

Trends in America

Charting the Course Ahead



CSG publication provides a greater understanding of the trends affecting state government

CSG Policy Staff Report

We live in a time of incredible transition. In the midst of these profound changes, The Council of State Governments is emerging as a lighthouse for states, alerting our members to obstacles and opportunities alike, and helping them navigate through this era of rapidly changing conditions. CSG seeks to help state decision-makers steer their states and constituents on the best course—not just avoiding the rocks and staying afloat—but moving toward a destination and a higher level of excellence.

Trends in America: Charting the Course Ahead is a critical component of CSG's ongoing trends mission. A result of extensive research and consultation with experts from across the country, *Trends in America* identifies 10 major change drivers that are shaping our society, the emerging trends of today and the implications of these trends for state governments ... now and in the future. Our goal is to be a beacon for state leaders illuminating the dangers and opportunities these powerful change forces present.

These change drivers cut across traditional policy areas and are already affecting states. Although these change drivers will have long-term consequences, CSG's focus is on what they will mean for state officials over the next five years.

This month, *State News* magazine presents a brief overview of *Trends in America: Charting the Course Ahead*. We encourage you to read the full report for a more comprehensive understanding of the trends affecting state government today and tomorrow. The full report is available online at www.csg.org.

Silver Society: Aging of America

As people live longer and have fewer children, the percentage of older people in America is increasing. As the 76 million baby boomers across the country near retirement age, there will be serious implications for state governments.

For instance, many state tax structures may not be well equipped to handle the aging population. Many states exempt all or part of private and public pension income from taxation. As more baby boomers retire, states may see dramatic declines in income tax revenues.

Work force shortages are also on the horizon. Baby boomers comprise as much as 60 percent of today's prime-age work force, and their retirements will leave many vacancies. A full 30 percent of the states' work force will be eligible for retirement by 2006. Moreover, states are going to feel the impact of the aging work force sooner than the private sector. So this is an important opportunity for states to lead the way in work force planning.

30 The percentage of state government workers eligible for retirement in 2006

Immigrant Nation: Changing Face of America

Another critical issue affecting states is immigration. The number of immigrants continues to increase in record numbers, and immigrants are dispersing to nontraditional immigrant states. People from Latin America and Asia make up the largest part of an all-time high of 34.2 million immigrants.

Diversity is an important value that strengthens states and local communities, but it also presents challenges and costs for states. Public safety officials, for instance, must deal with an increasingly diverse population. Immigrants may not have a clear understanding of state, local and federal laws, and this could lead to unnecessary encounters with state criminal justice systems. A lack of language and cultural training among law enforcement and correctional officers may further complicate matters.

Undocumented immigrants and their effects on states are harder to quantify. However, there are 250,000 illegal aliens in prisons, on probation or parole. States pay part of the costs of incarcerating and supervising deportees and undocumented immigrants who commit state and local level crimes, at an average cost of \$30,000 per prisoner per year. In fact, Arizona's governor asked the federal government to pay the state almost \$118 million for keeping thousands of undocumented immigrants behind bars.

Further, health care systems must prepare for and respond to racial and ethnic differences. Members of different ethnicities are particularly vulnerable to certain health concerns, including cancer. According to a 2004 Census Bureau report, the foreign-born population is more than twice as likely as natives to be uninsured.

12 The percentage of immigrants in the U.S. population



Growth Dynamics: Regional Hot Spots

The population growth patterns of America are also changing. The South and West are leading the nation in population growth. Population growth continues in suburbia and is spreading to exurbia. Urban sprawl is placing increased demands on environmental resources—affecting water resources, wetlands and habitat. Demographic shifts are also affecting farming practices. More than a million acres of farmland is developed for residential, industrial and commercial use each year.

These changing demographics are altering the political landscape. As the population shifts, regions of growth will gain political power as other regions lose political clout—at both the national level and within states. As the United States becomes an increasingly suburban nation, the political power of rural areas will decline.

States in regions of growth will also experience more demand for highways and public transportation. Population growth and urban sprawl have led to increased traffic problems and commuting times. In fact, we are already seeing an increased interest in public commuter rail lines in the South.

1 million

The number of farmland acres developed each year for residential, industrial and commercial use

Economic Transformation: Knowledge is King

The emergence of the New Economy also has significant implications for states. Over the past few decades, the United States has shifted away from a manufacturing-based economy to an economy based on technology and services. Technology and innovation have become the driving forces of the economy. Creative sector workers, such as engineers, computer programmers, financial planners and those involved in the arts and entertainment, account for nearly half of all wage and salary income.

Many state tax codes, however, were built around the old economy, which limits their current revenue streams. For instance, most states do not broadly tax services like those rendered by doctors, lawyers and accountants. In addition, states currently aren't able to collect sales taxes on products sold on the Internet. Economists estimate that states are losing more than \$16 billion in annual tax revenue to remote and Internet sales. As a result, they are unable to tap into the revenues from these growing sectors of the economy.

Moreover, for states to remain competitive in this new economic atmosphere, lifelong learning opportunities are critical. The new economy depends on a work force with a solid background in science and technology, and workers must have opportunities to continue learning throughout their careers.

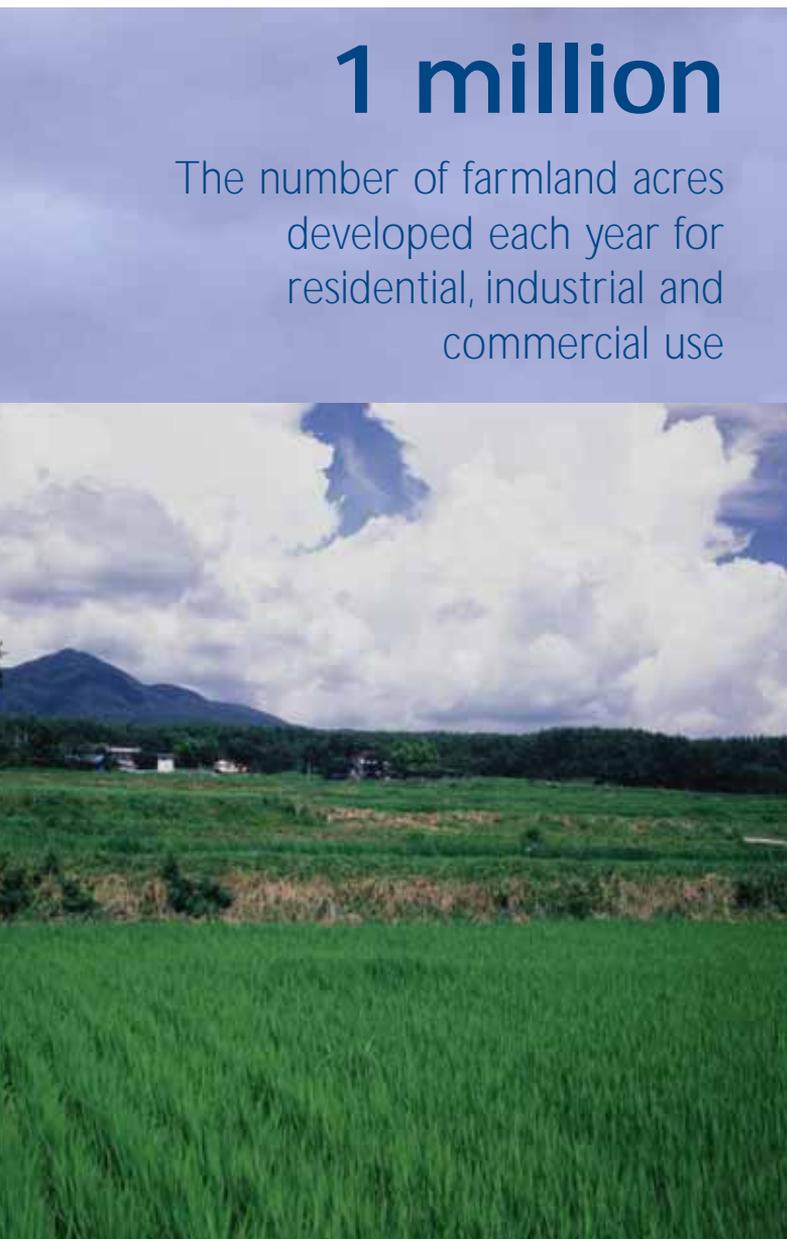
Globalization Era: New Forces at Work

We are in the midst of the age of globalization. Globalization is a process of integration among businesses, governments and people of different nations—driven by trade and investment—and accelerated by information technology. Rapid changes in the global economy are propelling states into the international arena.

Get Involved with Trends!

The expertise and insight of key decision-makers has been invaluable to CSG in addressing the 10 change drivers that will influence state government. We invite our members from all three branches of state government as well as our associates to share their state's experiences in addressing emerging state trends and issues, including suggested state legislation and regulations, innovative programs and projects.

Please visit our Web site at www.csg.org, email us at trends@csg.org or contact Annette DuPont-Ewing, national policy director, at (859) 244-8225 with suggestions, questions or information regarding state innovations and policy options that should be part of the December publication of *Trends in America*.



16 billion

The estimated annual tax revenue loss to states to Internet and remote sales

Globalization requires constant monitoring and evaluation by states to remain competitive in an increasingly global market.

International competition and trade agreements are presenting major challenges for states. International trade agreements decided at the federal level may limit states' abilities to exercise regulatory and legislative powers—in terms of both compliance costs and regulatory burdens. Recent negotiations of the Central American Free Trade Agreement clearly point out that states have a lot at stake and need to be active partners and advisors to the federal government in decisions to join international trade agreements. For instance, the cane-growing industry argues that 372,000 jobs in 19 states depend on sugar production, and that CAFTA could put these jobs at risk. States clearly need to have a seat at the table on these agreements.

At the same time, however, states are actively seeking international trade, cultural and educational opportunities. According to a report by George Washington University, in 2002 states spent approximately \$190 million on international programs (excluding investment incentives), up from \$20 million in 1982.

240

The number of offices states have in foreign countries



Information Revolution: Sorting it Out

Because of increased access to all types of information, individuals are becoming more demanding of both businesses and government. In the midst of this, however, there is a growing need to integrate and make sense of the fragmented information at our fingertips—to turn available information into value-added knowledge, for both the government and the private sector.

The increased access to and efficiency of information is changing communications between state officials and the public. Many state officials have personal Web pages and campaign sites. Their constituents daily send e-mail to their state officials. Those officials might even have a Web log, or “blog,” to discuss issues with the public. These new technologies offer candidates and elected officials the opportunity to communicate their messages instantly, and may level the playing field between candidates who have large campaign budgets and those who don't.

Critics argue that information technology is allowing interest groups to affect policy-making. In Colorado, some legislators moved to ban personal digital assistants on the legislature floor because lobbyists were sending messages to legislators on the floor trying to influence their votes.

Information technology is also setting the stage for the networking of governmental services, allowing government agencies to focus on managing partnerships with contracted agencies and companies, rather than providing the services themselves. Information technology also allows government and partner organizations to coordinate efforts, collaborate on projects and establish systems of accountability.

Privacy vs. Security: A Balancing Act

While new technologies present amazing opportunities for governments and businesses to offer new products and services, they also have the potential to erode personal privacy dramatically.

Since the Sept. 11 attacks nearly four years ago, Americans have struggled with the amount of personal privacy they are willing to give up for safety, especially as new technologies have allowed for increased levels of surveillance and tracking. Citizens are asking their leaders to help find the balance.

States are fighting new types of crimes created by technology, including identity theft and cyber crimes. More than 9.3 million Americans had their identities stolen in 2004, costing more than \$52 billion in fraudulent activities, according to the Privacy Rights Clearinghouse. And state leaders aren't immune to such crimes. Just this year, Gov. Ruth Ann Minner of Delaware became the victim of identity theft. While states are constantly searching for new ways to combat these crimes, state agencies may not have the training or equipment necessary to prosecute high-tech crimes, and jurisdictional barriers can complicate investigations of crimes in cyberspace.

The use of new technologies by the private sector also raises questions about the government's role in ensuring personal privacy. Data mining and information sharing allow companies to market specific services and products to fit individual needs, but they also give private companies access to vast amounts of

9.3 million

The number of Americans who had their identities stolen in 2004

personal information about individuals and families. State leaders will likely play a key role in determining how these technologies are used.

Resource Management: Sustaining Our Future

Resource management is also a growing concern in our world. States spend \$15 billion annually on environmental protection, 70 percent of which comes from state revenues. One example is the growing amount of e-waste that states are dealing with from electronic products, computers and cell phones. In addition, population growth in the United States and improved standards of living in other parts of the world are straining natural resources. Moreover, population growth and economic development choices can affect environmental quality and lead to gradual climate change.

Water scarcity will cause tensions among states and communities, particularly in areas of significant growth. Nine of the nation's fastest growing cities are in the West. While already stressed by persistent droughts, these areas are experiencing a rapid increase in demand for water. Similarly, the South is now engaged in water wars, due in part of population growth.

In addition, climate change is starting to have an economic impact on some states. For instance, melting ice caps can lead to rising sea levels, contributing to coastal erosion—which can be extremely costly for states. Recently, an Alaskan tribe was relocated from its submerging island to the mainland, at a cost of close to \$400 million in federal, state and local funds. The tribe members are known as the first “refugees of global warming.”

15 billion

The number of dollars states spend annually on environmental protection



Polarized Populace: Eroding Common Ground

The nation's political environment has become more polarized in recent years. At the same time, there has been a trend in recent decades of greater income inequality between the “haves” and the “have nots.”

This increased polarization is translating into a marked decline in civility among members of different parties. The political process has become even more adversarial. This means that compromise and consensus are increasingly difficult to achieve—a fact that can lead to political gridlock, burnout and frustration among elected officials and voters.

State officials are also increasingly focusing on controversial social and moral issues, such as gay marriage, abortion and contraception. Some people see the emphasis on these issues—and the partisan wrangling that often accompanies them—as distracting state officials from focusing on other basic services and roles of government. Others, however, may welcome states' involvement.

Ambiguous Authority: Who's in Charge?

Like most everything else in today's world, governing in the 21st century is more complex than ever. In the midst of this complexity, the balance of power is shifting to the federal government and away from states. Meanwhile, the relationship between citizens and state governments is evolving, placing new demands on states.

As a result, the states are asked to do more with less. States face significant and long-term structural budget problems that pose serious challenges for the future. At the same time, however, they also face increased costs associated with federal mandates, preemption of state powers and stringent “conditions of aid,” including those related to the No Child Left Behind Act and the Medicare Modernization Act. These demands on state governments are coming at the same time that some federal policies are constraining states' abilities to raise revenues, such as a federal moratorium prohibiting states from collecting taxes on electronic transactions completed out of state.

Meanwhile, the emphasis on efficiency has led to the rise of consumer-driven government. While this shift may improve the daily delivery of government services, if individuals tend to think of themselves merely as “consumers of government services,” rather than as “citizens working toward a common good,” they may adopt a “what's-in-it-for-me” approach to government. ■

90

The percentage of veteran state lawmakers who say their job pressures have increased over the past 20 years