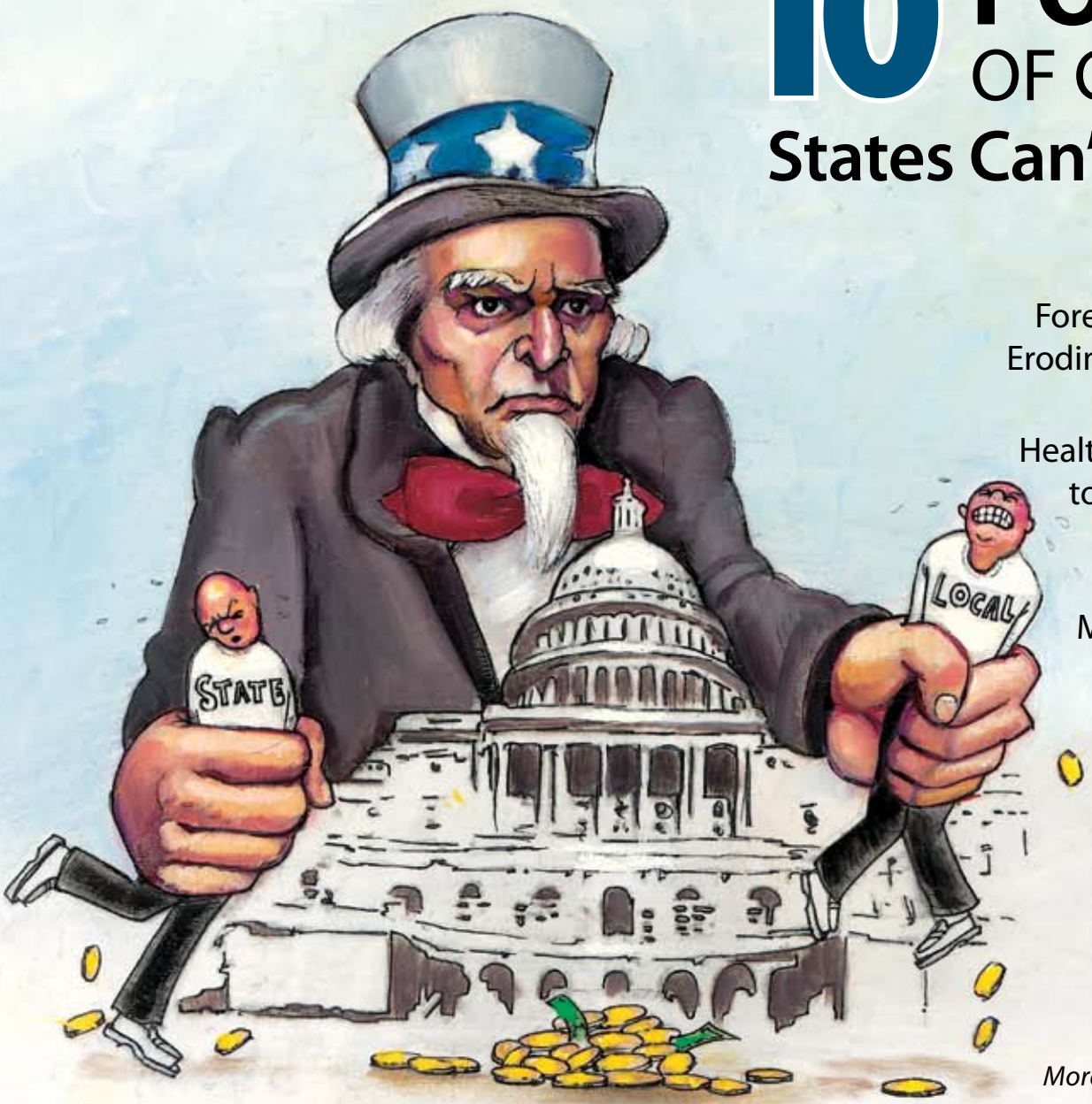
Trends in America



10 Forces OF CHANGE States Can't Ignore

Foreign Competition Eroding U.S. Tech Edge

Health Care Spending to Double by 2016

U.S. Schools Not Making the Grade

More state trends inside…

Trends in America

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Table of Contents

A message from
CSG's Executive Director 5

Back to the Future 6

Forces of Change

Chapter 1: Demographic Change. 8
Chapter 2: Chasing the American Dream 12
Chapter 3: Environmental Gluttony 16
Chapter 4: Health Care: Paying More, Getting Less 20
Chapter 5: Tech Revolution 24
Chapter 6: Economic Transformation. 28
Chapter 7: Educating for Outcomes. 32
Chapter 8: Critical Infrastructure: Cracks in the Foundation 36
Chapter 9: America the Safe and Secure? 40
Chapter 10: Balance of Power. 44

What's Next?. 48

Endnotes 49

Acknowledgments

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A message from CSG's Executive Director

Dear Members:

We live in a time of incredible transition, in the midst of changes so profound that full understanding of their significance may come only through hindsight. But that doesn't mean we can't prepare for what lies ahead.

CSG's mission is to help leaders in all branches of state government anticipate and prepare for the future. Our forward-looking publications and forums provide timely information on emerging and evolving trends, their implications for state governments and potential policy solutions.

I am pleased to introduce the third in a series of *Trends in America* reports. This report builds on earlier publications by analyzing 10 major forces of change, their underlying causes, and the challenges and opportunities that they present for states and U.S. territories. The featured trends encompass diverse policy areas, affecting the three branches of state government and the four CSG regions.

For almost 75 years, CSG has served state governments through leadership development, the identification of promising state laws and programs, trends tracking, and policy research. This publication continues that tradition. I want to thank the nine CSG staff who researched this report for their insightful analyses of complex trends and the ways in which these trends will affect states' economic and social well-being. We view this report as a continuing dialogue with our members and associates on creative ways in which public and private sector representatives can work together to manage change.

Daniel M. Sprague
Executive Director

Back to the Future

Across the country, morning headlines blare out the top news of the day:

- "Health Care Spending to Double by 2016"
- "Foreign Competition Eroding U.S. Tech Edge"
- "U.S. Schools Not Making the Grade"

Many of the problems highlighted in these news stories require policy solutions. But, with so much information arriving through media outlets each day, it is sometimes difficult to see the big picture. Taking a step back to understand key trends and how they have evolved can help state leaders plan for the future more effectively.

This report focuses on 10 trends that state policy experts, state government leaders and business professionals have identified as major forces of change. Included in this analysis are changes in demographics, state economies, information technology, critical infrastructure and federal-state relations. Additional sections explore trends in income distribution and civic engagement, public safety and individual privacy, energy and environment, P-16 education and health care expenditures and outcomes. While these trends may sound familiar, the contributing factors and regional variations in pace and impact are quite startling. Four themes cut across all the trends: the accelerating rate of change, increasing interconnectedness, over-consumption and opportunities for new partnerships.

Accelerating rate of change

The most dominant characteristic of the 21st century is not just change, but the rate of change. Every policy sector is experiencing an accelerating rate of change, and some changes are monumental. In this "decade of velocity," as Bill Gates labels it, state governments need to be prepared to adapt quickly. However, decisions on how to restructure state government, revise policies and change investment strategies are difficult to make in a time of exponential change. Uncertainties about how shifts in congressional leadership will affect federal policies and funding priorities further complicate decision-making.

Increasing interconnectedness

Increasing global interconnectedness is intensifying both the pace and complexity of change. In a 21st century world characterized by economic, political and environmental interdependence, states must look beyond their borders for risks and opportunities. The challenge will be to find opportunity niches, such as promising research and development investments and energy conservation projects, where state policies can have a meaningful impact despite the geographic scope of the trends. Because many trends are interrelated, proactive change management in one area may positively affect other trends. For example, state legislation designed to make postsecondary education more financially accessible may also promote economic growth and help reduce socioeconomic disparities.

Overconsumption

The *U.S. National Report on Population and the Environment* characterizes the United States as a "super-size nation with lifestyles reflected in super-sized appetites for food, houses, land and resource consumption."[1] Although Americans represent just 5 percent of the world's population, they consume at least one-quarter of almost every natural resource. High rates of resource consumption, combined with continued population growth, spell trouble for every policy sector. However, state policies and public education strategies designed with citizen input have tremendous potential to change consumption patterns.

Opportunities for new partnerships

In 1890, Supreme Court Justice Louis Brandeis described state governments as "laboratories of democracy" willing to test new approaches to social and economic problems. Due to federal inaction on a number of policy fronts, many state governments are returning to their "innovation roots" to create better futures. However, in a time of declining financial resources, state governments cannot design and implement innovative policies without broader support. States increasingly are forming interstate networks and public-private sector partnerships to counter negative environmental trends, promote economic growth, increase public safety, and improve physical and virtual infrastructures. The success of these partnerships will depend upon their willingness to move beyond quick fixes to strategic investments in long-term solutions.

1

Demographic Change

"America is aging fast. If you doubt it, think of the blizzard of ads for products ranging from Viagra to Lipitor to Botox. Yet the states are not graying in lockstep. And in coming years, the differences will make life more interesting for marketers, policy wonks and labor recruiters—most of all in the Sun Belt, where 'younging' and aging will occur simultaneously."

William H. Frey, Ph.D.
Visiting Fellow, Metropolitan Policy Program, Brookings Institution

The United States is the only industrialized country likely to experience significant population growth over the next quarter-century. However, this population growth will not be evenly distributed across states and regions. The migration patterns of aging baby boomers, new immigrants and younger skilled workers ultimately will determine which states grow the fastest. Where these people choose to settle will dramatically affect states' abilities to raise revenue and to meet residents' demands for educational, health and social services.

Population growth trends

At the current growth rate, the U.S. will add about 8,000 people per day.

In future years, the U.S. population is projected to grow at just under 1 percent annually, reaching 420 million by 2050.[1] While natural increases (births minus deaths) will drive much of this growth, immigrants and their descendants will account for about 58 percent of population growth between 2000 and 2050.[2]

Population growth has the potential to boost state economies by increasing demand for locally produced goods and services. However, pressures to expand public services and programs could offset these economic gains. With at least 24 states facing budget deficits between fiscal years 2007 and 2009, state and local governments will have limited flexibility to respond to emerging needs.[3]

Population growth, combined with high rates of resource consumption, will place increased stress on states' ecosystems, natural resources and plant and animal species. Fast-growing states in the coastal South and the driest areas of the West will be particularly vulnerable.

All states are likely to experience higher levels of air pollution and greenhouse gas emissions due to increased motor vehicle use. Population growth also will intensify demands on aging roads, power and water distribution systems.

Future population growth will follow the sun.

The U.S. Census Bureau projects that 88 percent of U.S. population growth between 2000 and 2030 will occur in the South and the West.[4]

The Western states are increasingly attracting entrepreneurs, knowledge workers and the "young elderly" (65-74 years old) to their high-amenity communities. Southern and Southwestern states, with their warmer climates and expanding economies, are attracting retirees and working-age adults.

Over the next quarter-century, Nevada and Arizona are projected to be the fastest-growing states, followed by Florida, Texas, Utah, Idaho, North Carolina, Georgia, Washington and Oregon.[5] The District of Columbia, North Dakota and West Virginia are projected to lose population, with seven other states (Iowa, Ohio, New York, Pennsylvania, Wyoming, South Dakota and Nebraska) experiencing less than 7 percent population growth.[6]

Population growth in suburbs and exurbs will outpace growth in central cities.

As cities and suburbs expand outward, a key challenge will be managing land development. Metropolitan areas in the Northeast and Midwest are adding urbanized land at much faster rates than they are adding population. In contrast, the rate of land development in many Western metropolitan areas lags behind population growth. Topographical constraints, federal land ownership, heavy reliance on public water and sewer systems, and an emphasis on master-planned community developments have helped slow, but not stop, urban sprawl.

Poverty rates are rising in cities and suburbs. With young single adults and empty nesters pushing up housing prices in the central cities, lower-income families are moving to places where they can get better value. As compared to 1999 when central cities and their suburbs had nearly equal numbers of poor residents, the suburban poor now outnumber their city counterparts. In 2005, low-income suburban dwellers accounted for 53 percent of the poor populations living in large metropolitan areas.[7]

The growing numbers of poor families living in suburbs will create several challenges for state and local governments. Access to affordable transportation will be a major issue. Because most social service programs are located in central cities, regional planning will be required to link these families with vocational training, job placement programs, child care, and other support services. If suburban school districts experience significant tax revenue losses, state governments may be forced to assume even greater responsibility for public school finance.

Population composition trends

The United States will evolve from a "young" society to a "middle-aged" society.

Beginning in 2011, when the oldest baby boomers reach age 65, the elderly population is projected to grow faster than the total population in every state.[8]

Thirteen Western states and nine Southern states are expected to double their elderly populations between 2000 and 2030.[9] Whether retirees will remain in these states is open to question. Already, some Northeastern and Midwestern states are witnessing the return of older and frailer Sun Belt seniors in need of family support.

By 2030, 72 million Americans will be 65 or older.[10] Elderly

"We all know that immigrants are an important part of our country's history; they have always brought new ideas, culture, and ambition, making the U.S. what it is today. But it is important that immigrants become part of the fabric of our society as fully participating members and in reasonable numbers within the law."

Assemblyman Rick Keene
California

residents will comprise at least 20 percent of the population in 29 states, including all nine Northeastern states, eight Midwestern states, seven Southern states and five Western states.[11] This shifting age distribution will raise the national median age from 32.9 years (1990) to 39 years (2030).[12]

Baby boomers' financial readiness for retirement is unclear. Their higher levels of education relative to previous generations should be associated with higher lifetime earnings and Social Security benefits. However, in 2004, only 54 percent of workers ages 50-64 reported being covered by a pension plan or other retirement plan.[13] According to the Fidelity Research Institute, the typical baby boomer (ages 43 to 61) currently saves only 4.3 percent of annual income. In order to achieve an 85 percent income replacement rate after retirement, boomers would need to boost their savings rate to 13 percent.[14]

To compensate for inadequate savings and to remain active and productive, nearly 80 percent of baby boomers say they will work at least part time in retirement.[15] But retirement confidence surveys consistently have found that about 40 percent of retirees leave the work force earlier than planned because of health problems, workplace changes or family issues.[16] If this pattern holds true, the number of elderly dependents being supported by every 100 workers will increase from 21 in 2000 to 36 in 2030.[17]

Growing elderly populations with longer life expectancies will have a major impact on states' service priorities and the revenues available to fund these services. States are likely to experience increased demand for health services, long-term care, senior nutrition programs, reasonably priced housing and affordable transportation. Efforts to finance these services may reduce funding for P-12 education and other services used by younger populations.

State courts can expect increased challenges to retirement and pension law and more cases involving probate and guardianship. To manage heavier court workloads, states may increasingly establish elder courts to focus on criminal cases involving elders, conduct guardianship and competency proceedings, and to hear elder-related civil lawsuits such as nursing home litigation.

Regardless of their work status, elderly residents will derive most of their income from nontaxable, or virtually nontaxable sources such as Social Security and pensions. Twenty-eight of the 42 states with an income tax currently exempt all Social Security income from taxation. Thirty-three of these states fully or partially exempt pension income, and 38 offer special income tax exemptions, standard deductions or credits based on age. By 2030, the cost of these tax preferences will nearly double as a share of the budget for most of these states.[18]

States with high proportions of elderly residents will likely see a decline in sales and use tax collections. Individuals in their retirement years tend to cut back on expenditures for restaurants, entertainment and other taxable services. Much of their income goes for nontaxed goods and services, such as health care and prescription drugs.

As an additional challenge, states will have to address growing pension and retiree health care obligations. Unlike the majority of private companies, most state and local governments still have defined benefit pension plans that guarantee a certain amount of benefits at retirement. As more government employees retire, these costs will increase. Many states still lack reliable data on what these costs will be.

In contrast to pension plans, retiree health benefits are not prefunded. State governments providing health and dental insurance for retirees and eligible family members typically pay for these benefits in the year that they are used. With health care costs rapidly rising, this "pay-as-you-go" approach is creating massive financial liabilities.

Immigration will create multiple melting pots.

As the native-born population ages, the number of new immigrants will continue to increase. Demographers expect in-migration to exceed out-migration through at least 2050.[19]

In 2005, 37 million foreign-born residents comprised about 12 percent of the U.S. population. This subpopulation was about evenly split between naturalized citizens (31 percent), unauthorized immigrants (30 percent), and legal immigrants and temporary migrants (39 percent).[20] The leading source countries included Mexico, the Philippines, India and China.[21]

Unauthorized immigrants are arriving at a particularly fast pace. Between the last half of the 1990s and the first half of the 2000s, the average number of unauthorized immigrants arriving each year

Fast Facts

- By 2030, the U.S. population is expected to grow to 364 million. By that year, minorities will comprise 42 percent of the population, and one of every five residents will be of Hispanic descent.[32]
- The U.S. Census Bureau projects that 88 percent of U.S. population growth between 2000 and 2030 will occur in the South and the West.[33]
- By 2030, the 72 million Americans ages 65 and older will represent almost 20 percent of the total U.S. population.[34]
- By 2030, the cost of state tax preferences for seniors (e.g., exemption of Social Security and pension income from taxation) will nearly double as a share of most states' budgets.[35]
- Assuming net immigration of about 1 million per year, new immigrants and their children will account for all of the growth in the U.S. labor force between 2010 and 2030. Between 2030 and 2050, the children of immigrants will account for an estimated 60 percent of the growth in the U.S. labor force.[36]

jumped from 575,000 to 850,000.[22] Many cyclical crossers from Mexico now are staying longer due to the increased danger and cost of crossing the border.

So where are new immigrants heading? In 1990, 75 percent of immigrants resided in just five states—California, New York, Florida, Texas and Illinois. By 2005, only 59 percent of U.S immigrants resided in those states.[23] The states experiencing the fastest growth include 10 Southern states, seven Western states and five Midwestern states. Unauthorized immigrants are driving much of this growth.[24]

An unresolved question is whether immigrants pay more in state taxes than they consume in tax-supported benefits. Answers differ depending on the assumptions made about the earnings trajectories of immigrants and their children and how to allocate the costs of certain services. However, since young and low-earning immigrants pay most of their taxes to the federal government, the public services they receive are likely to be disproportionately funded by state and local taxes.

Because the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) limits immigrants' access to public benefit programs, immigrant families are much less likely than their native-born counterparts to receive food stamps, housing assistance or cash assistance under the Temporary Assistance for Needy Families (TANF) Program.[25] States have the option of providing state-funded health care coverage for legal immigrants who do not meet PRWORA requirements for Medicaid or the State Children's Health Insurance Program. Interestingly, 17 of the 28 states not providing this coverage are among the fastest growing new immigrant destinations.[26]

As immigrant populations increase, state courts can expect to hear more cases involving equal protection for immigrant workers, immigrants' use of public resources, and the rights of noncitizen parents of children who are U.S. citizens. Growing immigrant populations also will increase demand for qualified interpreter services, translated forms and culturally responsive dispute resolution methods.

Immigration will help the U.S. labor force grow but is unlikely to improve the worker/dependent ratio.

Assuming net immigration of at least 1 million per year, new immigrants will account for 33 percent to 50 percent of U.S. labor force growth between 2000 and 2030.[27] After 2010, immigrants and their children are projected to account for all labor force growth through 2030.[28] By that year, immigrants are expected to comprise about one-third of the low-skilled labor force and 14 percent to 18 percent of the college-educated labor force.[29]

Increased immigration may temporarily reduce the Social Security and Medicare burden on native-born workers, but it will not solve the dependency problem.[30,31] Because the U.S. population is already very large, it would take many new immigrants over a long period of time to significantly change the age structure. Like native-born workers, immigrants bear children and age into retirement. Both children and retirees depend upon the working-age population for social and economic support.

With change comes opportunity

Baby boomers reaching retirement age will be healthier, wealthier and more skilled than previous elderly generations. For many, the stage of life between retirement and the onset of debilitating health problems will span several decades. State government agencies, private employers and volunteer agencies will have a tremendous resource pool to draw upon if they are willing to offer flexible schedules, creative compensation plans and meaningful work opportunities.

In coming years, immigrants will account for large proportions of workers at both ends of the skills spectrum. Their long-term impact on states' economic growth will depend on how well their skills fit with work force needs and the subsequent contributions of their children. State investments in education and health care for immigrants and their children, while costly in the short run, may ultimately provide the mix of skills needed to succeed in the global economy.

2

Chasing the American Dream

In the late 19th century, Horatio Alger's popular dime novels highlighted the virtues of the American Dream through his rags-to-riches stories. Readers cheered for Alger's characters as they achieved wealth and success through hard work, courage and determination.

Those characters might find the America of the 21st century an unfamiliar place. Although the United States remains the richest country in the world and its citizens enjoy tremendous opportunity and freedom, widening social and economic disparities have created more hurdles for those striving to attain the elusive American dream.

These disparities will strain states' abilities to finance and facilitate access to public services, work force training, technology resources, health care and affordable housing. Furthermore, state officials will be challenged to address the differing needs and perspectives of culturally diverse populations and demographic differences in levels of civic participation and awareness.

The income gap

The income gap between the rich and the poor in the United States is now greater than in most other advanced industrial nations,[1] with the middle class confronting increased financial pressures.

Between 1980 and 2004, the share of the overall national income going to the top 1 percent of U.S. households increased from 8 percent to 16 percent. In 2005 those in the top 10 percent received their largest share of national income since 1928.[2] The top 300,000 Americans in earnings made nearly as much income as the bottom 150 million Americans combined—receiving 440 times as much as the average person in the bottom 50 percent.[3]

The gap becomes even more apparent when one looks at the increase in CEO pay versus growth in worker pay over the last several years. The gap between CEO pay and worker pay was 107-to-1 in 1990. In 2006, the gap had grown to 431-to-1, or $11.8 million to $27,460.[4] The public is becoming more aware and more concerned about this trend. According to a new Pew Research report, 73 percent of those polled agreed with the statement, "Today it's really true that the rich get richer while the poor get poorer." By contrast, 65 percent of those polled in 2002 agreed. This represents the highest number in agreement since 1991.[5]

While all states experienced widening income gaps, some were hit harder than others. From the early 1990s to the early 2000s, income disparities between families in the top and middle income categories increased most in Kentucky, Pennsylvania, North Carolina, Indiana, Tennessee, Texas, West Virginia, Vermont, New Jersey and Connecticut.[6]

These trends have several implications for states. Research has shown a link between higher levels of inequality and poor schools, substandard housing and higher levels of crime.[7] Furthermore, the inequality gap has risen more over the past decade in the U.S. than in most other advanced industrial countries in the Organization for Economic Cooperation and Development (OECD). The U.S. is now associated with higher levels of overall and child poverty than a majority of OECD countries. If this trend continues, it may begin to impact the competitiveness of the U.S. in the global economy.[8] In addition to the economic costs to states, the widening gap between the haves and have nots can reduce trust in government and other institutions, and participation in the democratic process.[9]

The middle class

While the gap between the richest and the poorest Americans grows, those in the middle are being squeezed.

The financial health and security of the middle class has become one of the major preoccupations of the day. For many, attaining middle class status is the American Dream. There is no official definition of middle class—many economists and sociologists assert that this classification has always been a state of mind rather than an economic position. U.S. Census Bureau data from 2002 says that the middle 20 percent of the country earns between $40,000 and $95,000. However, many Americans identify themselves as middle class.[10]

At first glance, the economic situation for a middle class family seems rosy. As women have entered the work force in increasing numbers over the past 30 years, many households now have two incomes, raising a family's (with two working parents) combined income in 2004 to $73,770—nearly 75 percent higher than the median household income in the early 1970s. Furthermore, the average family of four spends less on food, clothing and major appliances than a similar family did in the early 1970s.[11]

Despite the addition of a second income and a decrease in certain expenses, many still believe the middle class is in trouble—why? Some have suggested that middle income Americans are simply living beyond their means—buying luxury items and living on credit to satiate their need to consume. The facts seem to contradict this hypothesis.

While spending on food, clothing and major appliances has decreased, there have been significant increases in spending on the basics—housing, health care, education, transportation and child care.[12] Today's average middle-class family with two income earners has about $1,500 less for discretionary spending than its one-income counterpart of a generation ago.[13]

Housing is one basic expense that has contributed to the middle class squeeze. In the third quarter of 2006, the cost for a median priced U.S. home was $248,000. The annual income needed to afford that home was $84,957—well out of reach for those in such solidly middle-class occupations as registered nurses, elementary school teachers, police officers and accountants.[14] Furthermore, as real estate prices skyrocketed in recent years, many Americans turned to adjustable rate mortgages or other nontraditional financing options to purchase a home. The rates on these mortgages are now beginning to increase, leaving those homeowners struggling to make payments and putting them at risk for foreclosure or bankruptcy.[15]

To make matters worse, the tax burden on middle income families is often significantly higher than that of wealthier Americans. While the average state and local tax rate for those at the top 1 percent of the income scale—after taking into account tax savings from federal itemized deductions—is 5.2 percent; those families in the middle 20 percent pay out almost twice as much: 9.6 percent. That rate is even higher for those in the bottom 20 percent, coming in at 11.6 percent.[16]

Financial trouble for the middle class could translate into serious problems for states. Because states often heavily rely on this group for taxes, income instability in this class would also mean volatility in state revenue streams. States with heavy middle class tax burdens and high housing costs could also experience work force shortages or difficulty attracting businesses that rely on middle income citizens for labor.

Poverty

Poverty is growing with persisting differences in poverty rates across racial and ethnic groups.

After falling throughout the late 1990s, U.S. poverty rates began to rise again in 2000. By 2005, 37 million people, approximately 13 percent of the total population, were living below the poverty line (U.S. Department of Health and Human Services defines this as $9,570 for a single person, $19,350 for a family of four). The percentage of the population considered severely poor has reached a 32-year high and between 2000 and 2005, those living on half of poverty level income increased by 26 percent.[17]

Poverty rates vary substantially across racial and ethnic lines. Blacks and Hispanics maintain significantly higher poverty rates than whites. In 2005, 8.3 percent of whites lived in poverty, while nearly 25 percent of blacks and 22 percent of Hispanics were under the poverty threshold.[18]

Recent trends in childhood poverty are particularly troubling—childhood poverty has risen substantially after hitting a low in 2000, with the largest increases occurring in the Midwest.[19] Of all children, more than 28 million or 39 percent—live in homes at or below the poverty level.[20] There is significant variation across states, ranging from a 7 percent child poverty rate in New Hampshire to 25 percent in Arkansas. The South has the highest rates of extreme child poverty.[21] As with adults, poverty is not equally represented across racial lines. Children of color are three times more likely to be in poverty than their white counterparts. Thirty-three percent of black children and 28 percent of Hispanic children live in poor families.[22]

In addition to the ethical implications of increased poverty lev-

Fast Facts

- Between 1980 and 2004, the share of the overall national income going to the top 1 percent of U.S. households increased from 8 percent to 16 percent.[34]
- Children in poverty are 26 times more likely to drop out of school, 160 times more likely to become teen parents, and 18 times more likely to be killed by gunfire.[35]
- On average, middle income families have a state and local tax rate that is twice that of families in the top 1 percent of the income scale.[36]
- Between 1968 and 1998, white families were more than twice as likely as African-American families to move up in their income status, while African-American families were more than twice as likely as whites to move down, a trend that continues today.[37]
- Growth in the voting-age Hispanic population is projected to account for 44 percent of the growth in total voting age population between 2004 and 2020.[38]

"Most Americans are working harder and smarter than ever before, but they fear their efforts are not being recognized and rewarded. The growing gaps in wages and wealth threaten the productivity of our economy and the cohesion of our society. And many Americans are opting out of the democratic process at a time when the nation needs their involvement and their ideas."

Lawrence Mishel
President, Economic Policy Institute

els, there are serious economic repercussions for states. Poverty can lead individuals to face an increased risk of adverse outcomes, such as poor health and criminal activity, and creates challenges for economic growth in general.[23]

Recent research suggests that the costs associated with childhood poverty total about $500 billion per year, or nearly 4 percent of GDP. These costs are due to reduced productivity and economic output and an increase in the cost of crime and health expenditures. In addition, poverty contributes to behavioral, social and emotional problems and can impede cognitive development in children.[24] Given that the children of today will provide the work force of tomorrow, states will be forced to address this issue if they want to ensure a healthy, well-educated labor supply in the future.

Income mobility

The ability of Americans to improve their economic reality is becoming more difficult.

The idea that any citizen, born affluent or poor, can achieve financial success through hard work and perseverance is one of the fundamental values of U.S. society. While climbing the economic ladder or overcoming poverty is certainly possible, emerging research suggests that where children start out in life plays a significant role in where they will end up.

Upon reaching adulthood, children have a tendency to stay in or near the same wealth category as their parents. More than a third of children born to parents in the bottom income fifth were still in that same income bracket in their mid-30s, and only 7 percent of those children had reached the top fifth. The same is true for children from wealthy households—of children from the wealthiest fifth, 36 percent stayed in the same category while 11 percent fell to the bottom fifth.[25]

As with poverty, upward and downward income mobility varies by race. White families are more than twice as likely as black families to move up in their income status while black families are more than twice as likely as whites to move down.

The perception of Americans regarding economic opportunity also varies by race.[26] Pew research finds that nearly 50 percent of blacks feel that success in life is "largely determined by forces outside of one's control"—31 percent of whites feel the same way. This is a rather dramatic shift from just 10 years ago when only 38 percent of blacks responded similarly.[27]

Civic engagement

The demographic makeup of the voting population is changing.

The 2004 presidential election drew 125 million Americans—64 percent of those registered to vote (up from 60 percent in 2000), but turnout varied significantly by educational attainment, race, ethnicity and age.[28]

Educational attainment is a strong indicator for voter turnout. In 2004, turnout among those with less than a high school degree was 39.5 percent; those with some college education had a 68.9 percent turnout; and those with an advanced college degree had an 84.2 percent turnout.[29]

Young Americans continue to be less involved in the democratic process than older Americans. The Census Bureau reports that while more than 73 percent of those between the ages of 65 and 74 voted in the 2004 presidential election, those between 18 and 24 had the lowest turnout of all age groups, 47 percent.[30] If this trend continues, issues related to older citizens may become disproportionably represented in policy decisions—educational funding, for example, may be considered less important than tax breaks for retired individuals.

Immigration has also had an impact on the demographic composition of those voting. In 2000, there were 10.7 million new adult citizens in the United States. Of this group, 6.2 million (58 percent) were registered to vote, and 5.4 million (50 percent of total; 87 percent of those registered) actually voted.[31] As a result of their growing numbers, new citizens represented 18.5 percent of all new voters (nearly one in five) added to the rolls between 1996 and 2000. New citizens accounted for more than half (54.9 percent) of the net increase in people registered to vote.[32]

In particular, Hispanic immigrants are beginning to impact elections. While Hispanic voters currently represent a small percentage of total voters, the rapid growth in Hispanic population is likely to have a dramatic impact on future elections. Growth in the voting-age Hispanic population is projected to account for 44 percent of the growth in total voting age population between 2004 and 2020, compared to 17 percent from non-Hispanic whites, 14 percent from blacks, 15 percent from Asian-Pacific Americans, and 1 percent from American Indians.[33]

Solid opportunities

The income gap, a pressured middle class, increasing levels of poverty, stagnant income mobility and a changing voting population are all issues that will impact state governments in the years to come. The economic and social success of a state may rest on its ability to address these issues in a meaningful, sustainable manner. States have an opportunity to aid troubled middle and low income groups, particularly through improving education—both continuing education and K-16. States will also need to evaluate barriers to attracting high wage firms, such as the tax code, high housing costs and workforce deficiencies.

3

Environmental Gluttony

Merriam-Webster's dictionary defines gluttony as "greedy or excessive indulgence."[1] Over the past century, this nation's growing population and its voracious appetite for consumer goods, land and development (approximately 3,000 acres of farmland are consumed for development every day[2]) has led to dwindling water resources, an increase in solid waste and pollution, a changing global climate, and an uncertain energy future.

Water supplies

Water supplies are tightening throughout the U.S.

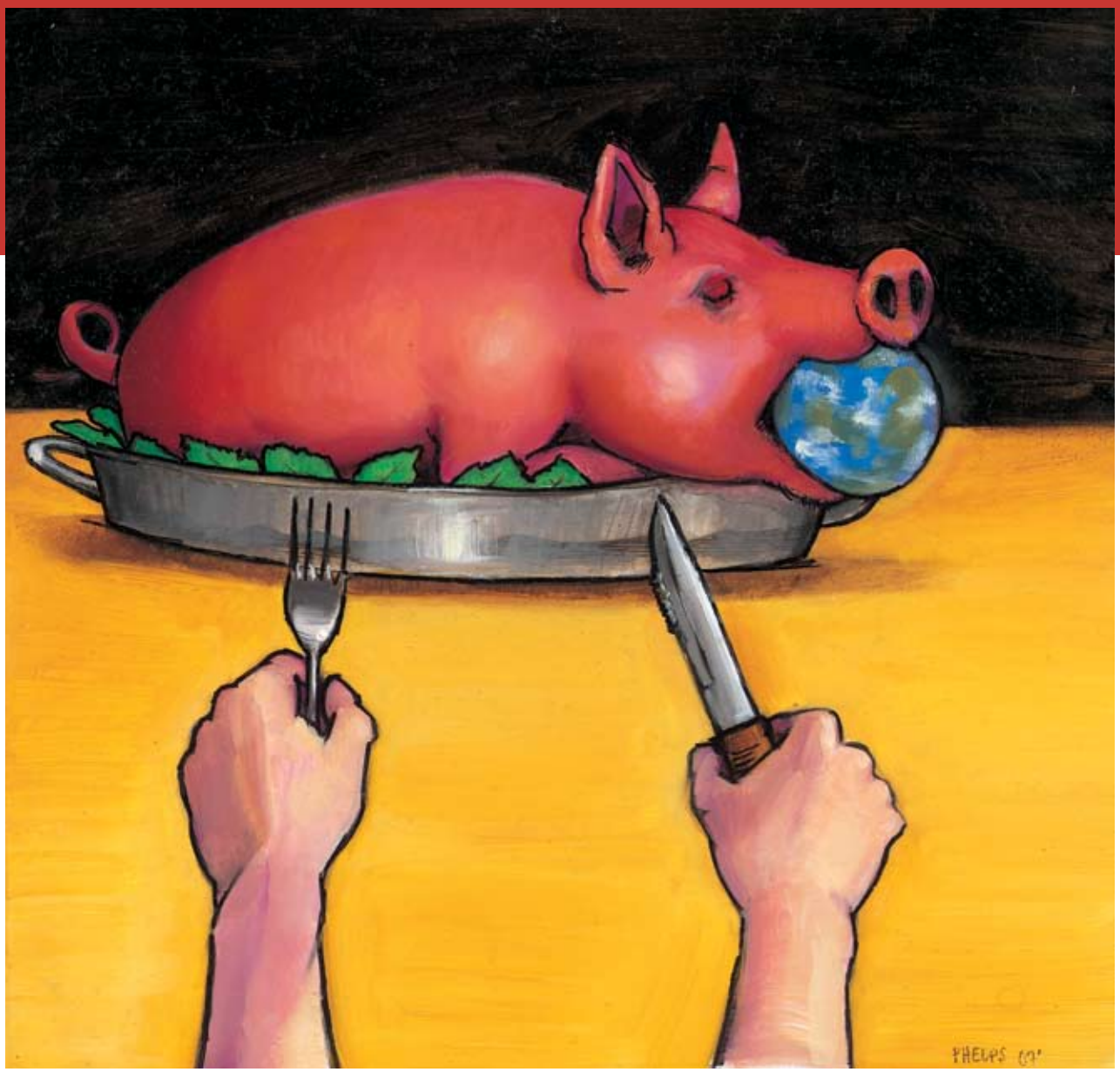
In 2000, Americans used 408 billion gallons of water—or 1,500 gallons per person—daily, primarily for the purposes of power generation, irrigation and public supply. Of the water used, 85 percent was freshwater and 15 percent was saltwater.[3]

Persistent drought, increasing population and competition for water for its myriad uses are creating conflict throughout the country.[4] The Klamath Project, for example, which manages dams and reservoirs on the California-Oregon border, reports conflicts and litigation between farmers, who want the water for irrigation, and fishermen and environmentalists who want the water to stay in-stream for fish survival.[5] The combined effects of drought and population expansion have resulted in the depletion of freshwater reserves and the drying up of aquifers in many parts of the United States.[6]

Water is especially scarce in the West. According to the Department of the Interior, even under normal supply conditions the West's water supplies are insufficient to meet municipal, agricultural and environmental demands.[7] Contributing to the problem is the rapid and continued expansion of the West's population, with an increase of 10 million people—or 20 percent—throughout the 1990s and a projected increase of 30 percent over the next 25 years.[8] The West has also begun experiencing record low levels of snowpack, which supplies 75 percent of the region's water.[9]

The West is not alone in its water shortage predicament. Thirty-six states from every region of the country expect to face water shortages somewhere within their states (under normal conditions) over the next five years.[10] Among those are 13 states in the South, nine in the West, eight in the Midwest and seven in the Northeast.[11]

Dwindling water resources mean states, together with local gov-



ernments, will have to more closely regulate water use, weighing, for example, whether permits for new housing developments have sufficient water resources to meet expected needs. States also will have to compensate for less federal money for the maintenance and creation of existing and new water infrastructure, including dams, reservoirs and water delivery systems.[12] There will be increased competition for limited water resources especially between the agricultural and municipal sectors.

Because the potential to develop new ground and surface supplies is limited, growth will depend upon existing sources.[13] States will be forced to consider the authorization of water rights transfers or the creation of water markets and conservation programs, perhaps limiting the days and hours in which lawns can be watered, to appease the conflicting interests involved. States also will have to work more closely with local organizations to maximize water potential and secure funding for an inadequate water infrastructure.[14]

In addition, there will be a drain on state resources as an increasing number of water rights cases wind up before the courts. Finally, the continued population shift to the West and urban sprawl, which breaks up and impacts the functionality of watersheds,[15] will further complicate matters.

Solid waste

Increase in solid waste is outpacing population growth.

According to the Energy Information Agency, municipal solid waste (MSW)—everyday trash and garbage—produced in the United States has more than doubled over the past 40 years, outstripping population growth.[16] The average American generates approximately 4.5 pounds of trash per day, and the Environmental Protection Agency estimates that the annual generation of MSW will increase to 253 million tons by 2010, more than half of which will be deposited in landfills.[17] The remaining MSW will either be recycled (32 percent) or combusted for energy (14 percent).

In addition, while the U.S. has approximately 20 years of disposal capacity nationally, six states (Alaska, Connecticut, Delaware, North Carolina, New Hampshire and Rhode Island) have less than five years' capacity remaining. The greatest disposal capacity lies in the West, while the Northeast has the least.[18]

Fast Facts

- The Intergovernmental Panel on Climate Change projects that global climate change likely will contribute to increased hurricane intensity, sea-level rise, increased risk of drought and reduced snow cover, and more frequent high temperature days and heat waves.[38]
- Under normal conditions, 36 states from all U.S. regions can expect to face water shortages over the next decade.[39]
- Renewable energy sources currently meet 6 percent of U.S. needs.[40] If the cost of oil and gas remains high, expanding renewable energy to meet 25 percent of U.S. electricity and motor vehicle demand by 2025 may be economically viable.[41]
- Between 1960 and 2005, the amount of trash and garbage generated in the United States jumped from 88.1 million tons to 245.7 million tons, outpacing population growth.[42] At current trash disposal rates, 4.5 pounds per American per day, our nation has only 20 years of remaining landfill disposal capacity.[43]

One of the challenges facing states is that zoning regulations limit the areas where additional landfills can be located.[19] Furthermore, consolidations in the waste management industry have reduced the number of landfills from 8,000 in 1988 to approximately 1,600 in 2005, though the existing ones have larger capacities.[20] As old landfills close, exports of MSW rise. New York, New Jersey, Missouri, Illinois and Maryland are the largest exporters of MSW in the U.S., accounting for 54 percent of all exported waste. Pennsylvania, Virginia and Michigan receive 49 percent of all domestic MSW exports.[21]

MSW poses challenges for states and local governments as they strive to determine the best method for dealing with limited space and increasing amounts of waste. Perhaps the greatest challenge is the U.S. Supreme Court's ruling that state and local government bans of MSW imports violate the Constitution's protection of interstate commerce.[22] States then are forced to confront the challenge of disposing the waste. In Connecticut, for example, environmental officials have concluded that for the state to avoid being overwhelmed with waste within the next 20 years, it must double its recycling.[23] In addition to policies that promote recycling, states may need to consider options such as combusting waste to energy or raising waste disposal fees as Pennsylvania has done.[24]

> **"The reality of periodic oil shortages, erratic fluctuations in gas prices, threats to our economy and security, and growing environmental concerns illustrate, more than ever, the need for immediate action."**
>
> *Gov. Brad Henry*
> *Oklahoma*

Climate change

Human activity is causing climate change with potentially disastrous consequences.

As a result of increasing pollution, chiefly carbon dioxide caused by the production and combustion of fossil fuels, the U.S. climate has changed markedly over the past century. These greenhouse gas emissions—the primary contributor to global warming—rose 16 percent from 1990–2004—with increases every year except 1991 and 2001.[25]

Scientific evidence has proved that human activity is the primary cause of global climate change. The effects of such change are potentially devastating. According to the Intergovernmental Panel on Climate Change's most recent report Climate Change 2007: The Physical Science Basis, Summary for Policymakers, likely effects include:

- Increased hurricane and tropical storm intensity
- Sea-level rise that impedes on low-lying coastal communities
- Increased risk of drought and reduced snow cover, leading to diminished water supplies
- Considerably more high temperature days and heat waves, which could affect not only health, but result in extensive crop losses as well[26]

The effects of climate change are not only environmentally devastating, but they also have an extensive impact on the economy. Hurricane Katrina is estimated to have cost upwards of $200 billion in damage.[27] And Hurricanes Katrina and Rita also resulted in the loss of production of 166 million barrels of oil over a year's period due to damaged and lost pipelines, wells and platforms in the Gulf of Mexico that had to be made up from other sources.[28]

States can also expect to face increased health care challenges, including heat exhaustion among the poor and elderly who cannot afford the high cost of electricity to run air conditioning and the potential spread of tropical diseases as mosquitoes transit to formerly cooler climates. These challenges could result in more frequent state of emergency declarations.

In the face of reluctant federal action to curb greenhouse gases, states and municipalities increasingly are taking the initiative, in part due to the wide-ranging implications that climate change has for states. Policy options, such as curbing carbon dioxide emissions from automobiles or requiring an increased percentage of utility-generated power to come from renewable sources, will require careful analyses of costs versus benefits and a willingness to consider trade-offs.

Energy future is uncertain

The nation's energy future remains precarious.

The majority of electricity generation and liquid fuel needs come from fossil fuels, which are projected to be in decline[29] and which pose adverse environmental consequences, including increased air and water pollution.

Aside from environmental concerns, energy security plays a central role in propelling the nation forward in its attempts to draft policy. The majority of U.S. oil, more than 60 percent, is imported.[30] Roughly 75 percent of all oil reserves are controlled by nationally owned oil companies, whose considerations are as much geopolitical as economic.[31] Furthermore, oil and natural gas are supplied in a market that is volatile due to potential supply disruptions, ranging from terrorist activity to Russia's use of energy exports as a foreign policy tool.[32]

In addition, low-cost oil resources are diminishing, with production from existing fields decreasing 5 percent per year on average.[33] And supplies are becoming increasingly tight due to increased competition from India and China.[34]

Exacerbating the situation is that the United States has not established a balanced energy portfolio to minimize the impact of supply disruptions. Currently, only 6 percent of U.S. energy needs are met through renewable energy sources.[35] However, the Rand Corporation considers this figure expandable with little or no strain to the economy assuming the cost of gas and oil remain high and the cost of renewable technology declines as anticipated.[36]

Finally, the infrastructure does not yet exist to distribute ethanol—the most promising alternative fuel in the short-term—from the Midwest to the East and West. Ethanol requires separate pipelines and storage pumps from gasoline because it is water soluble and highly corrosive. Currently, there are only 1,000 ethanol filling stations nationwide, compared to 176,000 gasoline stations.[37]

The need to achieve abundant, economical, secure and clean energy will challenge states to increase the diversity of supply, create adequate infrastructures and fund potential technologies, such as hydrogen and cellulosic ethanol . Though some policies are already in place, states will need to consider additional ways to expand renewables for both electricity generation and liquid fuels.

Pressures to enhance energy security and reduce greenhouse gases also will increase demand for policies that support energy efficiency, both in automobiles through increased fuel economy standards and in buildings by green codes.

The good news

The good news is that these issues are largely interrelated. Action by state officials in one area—for example, expanding the use of renewable energy—would reduce greenhouse gas emissions, positively affecting global warming and pollution. The expansion of renewable energy also would increase energy security and help stabilize energy prices.

State officials have opportunities to enact energy-saving policies, such as requiring all new buildings to meet green codes, and to fund energy efficiency improvements in government buildings. Though these efforts may require substantial upfront costs, there are programs being developed to help reduce their financial impact, and in the long run, they hold great promise for conserving energy and saving money.

Regional and interstate compact approaches to water resources management and greenhouse gas control can help maximize resources. The Western Regional Climate Action Initiative, for example, involves five states in identifying, evaluating and implementing ways to reduce greenhouse gas emissions. Interstate initiatives also have great potential for increasing power generation and transmission capacity.

Through concerted efforts and long-range planning, states can and will positively impact the future and protect not only the environment, but also the health and well-being of their citizens.

"While it may be true that regulating motor-vehicle emissions will not by itself reverse global warming, it by no means follows that we lack jurisdiction to decide whether EPA has a duty to take steps to slow or reduce it. A reduction in domestic emissions would slow the pace of global emissions increases, no matter what happens elsewhere."

Justice John Paul Stephens
Supreme Court Opinion: Massachusetts v. EPA, April 4, 2007

4 Health Care: Paying More, Getting Less

The American health care system is in crisis.

While Americans have access to a myriad of specialists, the latest technology, the newest drugs and some of the most innovative surgical procedures of any country in the world, all of these things come at a price. That price is skyrocketing health care costs that threaten to consume a large portion of the nation's gross domestic product, an increasing number of uninsured and underinsured citizens and rising Medicaid expenses that threaten to consume many states' budgets. Even the middle class is feeling the crunch of health care costs, as many are now struggling to pay off significant medical debts.

Not only are Americans paying more for their health care than any other industrialized country, studies have shown that the kind of care they are getting is substandard by many measures. Americans lag behind other countries in measures such as infant mortality and medical errors. They are not receiving adequate screenings or management of chronic diseases. And the majority of those uninsured people with chronic diseases have skipped filling prescriptions that could prolong their lives and prevent costly complications because they are too expensive.[1]

Simply put, the American health care system as it stands today is unsustainable.

Rising costs

U.S. health care costs are rising at an unsustainable rate.

In 2005, the growth of health care spending slowed for the third straight year, notching an increase of 6.9 percent.[2] That still amounted to almost $2 trillion, or $6,697 for every person. Health care's share of the gross domestic product continues to rise, reaching 16 percent in 2005.

Many ideas have been suggested for what is causing these tremendous increases in spending, such as expensive new technologies and procedures, changes in thinking in the medical community that have led to earlier or more intensive treatments for many conditions, an increase in the use of prescription drugs and even the explosive rise in the number of Americans classified as either overweight or obese.

While the causes can be debated, the consequences are undeniable. Between 2000 and 2006, family health insurance premiums increased by 87 percent, while cumulative inflation increased 18 percent and cumulative wage growth was 20 percent.[3] During the same time, the percentage of employers offering health benefits fell from 69 percent to 61 percent. Many businesses that still offer insurance have offset some increases in premiums by increasing the co-pays or deductibles their plans offer.

Some Americans are having problems paying off their medical bills. One 2005 study looked at a sample of all bankruptcies filed in the United States in 2001. The study included almost 1,800 bankruptcies, which was representative of filers nationally. Half of those filing cited medical debt as the cause of their bankruptcy; three-quarters of them were insured when the illness began.[4]

And it's not just people in the lower socioeconomic strata that are facing problems with medical debt. In 2005, one nationally representative study concluded, the people who had the most problems paying their bills were those who had incomes of $40,000 or more.[5] Nearly three in five of those middle-income responders, 59 percent, reported difficulties with medical bills or accrued debt. Forty-six percent of adults earning higher incomes were paying off bills over time, with more than half of them carrying more than $2,000 in medical debt.

The uninsured

Growing numbers of U.S. residents are uninsured.

Due to rapidly increasing premiums, fewer businesses are offering their workers health care benefits—which are the main source of privately held insurance. In 2000, 63 percent of workers had insurance through their employers. By 2006, that number had dropped to 59 percent.[6]

As the percentage of firms offering health benefits has decreased, the number of uninsured has increased. According to the U.S. Census Bureau, the number of uninsured Americans reached 44.8 million people in 2005, which amounts to just over 15 percent of the country's population.[7]

So what is the face of the average uninsured American? According to the U.S. Census Bureau, in 2005 the uninsured were more likely to be Hispanic or black. They were most likely to be between 18 and 34 years old, living in either the South or the West. They worked either full- or part-time during the year and typically earned $50,000 or less.[8]

One out of every nine children was uninsured in 2006. The majority of them lived in two-parent households and 87 percent of them lived in families where at least one parent works.[9] The State Children's Health Insurance Program (SCHIP)—which primarily covers poor children whose families do not qualify for Medicaid—has helped decrease the number of children who would otherwise be uninsured. The percentage of uninsured children dropped by about one-third between 1997, when SCHIP was created, and 2004.[10] In June 2005, the number of children enrolled in SCHIP across the country reached a record high monthly enrollment of just over 4 million.[11]

Most of the uninsured are working-class adults. Since states have strict income limits on Medicaid, these are people who do not qualify for government programs. They get less preventive care and sometimes forego maintenance drugs for chronic conditions, which means when they do enter the medical system, they are sicker and their care costs more.[12]

A large portion of uninsured citizens' medical costs is uncompensated. According to The Kaiser Commission on Medicaid and the Uninsured, $40.7 billion in care was uncompensated in 2004, the majority of which was incurred by hospitals.[13] Two-thirds of those costs are covered by the federal government, most of which comes from disproportionate share hospital payments. However, state and local governments also shoulder part of the burden through state and local taxes.

Fast Facts

- Between 2004 and 2005, U.S. health care spending increased by 6.9 percent to almost $2 trillion, or $6,697 per person. That amounts to 16 percent of the U.S. gross domestic product.[36]
- Although U.S. health spending per capita is more than double that of other industrialized countries, we lag behind on many key health indicators. A 2007 UNICEF report ranked the United States last in the health and safety of children.[37] Another survey showed the U.S. tied for last on healthy life expectancy at age 60, meaning Americans are living shorter lives with more years sick or with a disability than other nationalities.[38]
- Between 2000 and 2006, health insurance premiums increased by 87 percent as compared to an 18 percent increase in inflation and 20 percent cumulative wage growth.[39]
- Between 2000 and 2006, the percentage of employers offering health benefits fell from 69 percent to 61 percent. Almost 45 million Americans were uninsured in 2005, amounting to 15 percent of the population.[40]

With little hope for a decrease in the uninsured in the coming years—the Centers for Medicare and Medicaid Services expects the number to increase to 56 million by 2013[14]—states have begun to take on a more activist role in health care reform. In the past two years, an increasing number of states have either created or proposed their own plans for universal health insurance. Policymakers can expect to see more states experimenting with their own universal insurance plans in the coming years if the number of uninsured continues to rise, although federally mandated universal health care seems unlikely.

Medicaid challenges

As the largest source of health care coverage in the nation, Medicaid is facing long-term challenges.

Between 1997 and 2005, the number of people covered by Medicaid increased from 31.2 million to 42.5 million, making this program the largest source of health care coverage in the nation.[15,16] In 2001, the number of new enrollees jumped dramatically as the economy went into a recession. The growth has since leveled off, but overall, there has been an increase in enrollment of more than 11 million people from June 1997 to June 2005.[17]

In 2005, states spent more than $300 billion on Medicaid and 18 states had Medicaid budget shortfalls.[18,19] During the 2006 fiscal year, Medicaid reached a turning point as average spending grew by just 2.8 percent, the lowest increase since 1996. Due to an improving economy, state revenues also grew at a faster rate than total Medicaid spending.[20]

Despite the better economic outlook for the states, a survey of all the nation's Medicaid directors and staff in 2006 by the Kaiser Commission on Medicaid and the Uninsured and Health Management Associates revealed they are still worried about budgetary pressures. Due to the continued growth in health care spending, the declining number of businesses offering health insurance benefits and pressure to increase the amount paid to providers, Medicaid officials said they were still feeling pressure to contain spending.[21]

The survey also showed that a number of states in 2007 were planning legislative action related to long-term care, which is likely to be one of the most pressing issues faced by states in the future. Medicaid is the largest single source of funding for long-term care. In 2003, Medicaid made payments of $86.3 billion for long-term care, which equated to 47 percent of national spending on such services.[22] For just one person, costs can average $52,000 a year. [23]

One projection of health care spending through 2015 estimates that Medicaid spending for long-term care will increase at a faster rate than either Medicare or private spending, eventually paying for nearly half of all nursing home care, compared with 44 percent in 2004.[24] Medicaid's share of home health spending—which is growing rapidly—also is anticipated to increase 10.9 percentage points by 2015.

America's growing battle with obesity also figures into higher state medical expenses in coming years. An estimated 65 percent of U.S. adults are classified as either overweight or obese.[25] One study of obesity's effects on health care found that although obese 70-year-olds will live about as long as those of a normal weight, they will spend about $39,000 more on health care during their remaining years.[26] They also will experience higher rates of diabetes, hypertension and heart disease—chronic diseases that are costly and potentially debilitating. Some of those expenses can be expected to be borne by Medicaid.

Another concern for states in the future is federal appropriations for SCHIP. Several states have used SCHIP funding as an integral part of their effort to expand health insurance coverage to all residents. A reduction in federal funding could jeopardize those efforts.

Around the world

Other countries are spending much less on health care with better health outcomes.

Since the United States pays significantly more for health care than any other industrialized country, one could reasonably assume that Americans must be receiving the best medical care in the world. That's not the case, according to several evaluations of health care systems around the world.

One study examined how the U.S. performed against bench-

marks in health outcomes, quality, access, efficiency and equity.[27] The benchmarks were based on the rates achieved by top countries, top states, top hospitals or top health plans. The results placed the United States last or near the bottom of the list in several indicators, including:

- Out of 23 industrialized countries, the U.S. ranked last on infant mortality in 2002, with rates that were more than double the three leading countries.
- America tied for last on healthy life expectancy at age 60. This means Americans are living shorter lives with more years sick or with a disability.
- Only about half of adults received all of the recommended clinical screening tests and preventive care according to national guidelines.
- Nearly one-third of adults and more than half of all children said they did not have a primary care "medical home."

A 2007 report from UNICEF revealed a similarly poor showing for the United States when comparing child welfare among industrialized countries. The U.S. ranked 23rd out of 25 countries in the percentage of low birth weight babies and was in the middle of the pack for the percentage of children ages 12-23 months who were immunized against major vaccine-preventable diseases. Overall, the United States came in last in the health and safety of children.[28]

Health disparities also remain a concern in American health care. According to the 2006 National Healthcare Disparities Report, although some disparities are improving, significant challenges remain. For instance, blacks had 90 percent more lower extremity amputations for diabetes than whites, Hispanics had 63 percent more pediatric asthma hospitalizations than non-Hispanic whites and poor people were 37 percent less likely to receive recommended diabetes care than high-income patients.[29] Disparities were increasing for 80 percent of significant health measures for Hispanics and all measures for poor people.

What comes next?

Although the price of health care and the number of uninsured are problematic now, without action, the future looks worse. According to the Centers for Medicare and Medicaid Services, health care will account for $1 of every $5 spent in the country by 2016.[30] Annual out-of-pocket costs will increase from about $850 in 2007 to $1,400 by 2016.

With states facing increasing Medicaid expenses in coming years, policymakers may experience more pressure when trying to balance spending for health care and other needs, such as education, highways and other infrastructure projects. Policymakers may face a greater strain between states and the federal government, with more costs being shifted to the state level to reign in federal expenses as the population ages and costs for medical care grow.[31] State executives also may find themselves deciding how health care and medical services should be rationed.

The judicial branch could find itself in the center of more medical battles about how private insurance companies deny certain medical procedures, hospital mergers and even malpractice lawsuits.[32] More courts may be called in to mediate an increasing number of labor disputes that center on medical coverage.[33]

Legislators also may face more pressure from their constituents, such as an increasing call to legalize importing drugs from Canada. This could increase friction between the states and the federal government, which would have to approve such a measure.[34] There also could be a greater call for tort reform, placing caps on malpractice awards or attorney fees, and possibly enacting a statute of limitations in malpractice cases.[35]

Although there are many challenges in health care, there are some opportunities for state policymakers. Due to inaction on the federal level, states have been free to redesign their own health care systems to fit their individual needs. Legislators also should remember that they are not operating in a vacuum. There has been much study on what screenings and medical services are the most cost-effective, which may help guide their efforts.

Americans are living longer than ever before, surviving cancer more often due to earlier detection, and living longer with chronic diseases that even a few decades ago might have proved fatal. But these advances have come with a high price tag. Without action, there will be a tipping point where governments, businesses and citizens will be unable to pay for health care. When that point will come—and what comes after—are questions that remain to be answered.

"We've got three dangerous trends coming together: rising costs, millions of Americans who aren't covered by insurance and poor health care delivery. Transforming the health care system may be the greatest of all the challenges, but it is also the most important thing we can do to improve the quality of life for everyone and to make the delivery of care more cost-effective."

Tom Nelson
Chief Operating Officer, AARP

5

Tech Revolution

"Being disconnected in the Information Age is not like being deprived of a Mercedes or some other luxury. Being disconnected means being disconnected from the economy and democratic debate."

Mark Lloyd
Senior Fellow, Center for American Progress

In 1965, Gordon Moore, co-founder of Intel Corporation, observed that the complexity of computer and electronic components was doubling every 18 months while the relative cost remained stable. Forty years later, the average household computer can perform numerous complex operations at speeds undreamed of by computing pioneers.

It is difficult to deny the positive benefits of the technological revolution. The overwhelming success of e-commerce; increased access in "virtual" online space; and the global spread of Western culture through the Internet all point to the contributions of technology. Consumers now have access to an incredible array of goods and services at the click of a mouse, while business marketing and advertising services have better information on the interests and purchasing histories of online buyers with which to plan targeted advertising campaigns.

Computer software and hardware companies have enjoyed outstanding success over the past decade. The "platform war" of the 1980s and 90s—industry infighting over which computer hardware architecture would gain the broadest market share and which software operating system would partner with the hardware manufacturer—have been overwhelmingly resolved in favor of the Microsoft-Intel combination, which has garnered most of the consumer market. This partnership has allowed non-tech-savvy consumers to enter the computer age without facing a bewildering array of choices.

Nevertheless, our great technological leap forward has been accompanied by some unforeseen side effects. Continued advances in technological innovation have led to a growing problem of technological obsolescence. And the rate of obsolescence is increasing, often affecting technology less than three years old. Because only the wealthiest Americans can afford to upgrade their computers and gadgets every few years, the gap is widening between those who have access to the latest technology or any technology and those who don't. Also, what really happens to all those "obsolete" computers? Is U.S. technological waste becoming a nightmare for other countries?

Technology obsolescence

Rapid technological advances are creating instant obsolescence.

When creating new consumer-oriented software products, software developers often seek to utilize the available hardware to the maximum limits of its capabilities. In response to continuing and increasingly complex software innovations, computer hardware manufacturers perpetually improve performance capabilities in hardware speed and size so that consumers can run the latest software without noticeable "drag" or lack of responsiveness. This partnership between software and hardware developers has been productive and successful for vendors. However, for consumers, frequent changes in computer technology can take a heavy toll on household budgets.

Between 1992 and 2005, the lifespan of a personal computer fell from an average of 4.5 years to 2 years.[1] In fact, technology is developing so rapidly that, for every computer put on the market, one existing computer will become obsolete.[2] The line between traditional computing applications such as spreadsheets, databases and word processing, and media and entertainment applications such as digital music, downloadable movies and media-rich games, is becoming increasingly blurred. Thus, consumers trying to stay abreast of new hardware and software capabilities may soon find themselves having to upgrade every few months, rather than every other year.

Rapid technology obsolescence also affects the ability of government agencies to innovate. Large, long-term interdepartmental and interstate government projects sometimes are hampered by competing proprietary designs and protocols that government organizations have contracted with technology corporations to develop. For example, according to recent testimony by the Government Accountability Office, the Department of Defense (DOD) and the Department of Veterans Affairs (VA) are unable to share soldiers' and veterans' health records electronically after more than five years of software development.[3] In August 2006, a high-ranking DOD official concluded that requiring the DOD to adopt the VA's system, or vice versa, would lead to "significant costs, an adverse productivity impact … and would likely take several years to complete."[4] As a result, health workers are required to fax patients' medical records, which leads to requests for more information and delayed patient care and treatment.

Despite problems with software and hardware compatibility, some state governments have made headway toward creating information-sharing systems. In 2005, the Louisiana State Police contracted with a New Orleans-based technology firm to integrate databases from several state agencies, including transportation, natural resources, health and law enforcement.[5] By 2006, this Louisiana Fusion and Analytical Center project had become a successful case study for inter-agency data sharing, with other regional centers around the country developing similar approaches.[6]

Systems and solutions based on open, well-defined standards for information exchange—such as the U.S. Department of Justice's Global Justice XML Data Model for law enforcement agencies—appear to be more resistant to technology obsolescence. Such standards provide a common base from which project analysts and software developers can work to integrate their own data, which are often stored in huge databases on ancient hardware. Open standards can reduce the risk of "reinventing the wheel" when state agencies rush to bring new systems online, while making database integration a cost-effective strategy.

Digital divide

The gap is widening between those who have access to technology and those who don't.

The speed with which today's computers become tomorrow's doorstops sometimes hinders states' efforts to increase access to technology across income, race, ethnicity and generational lines. One common misunderstanding is that addressing the Digital Divide involves nothing more than giving computers to the poor. However, when technology companies develop and market high-quality products targeted to middle and upper class consumers, giving second-hand computers to underprivileged groups may actually increase the digital gap.[7] A slow Internet connection, such as a dial-up modem, may be affordable for low-income individuals, allowing them to send e-mails or play free games. But this type of access typically is too limited to allow users to take advantage of resources, such as online training and education, which could help uplift low-income individuals from poverty.[8]

While most households now have personal computers, 62 percent, and Internet access, 55 percent,[9] income remains the primary determinant of access to technology. For example, in 2003, only 41 percent of households with an annual income below $25,000 had a computer, and only 30 percent had Internet access. In contrast, 90 percent of households in the $50,000-$74,000 income range had computers, and 86 percent had Internet access. For households in

Fast Facts

- Technology is developing so rapidly that, for every computer put on the market, one existing computer will become obsolete.[21]
- The "digital divide" continues to widen, primarily among economic lines. According to 2003 Census Bureau data, only 41 percent of households with an annual income below $25,000 had a computer, and only 30 percent had Internet access.[22]
- In 2006, 77 percent of state Web sites provided online services, compared to just 22 percent in 2000.[23]
- The volume of electronic waste generated in industrialized countries is increasing by 3 percent to 5 percent—almost three times faster than yearly increases in municipal waste.[24]
- An estimated 50 percent to 80 percent of the e-waste that the U.S. collects for recycling is being exported to landfills in Africa, Asia and the Middle East.[25]

the over-$100,000 income range, those with computers and Internet access were 95 percent and 92 percent respectively.[10]

Since its introduction in the United States and general availability, the broadband market has exploded. Broadband Internet access allows users to take advantage of increasingly media-rich Internet content in a way that older forms of Internet access, such as dial-up, simply cannot compete. Broadband provides an "always on," high-rate data transmission connection using technology infrastructure to which most Americans already have access: co-axial television cable and standard two-wire telephone lines.

According to a 2003 study on Internet use in America, broadband adoption jumped from 6 percent in June 2000 to more than 30 percent in 2003.[11] Although adoption is increasing, a 2005 study on broadband Internet access penetration into U.S. households indicates that the United States lags dramatically behind the rest of the industrialized world in broadband deployment.[12] Due to minimal competition in the U.S. broadband market, costs to the consumer remain high despite continued growth in consumer adoption. For example, on a per megabit basis, U.S. broadband consumers pay 10 to 25 times more than their Japanese counterparts.[13] With many broadband providers voicing opposition to introducing competing technologies, such as fiber-optic, wireless broadband or broadband-over-powerlines, into their markets, state legislators will need to consider options for encouraging competition in this critical industry.

E-government

Increasing numbers of states are providing services online.

As of 2006, 77 percent of state government Web sites were providing government services online, such as registering for "do not call" lists, filing taxes and checking refund status, accessing school information databases and renewing driver's licenses. State governments are often innovative in their online offerings. Citizens in Iowa and Massachusetts can pay traffic tickets online, while in Alaska a Web camera installed in the lobby of a Department of Motor Vehicles office allows online visitors to see how long the lines are. Minnesota and Idaho have set up online child support payments, and potholes can be reported online in Michigan and Kentucky.[14]

Despite these advances, e-government services are not accessible to all. With socioeconomic gaps in technology access continuing to widen, socially and economically disadvantaged individuals are finding themselves cut off from accessing government services and in making their voices heard. Only 43 percent of state government Web sites meet the Web content accessibility guidelines for disabled persons developed by the World Wide Web Consortium and required for federal government Web sites. About half the U.S. population reads at the eighth grade level or lower. Yet, only 14 percent of state Web sites are written at the eighth grade level.[15]

State governments will need to consider how to make e-government services more accessible and understandable to residents less familiar with the Web, such as low-income individuals and senior citizens. One approach taken by some states is to adopt a standard format and design for all state government Web sites. A common look and feel can reduce some of the tension and unfamiliarity experienced by first-time e-government users. However, when agency directors initiate site makeovers to leave their personal stamp on the Web, standardization can be difficult to enforce.

Electronic waste

E-waste is now the fastest-growing waste category in the United States—and the world.

Electronic waste, or e-waste, is another byproduct of technology obsolescence. Broken or unwanted computers; mobile phones; entertainment electronics such as VCR, DVD and portable CD players; televisions; printers; fluorescent tubes; and increasing numbers of toys all contain electronic parts which are not only a valuable source of secondhand raw materials such as gold and copper, but also a major source of toxic elements such as lead, aluminum and mercury. Between 50 percent and 80 percent of e-waste in the United States is shipped overseas, most often to developing countries that have few, if any, environmental protection laws.[16]

While some states have passed legislation requiring businesses and consumers to recycle electronic waste in a manner that prevents toxic components from getting into the environment, broad support for such legislation and action by the federal government appears to be stalled. When recycling does take place, the responsible companies often do nothing more than ship the junk components overseas and collect fees from receiving countries anxious to salvage the valuable metals. In some cases, e-waste is surreptitiously included with a few working computers, some used cars and other secondhand technology in consigned lots sold for reuse to developing nations.[17]

As a result, huge dumps are becoming common around cities such as Lagos, Nigeria, and Guiyi, China. People in these locales often can be seen scouring enormous electronic dumps for valuable parts, for which they may earn a dollar or two a day. But the health risks are great. A single CRT (cathode ray tube) monitor may contain up to five pounds of lead. And it only takes a dose of lead the size of a pinhead to cause permanent brain damage in a growing child.[18] Some developing nations now are beginning to ban e-waste imports, leaving the leading industrialized nations with no easy dumping grounds.

Although some states are developing e-waste management programs, most of these programs are still in the initial stages. In 2006, the CSG Eastern Regional Conference joined with the Northeast Recycling Council and more than 50 legislators and state environmental agency officials to develop model electronics recycling legislation.[19] Still, a major challenge is deciding whether the manufacturer or the consumer should bear the costs associated with recycling e-waste. Some state and local governments are reluctant to put the burden on the manufacturer, which could hurt profits; but at the same time, they are hesitant to increase consumer retail costs, because this might encourage consumers to look out of state or on the Internet for cheaper prices—which could hurt profits.[20]

New challenges, new opportunities

The technology revolution has brought unforeseen changes to society, new avenues for education and enrichment for many, and wealth for a few. It has also brought new challenges to state governments, which are already quite challenged enough. Partnering with the private sector to find solutions is essential to addressing these problems. The tech sector of modern industry needs no encouragement to grow, but with growth comes new responsibilities to address access inequities and environmental protection.

6

Economic Transformation

It has been said that when the U.S. economy catches a cold, China's economy catches pneumonia. U.S. investors realized that the reverse may also be true in February 2007 when a 9 percent stock market sell-off in China contributed to the biggest one day loss on the Dow since the markets reopened after Sept. 11, 2001.[1] The markets' decline signaled to many that the U.S. is more inextricably linked to the global marketplace than previously thought. In this new era of globalization, emerging economies are beginning to level the international playing field as they become more competitive with industrialized nations. In the words of best-selling author Thomas Friedman, the world is getting flatter.[2]

Over the next decade and beyond, the emergence of new economic powers, along with increasing economic, social and political interdependence among countries, will have a significant impact on state economies, labor migration patterns, knowledge and product development, and the ownership and distribution of natural resources. The evolving economic and fiscal landscape will bring new challenges and exciting opportunities to states.

Globalization and international trade

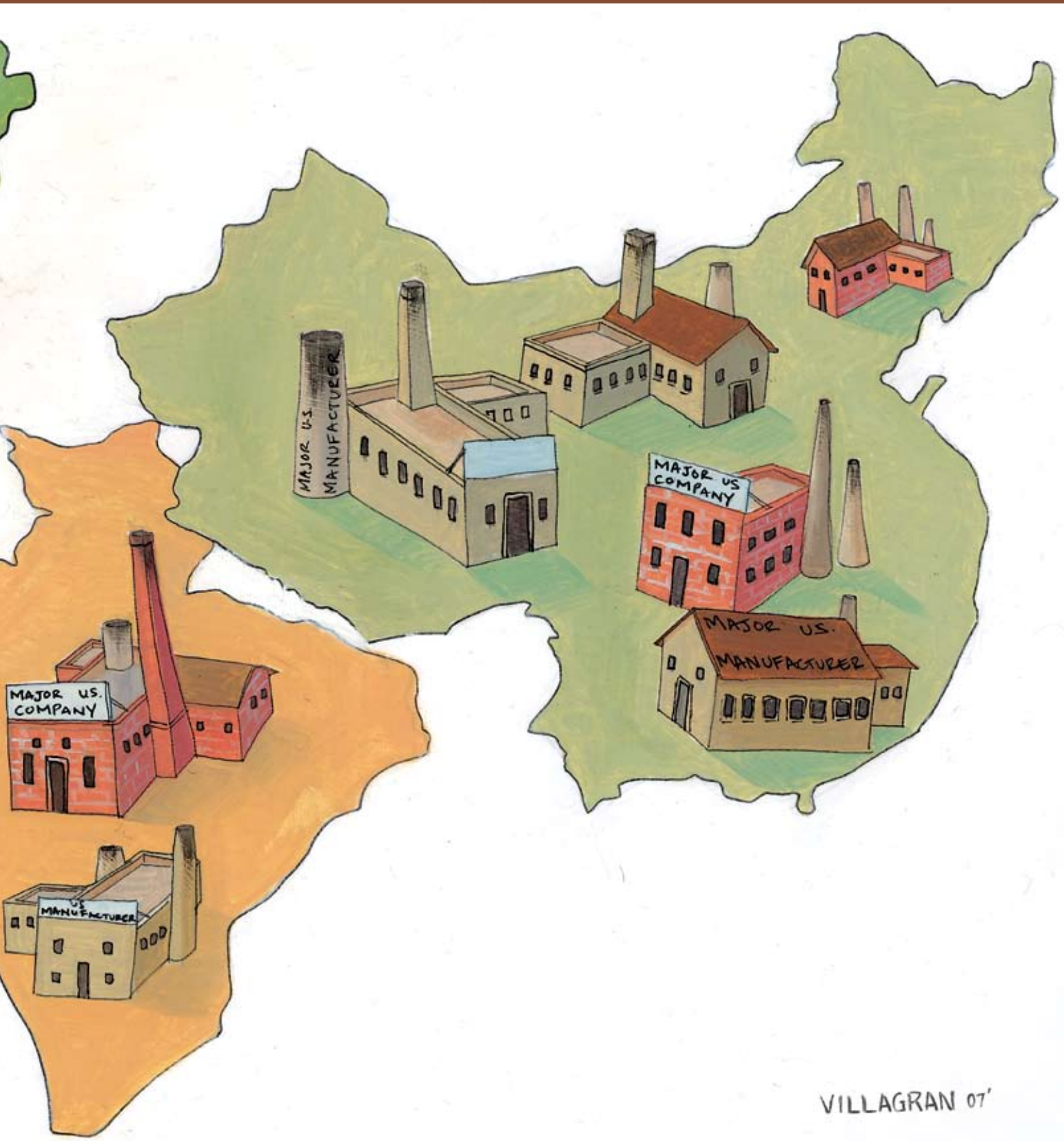
Globalization and international trade issues now dominate economic discussions throughout the U.S. and around the world—and for good reason.

From 1975 to 2003, the value of world trade rose from $200 billion to more than $8.2 trillion.[3] International trade now accounts for a substantial portion of the U.S. economy. In 2005, U.S. exports of goods and services stood at $1.275 trillion, while imports reached $1.992 trillion.[4]

The U.S. currently has the world's largest economy and has been responsible for an astounding one-third of global economic growth over the past 15 years.[5] However, the U.S. position in the global economy is changing rapidly. In 2001, the U.S. exported twice as much as China worldwide. During the first six months of 2006—just five years later—China surpassed the United States as the world's largest exporter.[6]

"The dominant theme in education policy over the last six years has been no child left behind. When it comes to our nation's ability to compete in the global economy, we must ensure that no state is left behind, because every state, their students and their citizens have important contributions to make to the nation's competitiveness."

Senate President Earl Ray Tomblin
West Virginia



While the trade relationship with China is certainly significant and often the subject of public discussion, China is not our largest trading partner. China ranked third in terms of total merchandise traded with the U.S. in 2005. In the same year, Canada and Mexico earned the number one and number two spots, respectively. Japan came in fourth, with nearly $200 billion in merchandise trade.[7]

Many analysts believe there will be a major shake-up in the order of global economic dominance in the next few decades. Forecasters predict that China will become the world's largest economy in the next 20 to 30 years, with India surpassing the U.S. by 2050.[8] The economic prosperity of these countries will lead to increasing global competition for resources, particularly oil and other energy resources.

While the emergence of new economic giants may threaten the dominant global status of the U.S., increased international trade also will open up new avenues for state economic growth. As the per capita income in China and India grows alongside gross domestic product (GDP), the demand for imports will likely increase, creating new export markets. Nonetheless, states will face many challenges to remaining globally competitive.

To reap benefits from globalization, states will need to help local businesses access global markets and business networks, and identify opportunities for trade, investment and international partnerships. States also will need to identify industries at high risk for worker dislocation and proactively work to transition them into the new economy.[9] Furthermore, as the world becomes more technologically sophisticated and economically competitive, increased U.S. investment and innovation in research and education will be needed to remain competitive. A 2006 report issued by the Council on Competitiveness identifies weaknesses in the nation's education system as one of the major factors that may inhibit future U.S. international competitiveness.[10]

As states prepare for and adjust to globalization, the federal government is entering into regional and bilateral trade agreements that could significantly affect state actions. State officials are becoming increasingly concerned about the erosion of local control stemming from mandatory participation in agreements, such as the North American Free Trade Agreement (NAFTA) and The Dominican Republic–Central America Free Trade Agreement (DR-CAFTA).

State policymakers are particularly concerned about possible pre-emptions in state contracting rules, such as policies and standards governing labor, environmental regulation and wages. Requirements for recycled content in goods; policies targeting companies' environmental conduct, living wages and labor agreements; and policies targeting countries' human rights are among some of the state regulations that could be usurped through federal trade arrangements.[11]

Structural economic shifts

State economies are undergoing a profound and rapid structural transformation.

The economic transformation from a manufacturing-based economy to a service-based economy is moving at a fast pace. Between 1998 and 2003, the manufacturing sector lost more than 3 million jobs.[12] Much of this transformation can be attributed to three factors: gains in productivity, shifts in consumer demand and increasing international competition.[13] The third factor—international competition—has created opportunities for firms to reduce costs by relocating production to markets offering relatively cheap labor. This relocation contributes to a highly controversial and heavily debated subject: outsourcing.

There are few issues as politically charged as outsourcing, particularly offshore outsourcing. Although loss of manufacturing jobs to outsourcing has historically been the concern, service sector jobs now are subject to the same pressures. An estimated 3.3 million white-collar jobs will move overseas by 2015, with financial services and information technology being the hardest hit sectors.[14] It is not only private sector jobs that are at risk for outsourcing—state governments have also begun to outsource public sector jobs. For example, at least 40 states are contracting with offshore firms to administer electronic benefit cards for their food stamp programs.[15] State and local government outsourcing expenditures for information technology were $10 billion in 2005 and are expected to grow to nearly $18 billion by 2010.[16]

Fast Facts

- Forecasters predict that China will become the world's largest economy in the next 20 to 30 years, with India surpassing the U.S. by 2050.[43]
- The average worker can expect to hold 10 jobs between the ages of 18 and 38[44] and, according to former U.S. Secretary of Education Richard Riley, none of the top 10 jobs in 2010 even exist today.[45]
- Between 1998 and 2003, the manufacturing sector lost more than 3 million jobs[46]—approximately the same number of white-collar jobs that will move overseas by 2015.[47]
- In FY 2006, the U.S. government paid out just under $406 billion in interest payments to the holders of the national debt.[48] That is nearly four times the total appropriations for the Department of Education and the Department of Transportation combined.[49,50]
- The savings rate of American households has been declining over the past 10 years. In 2005, that rate turned negative for the first time since the Great Depression.[51]

In 2004, 40 states introduced more than 200 bills to restrict offshore outsourcing.[17] State legislation aimed at restricting or otherwise regulating the outsourcing practices of firms operating within its borders raises several legal issues. Under the U.S. Constitution, only the federal government has the right to regulate foreign commerce. If state laws infringe on this right, their legality will likely be challenged. Furthermore, state laws giving in-state firms a preference in the award of government contracts may inadvertently restrict interstate commerce, thus violating the Commerce Clause of the U.S. Constitution.[18]

Economic transformation, along with emerging demographic trends, will create new issues for the labor market. Over the next decade, the U.S. labor force is projected to become older and more diverse, with the annual growth rate slowing to 1 percent (down from 1.2 percent in the previous decade).[19] From 2004-2014, the Bureau of Labor Statistics estimates that the number of workers ages 55 and older will grow by nearly 50 percent, while the annual growth rate of 25- to 54-year-olds will be essentially flat at 0.3 percent.[20] Consequently, immigrants and their children will play an important role in stabilizing the labor supply. Hispanic workers are expected to grow from 13.1 percent of the labor force in 2004 to 15.9 percent in 2014.[21]

The new economy will be increasingly knowledge dependent, creating more demand for highly educated and specialized workers. In 1979, managerial and professional jobs made up 28.4 percent of total employment. By 2003, that number had risen to nearly 35 percent.[22] Between 1999 and 2005, the growth rate for professional and technical jobs outpaced that of overall employment by 68 percent.[23]

A new report examining the degree to which state economies are knowledge-based, globalized, entrepreneurial, information technology-driven and innovation-based finds significant variations within and across regions. The Northeast, the Mid-Atlantic, the Mountain West and the Pacific regions rank the highest in terms of where the new economy has taken hold most strongly. By comparison, 15 of the lowest ranking states are in the Midwest, Great Plains and the South.[24]

Fiscal health

The fiscal well-being of the federal government, states and individuals are at risk.

Simulations made by the U.S. Government Accountability Office show a large and unsustainable gap between expected federal revenues and expected spending. This gap is driven primarily by the large federal entitlement programs—Social Security, Medicare and Medicaid.[25] In 2006, the federal government ran a deficit of $248 billion, or about 2 percent of the total value of goods and services produced. If current spending trends continue, the federal deficit is projected to reach 20 percent of the GDP by 2050, with the national debt climbing to 231 percent of GDP.[26]

In FY 2006, the U.S. government paid out just under $406 billion in interest payments to the holders of the national debt.[27] That is nearly four times the combined total appropriations for the Department of Education and the Department of Transportation.[28,29] At these levels, paying interest on the national debt will consume more than half of annual projected federal revenues by 2050.[30]

So, how does the federal fiscal situation affect states? Rising interest payments on the national debt reduce the amount of money available to fund other programs, including federal payouts to states. This trend, along with increasing federal-state cost shifts, could have huge impacts on the federal funds available to states. For example, in an effort to rein in spending, the current administration's proposed budget for FY 2008 cuts federal Medicaid funding by nearly $25 billion over the next five years. A large portion of these cuts—$21 billion—would be accomplished by shifting costs to states.[31] This while states are already beginning to feel the impact of decreased federal grants and support to criminal justice programs, transportation and education.[32]

Since 2000, states have experienced varying degrees of financial well-being. Sluggish growth or declines in state revenue over the 2001-2004 period left many states in a precarious situation, straining to achieve balanced budgets.[33] By FY 2006, states' fiscal conditions had improved. Revenues exceeded expectations in 46 states and were on target in the remaining four.[34] Only four states enacted negative growth budgets in FY 2006 as compared to 21 states in FY 2003.[35]

While the current situation is more favorable than in recent years, fiscal conditions remain unstable in 24 states, with nine states (California, Connecticut, Maine, Maryland, New Mexico, New York, South Carolina and Vermont) projecting a budget deficit after 2007.[36] A recent survey of legislative fiscal directors finds that nearly half of the states estimate available revenues will not meet projected expenditures in one or more of the next three fiscal years.[37]

Not only is the fiscal health of the federal government and states cause for concern, but the financial well-being of individual Americans is headed in a disturbing direction. Total consumer debt has nearly tripled since 1989, hitting a record high of $2.41 trillion in January 2007.[38] More than half of all cardholders carry an average balance of $2,000.[39] Americans are spending more on credit and are saving less. The savings rate of American households has been declining over the past 10 years and in 2005, that rate actually turned negative.[40] The savings rate has only been negative for a full year twice before—during the Great Depression.[41] In 2003 and 2004 the combined net savings of households, businesses and government hit a 50-year low.[42]

The economic future

The United States has undergone a rapid and profound economic transformation over the past 20 years. Future decades promise to bring even more changes, from a changing global economic order to an evolving work force. States face tremendous opportunities, as well as challenges, in the new economy. The extent to which states advance the development of knowledge, technology and innovation will help determine how successful they will be in making that transition.

Future prosperity will largely depend on the actions states take today to remain competitive in an increasingly complex and global marketplace. States have a unique opportunity to redefine their competitive strategies and identify new directions in which to take their economies. Because the new economy is increasingly knowledge dependent, states can enhance their economic potential by identifying and correcting deficiencies within educational systems to create more adaptable, well-qualified work forces. Furthermore, proactively addressing budgetary and fiscal concerns will allow states to create a more stable platform for future growth.

7

Educating for Outcomes

The United States spends more money on education than just about any other country. American students score above the international average in some subject areas, but overall they still lag behind many countries—including countries that spend less on education than the U.S.

The disparities aren't limited to international comparisons. Non-Hispanic white and Asian-American students consistently perform better in school, have more educational opportunities, and eventually earn more than black and Hispanic students in the United States.

In many cases, students' educational capabilities aren't up to par. Colleges and universities must offer remedial courses to prepare students for the rigors of postsecondary education, and businesses must work to train high school graduates for even entry-level jobs.

Simply put, the U.S. is not getting the bang for its education buck.

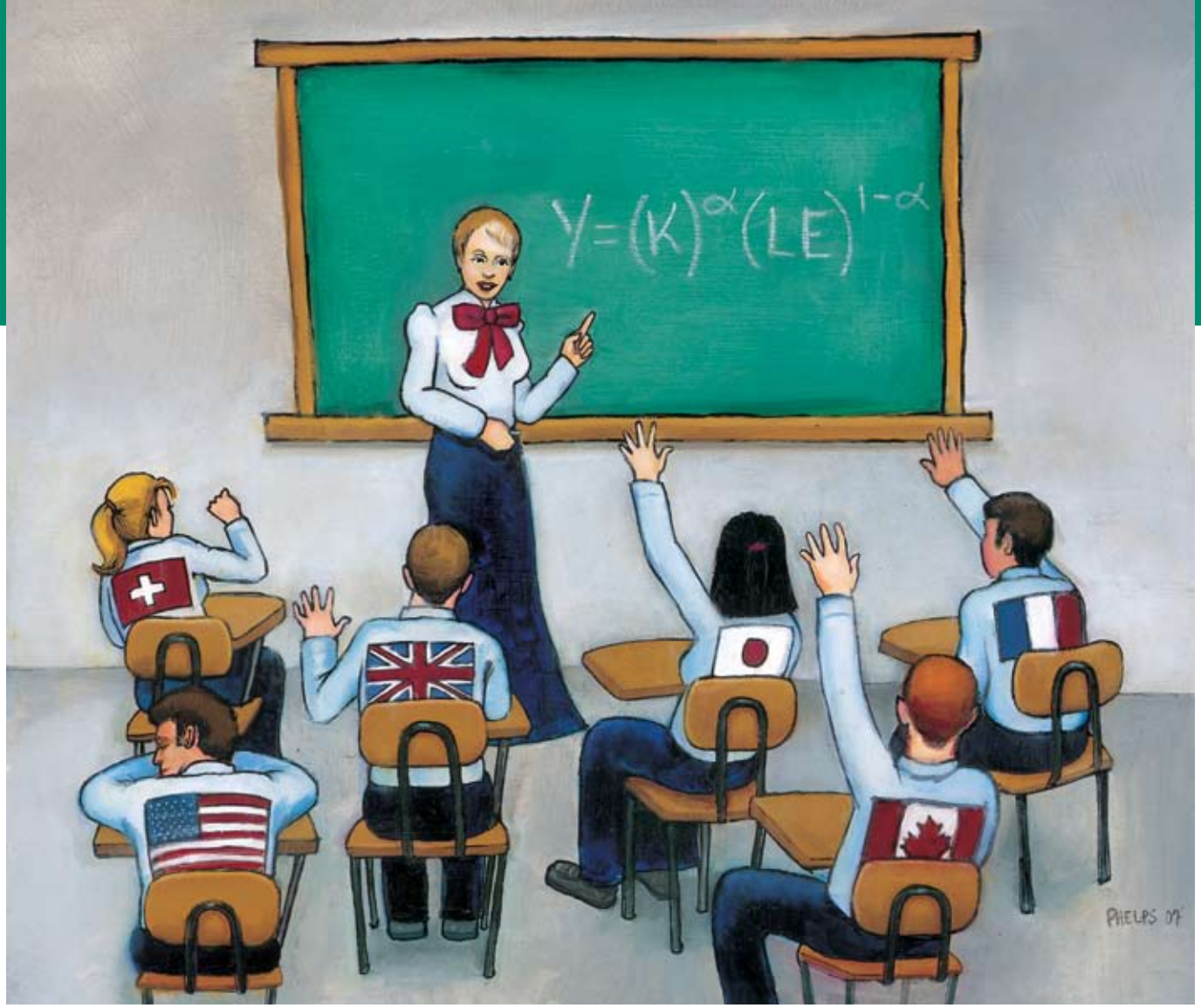
Preparedness and achievement

Increasing numbers of children are enrolling in state preschool programs, but access to these programs varies greatly from state to state.

Research across several decades has shown that the earlier children start their educational journeys, the better they will do in school. The federal Head Start program began in the mid-1960s on the premise that providing disadvantaged children with extra help in the preschool years would improve their chances of success in school. Researchers conducting a longitudinal evaluation of the Head Start program found, in the most recent round, that 3- and 4-year-olds entering Head Start in the fall of 2003 made significant gains in vocabulary, early math and early writing skills during the Head Start year.[1]

While many Americans recognize the importance of early childhood education, there's still work to do. U.S. expenditures per child for pre-primary education far exceed expenditures in other industrialized countries. In 2003, for example, the United States spent $7,755 per child at the pre-primary level, an amount almost two times greater than the Organization for Economic Cooperation and Development (OECD) average of $4,508.[2] Yet, the U.S. has one of the lowest preschool participation rates among students younger than 5 years old.[3] In 2004, 53 percent of U.S. children ages 3 and 4 participated in preschool programs, compared with an OECD average of 66 percent.[4] Eighteen OECD countries ranked higher than the United States, with five reporting almost 100 percent participation rates.[5]

Despite the low preschool participation of U.S. children relative to other OECD countries, enrollment of 4-year-olds in state-funded pre-kindergarten programs increased from 14 percent to 20 percent between the 2001-02 and 2005-06 school years.[6] By the 2005-06 school year, the 38 states funding pre-kindergarten programs were serving more than 805,000 children, surpassing all 50 states' Head Start programs in the number of 4-year-olds served.[7]



But with the growth of the programs came cuts in per-child funding. Between 2001-02 and 2005-06, inflation-adjusted state spending per child dropped by more than 17 percent in the 38 states with pre-K programs.[8] Much of this decline can be attributed to growing enrollments without proportionate increases in expenditures. Although state spending on preschool varies tremendously—from a low in South Carolina of $1,085 per child to a high in New Jersey of $9,854 per child—the average state spending per child was $3,482 in 2005-06.[9] While there has been an overall pattern of growth, enrollment of 4-year-olds declined in seven states between 2001-02 and 2005–06 due to funding cuts.[10]

The students currently attending preschool are not, for the most part, those who may be most at-risk of having problems in school later on. While 67 percent of 3- and 4-year-olds in families with annual incomes exceeding $150,000 attend preschool, only 35 percent of children in families earning less than $10,000 a year do so.[11]

K-12 academic achievement

The academic performance of U.S. students is disappointing relative to other industrialized nations.

K-12 education accounts for more than one-fifth of total state expenditures and more than one-third of general fund spending.[12] According to the National Association of State Budget Officers, states spent $269.2 billion on elementary and secondary education in FY 2005, a 6.4 percent increase over FY 2004.[13] Elementary and secondary education accounted for 21.8 percent of total state expenditures, second only to Medicaid in category spending.[14]

Enrollment in full-day kindergarten has been steadily increasing. In 1979, only 25.1 percent of kindergartners were enrolled in full-day programs; that percentage grew to 40 percent in 1989 and to 60 percent in 1999.[15]

The United States spends more money per K-12 student—about $12,023 in 2003—than all other OECD countries except Switzerland.[16] But when comparing U.S. student achievement to other countries, it appears the investment hasn't paid off.

A 2003 assessment of the academic performance of 15-year-old students in 40 industrialized countries revealed some interesting—and statistically significant—differences between the U.S. and other nations.[17] As compared with the United States, nine countries had higher scores in reading, 16 had higher scores in science and 23 had higher scores in math.

In the 2003 Trends in International Mathematics and Science Study (TIMSS), U.S. fourth- and eighth-graders compared somewhat more favorably with students in other countries.[18] U.S. eighth-graders scored an average 504 on the TIMSS math test, well above the international average of 466, but lower than scores of students in 14 of the 44 other countries.[19] U.S. students were also above the international average in eighth-grade science, but ranked ninth among the 44 countries.[20] U.S. fourth-graders

"I guess the question I have from a business perspective and a challenge for the public sector — We keep trying to improve a candle to get to a light bulb. What's it going to take to jolt the system? We keep pumping money into education, but we aren't getting the educated citizens needed to drive our country."

Charlie Sorrells
Director, State Government Relations
Eastman Chemical Company

scored above the international average in math and science, but ranked 12th and sixth, respectively.[21,22]

The National Assessment of Educational Progress (NAEP), often called "the nation's report card," offers some positive trends based on assessment of the 2004 student performance tests administered by individual states. For instance, the long-term trend NAEP showed that, between 1990 and 2004, the average mathematics scores attained by students ages 9 and 13 increased by 11 points.[23] During this same period, average reading scores increased 10 points for 9-year-old students and two points for 13-year-old students but dropped five points for 17-year-old students.[24]

Racial/ethnic differences in high school are narrowing, but black and Hispanic students still do poorly when compared to white students.

The demographics of America's students are expected to shift dramatically over the next few decades. U.S. Census Bureau data indicate that in 1980 non-Hispanic whites comprised nearly three-quarters of the U.S. population aged 5-19, with blacks and Hispanics accounting for 14.5 percent and 8.2 percent of the population respectively. Over the next two decades, the percentage of non-Hispanic white students dropped to 63.1 percent, while the percentage of black students rose slightly to 15.4 percent and the percentage of Hispanic students more than doubled to 16.6 percent. By 2025, the U.S. Census Bureau projects the school-age population to be 55.7 percent non-Hispanic white, 14.2 percent black, 22.8 percent Hispanic, 6.2 percent Asian/Pacific Islander and 1.1 percent other race/ethnicities.[25]

The changing racial and ethnic distributions will challenge public schools to find culturally appropriate ways of enhancing learning. The success rate of black and Hispanic students is far below their white and Asian-American classmates. The most recent NAEP reading assessment found that black 17-year-olds read at the same level as white 13-year-olds.[26] This assessment also found that only 13 percent of blacks and 19 percent of Hispanic fourth-graders scored at or above the proficient level on NAEP mathematics tests, compared with 47 percent of their white peers.

In 1971, only 48 percent of Hispanic students and 59 percent of black students completed high school, compared with 82 percent of white students. By 2005, the white-black gap had narrowed (93 percent vs. 87 percent), but only 63 percent of Hispanic students graduated.[27]

U.S. high school completion rates have stagnated while rates in other industrialized countries continue to increase. In 2004, the U.S. high school completion rate of 75 percent was well below the OECD average of 81 percent and far below Denmark, Finland, Germany, Ireland, Japan, Korea and Norway, where rates were 90 percent or more.[28] The U.S. ranked first among 30 OECD countries in the percentage of residents ages 55-64 with high school diplomas.[29] However, in the 25-34 year age category, high school completion rates in 10 countries exceeded the U.S. rate of 87 percent.[30]

High school dropouts face a dismal economic future. The Alliance for Excellent Education reported average annual earnings in 2004 of $16,485 for high school dropouts, $26,156 for high school graduates, $35,103 for college graduates with an associate's degree, and $49,656 for those with a bachelor's degree.[31] Dropouts pay about $60,000 less in taxes over their lifetime, and add to the cost of such programs as Medicaid and other human services programs.[32]

Postsecondary education issues

Low-income students attend college at lower rates than students from families in higher income brackets.

It is becoming more difficult for low-income students to continue their educations after high school. Postsecondary education is costly and is becoming even more expensive. The increases in average tuition and fees from 1995 to 2005 were 51 percent at public four-year institutions, 30 percent at community colleges, and 36 percent at private colleges.[33] Many of these colleges and universities raised tuition in response to decreased state appropriations.[34] While there have been increases in financial aid support for students, these increases have not kept pace with the increased costs of attending college.[35] Despite the availability of 20 federal financial aid programs, the unmet financial need among families with incomes below $34,000 grew by 80 percent from 1990 to 2004 at four-year institutions, compared with 7 percent for the highest-income families.[36]

Many high school graduates are unprepared for college coursework and entry-level jobs.

A high school diploma doesn't guarantee that graduates are ready for the next step in their lives. Each year, the U.S. spends $1.4 billion on community college remediation for high school graduates.[37]

Part of the problem may be that high school and college instructors have different expectations for student performance. College instructors estimate 42 percent of college students lack sufficient academic preparation for their coursework.[38] While 90 percent of high school teachers believe students are prepared for college-level writing, 44 percent of college instructors say stu-

dents are unprepared.[39] There is a similar gap in the views of college instructors and high school teachers with regard to mathematics preparation.

College completion rates vary markedly by race/ethnicity and income status.

More than 70 percent of Asian-Americans ages 25 to 64 and more than 60 percent of non-Hispanic whites have completed at least some college, while nearly 70 percent of Hispanic-Americans and half of blacks have a high school diploma or less.[40] By ages 25-29, about 34 percent of white students obtain bachelor's degrees, compared to 17 percent of black and 11 percent of Hispanic students.[41] Only 36 percent of college-qualified low-income students complete bachelor's degrees within eight and a half years, compared to 81 percent of high-income students.[42]

Work force readiness isn't much better. Employers estimate that 39 percent of recent high school graduates are unprepared for entry-level jobs.[43] Forty-one percent of employers participating in a 2005 survey were dissatisfied with high school graduates' ability to read and understand complicated materials; 42 percent were dissatisfied with graduates' ability to think analytically; and 34 percent were dissatisfied with graduates' oral communications skills.[44]

Implications for states

The National Center for Education Statistics (NCES) projects K-12 enrollment will grow 4 percent from 2002 to 2014, with state-level patterns showing stark differences; enrollment patterns will likely be tied to overall population growth, with sharp increases in the South and West, and declines in the Midwest and Northeast.[45]

Increasing school populations and shifting demographics are just part of the challenges confronting states. Legislators will continue to face pressure from constituents over school funding. The No Child Left Behind Act has fueled a growing number of lawsuits as parents and school districts have sued states over inadequate funding.[46]

After a period of stagnation in educational attainment, some research indicates an upswing in the number of people entering, and finishing, college. About 48 percent of the adult population had some postsecondary education in 2003; that's expected to increase to 56 percent by 2028.[47] Also, about 24 percent of the population had completed a bachelor's degree in 2003; that's expected to increase to 28 percent by 2028.[48] While that's good news, states must find ways to ensure students are adequately prepared for postsecondary education and the work force. States experiencing out-migration will face the additional challenge of maintaining a skilled work force. It will be incumbent on those states to identify adults who have dropped out of college and bring them back into the educational system.

Policymakers will continue to grapple with ways to ensure equal access to a quality education from preschool through postsecondary and adult education. But only by achieving those goals will U.S. students be able to compete globally.

Fast Facts

- Despite the documented long-term benefits of preschool participation, only 38 states funded preschool programs during the 2005-06 program year. Delivering adequately funded programs to all low-income children would require $1.5 billion to $3 billion in new state commitments.[49]
- U.S. spending per student at primary and secondary levels far exceeds educational expenditures in other industrialized countries. Yet, in a 40-country assessment of 15-year-old students, the U.S. ranked behind nine other countries in reading literacy, 16 in science and 23 in math.[50]
- In 1971, only 48 percent of Hispanic students and 59 percent of black students completed high school, as compared with 82 percent of white students. By 2005, the white-black gap had narrowed (93 percent vs. 87 percent), but only 63 percent of Hispanic students graduated.[51]
- Each year, the U.S. spends $1.4 billion on community college remediation for high school graduates.[52] An estimated 42 percent of college students lack sufficient academic preparation for their coursework. Employers estimate that 39 percent of recent high school grads are unprepared for entry-level jobs.[53]

"The most critical element in elementary and secondary education in the United States today is effective leadership. Many will say that financial resources are the most important; however, it is educational leaders who have integrity, are creditable and creative that produces the largest impact on school systems. They touch people's hearts, invest in people and motivate through a serving attitude."

Sen. Rich Wardner
North Dakota

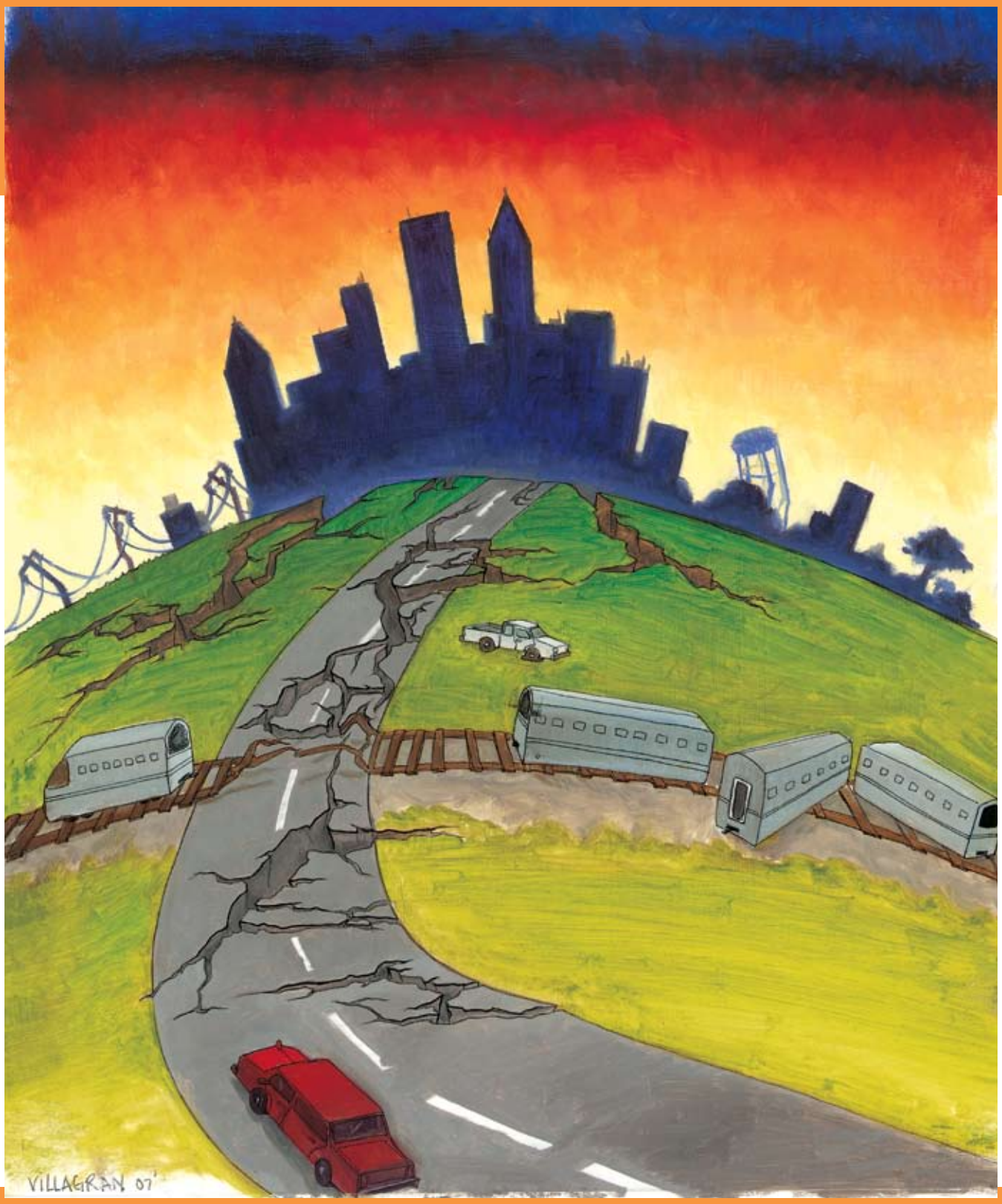
8

Critical Infrastructure: Cracks in the Foundation

With the U.S. media focusing on the War on Terror, illegal immigration and other hot-button issues, many average citizens are virtually unaware that the United States is crumbling from the inside out. After decades of continuous population growth and underinvestment, this nation once supported by a rock of solid infrastructure is facing rapidly aging systems and more demand than it can handle. Rather than tackling the politically unpopular topic of increased infrastructure investment, many government agencies and legislatures have either overlooked the mounting problems or opted for temporary fixes—essentially building the nation's foundation on sand, much like the parable of the foolish man.

Many U.S. infrastructure systems were built more than half a century ago. Due to increased demand from sustained population growth, vital systems are aging far faster than engineers at the time could have predicted. At the same time, the U.S. economy is struggling to remain globally competitive against companies based in Europe and Asia that have access to sophisticated and connected transportation and information technology infrastructure systems. Decades of government underinvestment have exacerbated the problems, transforming a country once known as the world's economic leader into a "brittle superpower."[1]

Many experts warn that without major infrastructure investment, the U.S. could face large-scale economic, social and national security meltdowns. Critical infrastructure, as defined in the National Strategy for Homeland Security, encompasses the "assets, systems and functions vital to our national security, governance, public health and safety, economy, and national morale."[2] In this sense, critical infrastructure refers to logistics, both physical and virtual, including transportation, water, energy and telecommunications systems. The American Society of Civil Engineers (ASCE) estimates that an investment of $1.6 trillion over five years would be needed to bring these systems to reasonable standards.[3]


VILLAGRAN 07'

Transportation

As transportation system demands increase, lack of adequate funding for improvements and maintenance will create serious economic challenges.

Arguably the most important piece of a healthy economy is the ability to transport goods and people. In this regard, the U.S. economy is due for a jolt. The nation's roads, bridges, railways and navigable waterways are underfunded and degrading rapidly. For American industries and workers, this could mean more domestic companies moving overseas or losing revenues to overseas markets with lower transportation costs. The economic impact could be particularly disastrous for states such as Hawaii, Florida, Nevada and New York that depend heavily on tourism for both employment and revenue.

Due to underfunding, roads are not improved or even being maintained at current substandard levels, and the resulting hazards are hard on both government pocketbooks and public safety. Traffic congestion and road conditions are the two greatest transportation concerns for state and local lawmakers. ASCE estimates that an annual investment of $94 billion would be needed to improve and maintain the nation's roadways.[4]

Bridges face serious problems because of increased traffic demand, continued aging and deterioration, and limited funds for rehabilitation and maintenance.[5] The Federal Highway Administration estimates that by 2008, one in four bridges will be deficient.

Demand on the nation's roadways and bridges is not likely to be alleviated through alternative transportation modes because, compared to other industrialized nations, the United States' rail system is underdeveloped. At current levels of investment, the U.S. freight rail system will not be able to keep pace with demand. According to the American Association of State Highway and Transportation Officials (AASHTO), the cost of shifting freight currently carried by rail to roadway transportation would require an additional $64 billion in highway funds over the next 20 years.[6]

Saving the nation's roadways and rail system from even heavier demand increases may require states to work with the U.S. Army Corps of Engineers (the Corps) to improve navigable waterways. According to ASCE, one barge navigating inland waterways can carry as much cargo as 58 semi-trucks or 15 large railroad cars at greatly reduced cost. Navigable waterways directly serve 41 states, but all states will feel the effects of increased cargo traffic on already strained roadways, bridges and rail systems if the nation's waterways are not properly maintained. The Corps estimates that more than $125 billion would be needed to properly dredge and replace the present waterway system.

For all these transportation infrastructure cost estimates, state contributions would depend entirely on federal appropriations. As federal appropriations decline or remain stagnant, infrastructure problems are worsening and state budgets do not have the money to make up the difference. Unless federal appropriations increase, states will have to find innovative ways to fund and repair crumbling infrastructure.

"The system in place is suffering from many of the problems of antiquation. Highways are too expensive to build and the life expectancy of our roads and bridges is embarrassingly short. Congestion continues to worsen. Personal injuries and deaths on the highway are a disgrace. And generally the costs of travel, in terms of dollars spent and loss of productivity, are just too high."

Sen. David Ford
Indiana

Telecommunications

Telecommunications investments will have a major impact on future economic growth.

Unprecedented growth in telecommunications in recent years has had profound effects on the ways corporations do business. No company can afford to be without modern telecommunications, and companies that are expanding or relocating want to be close to interconnected fiber optic networks.

Lack of investment in telecommunications infrastructure is especially problematic for rural states. The "digital divide" between urban and rural areas remains a huge problem. Adequate telecommunications investment in rural areas would not only help close the gap between urban and rural Internet use, but would also provide great incentives for new and relocating businesses to move into rural America.

When it comes to national telecommunications development, the U.S. falls behind many of its European and Asian counterparts. The U.S. currently ranks 12th among developed nations in broadband penetration—down from fourth in 2001.[7] Most U.S. Internet consumers have access only to basic broadband—the slowest, most expensive and least reliable broadband in the developed world.[8] Cell phone infrastructure and broadband access are two areas in which the United States continues to fall further behind other industrialized nations.

Because telecommunications infrastructure is incredibly expensive, corporate America cannot single-handedly upgrade the entire system. To attract new businesses and boost their economies, states may partner with the private sector to improve telecommunications capabilities. Businesses will be looking for partner states, and states that fall behind in telecommunications will pay the economic costs.

Electricity

Electricity demand is outpacing generation and transmission capacity.

Like every other infrastructure issue, energy capacity and transmission are greatly affected by population growth. Although total U.S. electricity generation is rising slowly each year, demand for electricity is expected to grow much more rapidly than new generation.[9] Improvements in efficiency will offset some of the need for new generation. However, between 2007 and 2030, the Energy Information Administration (EIA) expects demand to rise 39 percent in the residential sector, 63 percent in the commercial sector and 17 percent in the industrial sector.[10]

Traditional energy sources, such as coal and petroleum, are

coming under fire as people become more environmentally aware. Because building new power plants might heighten environmental concerns and further raise electricity costs, state policymakers are sometimes reluctant to push for new generation. And while more and more states are "going green" and exploring environmentally friendly home-grown alternatives, renewable energy sources cannot yet keep pace with demand.

For many states, the electricity transmission infrastructure, or the electric grid, is becoming a greater concern than generation. Because of underinvestment in transmission facilities, the grid faces increasing congestion and bottlenecks. As demonstrated by the August 2003 blackout, millions of consumers across multiple states and Canada can be affected when the transmission grid fails, resulting in billions of dollars in lost productivity and revenue.

Water

As population growth further increases demand, the aging water infrastructure system will cause serious water problems across the country.

More than any other infrastructure issue, water is the greatest problem because it is the one thing people cannot live without. Americans expect that when they turn on the faucet, clean and safe water will flow. They also take for granted that dams will protect adjacent land from flooding and that sewage will be safely disposed. Yet, in a national report card for America's infrastructure, not one of these critical functions received higher than a grade of "D."[11]

Drinking water systems across the U.S. face a growing gap between funds needed to meet required safety standards and available funding. In a 2002 analysis, the U.S. Environmental Protection Agency (EPA) determined that investments in clean water and drinking water would need to increase 3 percent annually to improve water safety.[12] However, the federal Drinking Water State Revolving Fund (DWSRF)—critical assistance for states' drinking water and clean water funding—is consistently underfunded, leaving the necessary funding increase largely to states and municipalities.[13] The Congressional Budget Office (CBO) estimates that annual investments of $11.6 billion to $20.1 billion would be needed between 2000 and 2019 to improve and maintain drinking water safety.[14] However, the current appropriation (FY2007) for DWSRF is $841,500,000, or less than 10 percent of estimated need.

Higher-than-expected levels of water consumption are causing wastewater and drinking water systems to age rapidly. This aging infrastructure is putting strain on states already struggling with water shortages. Each day, 6 billion gallons of clean, treated drinking water disappears nationally, due mostly to old, leaky pipes and mains.[15] Sewage and untreated storm water also pose serious risks to public health due to inadequate DWSRF funding and aging water treatment systems. As a result of underinvestment in water infrastructure, the EPA estimates that 850 billion gallons of raw sewage per year get cycled back into surface water.

Perhaps the most serious public safety risks posed by aging infrastructure are the silent time bombs: aging dams. Literally billions of gallons of water, billions of dollars in damages and thousands of lives are at stake. The number of dams identified as unsafe each year is increasing at a faster rate than those being repaired. The risks to human safety, the economy and the environment increase considerably as new development in previously undeveloped areas continues. According to ASCE, 95 percent of the nation's dams are regulated by states, but few state dam safety programs are adequately funded or staffed, and the number of high-hazard potential dams is increasing dramatically each year.

Fast Facts

- Bringing our nation's infrastructure up to reasonable standards will require an investment of $1.6 trillion over five years.[16]
- Driving on roads in poor condition costs U.S. motorists $54 billion a year in extra vehicle repairs and operating costs ($275 per motorist). Poor road conditions contribute to at least 30 percent of annual highway fatalities.[17]
- Railroads will require $175 billion to $195 billion in investments over the next 20 years to maintain their current share of carried freight and to accommodate anticipated increases in total freight carried.[18]
- Nearly 50 percent of the 257 locks on inland waterways operated by the U.S. Army Corps of Engineers are functionally obsolete. By 2020, 80 percent of these locks will be obsolete.[19]
- Each year, about 850 billon gallons of untreated wastewater and storm water are released as combined sewer overflow in the United States.[20]

The silver lining

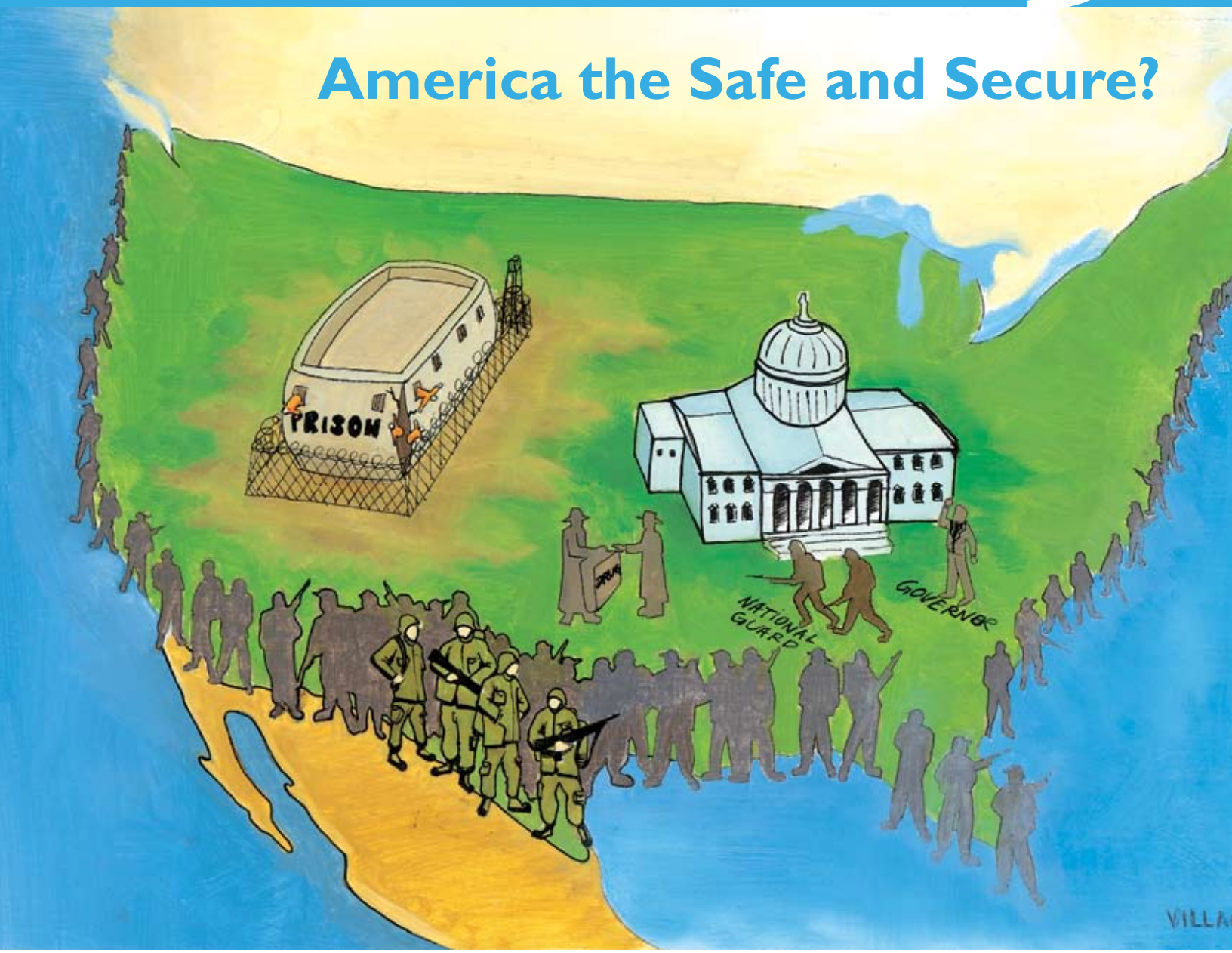
Though the infrastructure picture is bleak due to years of inadequate funding and increasing demand, public-private partnerships have great potential to improve these systems. Because business has a vested interest in building and maintaining adequate infrastructure, states should be able to find partners in the private sector to improve and maintain critical functions.

When it comes to infrastructure development, states have an exceptional opportunity to reclaim their roles as "laboratories of democracy." Federal appropriations for infrastructure projects have fallen far short of estimated need, especially in recent years as fiscal deficits have continued to mount. But, with less federal micro-management, state agencies and legislatures can experiment with new, innovative ways to develop and adequately maintain physical and virtual infrastructures.

The key to infrastructure development is thinking long-term—a policy strategy that has been lacking in the political atmosphere of constant re-election cycles. Infrastructure requires a long-term policy commitment. For state officials, this may mean thinking creatively about ways to generate public interest in, and support for, infrastructure investments. With system failures becoming increasingly common, the "worst of times" may be the "best of times" in which to correct the quick-fix mistakes of the past and repair the nation's crumbling infrastructure.

9

America the Safe and Secure?



"It's always been safer politically to build the next prison, rather than stop and see whether that's really the smartest thing to do. But we're at a point where I don't think we can afford to do that anymore. We have to look for a better solution to the problem, and that isn't more new prisons."

Sen. John Whitmire
Chair, Senate Criminal Justice Committee, Texas

The changing nature of our world demands a changing role for the state public safety and justice community. As the federal government shifts its focus to foreign policy matters and fighting terrorism, states are assuming greater responsibility for protecting the population at home.

In the post-Sept. 11 world, states are struggling to grasp the new and evolving roles they are to play on the public safety stage. Immigration, terrorism, identity theft and increasing levels of crime are converging on state governments at a time when resources are low, traditional federal support is waning, and public angst is at an all-time high.

During the next five years, state policymakers will face increasing pressures to address federal homeland security initiatives, protect communities from crime, and ensure fair and equitable criminal justice systems within the constraints of limited state budgets. The challenges are real and the stakes are high. Where should states focus their public safety attention?

Homeland security

States are left to fend for themselves as the federal government fights terror.

As federal agencies shift their attention to preventive homeland security operations, state and local governments are forced to fill the vacuum created by the policy shift. Before Sept. 11, federal agencies often assisted or led state-level investigations into bank robberies, kidnappings and other interstate crimes. Now, with less federal help available, state law enforcement has to fill the gap. Likewise, whereas state agencies once rendered substantial assistance to local governments, now local law enforcement must step in to fill its own growing gap.

State and local law enforcement agencies are coping with the overall pre-emptive homeland security stance with greatly reduced funding for traditional law enforcement roles. Federal homeland security and law enforcement budgets are projected to grow in the FY'08 federal budget, with the Department of Homeland Security (DHS) budget increasing by 18 percent and the Department of Justice (DOJ) budget increasing by 11 percent over FY'06 levels.[1] However, grants and funding to states in homeland security and traditional law enforcement areas will shrink on a massive scale. DHS funding to states is projected to be 50 percent less than FY'06 levels, and DOJ funding is slated to drop nearly 28 percent. Also, the FY'08 funding available to states from Justice Assistance grants and the Community Oriented Policing Services (COPS) program is projected to be 75 percent less than expected FY'07 levels.[2]

Over the years, National Guard troops have played a significant role in both national defense and disaster response. During and after Hurricane Katrina, 58,000 National Guardsmen from around the nation responded with assistance and support to the stricken areas of Alabama, Louisiana and Mississippi—all while nearly 80,000 other Guardsmen were on active duty abroad.[3]

National Guard troops, historically under the direct control of governors, are increasingly being used as quasi-active duty units—at home and abroad. Of the 458,000 total National Guard troops, nearly 40 percent have been deployed in Iraq, Afghanistan or elsewhere serving the global War on Terror since 9/11.[4] Long deployments are placing increased strain on these civilian soldiers and their families, often harming re-enlistment goals set by the Guard.

National Guard deployments have been accompanied by degrading equipment that might be needed at home in the response to a disaster. According to the Commission on the National Guard and Reserves, 88 percent of Army National Guard units and 45 percent of the Air Guard units not currently deployed overseas have severe equipment shortages. Ninety percent of Guard units are rated as "not ready" for additional deployment partly due to equipment shortages.[5]

Immigration and border security

States may assume increasing responsibility for border control.

Since Sept. 11, 2001, attention has focused on the security of U.S. borders. Law enforcement agencies not only are concerned about who may enter the country, but also what is being transported across the borders. Narco-terrorists have been a border threat for years, smuggling large sums of drugs, cash and people. These drug gangs increasingly are linking with international terrorist organizations to use their skills to enter the country and gain from the enormous amount of money in the drug trade.

Despite heightened emphasis on immigration and border security, America's physical boundaries remain quite porous. Between 2000 and 2005, the number of new illegal immigrants entering the country averaged 850,000 per year.[6] In 2005, more than 1.2 million illegal immigrants were apprehended along the borders, with more than 85 percent of offenders coming from Mexico.[7] There also are growing pockets within the illegal immigrant community, notably Asian, Eastern Europe and Middle Eastern groups.

With a rising illegal immigrant population residing in the United States—estimates run anywhere from 11 to 12 million people—law enforcement agencies are in great need of assistance to stem the tide.[8] Historically, states and localities have been prohibited from engaging in direct immigration and border control efforts. However, the proposed FY'08 federal budget contains $26 million to train 250 state and local law enforcement officers to arrest and detain illegal immigrants.[9] The number of U.S. Border Patrol officers is expected to increase to 18,000 by the end of 2008.[10]

Changing border control strategies will require state government leaders and law enforcement executives to decide what their roles and authorities should be. Officers in the field will need fast and reliable information to determine the immigration status of detainees and nearby facilities where they can house detainees. Currently, the federal government has insufficient bed space in detention centers to accommodate demand. As a result, many detainees are housed in county jails. At issue will be whether the federal monies allotted will cover the cost to the states and communities for immigration enforcement and detention in an already overburdened system.

Corrections and criminal justice

Crime is once again on the rise, and states are running out of places to house offenders.

Over the past decade, crime has been on a downward trend. Due to quick recognition and passage of appropriate countermeasures by state legislatures and increased funding for law enforcement, punishment for offenders has been quick and sure. Criminal offenders are being incarcerated at a higher rate for longer sentences.[11]

Data from the FBI's 2005 Uniform Crime Report indicate that, between 2004 and 2005, violent crime rose by 2.3 percent—reversing a decade-long drop in violent criminal activity.[12] Preliminary data from 2006 indicate that violent crime has risen even further—up 3.7 percent in the first half of the year.[13] If this trend continues, new crime control strategies and funding will be needed. Unfortunately, new policies and funding may be necessary at a time when states and the federal government are ill-equipped to fund such endeavors. As states lack funding to adequately police and prevent crimes from occurring, they are often left with no choice but to address the problem on the back end through incarceration and community supervision programs.

Between 2007 and 2011, federal and state prison populations are projected to swell by more than 192,000 inmates—a 13 percent increase—with one in 178 Americans incarcerated.[14] Twenty-three state prison systems already are operating above capacity.[15] Continued increases in violent crime rates will exacerbate this overcrowding problem.

Not only are states using more space in prisons, the costs of incarceration are increasing because of the aging prison population and the treatment programs mandated for different offender types, such as sex offender therapy and drug/alcohol treatment. State governments are now spending more than $40 billion per year on prisons—an amount five times greater than the mid–1980s—with 12 percent of those expenditures for health care alone.[16] In some states, corrections agencies are among the largest public employers, with a few states spending more on corrections than they do on higher education.[17]

As of the end of 2005, more than 7 million U.S. residents were on probation, in jail or prison, or on parole—3.2 percent of the adult population.[18] And minorities are disproportionately represented in the criminal justice system. Almost 10 percent of black males between the ages of 25-29 are in prison, and 60 percent of state and federal prisoners are black or Hispanic.[19] Twenty percent of all state incarcerations are for drug-related crimes. Among the black population, this rate is nearly 25 percent.[20]

As state policymakers deliberate whether to build prisons, expand existing prison capacity or increase funding for sentencing alternatives, such as community supervision and treatment, the costs of incarceration will be a major consideration. With the federal government concentrating on national priorities, one thing is sure—less money will be available to states to fight their own wars on crime.

Fast Facts

- After a two-decade drop, violent crimes are on the rise. With one of every 32 adults in jail or prison, or under some form of community supervision, 23 states have prison systems operating above capacity.[27]
- National Guard troops increasingly are being used as quasi-active duty units—both within and outside the United States. Since the Sept. 11, 2001, attacks, 40 percent of National Guard troops have been deployed in Iraq, Afghanistan or elsewhere serving the global War on Terror.[28]
- Since 2000, the number of new illegal immigrants entering the country has averaged 850,000 per year.[29] The FY 2008 federal budget contains $26 million for training state and local law enforcement officers to arrest and detain illegal immigrants—duties that states historically have not performed.[30]
- Identity theft crimes affect more than 8.5 million U.S. residents each year, totaling nearly $60 billion in fraudulent charges/costs.[31] The intensity of the fraud is increasing rapidly, costing upwards of $7,000 per incident and requiring more than 40 person-hours to rectify.[32]

Identity theft

The loss of personal privacy is real.

Identify theft is one of the most widespread crimes in the nation. Fraudulent charges total more than $60 billion annually, affecting more than 8.5 million Americans each year.[21] While the number of victims has declined slightly—down from 9.3 million in 2005—the intensity of each fraud is increasing rapidly, costing upwards of $7,000 per instance and taking more than 40 person-hours per incident to rectify.[22]

Advances in technology, citizens' naive assumptions about the difficulty of obtaining sensitive personal information and the increasing spread of interconnected data systems and formalized data-mining are making it easier for personal information to be accessed and misused.

Personal data is no longer a disconnected jumble of information. Private sector data vendors maintain billions of records on all aspects of people's lives—credit reports, medical records, shopping habits, etc. Often these data are used only for consumer purposes, such as product marketing and call lists. However, security breaches at data aggregators around the world have illustrated the vulnerability of these databases and have raised the question of who "owns" personal information. Between January 2005 and March 2007, almost 105 million personal records were compromised by security breaches at major data warehouses.[23] Further, the data contained within such clearinghouses may not be accurate but is used by financial and insurance institutions as a basis for credit and product pricing.

Ironically, federal efforts to enhance national security, such as the Real ID Act (expected to cost states up to $14.6 billion in the next five years) may actually increase consumers' vulnerability to identity theft.[24,25] According to the Privacy Rights Clearinghouse, under Real ID there will be the enhanced presumption that transactions completed in one's name are legitimate. Banks, merchants and other creditors will assume that the victim made the purchases or procured the loans, and the victim will be forced to prove otherwise. Because Real ID will have strict issuance standards and thus higher perceived security, people victimized by criminals with counterfeit Real IDs may have even greater difficulty remedying the situation.[26]

As the Internet reaches more households, e-crimes are likely to grow in frequency and intensity. State regulatory agencies that maintain data records or have regulatory authority over vulnerable industries, such as banking and insurance, will need to become more vigilant in protecting consumer information. Consumer protection also may require new state legislation and increased funding for training to improve investigations and crime prevention efforts.

Opportunities

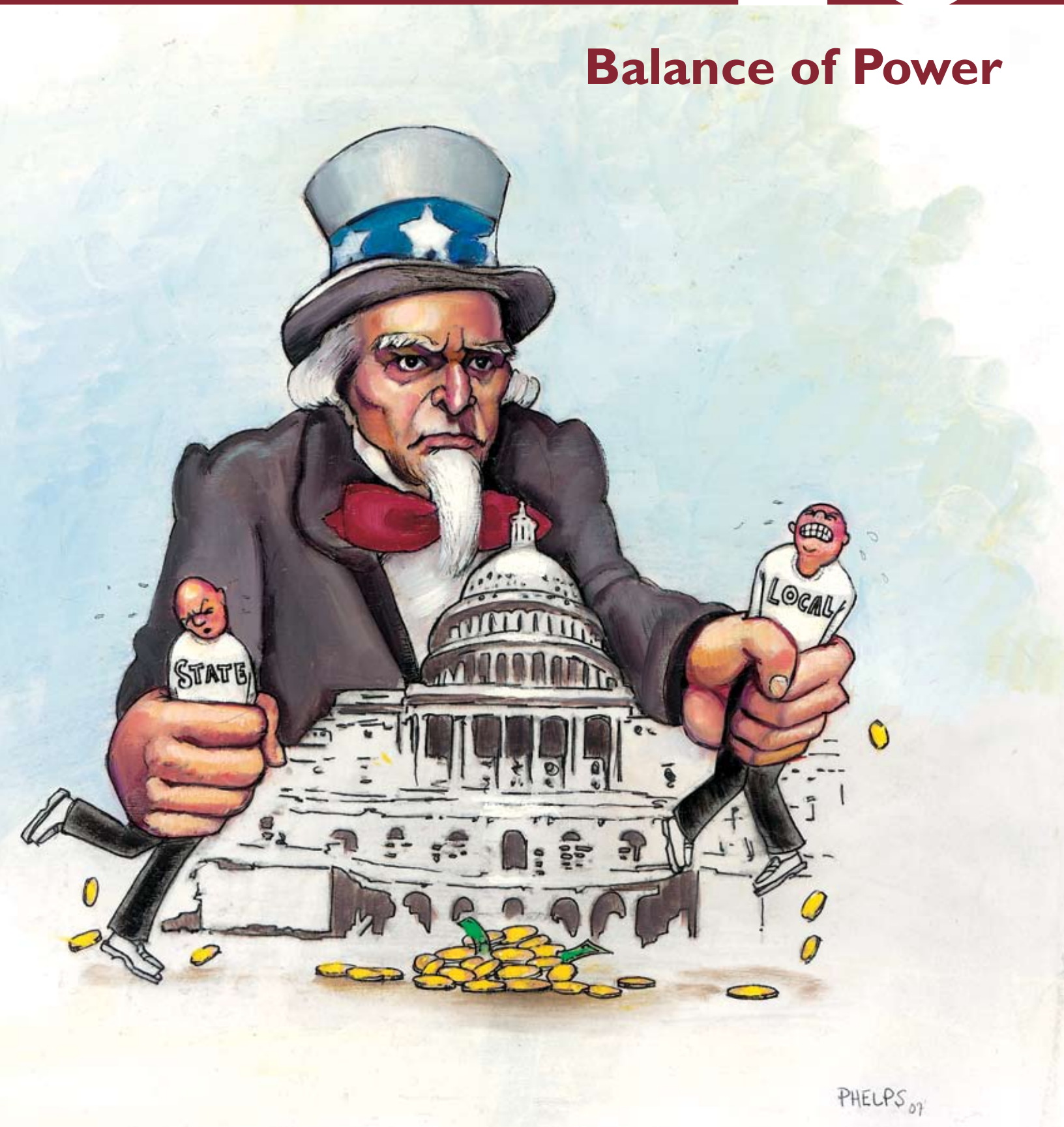
States have done a good job of meeting the traditional public safety needs of their communities. Strategies such as community-oriented policing, in which law enforcement agencies partner with citizens to prevent crime and solve community problems, have brought an ordered response to crime and increased law enforcement effectiveness. With assistance from the federal government over the last decade, states have introduced a variety of creative initiatives for preventing, detecting and prosecuting specific crimes.

But the world is evolving. Seemingly overnight the game has changed, and states must meet this change head-on. An example of a proactive stance is the development of Intelligence Fusion Centers within and among states to gather, analyze and disseminate criminal and homeland security intelligence to agencies affected by an event or threat. States also are executing less formal agreements to share information related to ongoing investigations.

To successfully meet the new public safety demands of the 21st century, states will need to focus policy and programmatic efforts on creating systems and partnerships that proactively anticipate and efficiently respond to emerging threats and opportunities. In a time of declining federal support, the sharing of resources and unified approaches to state law enforcement may be the best strategies for maintaining strong public safety and justice systems.

10

Balance of Power



> **The question of the relation of the states to the federal government is the cardinal question of our constitutional system. At every turn of our national development we have been brought face to face with it, and no definition either of statesmen or of judges has ever quieted or decided it. It cannot, indeed, be settled by the opinion of any one generation, because it is a question of growth, and every successive stage of our political and economic development gives it a new aspect, makes it a new question.**

Woodrow Wilson

The U.S. has entered an era of coercive federalism in which the balance of power is tipped heavily in favor of the federal government. As government power has become more centralized, states are subjected to increases in federal pre-emptions and unfunded mandates and decreases in discretionary grants. State and local governments have been redefined in Washington as special interests, and the preference for streamlined regulations and national standards is increasing.

The United States was founded on republicanism—the idea that local self-rule promotes flexible responses to regional problems, encourages innovation from the grassroots level, enables diverse communities to participate in government, and constrains central power through division of government labor.[1,2] But the promise of the Founders' federalist system of government has been fundamentally challenged by recent centralizing trends.

So what does this mean for the roles of state and local governments? Is federalism dead?

Centralization and expansion

Pressures to centralize rather than share federal power with state and local governments are intensifying.

As the competitive playing fields between developed and emerging market countries flatten,[3] the need to nationalize and streamline certain regulations and standards is growing. In response to the increasing flow of goods, services, labor and capital across national borders, the federal government has adopted a "for-the-good-of-the-country" attitude. Especially in the area of public safety, with new requirements such as the Western Hemisphere Travel Initiative and Real ID, the federal government is increasingly making national decisions with little analysis of the costs to states and localities.

> **"Centralization is destroying federalism. The Supreme Court occasionally taps the brakes, but the tug toward Washington's magnet is growing stronger daily."**
>
> *Sen. Douglas Henry*
> *Tennessee*

Corporate and advocacy group lobbying serves as another catalyst for government centralization.[4] Corporations lobby for streamlined, national regulations in areas such as environmental standards, insurance and banking laws, and tax structures to avoid navigating 50 state variations. Similarly, advocacy groups lobby for uniform standards so that all Americans will have equality in areas such as environmental justice, child safety and criminal law. As lobbying power in Washington continues to increase, more and more centralization will occur.

Rapid technological growth in a variety of business sectors is also increasing centralization. As each new technology is launched, new technical, environmental, privacy and safety standards are introduced. These standards often vary by state or city, creating difficulties for U.S. businesses that have activities in more than one location. Streamlining regulations through standardization allows American firms to maintain a competitive edge in the global economy, but this streamlining has a tendency to centralize government regulation and oversight. If technology continues to evolve rapidly, this trend is likely to continue in the future.

Uniform standards and streamlined regulations are not inherently bad for states, and are sometimes supported by state and local governments, as is the case with civil rights protections and clean air and water regulations. Problems arise, however, when state and local governments are lost in the lobbying fray and labeled as special interest groups. With the dissolution of the U.S. Advisory Commission on Intergovernmental Relations (ACIR) in 1996, state and local governments lost a critical forum for intergovernmental discussions on key issues. Now, state and local governments must go through the same channels as all other lobbyists. Given the bevy of recent top-down legislation passed by Congress, intergovernmental relations will likely continue to be strained.

Domestic spending ebbs and flows are also expanding the federal role and centralizing government.[5] Government constraint promised by the balance of power in federalist theory does not really exist in practice; in fact, many experts contend that the republican system actually expands government over time.[6] And though the idea of states as laboratories of democracy has largely been praised, the end result of successful state programs is often growth at the federal level.[7] When the federal government enters a period of domestic spending cutbacks, states enter periods of innovative policymaking. Programs are then picked up from the states and applied to the nation when the federal government increases domestic spending, thereby centralizing power and expanding the federal government. Because the national deficit is so high, states can expect serious cutbacks to federal domestic spending in the coming years, leaving the door wide open for state-level innovation.

Pre-emption and unfunded mandates

The number of pre-emption statutes and unfunded mandates is likely to increase over the next decade.

The National Academy of Public Administration (NAPA) defines pre-emption as "actions of the national government—by Congress or federal agencies—which would either (i) substitute nationwide policies and programs for those of states and localities; or (ii) prohibit states and localities from exercising certain powers that have previously been their responsibility."[8] Pre-emptions prohibit state and local governments from exercising certain powers, replace state or local laws, or require states or local governments to adhere to certain standards.[9] Since the 1960s, federal pre-emption statutes have increased in frequency. In fact, two-thirds of all pre-emption statutes passed since 1790 have been enacted in the past 40 years.[10]

A major concern for states is whether pre-emption statutes include floor or ceiling mandates. When Congress establishes a ceiling for states—enacting maximum requirements that states cannot surpass—states' innovation and creativity are stifled. On the other hand, when Congress establishes minimum standards, states are free to exceed the minimum and experiment according to the needs of their citizens. One Congressional debate likely to heat up in the future is whether to create global warming legislation as a floor (from which states would be able to create tougher standards if their citizens called for it) or a ceiling (under which states would be required to follow federal guidelines, regardless of citizen input).

One of the biggest pre-emption problems is the fact that many federal mandates to states are unfunded. In the 1990s, Congress attempted to cut the number of unfunded mandates to states and localities, and in 1995, the Unfunded Mandate Reform Act (UMRA) was passed. This act established cost thresholds for pre-emption statutes and created a system for evaluating statutes that exceed the thresholds. Under UMRA, the Congressional Budget Office must evaluate whether the potential costs of proposed legislation would adversely affect state and local governments or the private sector. However, the law does not expressly prohibit unfunded federal mandates or require consideration of cumulative mandate costs. Since UMRA's passage, Congress has enacted five intergovernmental mandates and 26 private-sector mandates that exceed UMRA's cost thresholds.[11]

Analysts estimate that, between fiscal years 2003 and 2006, the collective cost shifts to states totaled $75 billion.[12] In FY 2007, the cost shifts to states are expected to total at least $20 billion, not including costs incurred from implementation of the Real ID Act.[13] According to the Department of Homeland Security, states should expect to pay up to $14.6 billion to implement Real ID—$3 billion more than originally estimated.[14,15]

Some federal pre-emptions have been good for the national economy but not for individual states. For example, the federal prohibition against state and local governments collecting taxes on items sold over the Internet has allowed e-commerce to flour-

Fast Facts

- Continuing pressure by public and private interest groups to create uniform tax and regulatory structures is likely to increase the number of federal pre-emption statutes and unfunded mandates.[20]
- Between fiscal years 2003 and 2006, Congress shifted an estimated $75 billion in costs to the states through unfunded mandates.[21]
- To implement Real ID, states can expect to spend between $10.7 billion to $14.6 billion over the first five-year period. Individuals can expect to pay an additional $7.8 billion in costs over the same period.[22]
- In future years, states are likely to experience significant decreases in federal grants. The president's FY 2007 budget proposal would decrease discretionary grants to state and local governments by $12.1 billion, while increasing mandatory entitlement grants by $6.4 billion. Overall, federal grants would decrease by 1.4 percent.[23]
- In 2008, states are expected to lose between $21.5 billion and $33.7 billion in Internet sales tax revenue due to federal restrictions on state taxation.[24]

ish and expand into a major part of the U.S. economy. However, this prohibition is costing states billions of dollars in forgone revenue.[16] In this fight, state and local taxing authorities are losing to the borderless nature of e-commerce and the national and international interest in encouraging online economic growth.[17]

Federal grants-in-aid are increasingly conditional or specifically earmarked, making them pre-emptions in disguise.

Federal grants-in-aid have become lifelines for some states and localities. Many states would have a difficult time providing clean water, homeland security upgrades, social services, education or Medicaid coverage without help from revolving loan funds and federal grant programs. Increasingly, however, Congress and federal agencies are establishing new conditions of aid after the aid programs become institutionalized. Because the grants are optional, the new conditions are not considered to be pre-emptive. However, by this point, states and localities are usually so dependent on the funding that participation has ceased to be voluntary.[18]

One area in which conditions of aid are especially problematic is education. Under the No Child Left Behind Act (NCLB), states must meet very specific federal standards in order to receive education funding. Although many states have objected to the program, no states have formally opted out. NCLB is expected to be reauthorized in 2007, so states not willing to follow federal education guidelines can expect to face tough fiscal decisions over the next several years.

Federal grant money is also increasingly subject to congressional earmarks—money appropriated at the federal level specifically for district projects. These earmarks pre-empt state and local decision-making authority by setting aside specific funds which would ordinarily have been left to the states. According to the Congressional Research Service, congressional earmarking has increased exponentially in the past 10 years: from 3,055 earmarks in 1996 to 14,211 in 2004.[19] In early 2007, one of the first concerns of the 110th Congress was ethics reform, including debate over Congressional earmarks. The proposed ethics reform legislation faces strong opposition, however, and if it fails to pass, states can expect the earmarking trend to continue.

Federalism is alive

When the Founders created the republican system of government, the underlying premise was that states and localities are much closer to the people and so can govern more effectively than central government. Based on the Roman idea of local self-rule, the federalist system was created to truly be a government "of the people, by the people, for the people." In the 21st century, the government continues to shift centrally, but federalism is not dead. Many opportunities still exist for states to re-establish healthy intergovernmental relations, work together to solve regional and national problems, and continue in their roles as laboratories of democracy.

Though the ACIR has disbanded, many government officials recognize the need for improved intergovernmental relations. With the help of the "Big Seven," NAPA is working to reinstate Kennedy-style forums for intergovernmental problem-solving. The 2007 forum will focus on transportation funding. In the future, these forums may provide a critical opportunity for all levels of government to come together in a neutral setting to discuss national needs and balance the intergovernmental playing field.

One way in which states are dealing proactively with centralizing pressures is through interstate cooperation. Common problems and opportunities now span beyond individual state boundaries, and states are working together to address regional and even national issues. This cooperation comes through formal agreements, such as interstate compacts, as well as informal collaborative mechanisms. States are increasingly working together in areas such as homeland security, emergency management, environmental protection, natural resources management and economic development.

What Supreme Court Justice Louis Brandeis said in 1890 about states as laboratories of democracy still holds true today. States will always be uniquely positioned to innovate and experiment with public policy.

What's Next?

If you want to know your past, look into your present conditions.

If you want to know your future, look into your present actions.

Buddhist Saying

This report analyzes 10 economic, social and environmental trends that will present major challenges and opportunities for states in future years. The ways in which these trends evolve will depend upon the choices made by multiple stakeholders. However, state leaders can promote positive change through forward-looking policies and strategic investments.

Understanding patterns of change is the first step toward identifying and implementing effective responses. Future policy briefs and *State News* articles will describe and evaluate options for managing change through innovative legislation, executive branch initiatives and public-private sector partnerships. The "change management pathways" outlined in these publications will include approaches suggested by policy experts and think tanks as well as promising strategies being tested in the U.S. states and governments around the world.

CSG would welcome readers' feedback on the trends described in this report and the top priorities for policy solutions. Please visit "Capitol Comments" on our Web site (*www.csg.org*) to suggest topics for future policy briefs and to share your ideas and perspectives.

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