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County's leaders see view of future through economist's, demographer's eyes

An aging workforce, a changing economic landscape, and evolving needs and demands on state and local governments were all part of a future economic landscape described by the state's economist and demographer at a meeting of Washington County government officials in Oakdale Thursday evening, Jan. 28.

The gathering, the annual League of Local Governments, was hosted by the Washington County Board of Commissioners and presided over by Board Chair Bill Pulkrabek. City, township, school district and watershed district leaders were invited to hear insights of Tom Stinson, the state's economist, and Tom Gillaspay, the state's demographer.

Stinson is also a professor at the University of Minnesota, in applied economics, and Gillaspay has served as the state's demographer since 1979 and studies issues such as the state's economy, health care for an aging population, and the aging state workforce.

Stinson began by, addressing what is uppermost on local leaders' minds – the state's budget shortfall, expected to be \$1.2 billion during the budgeting biennium. The shortfall comes from a reduction in the income, sales and corporate taxes to the state, now less than the state received during the 2006-2007 biennium. Even measuring the state's current income against 2008 income – not a good year – it is low, Stinson said. "This is the longest and deepest recession since World War II," he said.

The economy lost 8 million jobs during the recession, and it may be 2012 before employment returns to 2007 levels. Not only are people unemployed, but those who are employed are working fewer hours. Once a recovery takes hold, discouraged workers "will come out of the woodwork," Stinson said, adding to the pressure on the labor market.

In addition, "what we've seen is an unprecedented decline in wages," Stinson said, with the state's workers experiencing a 5.5 percent decline in their wages during the recession.

That and an unprecedented demographic shift will shape the state's economic future, Gillaspay said. The country is experiencing something that no society has experienced, he said, and that is the aging of a society, rather than the aging of people. In 2008, baby boomers began turning 62, the age at which they are eligible for Social Security. Soon, they will be eligible for Medicare.

Washington County, traditionally a "young" county, will also see an aging population, as increasingly more residents turn 65. This will be especially significant in communities that are not prepared with services for older residents.

The basic characteristics that the country has been known for – young risk-taking individuals who are highly mobile in search of opportunity – are no longer true of the country, Gillaspay said. An older

population tends to stay put. Now, for the first time in the country's history, they are joined by younger people who are also staying put because they are not able to find work in distant locations. Those changing characteristics will affect the workforce. Two ways to power economic growth is to either have more people making things, or increase the productivity of the people making things. As the former is not possible, then it is the latter that will must increase if the economy is to grow.

At the same time, the way in which society spends its money will shift, Gillaspy said. An aging population consumes more health care dollars, and if health care demands increase, money will shift from paying for education toward paying for health care.

The aging population will create a society unknown before: examples are in 2025, more people will be older than 65 than are in elementary or high school; the largest group of householders will be empty-nesters and elderly people living alone.

These changes translate into using future resources, Stinson said. The current state budget shortfall will only grow, unless fundamental changes are made, Stinson said. The recession has permanently changed the economic base of future revenue, he said, and the state will not be able to grow its way out of the problem.

Workers must be more productive, which will require investments, both in infrastructure in the state, which includes education, and in the future workforce, as well as in research and development. For example, at the current rate, only 85 percent of the state's residents will have a high school education in the future, in contrast to the 91 percent of the population that holds the same level of education now, Gillaspy said.

Stinson noted that the solution is a Catch-22: if the state doesn't make the investments in infrastructure, which includes investments in the development of its residents, it won't create the productivity needed to pay for those investments. However, any other course of action will result in a downward spiral of productivity and state revenue.

Gillaspy ended on a positive note, saying that Minnesota has seen this challenge before. In 1950, it was a low-investment and low-income state, and it changed its approach to investment to turn around those traits. The challenges the state faces in the future play to its historic strengths, he said, and it his belief that the state can meet those challenges again.