



Tom Gillaspy, Minnesota State Demographer

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

January 28, 2011

Present: Bob White, Ted Kolderie, Paul Gilje, Dan Loritz, Tim McDonald, Sallie Kemper, Verne Johnson; by phone: Dave Broden, Wayne Popham.

Summary of meeting: State demographer Tom Gillaspy shares insights on the state budget situation based on his three decades of government work and his perspective as an economic demographer. The state needs structural reform, he argues, in order to adjust to structural deficits that persist under the present framework. Even as we work our way out of the recession, Minnesota will continue to lose its capacity to provide services at present levels. He argues that Minnesota leaders should first develop a common vision for the state's future, a common understanding of our goals which lawmakers and the governor could then use in assessing proposed strategies for reform.

A. Welcome and introductions - Tom Gillaspy has served as the Minnesota State Demographer since 1979. The post of State Demographer resides within the Minnesota Department of Administration.

Prior to moving to Minnesota, Tom 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.

B. Comments and discussion -

The budget deficit requires structural changes

The Great Recession has caused four years of foregone revenue growth that we will not make up and the Baby Boom Generation has begun to turn 65. Retirements will soon increase sharply, long-run economic and income growth will slow, government revenue growth will slow even more, but pressures on spending, especially for health care, will increase. The structural deficit in the budget is driven in large part by changing demographics. Year over year expenses are projected to outpace income to the state for at least the next 25 years. These are long term problems that will only get worse unless we change the way things are done.

We must both invest and meet our moral obligations

There is spending, in general, Gillaspay said, and then there is investment. Investments are expenditures that result in increased revenue capacity over the long term. Physical infrastructure, education, research, and intellectual property development would be included in this definition.

And we have moral commitments to spend. Keeping people in long term care facilities is not an investment since there is no financial return, but it is a moral obligation that we accept. The distinction to keep in mind is that while we may rightfully choose to spend to meet our moral obligations, it is our investment outlays that will increase future economic output.

Elder care spending, both for investment and to meet moral obligations, will be costly.

It is important to understand that many aging people with productive capacity can remain active and contribute. An investment of time in organizing senior tutors for children in writing and arithmetic would have returns for the students, the elders (by keeping them active), and the community. But much spending we do for the care of the elderly will not result in future economic output. We need to recognize that while some aging people will continue to contribute significantly, others will be more dependent upon state services and thus net consumers of state funds.

One of the most rapidly growing components of the state budget is the combined expense of long-term care, long-term care waivers, and care for the elderly. Through the long-term care waiver program we have kept people out of nursing homes by providing in-home care services, but that in-home care is still very expensive. It is a major reason why all states have structural deficit problems. Resources are not growing as fast as demands for service. And if we cut back on investments to meet our moral obligations, then we diminish our future capacity for economic output. "It is the equivalent of eating your seed corn," one participant noted. The challenge is so great that in 25 years growth in health care costs will eat up all available growth in spending statewide.

To elected officials: There are options beyond cutting and taxing

During the campaign the media focused debate on only two options, but really there are three:

1. Cut expenditures
2. Raise revenues (not only by tax increases, but also with investment that produces increased revenues)
3. Increase public sector productivity.

This third option received little attention, perhaps because it was confused with the simple solution of "cutting expenditures." In fact, most of future productivity increases will occur by both *doing things better* (e.g., reducing the criminal recidivism rate; increasing high school graduation rate; increasing education quality) and *doing better things* (promoting activities that improve health outcomes; keeping people healthy by helping them be active and productive in the community). Increased productivity will result whenever we take advantage of opportunities to improve outcomes at a lower cost.

There is a rare 2-4 year window for structural change

Gillaspy commented that in his 32 years in government, he has not before seen such an opportune environment for change as exists in St. Paul today. "I think we have a 2-4 year window where major systemic change will be possible before the culture will return to incrementalism," he said. "This is the first time I've seen this sort of confluence of events, from the economic crisis (which could have been much worse) to the structural imbalance of services to the shifting political sands.

We have done little to prepare for this day

"I remember visiting with Senator Durenburger 30 years ago about this same problem of mounting demand for state services, and writing a report on it to Governor Carlson 15 years ago. It is frustrating that we've done basically nothing to prepare for this day." We have known all along that "boomers" would eventually start now to retire in great numbers, but we have failed to get ready for the demands we knew were coming.

"Politics is focused on the short term and these were always issues that were in the distant future and could be safely put off. The long term has now become the short term. We've been driving down the road at night at 60 miles an hour and have seen a deer in the middle of the road, but instead of stepping on the breaks we've continued on just hoping that it might not really be there, or that it would move out of the way. "But now we *have* hit the deer. This will not go away."

He described a sense of urgency in this discussion. "We've been talking about this for a long time. We could have done gradual things if we had begun 20 years ago, but we don't have time for gradual measures now. In times of great social stress and great social change such as during the Great Depression, the number of disruptive events and disruptive innovations increases very sharply. We are facing just such a period now.

Our years of accomplishment have created for Minnesota what Gillaspy termed the potential for the 'tyranny of success.' Minnesota has been, by all measures, a very successful state. One of the signs that the tyranny of success might be afflicting us is smugness. "I think we've been a little bit smug, but now we need to realize that we need to bring about some serious change. We are in the midst of a big storm, and we all need to work together or the ship will be lost. We need to have a vision, a common idea of what we want our state to be in the future, in order to determine what we must change to get there. It will take leadership to develop that vision."

Distinguish among problems, goals, and strategy

"We share your concern and frustration", a participant said. The Caucus has been thinking about the fact that the state has some clearly defined problems (e.g., the achievement gap, long term care), and also some well-established goals. The frustration comes from not getting to the real issue of "how?" How do we solve the problem to reach the goal? "You're absolutely right-the forecasts you put out in the past decades were entirely accurate. Can you talk at all about the process for developing alternatives?"

Gillaspy replied that state leaders should soon develop a plan for Minnesota.

"The first step is a serious, honest self-appraisal-an unvarnished view of our strengths, weaknesses, opportunities and threats.

"Then we should bring together a group of people, put them in a room, and have them come up with a vision for what the state should be."

A participant expressed concern that inevitably conflicts of vision create paralysis. If you start with the problems you may have a better chance of making progress.

"You need to have a vision first," Gillaspy replied, "so that it informs both strategy and tactics." The vision is the determination of which "war" to fight; the strategy determines which battles we should take on; the tactics tell us how we are going to go about it.

"The experience of GE-the only original Dow-Jones Index company still around-illustrates the importance of having a vision. Every couple of decades GE starts with a very firm vision of where they are going, and then after some decades that vision begins to fade. As it fades, they begin losing their competitive advantage. But they have always had the foresight to come back, refocus on a new vision and successfully reinvent the company."

A participant observed that up until WWII Minnesota was very locally focused. Then very rapidly in the 60's and 70's we became more nationally oriented, and later, globally or internationally focused. "The companies that used to be focused locally are not now-sometimes staff are told explicitly not to be. The Business Partnership has members whose CEO's are not even physically located here so certainly they are not focused on the state. This triggers the challenge: Why would you work here and be headquartered here if you're doing business globally? I would try to create a vision related to that real problem."

Develop a vision, now

Gillaspy told a story about Minnesota developing its vision for medical device companies.

"In the years when I first came here we were the global center for mainframe computers, then in a matter of months it collapsed. Then iron mining, long a major industry here, failed as we endured a major economic collapse.

"There was a man by the name of Lee Berlin who came into Governor Perpich's office mumbling something about 'medical alley.' Lee had a whole new way of thinking about things-said we had all these medical and technical products that were related but not showing up due to the way the data was organized. We statistical types couldn't even see it. But these companies had developed here because earlier we had made a major push in education.

"We discovered what the British discovered in the age of their empire. It doesn't matter fundamentally how much gold you have, or how many debt notes you amass; it's the quality of your workforce and productivity that is core to your success."

Recommendation: six steps for developing a state vision

Gillaspy proposed six major steps to develop an integrated, long-range strategic plan for the state.

Step 1 SWOT analysis: Bring together a broadly representative group to develop a self-critical, in-depth analysis of Minnesota's strengths and weaknesses along with the opportunities and threats facing the state over the next 20 or more years.

Step 2 Vision statement: Using this same group, develop a vision statement for Minnesota based on the analysis and discussion of the SWOT analysis. Some examples might include Minnesota as the Value State; the Quality State; the Low-Cost State; the Productivity State; the State that Works.

Step 3 Apply vision to state government: State government leaders, including the governor and key legislative leaders, adapt the vision for Minnesota to a vision for state government in Minnesota, to identify specific overarching strategic directions, and to specify the process and timing by which each department within state government identifies its vision, mission, strategic goals and tactics for achieving them.

Step 4 Align state government initiatives with vision: Direct each department to develop its own vision, mission, strategic goals, tactics, and measures of progress.

Step 5 Measure progress toward vision: Periodically evaluate progress toward achieving the overall vision and perceived strategic goals.

Step 6 Revisit vision and goals: Regularly review the vision and strategic goals based on an audit. Incorporate the views of new participants in state government as they are elected and emerge as leaders.

C. Conclusion

The Civic Caucus is now developing a distinction, within the concept of "redesign," between the notions of improvement and innovation. Gillaspy has described the importance of agreeing on a common vision before attempting fundamental reform. At the same time, there are elected officials meeting every day on Capitol Hill struggling to resolve a budget crisis by tinkering around the edges of an obsolete model of state financing. It is there we need to direct a constructive message built around these ideas.

It will be helpful to think about Gillaspy's comments at next Friday's internal discussion, where the caucus's 2011 work plan will be discussed.

The chair closed with the comment: "I've never seen in 30 years the level of activity and interest in this issue by leaders of so many different organizations as there is now." There is real opportunity for a collaborative effort.

Thanks to Tom Gillaspy for taking the time to visit with the Caucus on this important topic.