

But ... What About Tomorrow?

**Presentation to
September 8 Leadership Summit**

**Tom Stinson
Tom Gillaspay
September, 2009**

Minnesota Has Been Very Successful

(Especially For A Cold Weather State at the End of the Road)

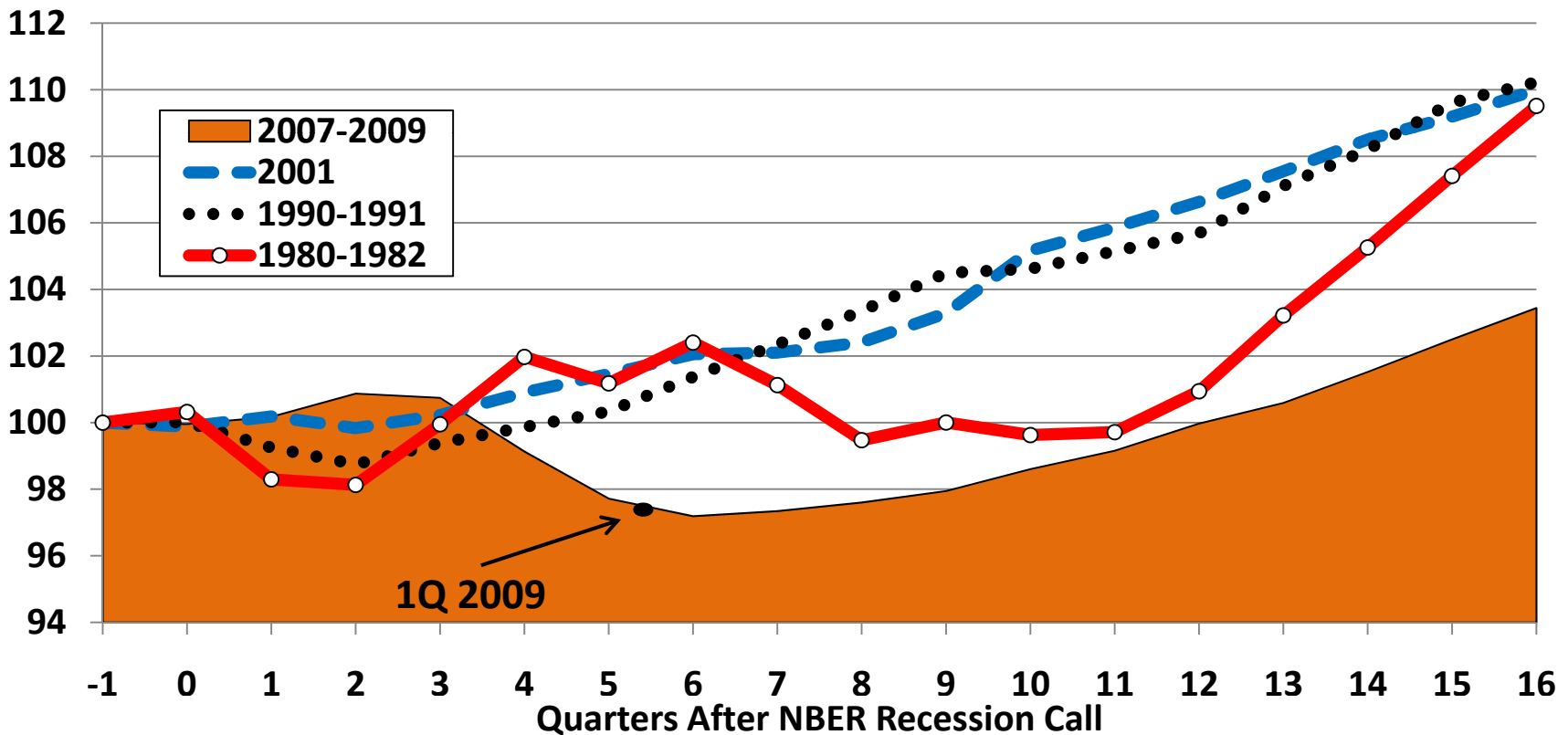
- **Our economic growth rate has exceeded the national average**
- **Our population growth rate leads the frost belt**
- **We rank with the leaders on many social and economic indicators**
- **Education has been a key contributor to the state's success**

**Past Performance
Does Not Ensure
Future Results**

Minnesota Is Facing Significant Long-Term Budget Problems

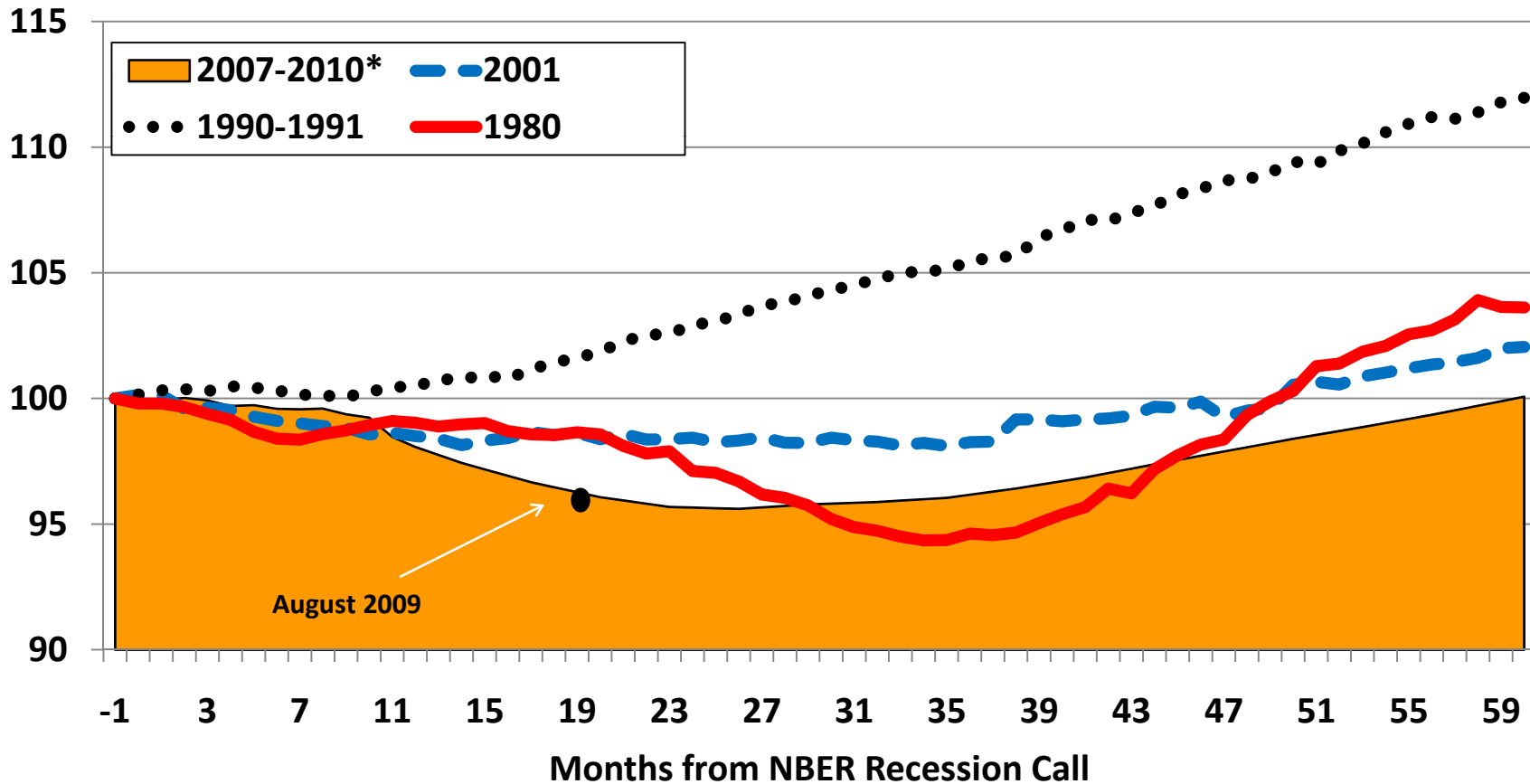
This Recession Is Much More Severe Than Those of 1990-91 and 2001

Real GDP Index
Quarter Preceding NBER
Recession Call = 100



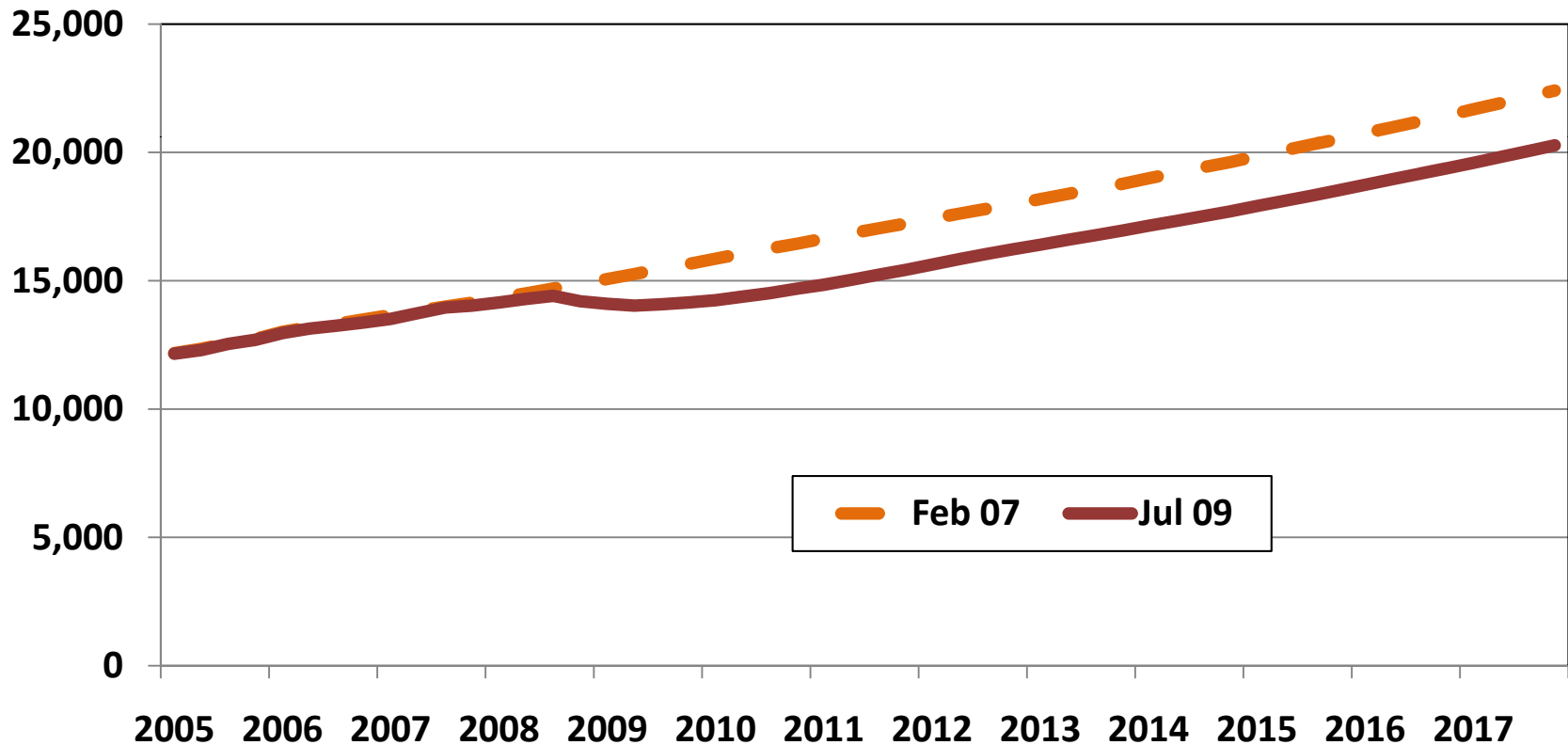
Minnesota's Recovery Will Be Slower than After Recent Downturns

MN Employment
Month Preceding NBER
Recession Call = 100



The 2007-09 Recession Permanently Reduced the Base for Future Revenues

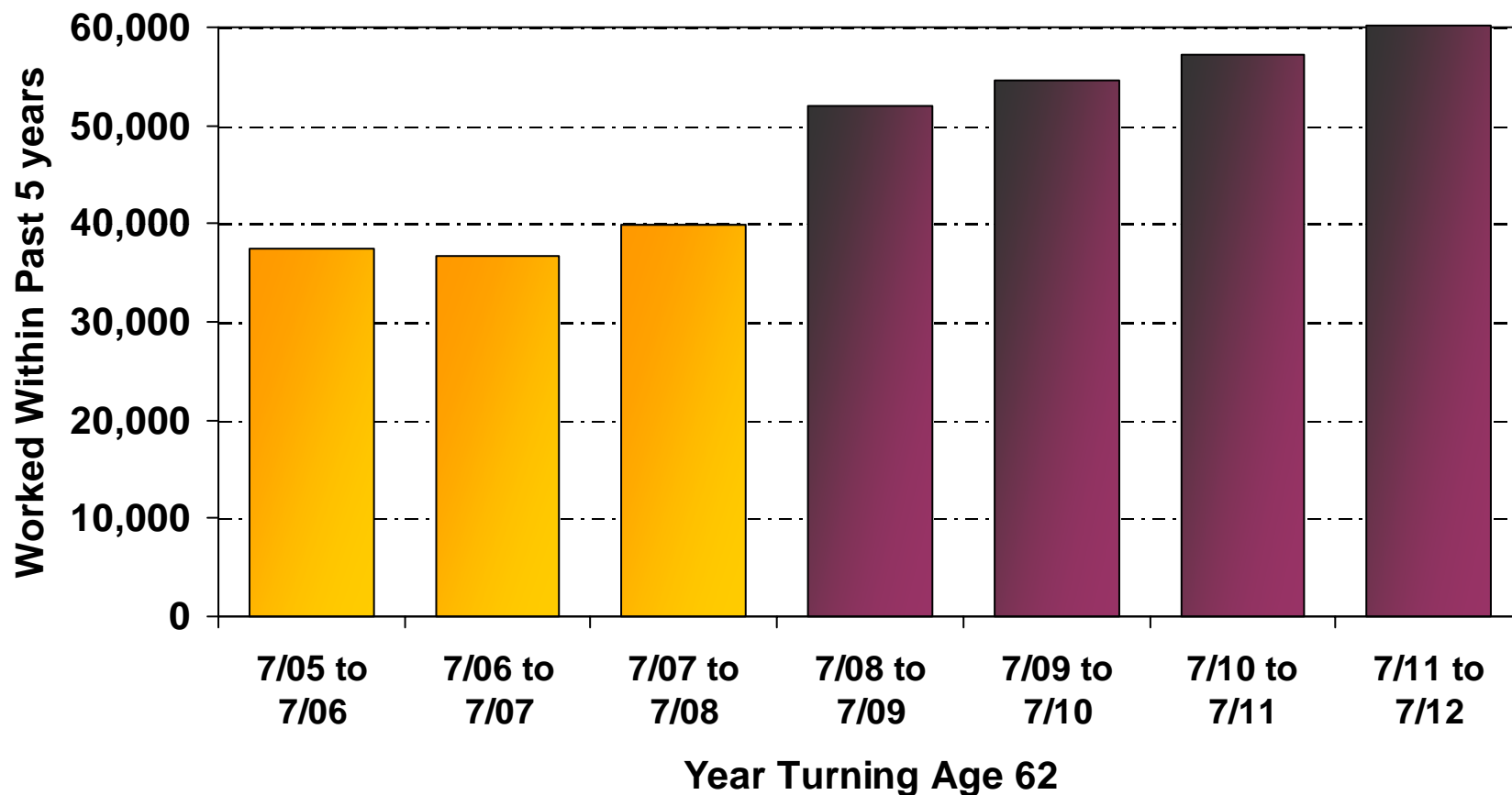
Nominal GDP
\$ Billions



The Economic/Demographic Environment Has Changed for as Far as We Can Forecast

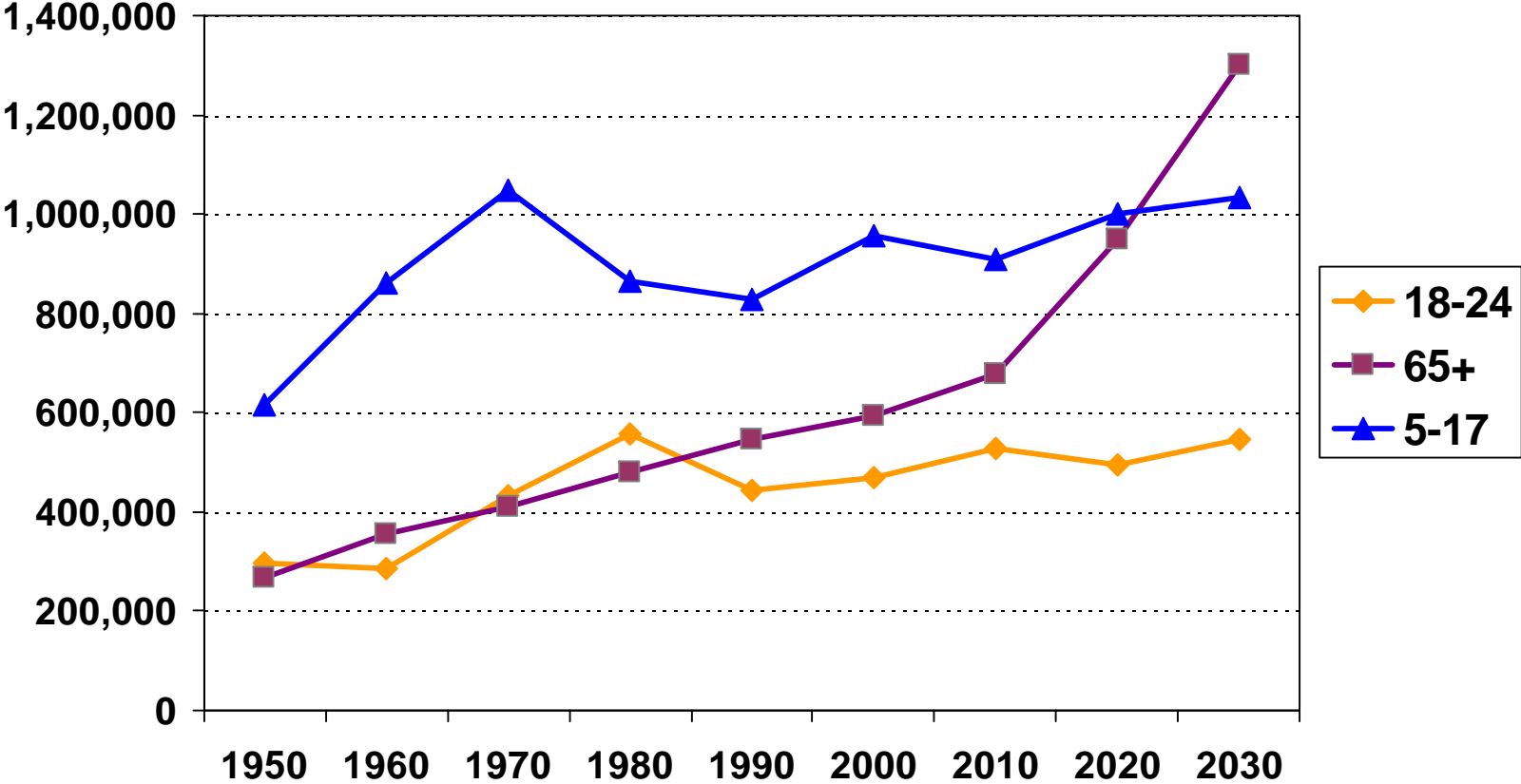
- ✘ Short run economic cycle has merged with long run demographic cycle**
- ✘ We have entered the Age of Entitlement— economic growth in the next 25 years will be about half what it was in the past 25.**
- ✘ State revenue growth will slow while spending pressures will accelerate**
- ✘ This is a national/global issue**

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



2005 ACS

Budget Pressures Will Change More 65+ Than School Age by 2020



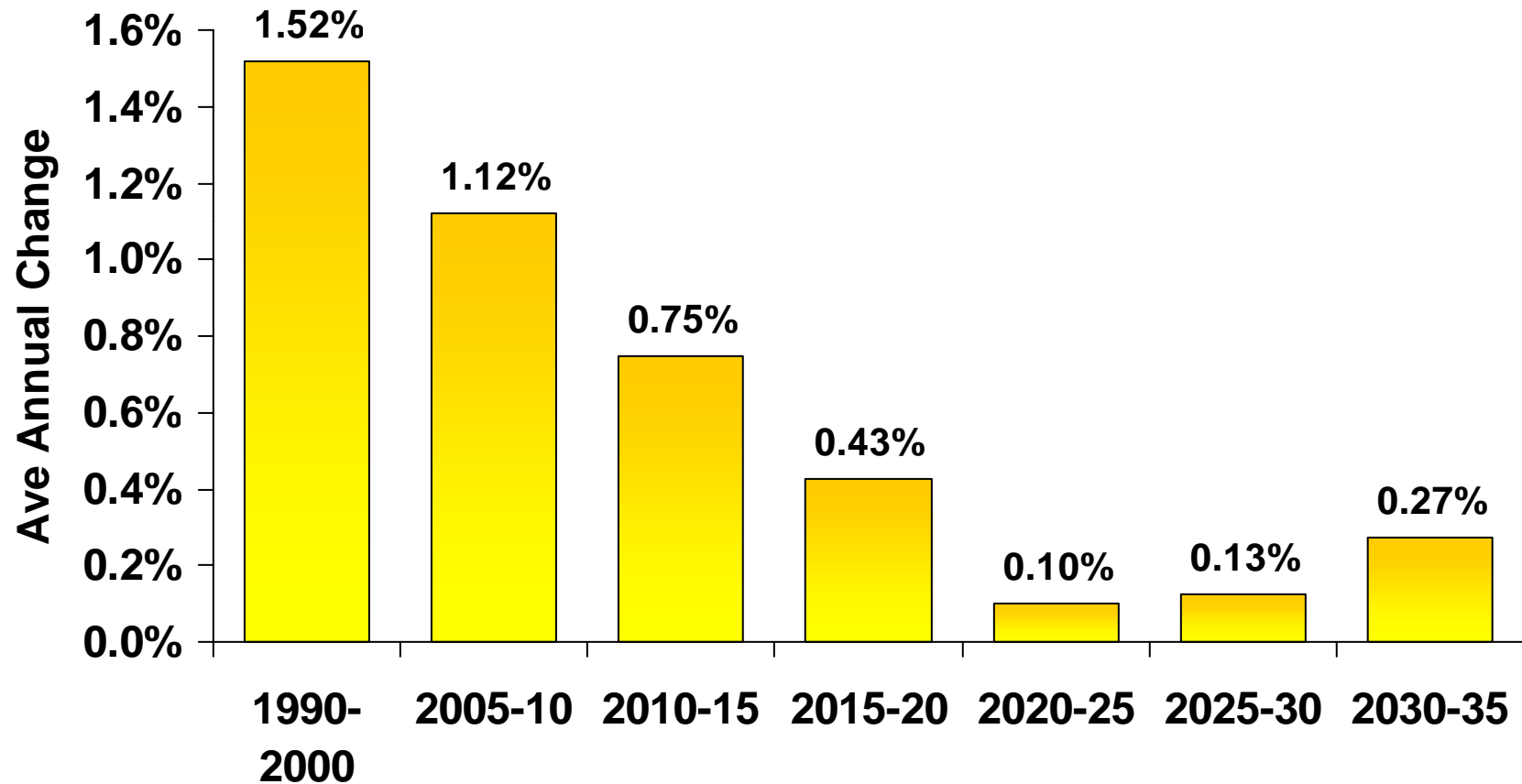
Census counts & State Demographer projection, revised 2007

In 1995, we said,

“If there is a time to solve the state’s fiscal problems, it is now.”

“After 2010, solutions will be more difficult, as the percentage of Minnesotans of working age begins to decline.”

Labor Force Growth Is About To Slow Sharply

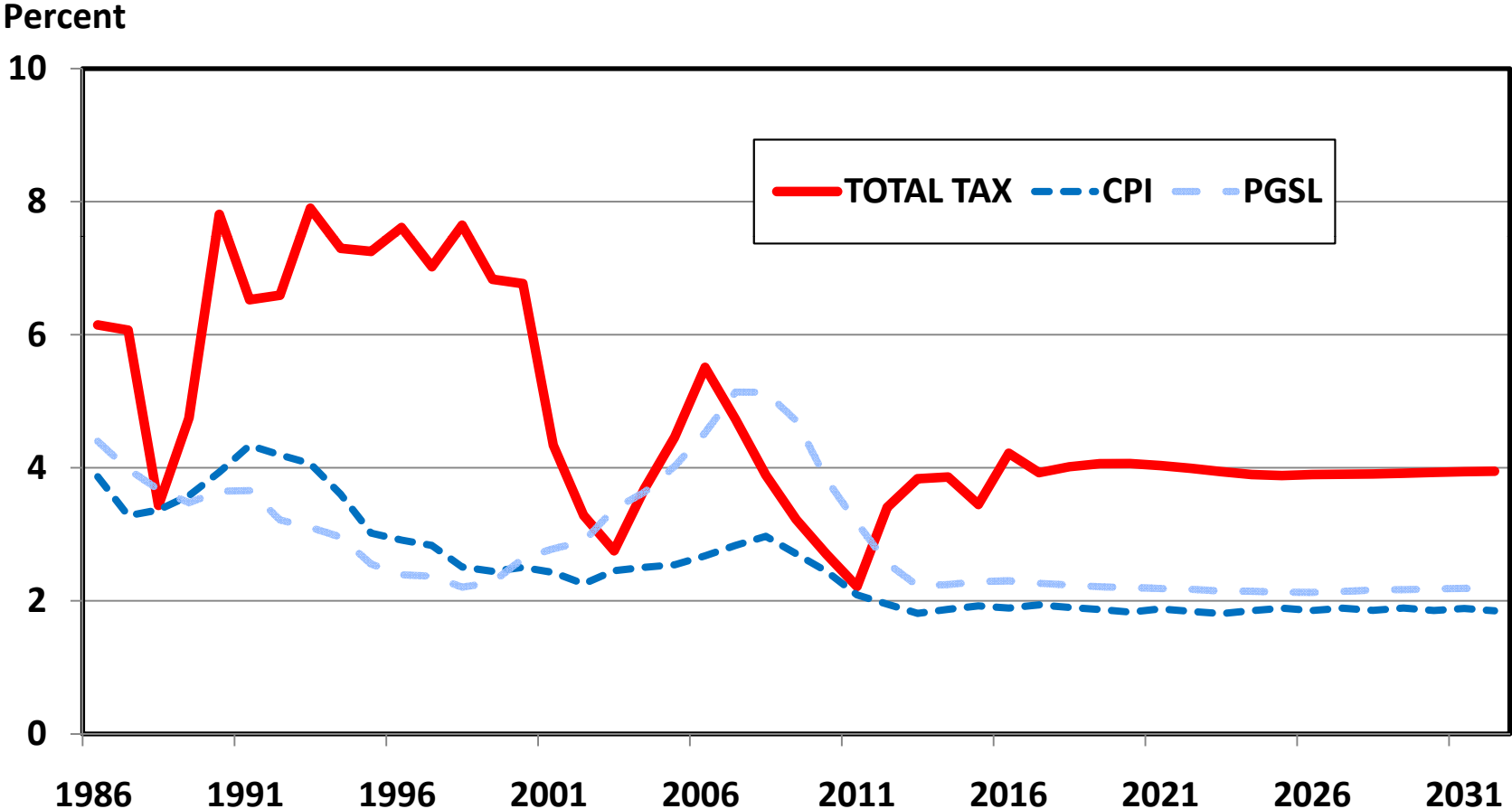


Minnesota Faces a Fiscal Trap

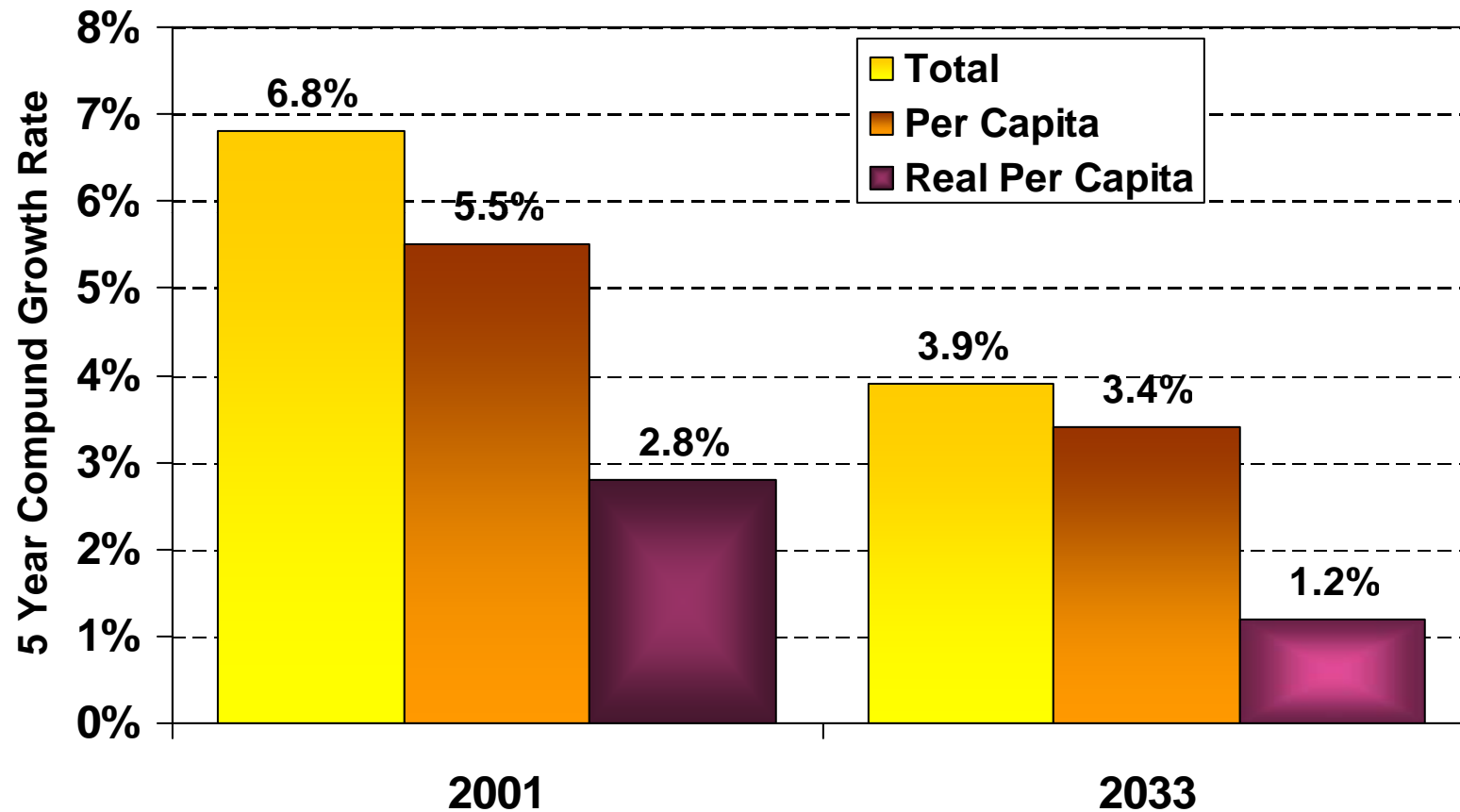
- 1. The issue is a long run, structural one—short run solutions will not solve the problem**
- 2. Trend growth alone will not be sufficient. Fundamental changes are necessary**
- 3. Revenue growth will slow. Efforts to increase it will be met with resistance**
- 4. Spending pressures will increase driven 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**

Revenue Growth Will Slow

5 Year Compound Growth Rates for Total State Revenues

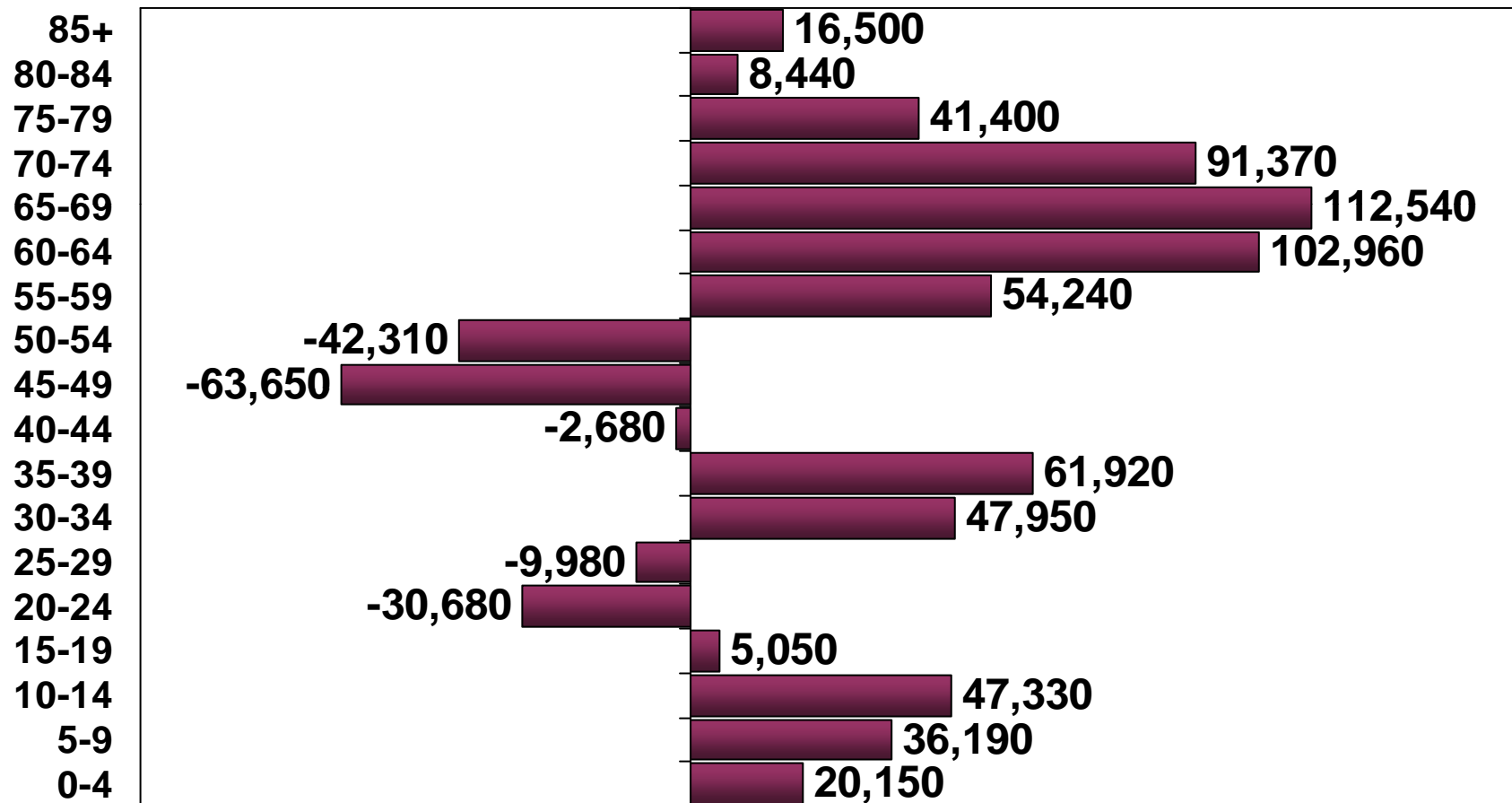


Next 25 Years--State Revenue Growth Rate Projected To Slow



Budget Trends Commission, 2009

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

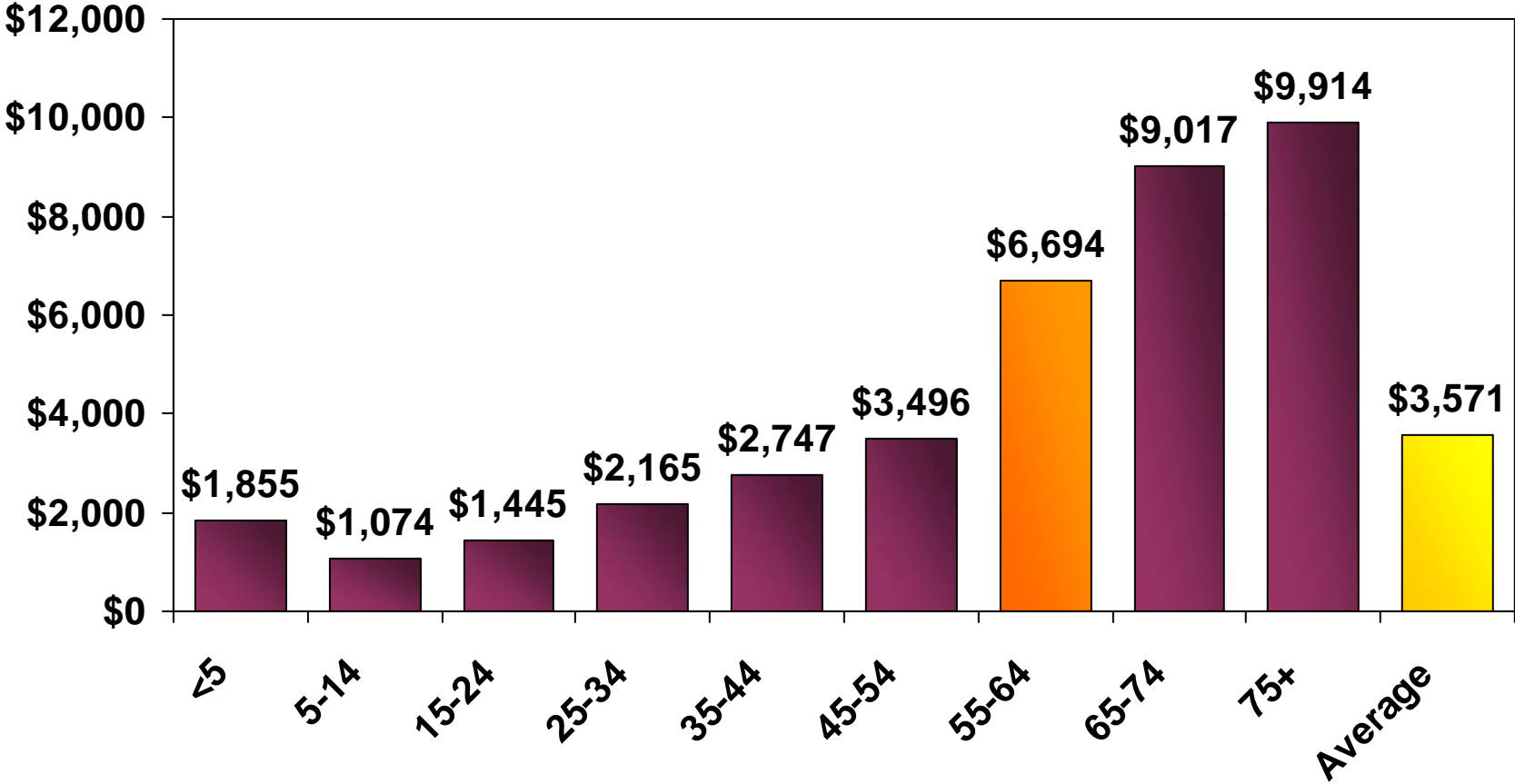


Source: Minnesota State Demographic Center, rev 2007

Numbers are rounded

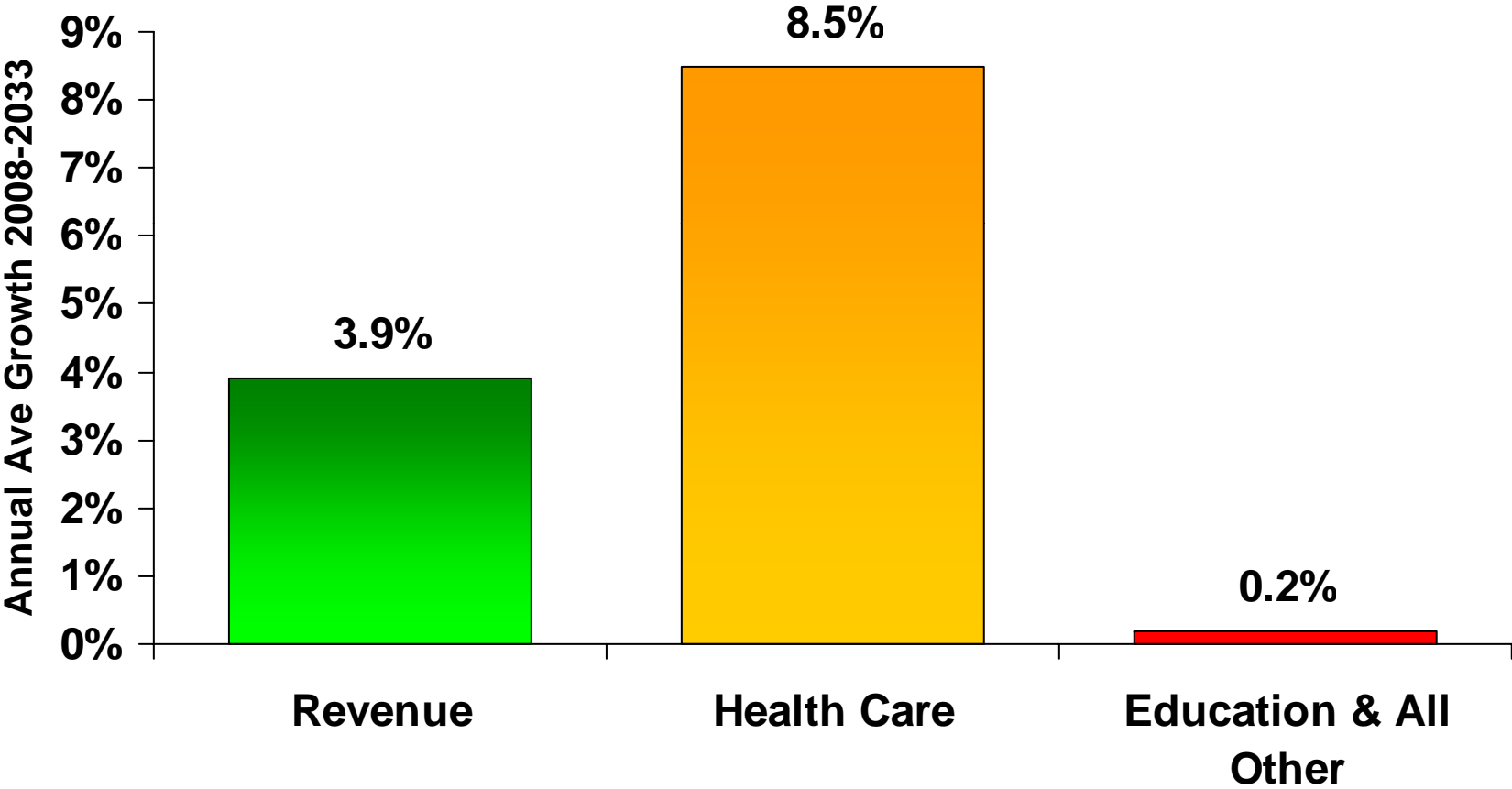
Health Care Spending Jumps After 55

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.

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



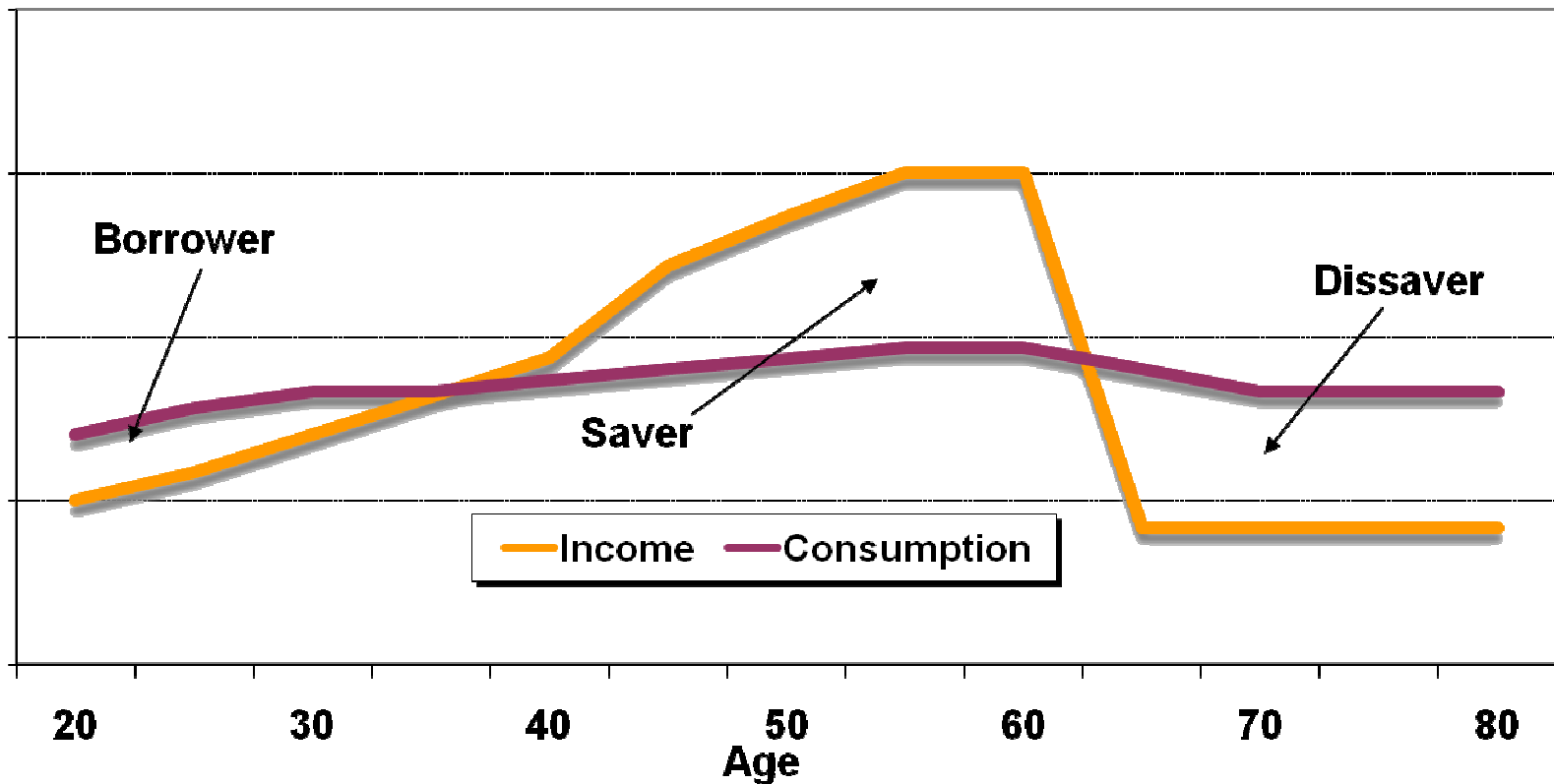
General Fund Spending Outlook, presentation to the Budget Trends Commission, August 2008, Dybdal, Reitan and Broat

The Political Economy Has Changed In Fundamental Ways

- 🌳 Minnesota had strong per capita economic growth since WWII**
- 🌳 The global economic environment has changed.**
- 🌳 The political economy is also changing**
 - 🌳 Aging means slower economic growth and rising government expenditures**
 - 🌳 Aging means more tax resistance**

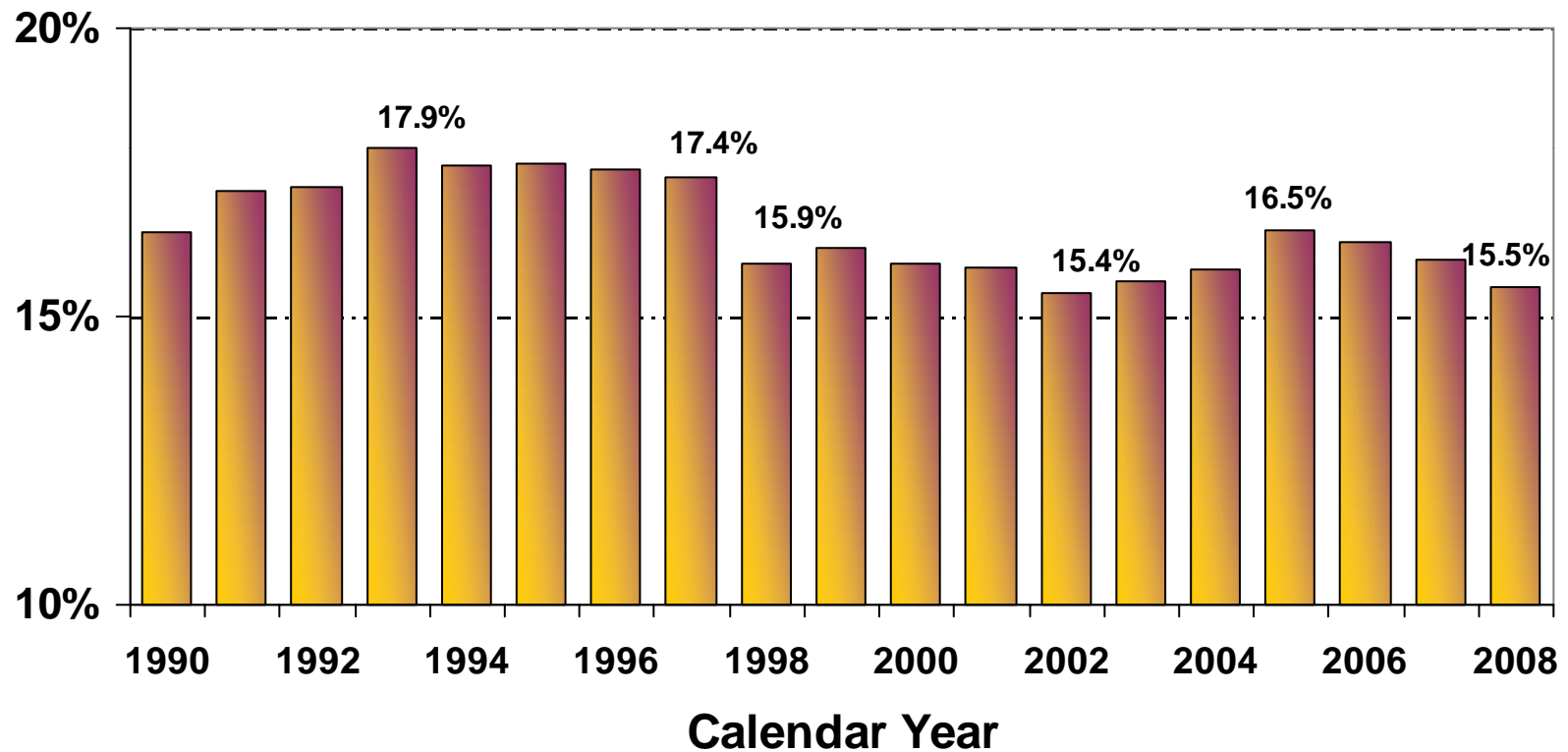
Phases in the Household Life Cycle

Dollars



State/Local Government's Share of Personal Income Has Declined

Price of Government



Mn Dept of Finance

How Do We Get Out Of This Fiscal Trap?

- Revenue growth will depend increasingly on per capita economic growth
- Future economic growth will depend increasingly on increasing productivity and less on labor force size
- This plays to Minnesota's historic strength

Productivity Remains The Key To Quality of Life In Minnesota

- ➡ **Economic Growth = Labor Force Growth + Productivity Growth**
- ➡ **Productivity growth comes from**
 - ✓ Private investment -- machines & processes
 - ✓ Skills & abilities of workers
 - ✓ Public investment -- roads, bridges, etc
 - ✓ Technology from research, public & private

Productivity Is Not Just Producing at a Lower Cost

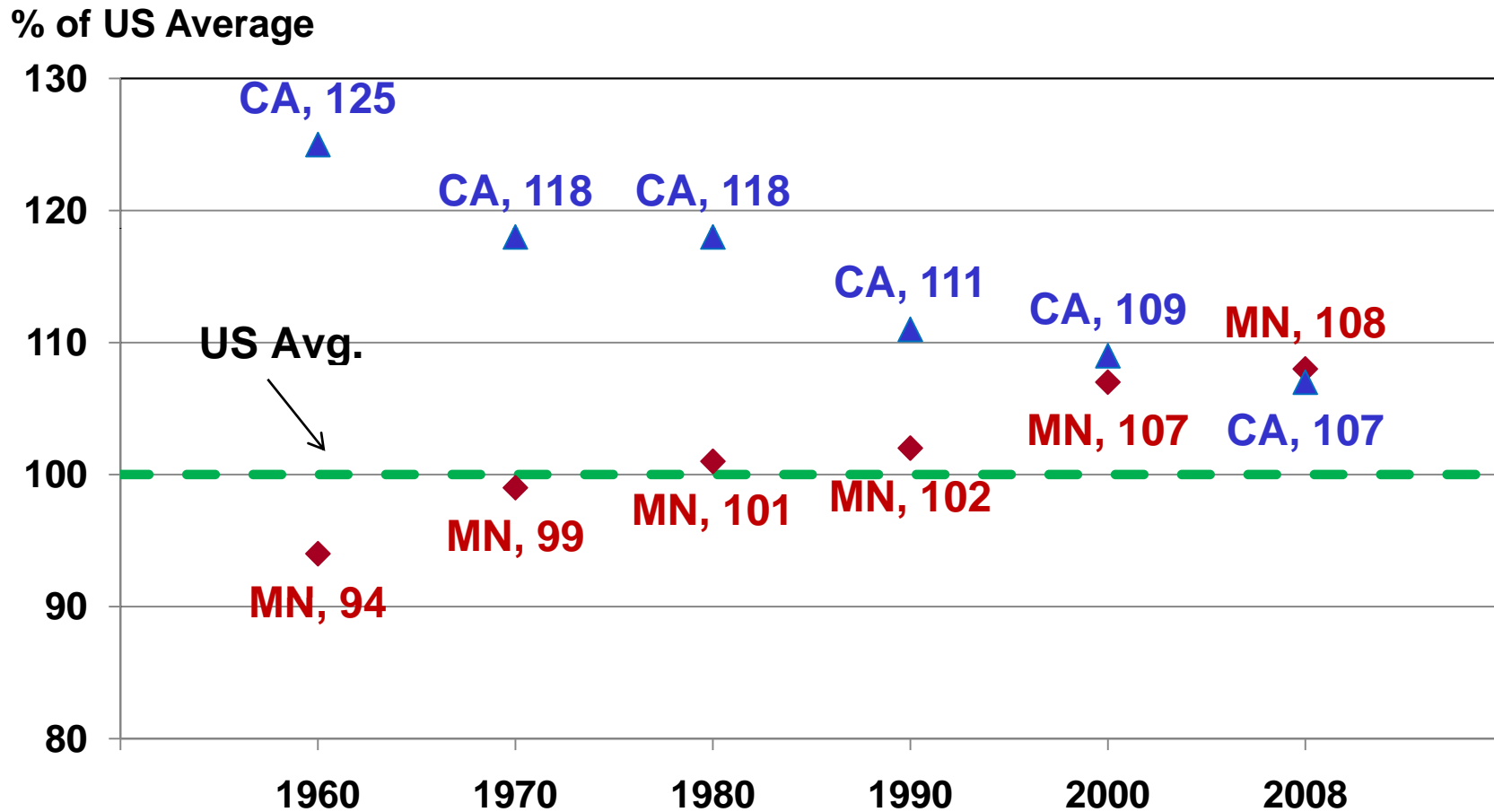
**Increasing the Value of Products
Produced Also Increases
Productivity**

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.
- ✘ **We must avoid the California spiral**

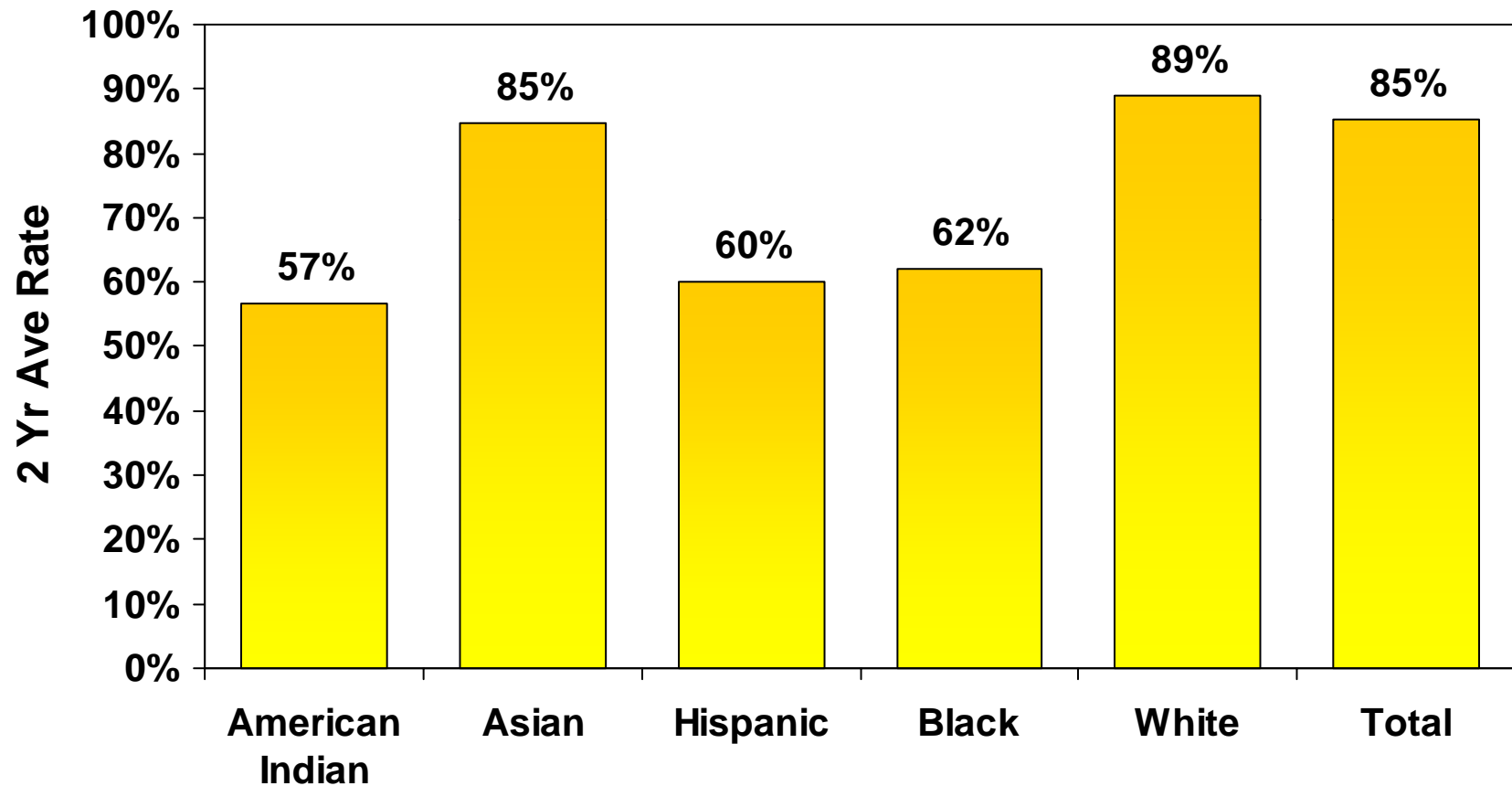
The Tale of Two Economies

Per Capita Personal Income, 1960-2008



Education Is The Key To Productivity

Minnesota High School Graduation Ratio



2004-05 through 2005-06 graduates. Based on 10th grade enrollment three years earlier.

Tough Decisions Must Be Made

- **What is state government well positioned to do?**
 - **Some issues are national in scope**
 - **Some are local**
 - **Some are inherently private**
- **What activities are central to state government's role?**

Big Opportunities

- **The challenge--building the foundation for future success**
 - ✓ **Economic prosperity**
 - ✓ **Environmental quality**
 - ✓ **Social justice**
 - ✓ **Quality of life**
- **The current situation is not sustainable**

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

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