

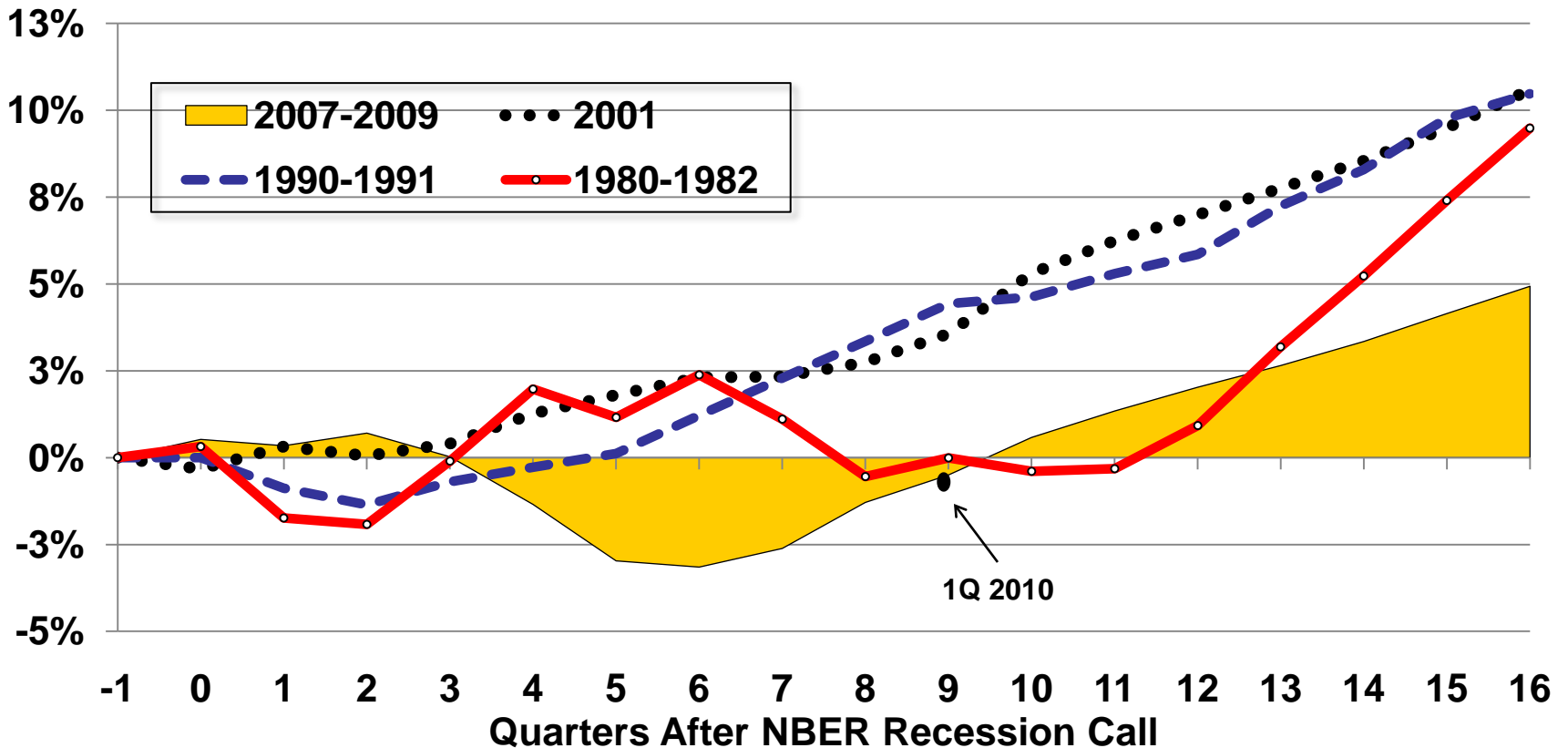
Minnesota and the New Normal

**Thomas F. Stinson
University of Minnesota
June 2010**

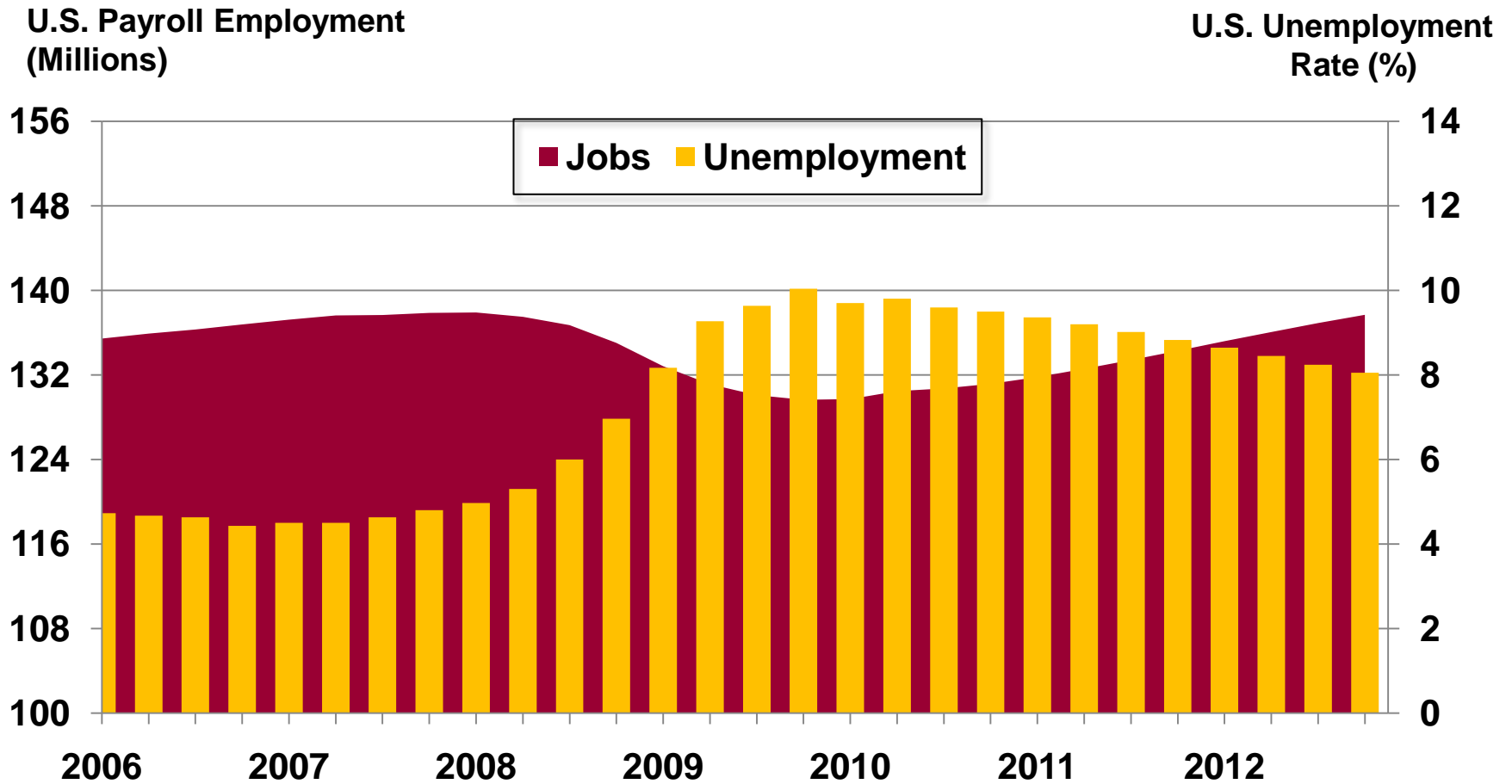
**Recent Economic and
Demographic Events Have
Changed the Outlook for as Far
as We Can See**

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

Percent Change from Quarter
Preceding NBER Recession Call

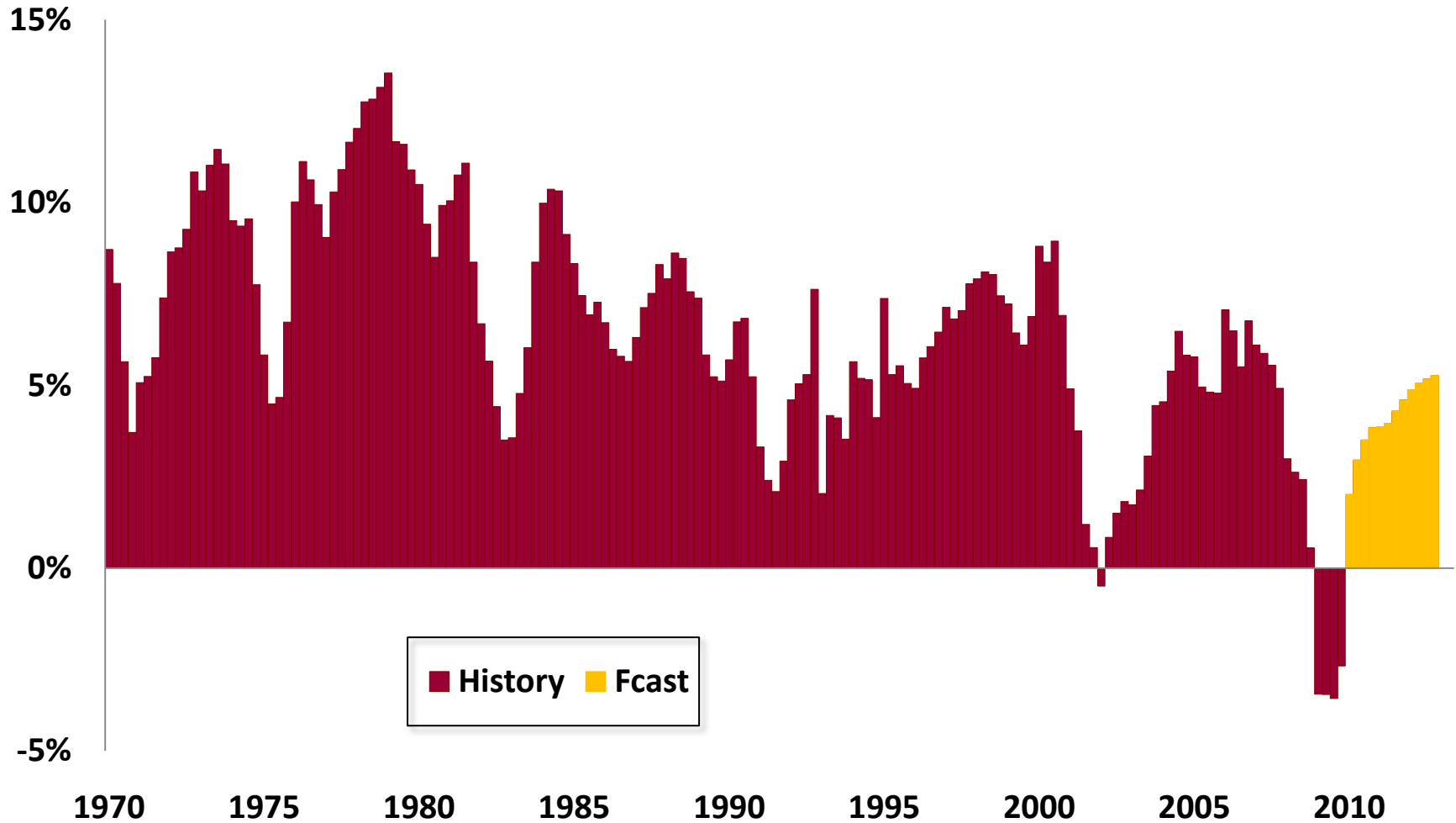


The U.S. Economy Lost 8.4 Million Jobs in the Great Recession

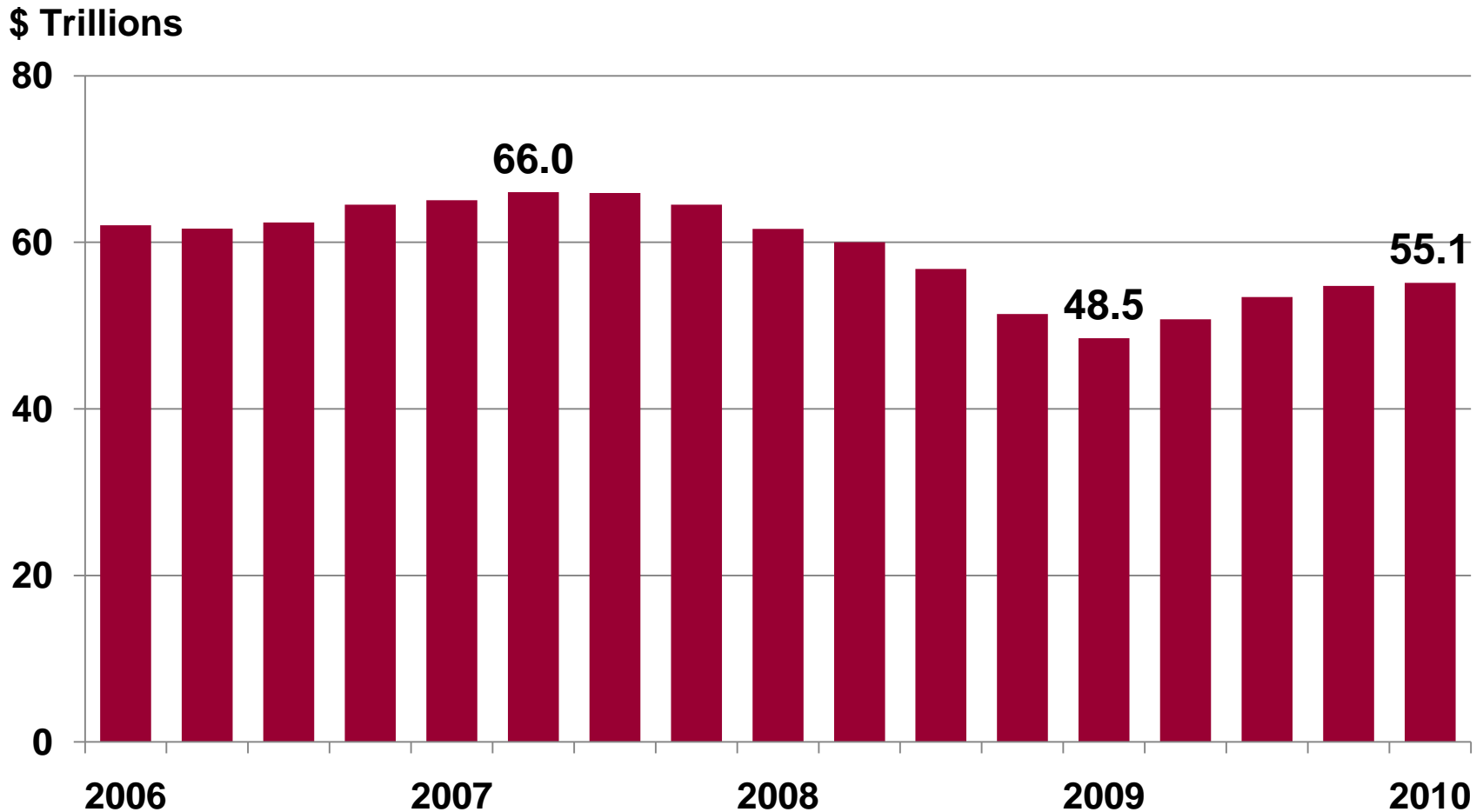


Total U.S. Wages Fell in 2009

Quarterly Year-Over-Year
Percent Change

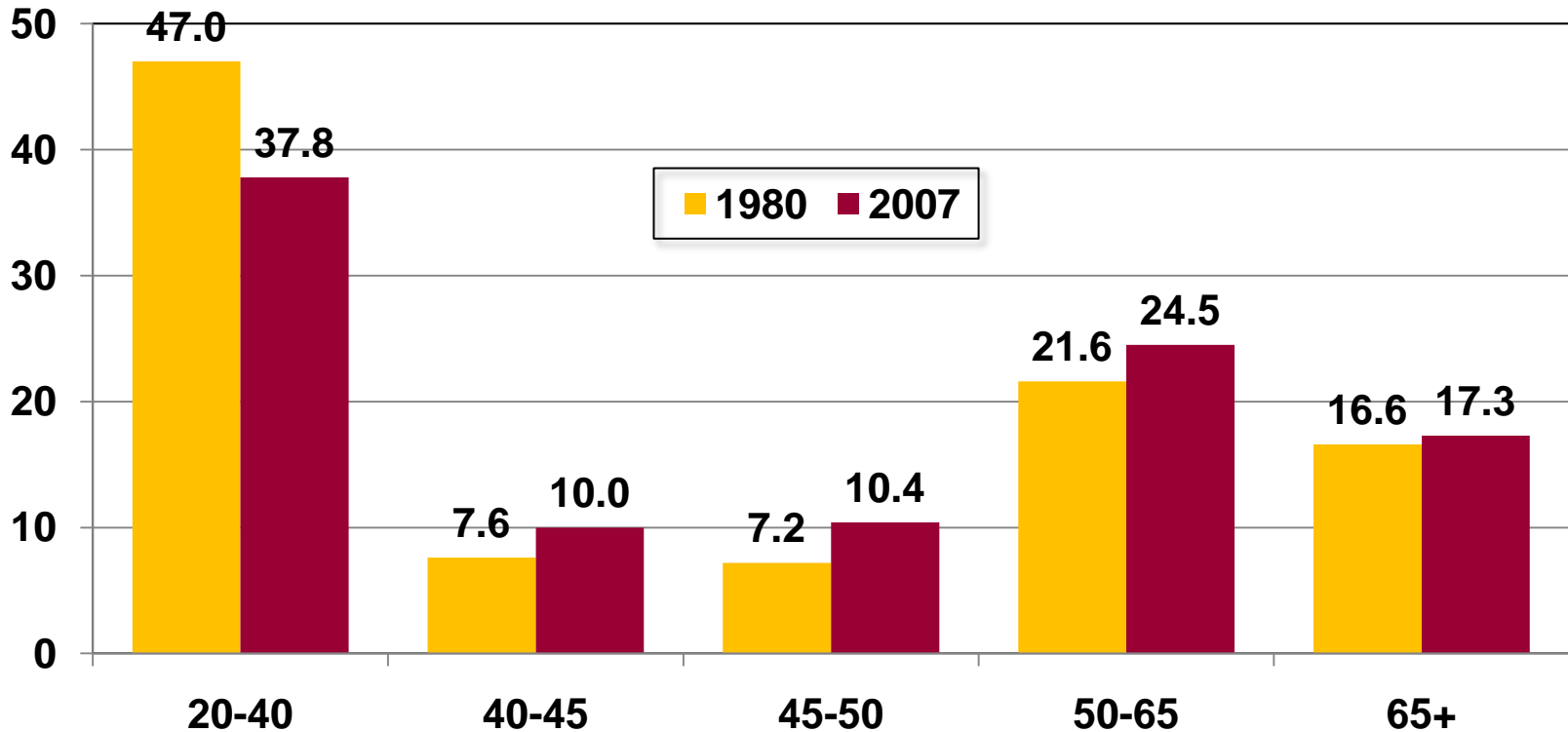


Household Net Worth Fell by More Than \$17 Trillion Dollars

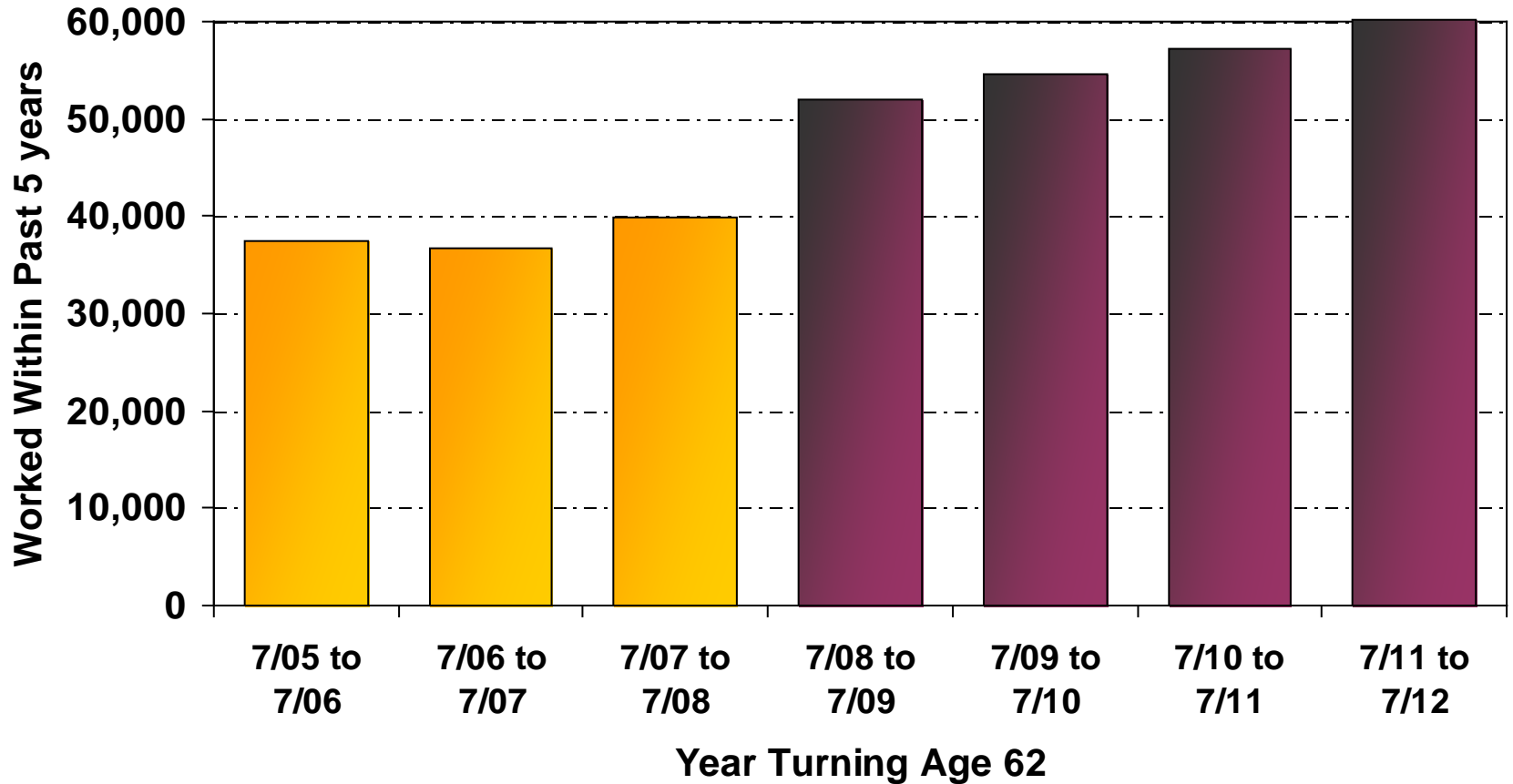


The Age Distribution Has Changed

% of Population
Over Age 20

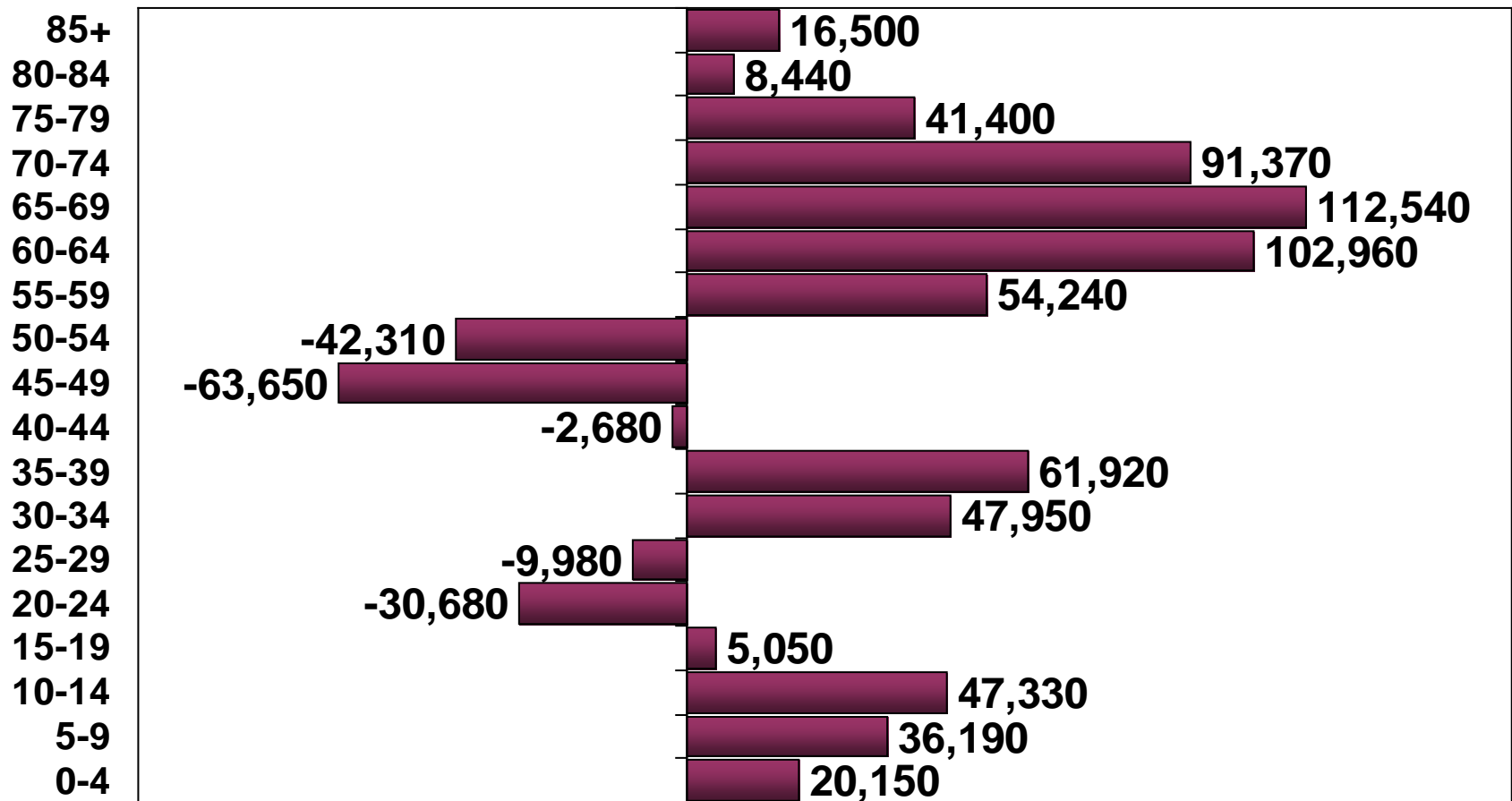


Minnesota Saw a 30 Percent Jump in Workers Turning Age 62 in 2008



2005 ACS

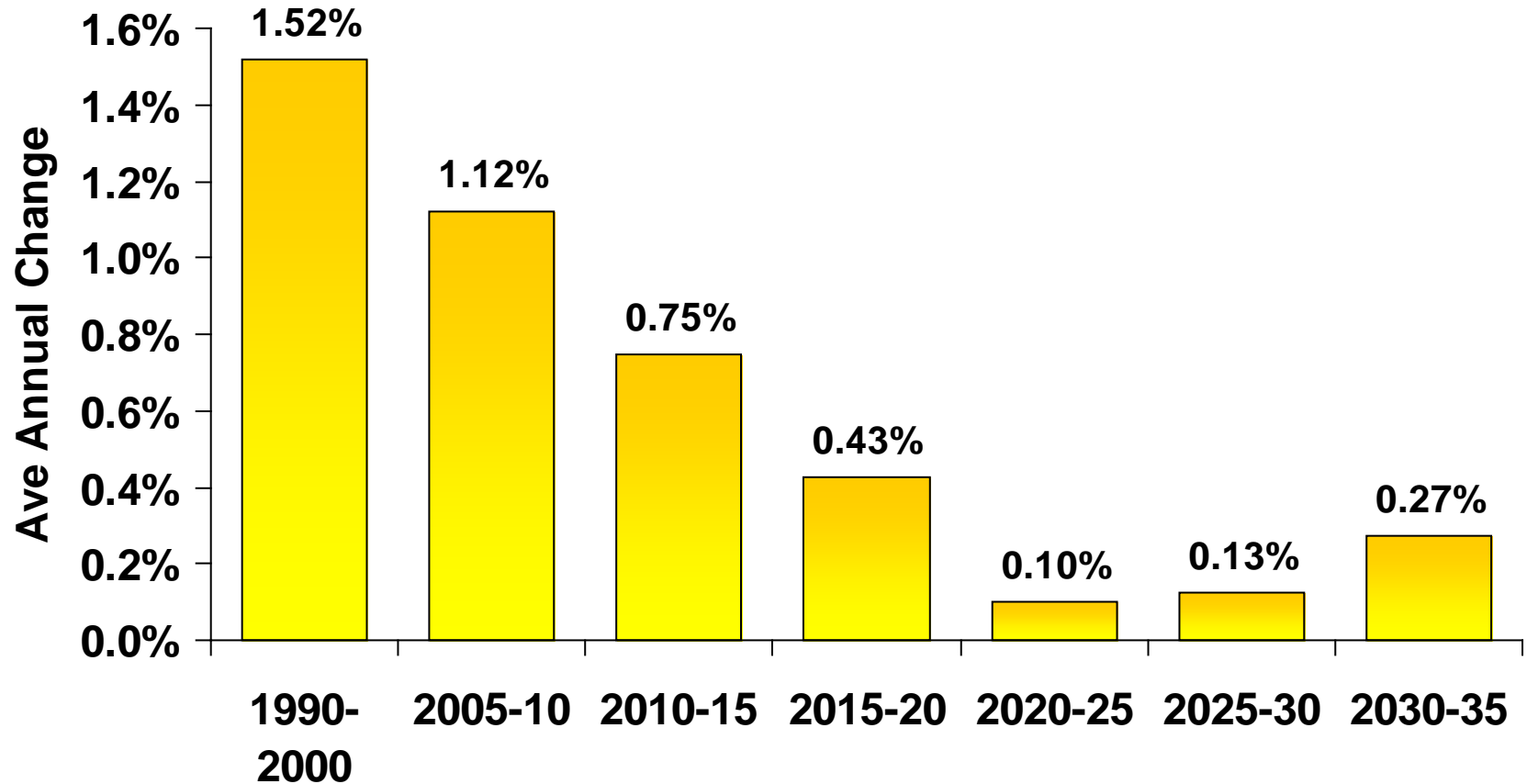
From 2010 to 2020, Minnesota Will See Large Increases Age 50s and 60s



Source: Minnesota State Demographic Center, rev 2007

Numbers are rounded

Labor Force Growth Is About To Slow Sharply

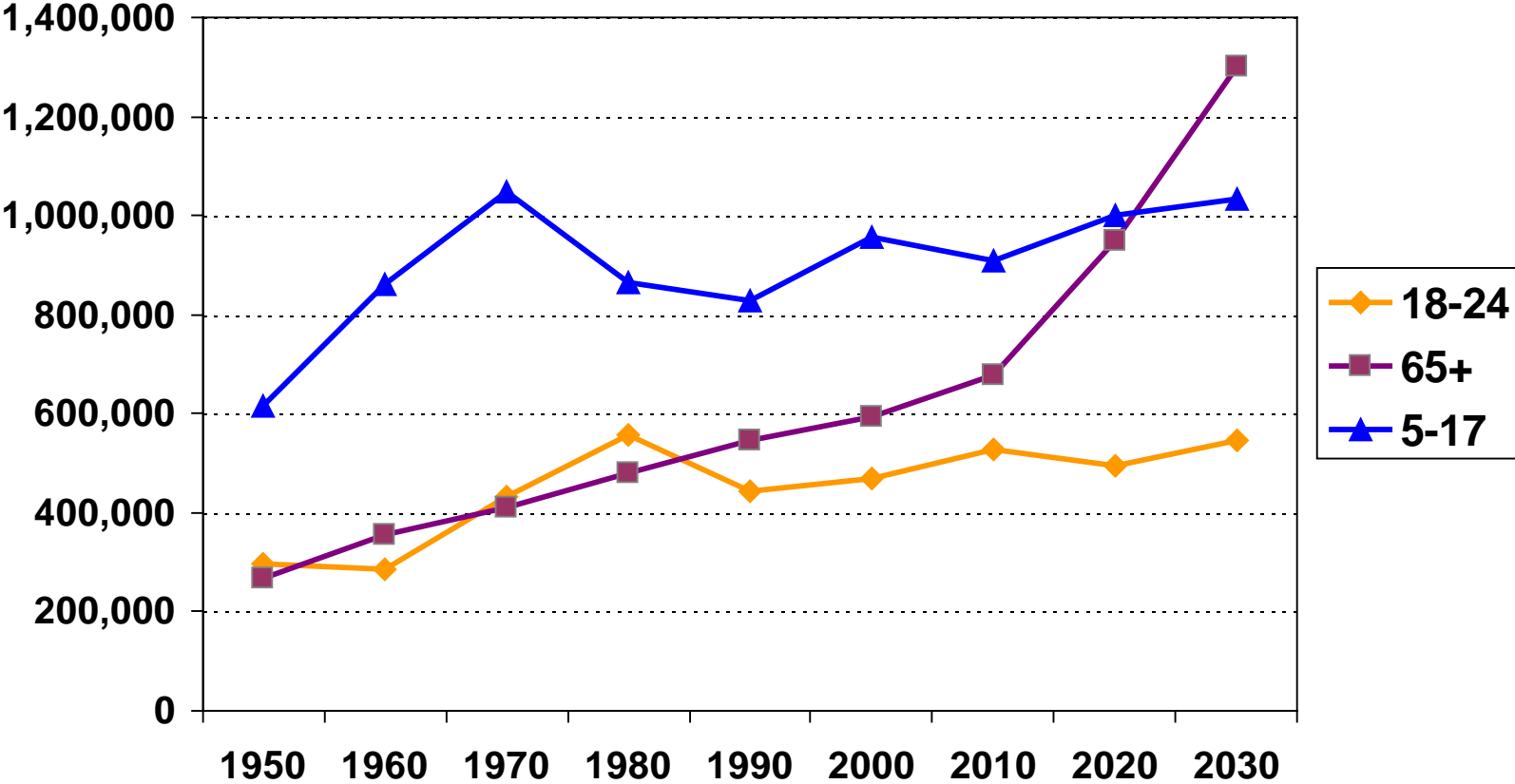


The Old Normal
+ The Great Recession
+ Long Run Demographic Changes
= The New Normal

The “New Normal” Probably Means

- Higher interest rates
- Slower economic growth
- Increasing numbers of retirees
- Less consumption; more saving
- Creative destruction/disruptive innovation will change the way we deliver services
- A shift in the balance between private and public sectors
- More uncertainty about the future

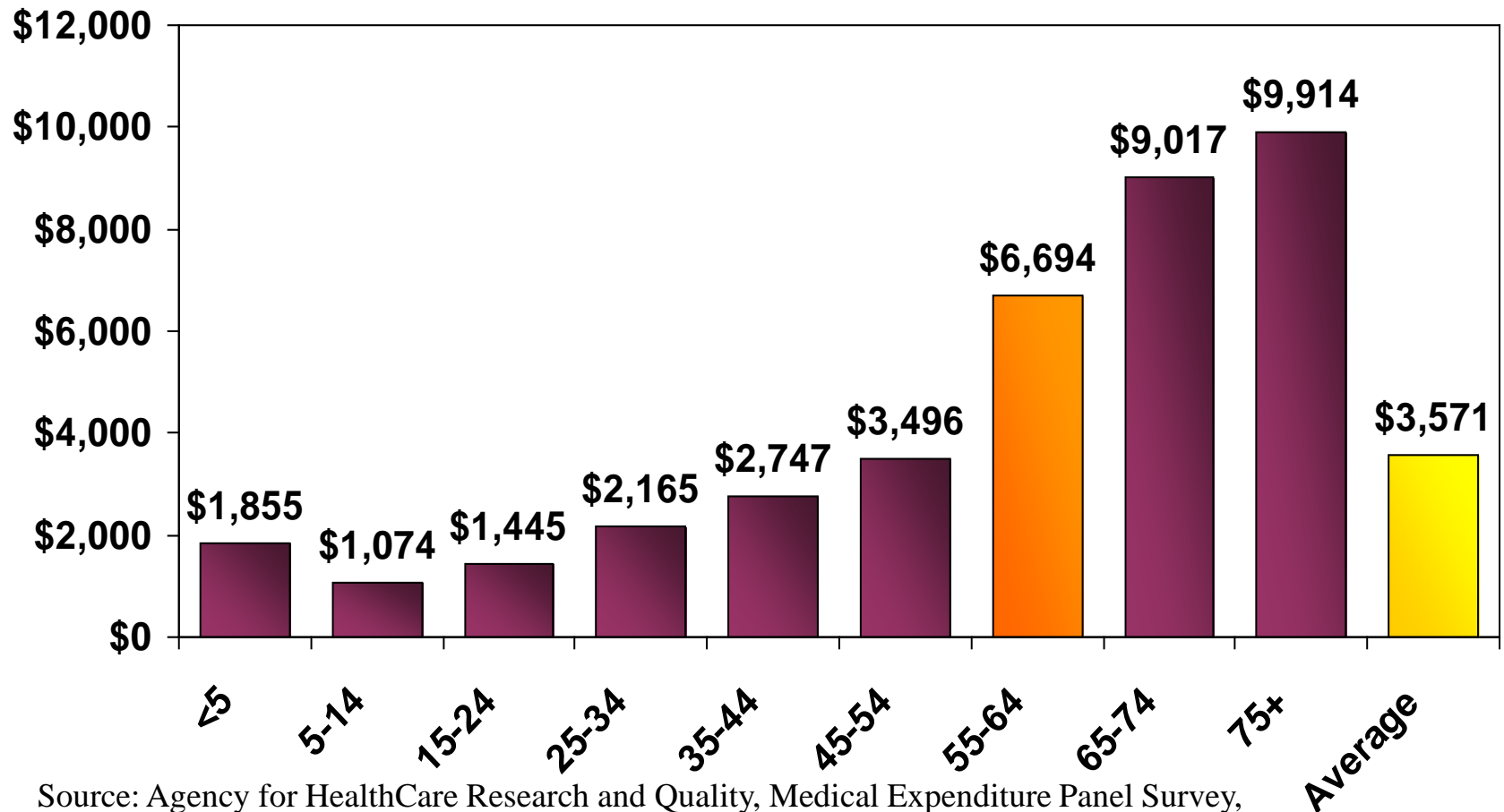
More 65+ Than School Age by 2020



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.

FY 2012-13 Budget Gap Now \$5.8 Billion

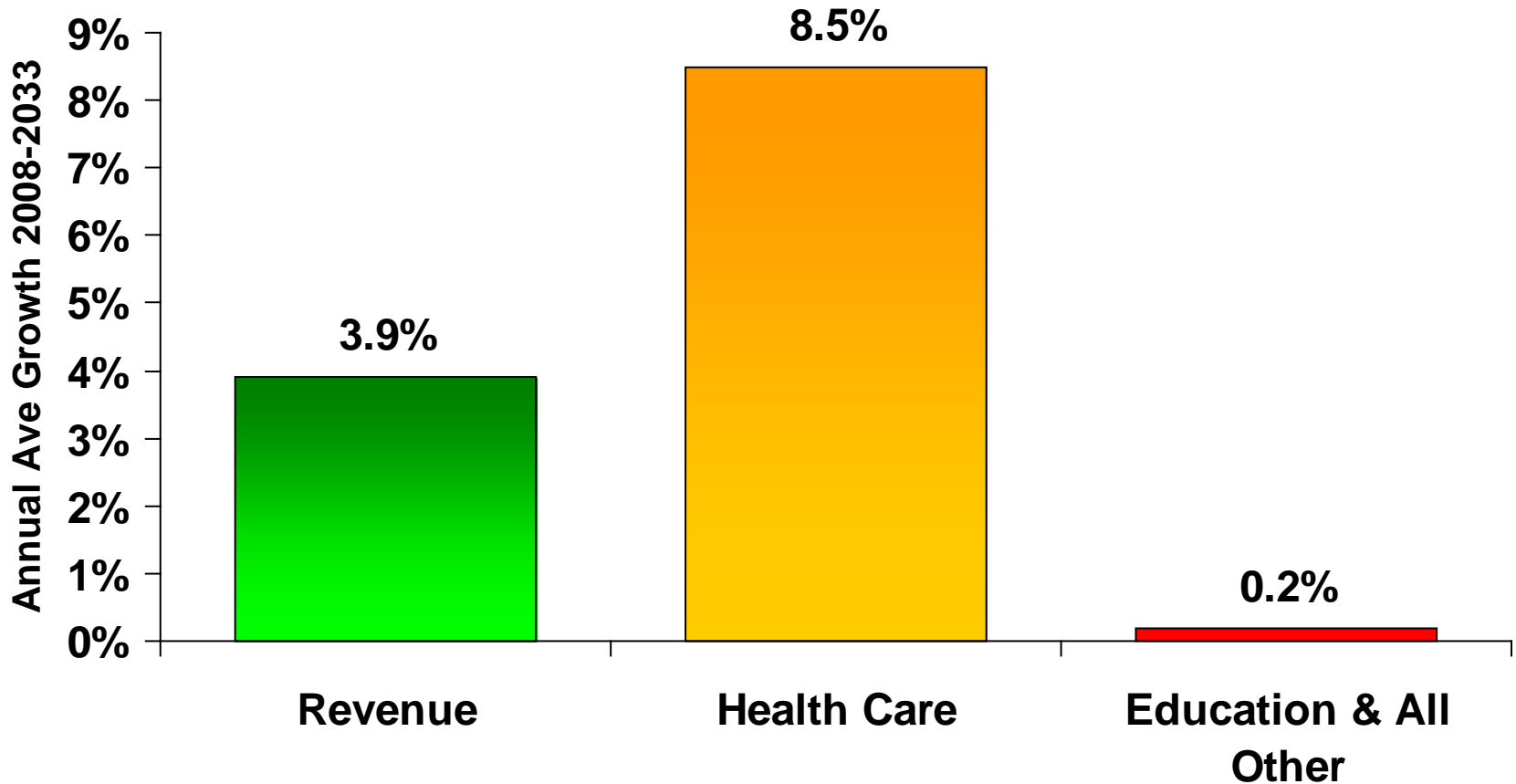
(\$ in millions)

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

Planning estimates assume:

- Complete repayment of the K-12 aid deferral. Delaying repayment would save \$1.385 billion
- No repayment of the K-12 Property tax recognition shift. Repayment would cost \$576 million.

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

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**

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”**

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***

**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
- **Service delivery plans must adapt to meet the needs of the “New Normal”**

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.

**“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
Hockey Great**