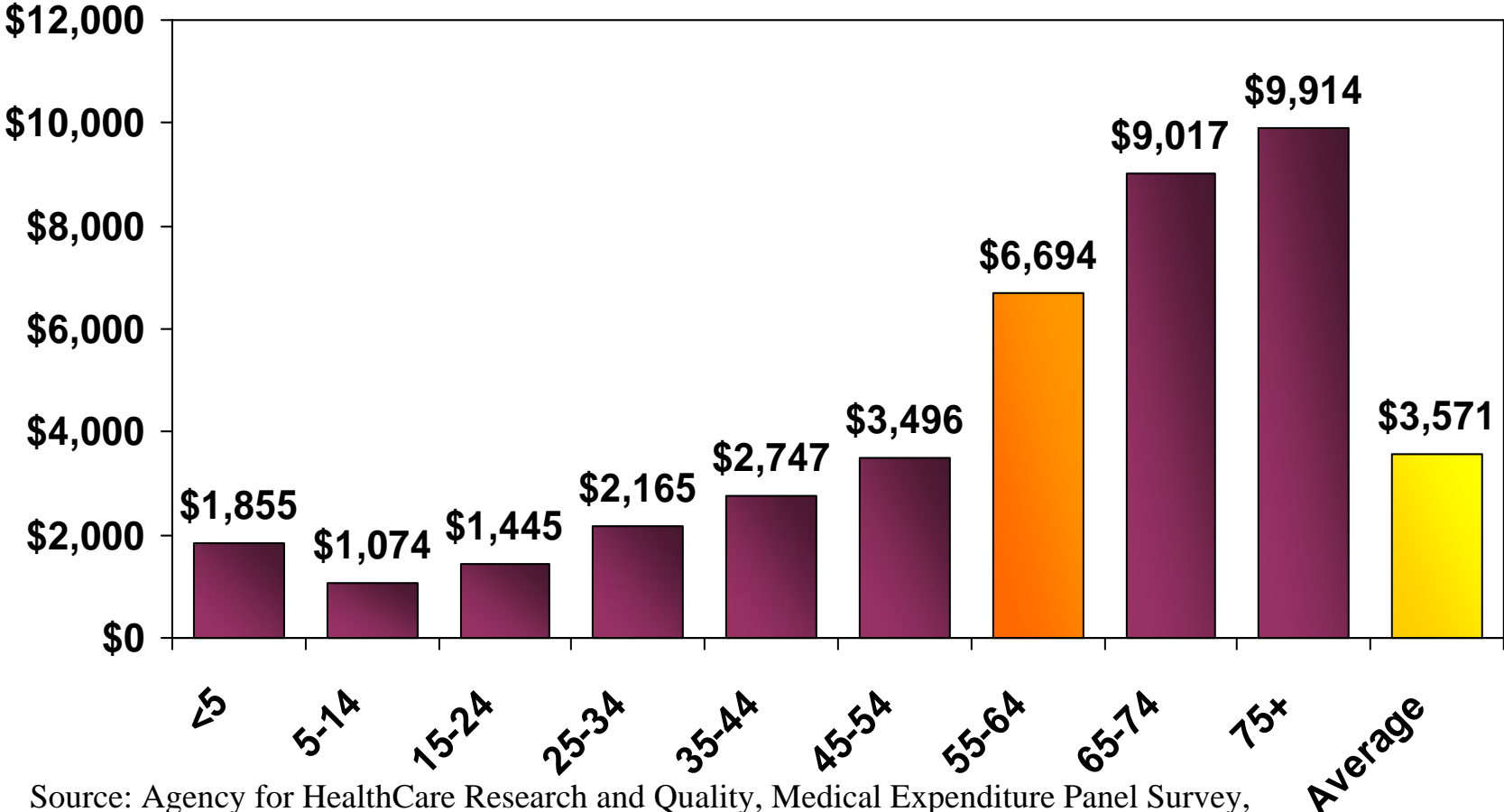
# More 65+ Than School Age by 2020



Census counts & State Demographer projection, revised 2007

# Health Care Spending Jumps After 55

## U.S. Health Care Spending By Age, 2004



Source: Agency for HealthCare Research and Quality, Medical Expenditure Panel Survey, data for per capita spending by age group in the Midwest. Excludes spending for long-term care institutions.

# **The “New Normal” Probably Means--2**

- **A shift in the balance between private and public sectors**
- **Chronic government deficits & cuts in service**
- **Worries about how to pay for past promises**
- **Deteriorating outcomes for key government activities (that may not show up for years)**
- **Cash flow problems--declines in credit rating**
- **Increasing inability to reach agreements in public policy—it gets harder and more difficult to reach consensus**

# **Creative Destruction/Disruptive Innovation Will Occur**

- **Forces for change are heightened during periods of economic stress**
- **Wholesale program changes will happen**
- **Disruptive changes are not evolutionary**
- **Some game changers will occur**
- **There will be short term losers as well as winners**
- **A set of new opportunities are revealed**

# Minnesota Faces a Fiscal Trap

- 1. The issue is a long run, structural one—short run solutions will not solve the problem**
- 2. Trend growth alone will not be sufficient. Fundamental changes are necessary**
- 3. Revenue growth will slow. Efforts to increase it will be met with resistance**
- 4. Spending pressures will increase driven largely by issues of aging and health**
- 5. State spending will shift its focus from education, infrastructure and higher education to care and support of the aging**



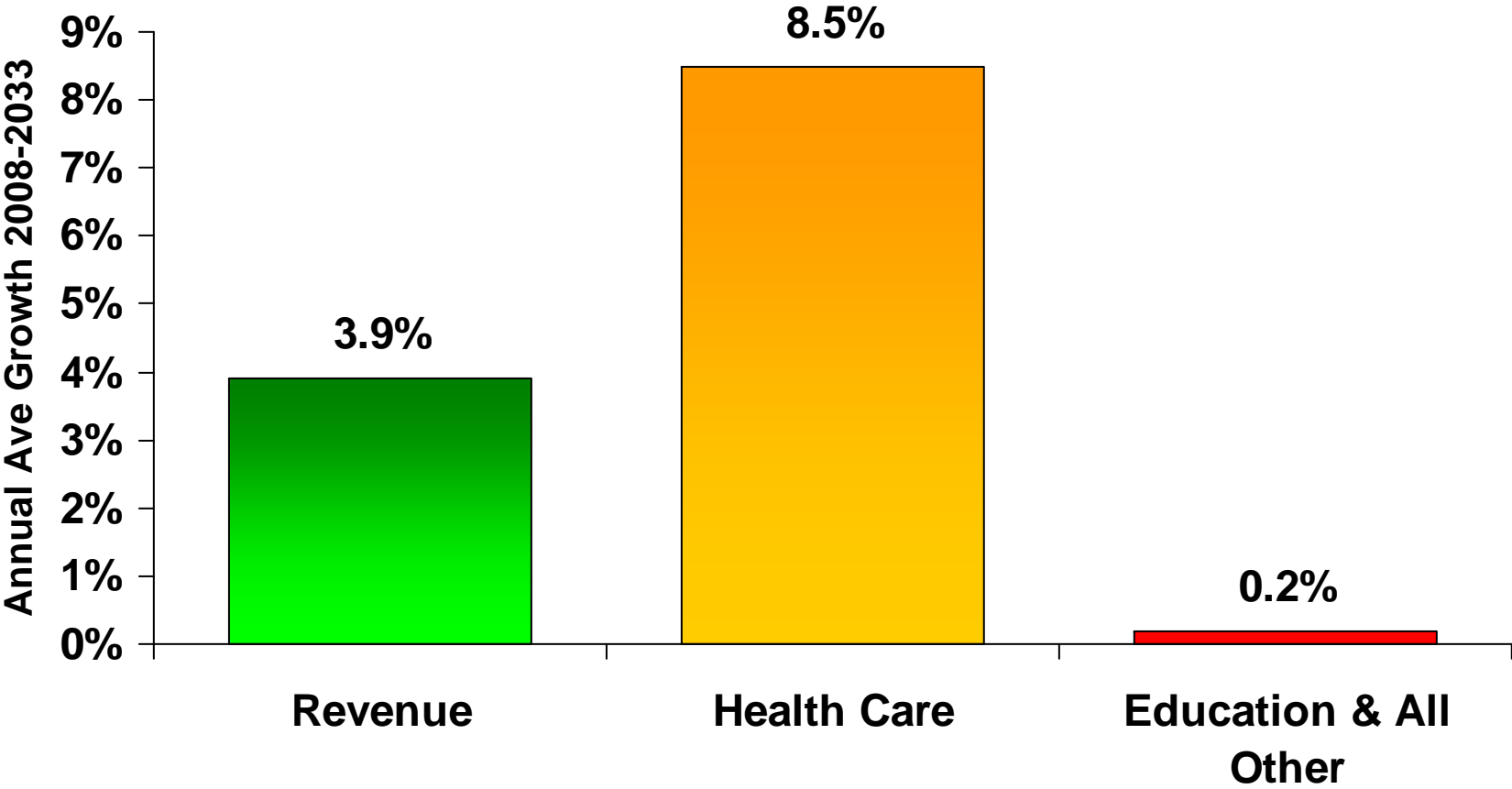
# FY 2012-13 Budget Gap Now \$5.8 Billion

<i>(\$ in millions)</i>	<u>FY 2012-13</u>
Resources	\$32,906
Spending	38,695
<b>Difference</b>	<b>(\$5,789)</b>
<u><i>Inflation</i></u>	<u>\$1,181</u>

Planning estimates assume:

- Complete repayment of the K-12 aid deferral. Delaying repayment would save the state \$1.3 billion
- No repayment of the K-12 Property tax recognition shift.

# If State Health Care Costs Continue Their Current Trend, State Spending On Other Services Can't Grow



General Fund Spending Outlook, presentation to the Budget Trends Commission, August 2008, Dybdal, Reitan and Broat

**The Great Recession Has Been  
Blamed for Raising the Level of Social  
Angst**

**But What Is Really Happening  
Is That We Have Entered A  
“New Normal”**

# Grieving For The “Old Normal”

- **Denial** – “This is not happening.” “Just wait, things will return to normal.”
- **Anger** -- “Who is to blame?” Rage and gridlock rule and anyone who symbolizes life, energy, progress, success, happiness, etc. is treated with resentment and mistrust.
- **Bargaining** – “I’ll change if this just goes away.” Somehow, we can get back to the old normal if we just return to good, ole fashioned (conservative/liberal) values.
- **Depression (emotional, not economic)** – “What’s the point in trying?” “We are all doomed anyway.” The certainty/finality of events is finally recognized.
- **Acceptance** – “It’s going to be okay.” Looking for opportunities begins.

# **But Why Fear The New Normal? It Plays To Our Strengths!**

- **Future economic growth will depend increasingly on increasing productivity and less on labor force size**
- **Education has been the key to Minnesota's productivity and prosperity**
- **Future productivity increases will depend on decisions and the investments we make now**
- ***Public Sector Productivity Growth Will Be Essential***

# **Economic Fact of Life #1**

## **First Principle of Economic Growth**

**Standard of Living depends on output per resident**

**Output = Output per Hour \* Hours Worked**

**Productivity Is Not Just  
Producing at a Lower Cost**

# **Increasing Productivity Also Means**

- **Making things better**  
**(improved quality)**
- **Making better things**  
**(innovation, new products)**



# ***“Making Things Better”* May Offer the Greatest Potential**

- **Cost cutting efforts have focused on transactional jobs**
- **Largest future productivity gains are likely to come from investments that lead to better outcomes**
  - Lower lifetime health care costs, reduced recidivism rates, improved graduation rates
- **Adapting service delivery plans to meet the needs of the “New Normal”**

# **Focusing Just On Expenditure Cuts May Be Short Sighted**

**Long term cost saving  
may require investments  
which increase short term  
expenditures**

# 3 R's of Opportunity

- **Restructure government costs**
- **Replace retiring government workers wisely**
- **Re-engage the growing retiree population**

# 3 More R's Of Opportunity

- **Restructure government revenues**
- **Research to solve problems—for example an Alzheimer's cure**
- **Restore entrepreneurship, initiative, invention in the private and public sectors**

# The Fiscal Catch-22

- ➡ If we don't make the necessary public investments in human capital, research and infrastructure, then we won't have the productivity gains needed to provide the resources to make those investments in the future and pay for the promises we have made.

**“If something can't go on forever,  
it will stop.”**

Herbert Stein, Chair President Nixon's  
Council of Economic Advisors

**“I skate to where the puck will be,  
not to where it has been.”**

**Wayne Gretzky**

**Famous Canadian Philosopher**