

10 Change Drivers for the Future



These emerging patterns of change are reshaping state government resources and policy

IN 2005, MANY states will be dealing with tax reform. Those states and others will be trying to rein in the rising costs of prescriptions drugs. And improving access to broadband and wireless Internet service will be at or near the top of many state lawmakers' agendas.

While tax reform, the Internet and prescription drugs are different issues, they all reflect the driving forces that are reshaping state government. These driving forces, or change drivers, are not short-term issues that will disappear in a few years. They are long-term, broad-reaching developments that will cut across policy areas to affect state government for years to come.

The Council of State Governments is dedicated to equipping state leaders with an all-important competitive edge by alerting them to emerging trends that are most likely to alter state resource allocations and policy priorities.

As part of our trends research in 2005, CSG will monitor the following 10 change drivers, identified by focus groups of our public and private sector members and by expert futurists:

I. The Age Wave

The Graying of America

The U.S. population is rapidly aging. While the population age 65 and older is projected to more than double to nearly 82 million by 2050, the 85 and older population is projected to quadruple within the same timeframe.

This graying of America presents states with emerging challenges, such as:

- *Demand for health care.* This will be particularly critical in dealing with a nationwide nursing shortage.
- *Impact on state tax collections.* The older population tends to spend money in non-taxed areas such as health care services. In addition, while many elderly will continue to work, much of their income will likely come from sources, such as pensions and Social Security, which are not taxed as heavily as salaries and wages.
- *Community development.* The aging population will encourage smart growth. As baby boomers get older, there will be an increased demand for communities that are more pedestrian-friendly with residential and commercial areas in closer proximity to one another in order to decrease the need for driving.
- *Work force shortages.* The graying of America affects all economic sectors, especially those that are already having trouble attracting younger workers, such as agriculture, education and government.

To meet these challenges, the competitive edge will go to states that keep experienced, older workers in jobs with more flexibility in hours and benefits. States that find ways to keep the elderly productive and actively engaged in society will reap additional benefits.

In addition, planning for replacing retiring workers, training and retaining existing work force, helping the elderly pay for prescription drugs and dealing with long-term care will be the issues on most policy-makers' radar screens.



2. A Nation of Immigrants

Harnessing Human Assets

During the last decade, the foreign-born population grew by almost 60 percent compared with a 9.3 percent increase in the native population. Migration from Latin America and Asia is the primary cause for this growth. By 2030, one-quarter of all Americans will be either Hispanic or Asian. Moreover, the Hispanic and Asian populations are expected to triple by 2050.

The influence of immigration has policy implications throughout state government, particularly in:

- **Education.** Immigration is the driving force behind increases in elementary and high school enrollment. State officials, however, will have to address gaps in educational achievement between natives and immigrants at the elementary and secondary levels. Children with limited English skills are more expensive to educate.
- **Health care.** Racial and ethnic health disparities may influence health care research and costs. Cultural competency and health literacy can affect the quality of health care. Many immigrants are uninsured.
- **Government work force.** States are already experiencing a need for bilingual teachers, law enforcement officers and public health workers. The need for bilingual government employees will only grow in the coming years.

States moving proactively to enhance immigrant skills and knowledge will gain an economic and cultural asset. At the same time, they must address the unique demands on government services.

3. Regional Hot Spots

Adapting to Shifting Populations

The populations of the South and West are growing. A major factor in the accelerated growth in these two regions is domestic migration, but they are also hot spots for immigration as well. In addition to these regional shifts, the United States is becoming more and more a suburban nation. The percentage of the population living in metropolitan areas is expected to increase over the next two decades, leaving fewer than 18 percent of the population in non-metropolitan areas by 2020.

States can expect these population growth patterns to influence many policy areas. For example:

- **Demands on natural resources.** Regional shifts in population will accentuate water shortage problems in these areas. Growing regions will also have to address the increasing demand for infrastructure and government services.
- **Changes in political power.** The influx of people into the South and the West may also change the political makeup of these areas, depending on the demographics of the new arrivals. Bedroom communities are thriving, but more remote rural areas and urban centers are losing population. This will lead to shifts in political power to the suburbs.

As development occurs farther and farther away from city cores, state and local governments may need to address the efficiency of land use patterns and make sure that people are receiving the government services they need and demand.

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4. New Forces at Work

The States' Role in a Global Economy

It is difficult to talk about economics without talking about politics, technology and culture. What happens in China may be as important as what happens in Washington, D.C. All these factors have a profound impact on the states, especially in the following areas:

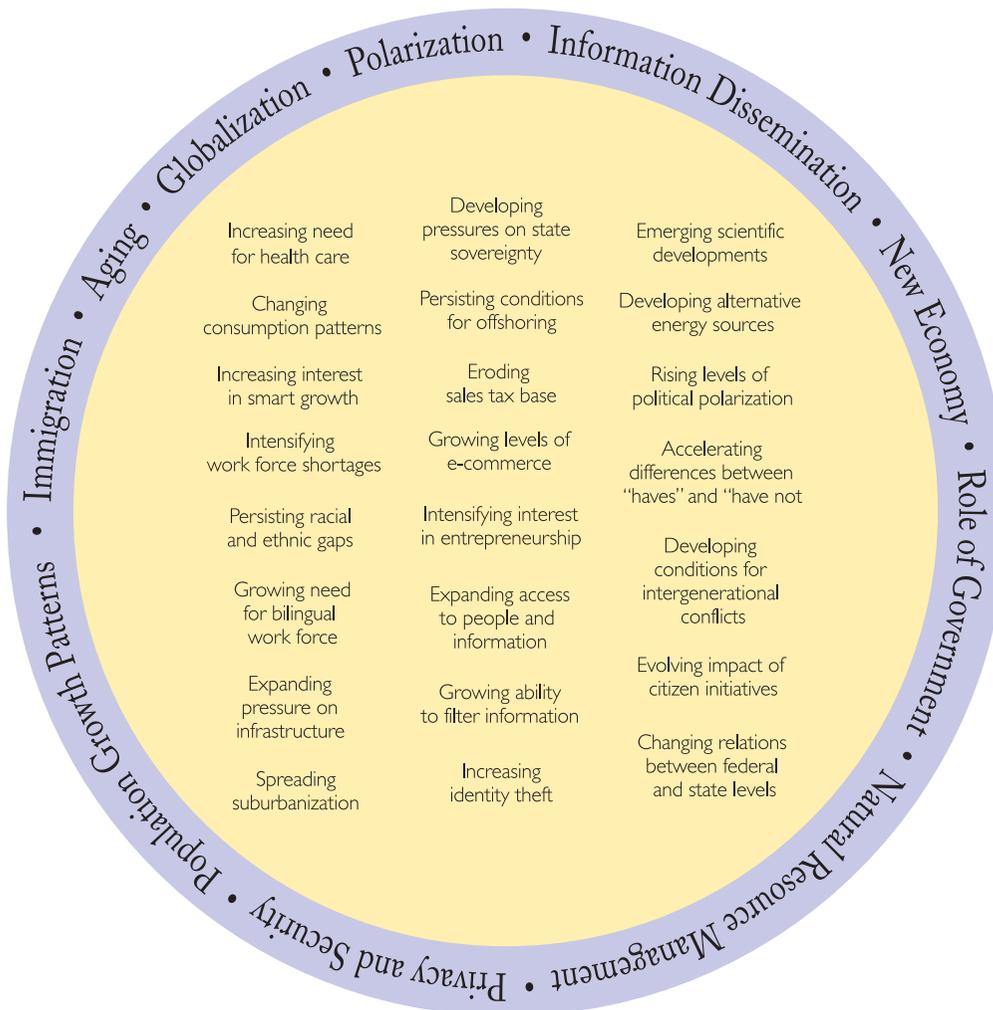
- *International trade agreements.* These agreements, which are decided at the federal level, may limit states' ability to exercise regulatory and legislative powers. States may be inadvertently violating trade agreements approved without their input.
- *Offshoring jobs to other countries.* Potential job losses can affect state economies profoundly. There is a



potential downward pressure on U.S. wages to compete with workers in other countries, on the one hand, but offshoring also opens new markets for U.S. products by increasing wages and standards of living for people in other parts of the world.

Policy-makers should be aware of the importance of educating Americans about our global society. Our current and future work forces may not understand the political and economic implications of globalization. In addition, policy-makers will need to realize what their state's strengths are so their work forces can more effectively compete in the global economy. States may need to pay for retraining workers who have lost jobs because of offshoring, especially an issue now that higher-skilled jobs are being offshored.

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5. Winners and Losers

The Economy in Flux

The U.S. economy has evolved from a manufacturing-based economy centered on natural resources and standardized products to a service-based economy focused on knowledge and ideas. Today, people need to have critical thinking skills, be able to convert information into knowledge, and use and understand emerging technologies.

States, however, have been unable capture all the benefits of this New Economy, particularly in two areas:

- *Sales taxes.* The sales tax base has eroded because states' sales taxes are mostly levied on durable goods rather than services. As evidence of this, sales taxes currently account for a smaller portion of state revenues than they did in the 1970s. Services account for more than half of personal consumption, so they are a substantial potential revenue source.
- *E-commerce.* States and local communities are losing \$16.4 billion a year in sales and usage tax revenue because of online and catalog sales. According to some economists, this num-

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ber could rise to \$45 billion in 2006 and \$66 billion in 2011. Because of a federal moratorium, however, states currently cannot collect taxes on electronic transactions.

Entrepreneurship is extremely important in the New Economy. Rapidly growing new firms are a major source of job creation, so entrepreneurs are one of the driving forces for the economy. Because of its economic importance, policy-makers need to foster an entrepreneurial culture in their states. At the same time, the focus of many state officials' activities will be on modernizing the tax structure, to reflect the new nature of the economy.



6. Disseminating Information

24/7 Connectivity: Sorting it Out

Information now flows at a dizzying pace. You can have instant access to almost any type of information you need or want. Today businesses rely on this instant information to compete in the global economy, but there are some less positive impacts on this unlimited access to information.

The following developments will greatly influence state government:

- *Access.* People are rarely unreachable. While technological advances such as the cell phone and BlackBerry can make us constantly available, they can also be very isolating. People are choosing technological interaction over face-to-face communication, which can affect social skills.
- *Filters.* People hear only what they want to hear. People have wider choices for obtaining their news. They can go to Web sites, participate in blogs and chat rooms, getting only the information they want to get. They do not have to listen to two sides of the story.

These changes in disseminating information will alter the way politicians and state officials communicate their messages to constituents. In addition, such changes increase the need for educating students with critical thinking skills so they can process all this information responsibly and intelligently.

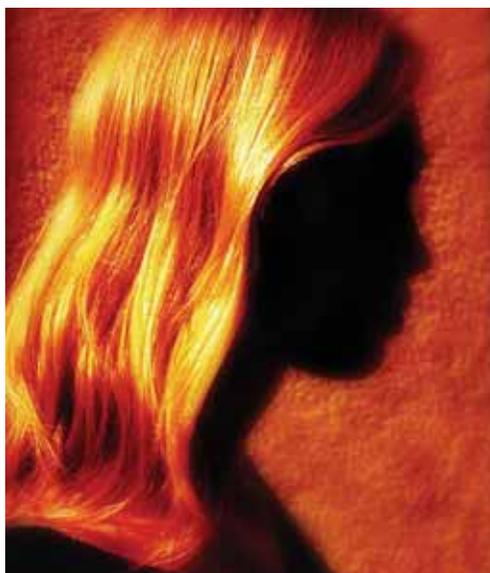
7. Privacy and Security

Technology: Boon or Bane?

The more information that is available, the more potential there is for misuse of this information.

States will have to address privacy and security concerns on several fronts.

- **Identity theft.** Criminals can use many methods, ranging from rummaging through your trash to find pre-approved credit offers to hacking into your company's computer system to find Social Security numbers, to obtain personal information and commit fraud or theft.
- **Nanotechnology.** This emerging tool changes the molecular structure of products to make them cleaner, stronger, lighter and more precise. While this technology has many potential positive uses, it



does bring up privacy issues as well. With the ability to make common devices such as cameras smaller and smaller, there is also the ability to invade people's privacy.

- **Biometrics.** This emerging technology increases security but raises privacy concerns. Biometrics refers to the automated methods of recognizing a person based on physiological or behavioral characteristics. Biometric technologies are becoming the foundation of an extensive array of highly secure identification and personal verification solutions. They measure a person's face, fingerprints, hand geometry, handwriting, iris and voice.

State officials, while supporting the development of these very promising technologies and implementation of rules and regulations, will also have to evaluate their impact on privacy and security, and therefore on public perception and reaction.

8. Quality of Life

Managing our Natural Resources

The growing population in this country and around the world will increase the demands on the environment. The responsible use of natural resources and the protection of environmental quality will continue to drive many social, political and economic decisions. For example, state officials will be confronted with the following quality of life issues:

- **Urban sprawl.** Changing population patterns stress our natural resources. The result is urban sprawl that increases driving time and the use of petroleum fuels. In some cases, there is the development of ecologically valuable wetlands, and the conversion of prime farmland to residential and commercial use.
- **Conserving Energy.** Energy is becoming a more important issue because experts project that the world could reach its peak oil production capacity in the next 10 to 40 years. After that, the supply of oil may not keep up with demand. With this in mind, some states are leading the way in promoting energy efficiency and conservation. California, for instance, has built a "green" government building, and New York renovated one of its government office buildings to be more environmentally friendly. In addition, many states have incentive programs aimed at encouraging the purchase of alternative fuel vehicles, the conversion of vehicles to run on biofuels and the installation and operation of fueling facilities to serve these vehicles.

Policy-makers will have to focus on longer-term policies, programs and commitments in order to ensure balanced approaches to the use of natural resources and development of "greener" and "cleaner" technologies. Air quality as well as water quality and availability will remain on the agendas of many state officials.



9. A Growing Chasm

Increasing Polarization

The United States is starting to realize a growing polarization of society. Polarization touches most areas of society, such as:

- *Politics.* Some experts contend polarization is the result of gerrymandering to create “safe” districts. Because these districts are safely Republican or safely Democratic, there is an opportunity for Democrats who are more liberal than the average American and Republicans more conservative than the average to win office. This leads to increased difficulty in finding political compromises among elected officials.

Intergenerational conflicts may emerge as older and younger voters expect different things from government.

Others argue that politicians reflect the polarized American public. These experts believe that issues such as gay marriage and abortion have created rifts among the general public that make compromise on these and other issues difficult if not impossible.

- *The economy.* According to the U.S. Census Bureau, the country has experienced a long-term trend of a widening income gap. In other words, there is increasing income inequality between the “haves” and the “have nots.” The trend may create more pressures on government services on one hand, and impact taxation policies on the other.
- *The culture.* Intergenerational conflicts may emerge as older and younger voters expect different things from government. Younger voters, for instance, may be willing to pay higher taxes to finance public schools while older citizens may vote against any tax increase.

The growing economic, cultural and political differences in this country are leading to a call for more civility among citizens and among their elected officials. There is an increased need for leadership and respect for differences in opinion, beliefs and economic status so that state leaders can do their jobs effectively.

10. The Role of Government

Who is in Charge?

The role of government in American society has shifted many times during our country’s history. The pendulum swings between strongly centralized and decentralized relationships the states have with the federal government.

Two forces in particular are having an impact on the role of government. They are:

- *Local initiatives.* States have experienced the conflict between what the public wants and what they are willing to pay. In some cases, citizen ballot initiatives have created costly programs without providing revenue sources for them. These initiatives, combined with a growing anti-tax sentiment, will make it more difficult for states to fund programs adequately, which may lead them to examine what should be core government responsibilities and what functions should be terminated.
- *Federalism.* As state policy-makers and administrators know, federal mandates and federal court decisions are major influences on state

budgets. Because of the relative inflexibility of federal programs and policies, states have to reorganize their priorities to adhere to mandates. The same is true for court decisions. This reprioritization adds uncertainty to budget forecasting, making it more difficult to predict future expenditures. It also alters the critical balance of federal-state relations, relegating states to be merely “branch offices” to carry out federal policy mandates.

The voice of state government must be heard in this dynamic political environment. State leaders should be active in state membership organizations. This is one avenue for leaders to express their concerns and to learn from other states that may have dealt with those same concerns. State leaders must also build good relationships with their congressional delegations so that federal decision-makers understand how federal policy can affect the performance of state government.

Some states are already experiencing the impact of these change drivers. CSG will continue to monitor these changes in 2005 through our national publications and meetings, our committee and task force work, and CSG programs such as Suggested State Legislation and the Innovations Awards program.

