

Summary of Discussion with Tom Gillaspay, Minnesota State Demographer
 Civic Caucus, 8301 Creekside Circle, Bloomington, MN 55437
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Present: Verne Johnson (Chair); David Broden, Janis Clay (by phone), Paul Gilje, Dan Loritz, Tim McDonald, Wayne Popham (by phone)

A. Context of the meeting—The Civic Caucus has been meeting regularly now with knowledgeable leaders about the future of the state of Minnesota. Gillaspay has made his career in projecting trends for the state, though in today's meeting we will also discuss his observations of public affairs after decades in state government.

B. Welcome and introductions—Verne and Paul welcomed and introduced Gillaspay, Minnesota State Demographer. He is housed in the Administration department of state government. He was with the State Planning Agency before that agency's demise. Gillaspay has served as State Demographer since 1979. Prior to moving to Minnesota, he held the position of demographer at the Andrus Gerontology Center, University of Southern California. He received his Ph.D. in economics from the Pennsylvania State University, specializing in economic demography. He also holds a Masters Degree in agricultural economics. Born and raised in Texas, Gillaspay received his undergraduate degree in economics from the University of Texas at Austin.

C. Comments and discussion—During Gillaspay's comments and in discussion with the Civic Caucus, the following points were raised:

1. Minnesota is at a critical juncture--"We are at a turning point as a society," Gillaspay said, "at least as significant as the great depression. We're not in a depression—the causes of that were much different—but demographers have been talking about this coming for the past 40 years."

The years 2008-2011, he said, mark the "entryway into the age of entitlement," with social security and Medicare. Minnesota is representative of the rest of the country: the Baby Boomers are aging and retiring. "We have been making promises to people for 50 years that are now starting to come due."

Two characteristics that defined America through its history now cease to be: 1) That we are a young, risk-taking society, and 2) geographically people moved to where opportunities arose. But we're no longer young. We are aging rapidly, as the baby boomer generation enters retirement. The same trend is present in Europe, Japan, Korea, Taiwan, and soon will affect China.

2. Population growth rates worldwide are down--In the 1960s and 1970s growth of population was regarded as a serious problem world wide, Gillaspay said. Now we're seeing many countries--like Italy, France and Germany--where low numbers of births will produce an absolute decline in population of those countries. Japan's population is already declining. With so many people over 65 one can see that health care spending will be rising while the size of the labor force will be declining. But health care is but one area that will be affected, he said. Almost every aspect of life will be affected.

3. Be cautious about making promises--Asked about implications for office seekers, Gillaspay advised that they should be very careful about making promises on future services and service levels.

4. Housing patterns will change--"Our understanding of the nature of growth needs to change," he said. "We've spent decades thinking that it is natural and normal for a major metropolitan area to continue to expand, based on growth of its young populations." This will change, as will housing patterns: "The housing market will see no growth in the number of families with children; growth will be in empty-nesters and seniors."

"We must ask ourselves: Are we building housing now for the populations that were, or those that will be?"

Gillaspay suggested that new housing will need to emphasize lower maintenance, closer access for shopping and health care, and what he called "universal design", with ability, for example, to accommodate more people with physical disabilities, even though such changes might not be required for initial occupants. The outward spread of our metropolitan areas will likely slow, with more development and redevelopment towards the beltways and interior of the metropolitan areas. University towns will likely also see faster growth as the increasing number of new retirees will seek the youthful vigor and cultural opportunities surrounding universities. He foresees other changes, too, for example, such as in the engineering of roads and signs for older drivers.

5. More improvement will be needed in job productivity--A member asked Gillaspay about the evolving nature of the labor force. He responded that he and state economist Tom Stinson have been talking on that question. The labor force will be growing in the years to come despite the aging population, but at a slower than usual rate. Immigration will likely be the major source of labor force growth by middle of the next decade.

This is an important point, Gillaspay said, "because there are only two ways to grow an economy: have more people making stuff, or have each person make *more* stuff." A society either adds more workers or makes the existing workers more efficient—usually through better equipment, more education, better infrastructure and application of new technologies.

Most growth in the economy to date has occurred because more people have been entering the work force, he said. But that will change dramatically. "Virtually all growth by the end of the next decade will be due to gains in per-worker productivity," Gillaspay said. Indeed economic growth will likely be slower: "about half what it's been over the past 25 years unless we can sharply increase our rate of productivity increase."

This presents a problem. While there will be less potential growth in government revenue, the other side of the ledger will see large growth in liabilities—especially health care. "Our ability to grow the economy will depend on the ability to raise productivity which will depend on investment in education, infrastructure, and research as well as private investment in factories and other productive equipment. But rising government liabilities, especially in health and long term care, will come at the expense of our investments in education, infrastructure and research. This threatens to become a fiscal Catch-22 where our ability to pay for future health and long term care for our aging

population depends on our investments today in building productive capacity, but our ability to make those investments is limited (even reduced in some cases) by our rapidly rising health and long term care costs. We must use our resources wisely.”

Minnesota’s economy is becoming more global. Of the workers about to retire, Gillaspy figures that 3 percent were foreign-born. The life experience of our most senior managers and supervisors, the people who make most of the decisions, is of a modest presence of foreign-born workers. The world they see today is the same world they saw in 1990, when they were 20 years younger. Of young workers today, about 20 percent are foreign-born. The world they see is dramatically different from that of their parents or supervisors and managers. However, the people making the decisions largely don’t see this change.

6. Use productivity improvement as a key ingredient in determining investment of state dollars--Asked what the Governor and Legislature should do with state dollars to improve the economic position of the state, Gillaspy made a distinction between "spending" and investment". The state must use some dollars just for spending--for quality care for indigent persons, for example. Long term care (mostly nursing homes) and alternatives to institutionalized long term care rank among the largest and fastest growing components of state government budget. These expenditures result from a life-time commitment made to people who are now, from age related frailty, vulnerable and unable to care for themselves. We have a moral obligation. But with dollars in short supply the state needs to be very deliberate in using as many dollars for "investment" as possible. Perhaps, he said, every proposed use of state dollars needs to be accompanied by a Return on Investment statement—ROI. An objective, non-partisan body, could establish measurements and quantify a likely return on investment for each proposed project. The Governor and Legislature could then set priorities using a ROI factor.

7. State has done quite well to date--Minnesota's economic growth rate has exceeded the national average; its population growth leads the frost belt; the state ranks well on many social and economic indicators; education has been a key contributor to success. Much of the success is due to wise decisions made 50 or more years ago especially in investment in education, he said.

8. State hasn't lagged on manufacturing--Responding to a question, Gillaspy said the state has not suffered because of lack of manufacturing. You need to be careful about the data, he said. In the past a manufacturing company might have handled its marketing and similar services in-house, making employment and expenses for such services appear as manufacturing. Today it is much more likely that such a company would out-source such services. Consequently, today's economic tabulation of manufacturing-related employment expenses might be under-representing the extent of manufacturing. Furthermore, changes in the industrial classification system make comparisons between pre 2000 and post 2000 impossible. However, by any measure, Minnesota has outperformed the nation in manufacturing jobs over the past half century.

9. Likely growth in low-paying jobs--Responding to a question about whether Minnesota faces a future with more low-paying jobs, Gillaspy said a key component will be education of its work force. Minnesota is one of the highest ranked states in percent of its workforce with at least a high school diploma, but we are graduating a lower percentage of children now than in the past. We still have one of the highest graduation

rates in the nation, but the national level is also declining. It is terribly serious, he said, that Minnesota has the worst record among the 50 states in high school graduation rates for African-American children. A high school diploma is absolutely essential in the job market, he said. You won't get to first base without one.

10. What candidates for political office in Minnesota need to remember--

Looking to the 2010 elections, Gillaspy advised candidates and advisors to candidates to remember the following points as they consider positions on various issues:

- a. Dramatically slower economic growth rates.**
- b. Slower revenue growth.**
- c. More resistance to higher taxes.**
- d. Big increases in demand for health care spending--driven by long term care and medical assistance.**
- e. Growth in the economy based on per-worker productivity.**

The Governor and Legislature need to look at uses of state dollars that will promote public and private investment. He mentioned specifically roads and bridges, research, energy, water supply, and the internet. Because of its water supply Minnesota has real advantages over the Southwest and other parts of the nation that have been growing fast but that are short on water.

It's because of research, for example, that most of the world's pacemakers are made in Minnesota, he said. Regrettably the state has been cutting back on research.

11. Sources of good ideas--"From time to time," a member remarked, "really good work is done recommending solutions to policy problems." Think the 2009 Budget Trends Commission (<http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf>), the 1995 *Within Our Means* report (<http://www.mnplan.state.mn.us/pdf/means.pdf>), or Brandl-Weber's *An Agenda for Reform* (<http://www.mnplan.state.mn.us/pdf/agenda.pdf>). Despite being bi-partisan, inclusive, and of high-quality, "they don't get adopted." Why is that? Gillaspy suggested it might be due to a raunchier political climate. It is important to have ideas coming in, but he doesn't know how to improve the atmosphere to make it more cooperative.

Gillaspy went on to note that the summary of the *Within our Means* report, issued in 1995, was prophetic in its forecast about today's problems:

"If there is a time to solve the state's fiscal problems, it is now. The economy has been strong. The percentage of Minnesotans of working age is still growing and will reach an all-time high in 2010, before beginning a long-term decline. Over the next 15 years, the combined proportion of children and elderly--the age groups most dependent on support from others--will be less than at any time since 1950. From now to the year 2010 the state will have a maximum percentage of people in their peak earning years. After 2010, solutions will be more difficult, as the percentage of Minnesotans of working age begins to decline."

12. Spending on health care and education--Gillaspy said he often finds himself thinking about spending as separate from investment, by the state. "Health care takes up a lot of spending," he said. "Much of it we're willing to do, and are happy to do it. "But it's not necessarily investment."

The effects of health care spending reach other industries. "Much of the growth we've seen in education spending is actually health insurance. A smaller proportion of spending in public education is going to the classroom. Health care is a huge cost-driver as people age."

"We need to get efficiency gains in K-12," he continued. "The current path we're on is not sustainable, unless we can improve the product." He set this frame: "What is the final unit cost of production?"

13. Advice to candidates for Governor--A member asked Gillaspay what he would say to candidates for Governor about these challenges? "Don't make promises you aren't sure you can keep. We haven't seen anything like this," he said, referencing the demographic shifts underway.

What attributes would you look for in a governor candidate? "I've been reflecting on the term 'civil servant,'" he said, "as a verb—not a noun. Someone who serves the state, civilly." Find someone who can lead the state away from the harsh political discourse it has sunk into in recent years.

When asked about what he'd counsel the next governor to be wary of, Gillaspay had the following suggestions: Understand the labor force will be slow to grow in coming years. The revenue growth rate will be half what it has been in years past. The political economy is changing, too: as people age they will be less inclined and less able to pay higher taxes. The tendency will be against any kind of tax increase.

D. Thanks--On behalf of the Civic Caucus, Verne thanked Gillaspay for meeting with us today.