

Trends in America

Charting the course ahead



*The premier organization in forecasting
policy trends for state leaders*

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—A message from CSG's Executive Director—

Dear Members:

Today's state officials and policy-makers have access to more information than ever before. At the click of a mouse, you can call up facts and figures on virtually any subject. And if you're not sure where to turn for information, there are countless advocacy groups willing to help you out.

Having access to information on a particular subject is one thing; being able to evaluate and interpret it in the broader context of today's rapidly transforming world is another. We live in a time of incredible transition, in the midst of changes so profound we will only be able to fully understand them with hindsight. But that doesn't mean we can't prepare for what lies ahead.

Our mission at The Council of State Governments is to help state policy-makers navigate the turbulent waters of governing in the 21st century. We seek to help you steer your state and constituents on the best course—not just avoiding the rocks and staying afloat, but moving forward toward a destination and a higher level of excellence.

We are creating new trends-oriented products that respond to what our members have asked for: analysis of relevant trends and their implications for states, along with policy options to pursue. *Trends in America: Charting the Course Ahead*, the first in a series of trends publications, highlights the major forces shaping our society, our political climate and our world, along with their implications for state government. These trends transcend specific issues and cut across traditional policy areas. They affect all branches of state government in all parts of the country. Our goal is to be a beacon for state leaders, illuminating the dangers and opportunities these powerful change forces present.

In addition, CSG is also working to develop and identify innovative options for states to address the many challenges emerging as a result of these trends. In December, we will produce the second edition of *Trends in America*, a follow-up report identifying specific steps state policy-makers can take—not just to respond to the changes already occurring, but to anticipate those yet to come.

Together, CSG's *Trends in America* publications will serve as critical tools for state leaders as they navigate the turbulent waters of our society today and tomorrow. At CSG, we see these publications as an essential component of our vital foresight mission. For state policy-makers, we hope they serve as important guidebooks, helping our members chart the course into the future.



Daniel M. Sprague
Executive Director

Navigating Complexity in the 21st Century

There is widespread agreement among today's authors and analysts that our 21st century world is turbulent, complex, dynamic and interconnected. Our economy and social composition are vastly more global and driven by different forces than those of only two decades ago. We communicate and conduct daily transactions in dramatically new ways, and the sheer volume of information and data flows available to most people 24/7 is mind-boggling.

At the core of these revolutionary shifts in society is massive change, but even more alarming is the incredible speed of change that confronts us as individuals and challenges our time-honored institutions. Charles Darwin noted that it is not the strongest or the most intelligent species that survive over time, but rather those most responsive to change. Historically, U.S. citizens look to government institutions to help our communities, states and nation respond to changing domestic and international developments. The question that now becomes paramount is what are governments doing to understand the nature of our fast-changing world and to transform themselves to better respond to the new demands and challenges of the 21st century?

Most of our current governance institutions were heavily influenced by 18th and 19th century European theorists and experience. Importantly, we incorporated our own American genius and preferences to these government institutions, but the point remains that while 21st century technology has revolutionized some important aspects of government, our basic institutional arrangements are grounded in an era long past. Even Max Weber, one of the seminal founders of the field of public administration in 19th century Germany, would readily recognize today's governmental organization.

In spite of this, the rate of change continues to accelerate. States can't afford to be entrenched in bureaucratic, change-resistant structures. The challenge is for states and their institutions to become more flexible and responsive to the rapidly changing environment in which they operate.

In times of radical change, state policy-makers need scouts to scan the horizon of change, interpreters to identify how these trends will impact state government and guides to present policy and program options to deal with quickly emerging conditions. Fortunately, The Council of State Governments is uniquely suited to serve in these capacities. Our regional offices help us identify emerging trends, keeping in mind that they don't affect all states or geographic areas exactly the same way. Our members come from all three branches of government, providing multiple perspectives no other organization can match. Many of our private-sector

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Associates share with us trends they've identified in working with combinations of states. And, our affiliated state official organizations draw upon their specialized expertise to help us identify rapidly changing circumstances and potential responses to them.

In our work as scanners and interpreters, we have identified 10 major change drivers that cut across traditional policy areas. These change drivers are already affecting states and will continue to impact them for years to come. Although these change drivers all have long-term implications, CSG's focus is on what they will mean for state officials over the next five years.

Trends in America: Charting the Course Ahead is the result of extensive research and regular interaction with policy experts from private and public sectors. The goal of this report is to help our members see the big picture of today and outlines of tomorrow as they engage in the demanding work of passing laws and executing programs in response to constituents' needs. Our hope is that understanding these 10 powerful change drivers and their implications will help state officials respond to the unprecedented transformations taking place—not only to help them govern better today, but to prepare state leaders for the challenges ahead.

CSG's work would not be complete without also identifying innovative options and programs so that states may address the issues and implications of trends. In December, we will produce the second edition of *Trends in America* that will outline possible steps state policy-makers can take to respond to the changes already occurring and anticipated in the future. We hope that, together, these publications will serve as powerful decision-making tools for state leaders.



— Trends at a Glance —



Change Driver #1

Silver Society: Aging of America

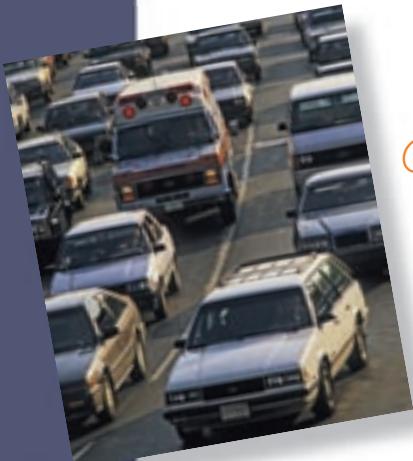
Because people are living longer and having fewer children, the percentage of older people in the United States is growing. The number of people older than 65 will more than double between 2000 and 2050, and the population over age 85 will quadruple. Fueling America's population transformation are the 76 million baby boomers born between 1946 and 1964. What difficult decisions will states have to make as the population ages?



Change Driver #2

Immigrant Nation: Changing Face of America

The percentage of the population comprised of immigrants is close to record levels, and the number of immigrants is at an all-time high. In recent years, most immigrants have come from Latin America and Asia. And many of these newcomers are dispersing to areas and states where immigrants traditionally have not lived. What are the economic impacts to states as the immigrant population increases?



Change Driver #3

Growth Dynamics: Regional Hot Spots

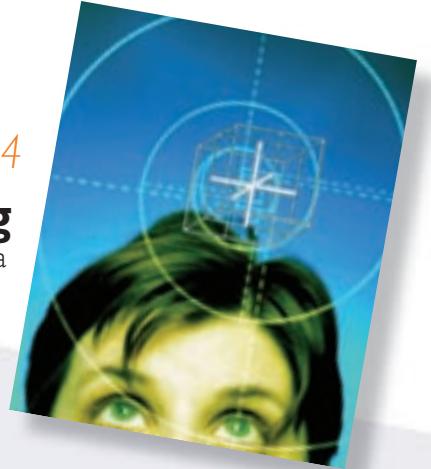
While the South and West are growing faster than the rest of the nation, another population trend is taking place. The population in all regions is becoming more concentrated in suburban areas. And people are moving beyond the traditional boundaries of suburbia into what is now known as exurbia. How will the changing demographic landscape alter the demand for education, health care and other services?

— Trends at a Glance —

Change Driver #4

Economic Transformation: Knowledge Is King

The United States has gradually shifted from a manufacturing-based economy to a technology- and service-based economy. The new economy will be marked by technological advancements that enable businesses to locate almost anywhere. In the era of knowledge, new high-tech solutions and innovations will continue to foster economic development. Are state economic development and fiscal policies adapting fast enough to keep pace with these dramatic changes?



Change Driver #5

Globalization Era: New Forces at Work

Globalization will continue to integrate businesses, governments and people across the world. This process will be driven by trade and investment and accelerated by information technology. Rapid changes in the global economy will propel state governments into the international arena and constantly demand greater levels of awareness and engagement among state officials. Are states equipped to compete and take advantage of benefits offered by the global economy?



Change Driver #6

Information Revolution: Sorting it Out

The Internet has revolutionized information dissemination. Because of increased access to vast amounts of information, people will become more demanding of both business and government. There will be an increased emphasis on the art of communication. And there will be a growing need to integrate and make sense out of the fragmented information that's available. Is this the age of information overload? How will "blogging" affect the political process?





— Trends at a Glance —



Change Driver #7

Privacy vs. Security: A Balancing Act

New technologies will present businesses and governments opportunities to increase their efficiency and offer new products and services. But they will also have the potential to dramatically erode personal privacy. Homeland security concerns, data mining, personal profiling and identity theft are just some of the evolving issues transforming our society. States are finding themselves on the frontlines of far reaching privacy and security policy questions. Is America trending toward less privacy?



Change Driver #8

Resource Management: Sustaining Our Future

Americans will continue to use large amounts of energy, electronic devices, paper and natural resources and generate large volumes of wastes. The growing U.S. population, combined with economic growth and increased consumption in other nations, will continue to increase demands on natural resources and the environment's capacity to assimilate wastes. Are states open to innovative solutions that address current and emerging natural resource issues?



Change Driver #9

Polarized Populace: Eroding Common Ground

The political process is more polarized now than it has been since the early 20th century, and the polarized debate has focused largely on "culture wars." At the same time that the country has become more polarized in the political arena, there is also a trend of greater income inequality. What are the far-reaching consequences of political and economic polarization on state government?



Change Driver #10

Ambiguous Authority: Who's in Charge?

Governing in the 21st century will be increasingly complex and dynamic. Although states have taken on more responsibility for implementing federal programs, the balance of power is shifting to the federal government. At the same time, the relationship between citizens and state government will continue to evolve and change, placing new demands on state government. Is cooperation among the states an effective strategy to prevent or address federal pre-emption of state powers?

Silver Society: Aging of America

What are the trends?

Two simple facts are shaping America's future: People are living longer and having fewer children. The outcome of these two trends is that the percentage of older people in the United States is growing. The aging population will have profound consequences, which state leaders are beginning to recognize but largely have not addressed.

In the first half of the 20th century, the graphs of population distribution by age group resembled half-pyramids, with a large base of younger people supporting a small top layer of older people. Longer life expectancies in the future should change that half-pyramid into a bullet-shape.

Most social programs, public and private health insurance systems and retirement funds rely on younger working generations to support older generations. There are currently nearly five people of working age for each older person. In the near future, this ratio will drop to fewer than three workers for each older person. Demographers and policy-makers alike worry there will not be enough younger workers or productivity gains in the economy to adequately address these programs' future financial needs.

According to the U.S. Census Bureau, the number of people older than 65 will more than double between 2000 and 2050, and the population over age 85 will quadruple. Fueling America's population transformation are the 76 million baby boomers born between 1946 and 1964. This unusually large demographic group has changed America's institutions as they have grown older, starting with schools and then moving into the work force. The boomers' upcoming exodus from the work force will gain momentum rapidly as the first wave of boomers turns 65 in 2011.

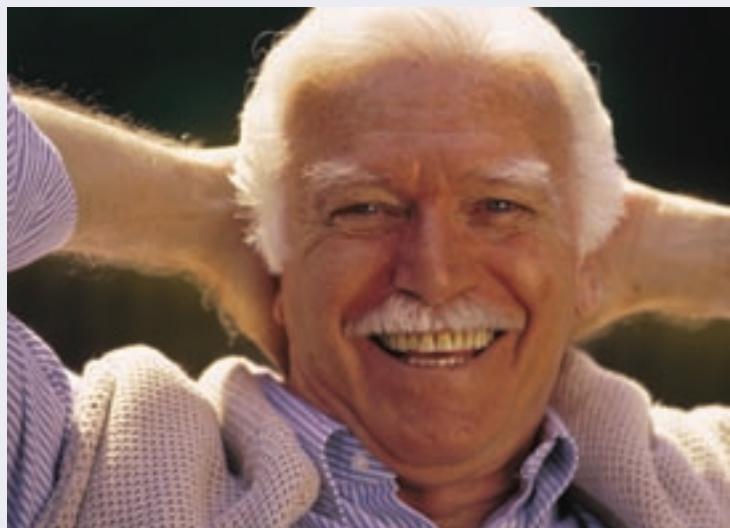
What does this trend mean for states?

Americans' expectations of what it means to get older are changing. This is partly because of the boomers' influence. The boomers are healthier, more financially secure and more educated than previous generations. Despite these positive characteristics, the aging of the population will provide many challenges as well.

The aging of the population will continue to exert pressure on health care costs, forcing difficult choices. According to the Centers for Disease Control and Prevention, health care expenditures for a 65-year-old on average are four times those for a 40-year-old. Because there will be more older people who live longer, experts predict that overall U.S. health care expenditures will increase 25 percent by 2030.

Long-term care needs are particularly problematic. The Medicaid program is currently the largest payer for those types of services, accounting for almost half of all long-term care spending. Few Americans have

- As people live longer and have fewer children, the percentage of older people in the U.S. population is increasing.
- The number of working-age people compared to the number of retirees is decreasing.
- The 76 million baby boomers are nearing retirement age.



“States and communities would be well advised to adapt their physical infrastructures and services to the needs of older Americans.”

—Gov. Jim Douglas, Vermont

long-term care insurance or sufficient resources to provide for their needs should they become disabled. Thus, the government ends up picking up the tab.

Changing family structures combined with the aging population may lead to a caregiving crisis. Currently, families provide most of the support for aging individuals. According to the National Family Caregiving Alliance, nearly one out of every four households is involved in caring for people age 50 or over. The combination of an aging populace and changing family structures—including fewer children, higher divorce rates, more single parent families, greater job mobility and delayed childbearing—means that family members may provide fewer of the support services seniors need in the future.

Because states and localities are often the human service payers and providers of last resort, there are concerns about the adequacy of social service networks and the potential rise of elder abuse and neglect. There is already a shortage of allied health professionals such as nurse aides, who could help fill the caregiving gap, and the shortage will only get worse in the next few years.

State tax structures may not be well-equipped to handle the aging of the population. As the population ages, state tax collections will be affected. State budgets rely heavily on income and sales taxes for revenue. As more and more baby boomers retire, states may see a dramatic decline in income tax revenues. Why? For one thing, many

states exempt all or part of private and public pension income from taxation. This results in a smaller tax base.

Although baby boomers are wealthier than previous generations, their consumption patterns may change as they age. For instance, older individuals may spend more money on non-taxed services such as health care. In addition, retired baby boomers may have less disposable income than they did while they were working, which could affect state sales tax revenues.

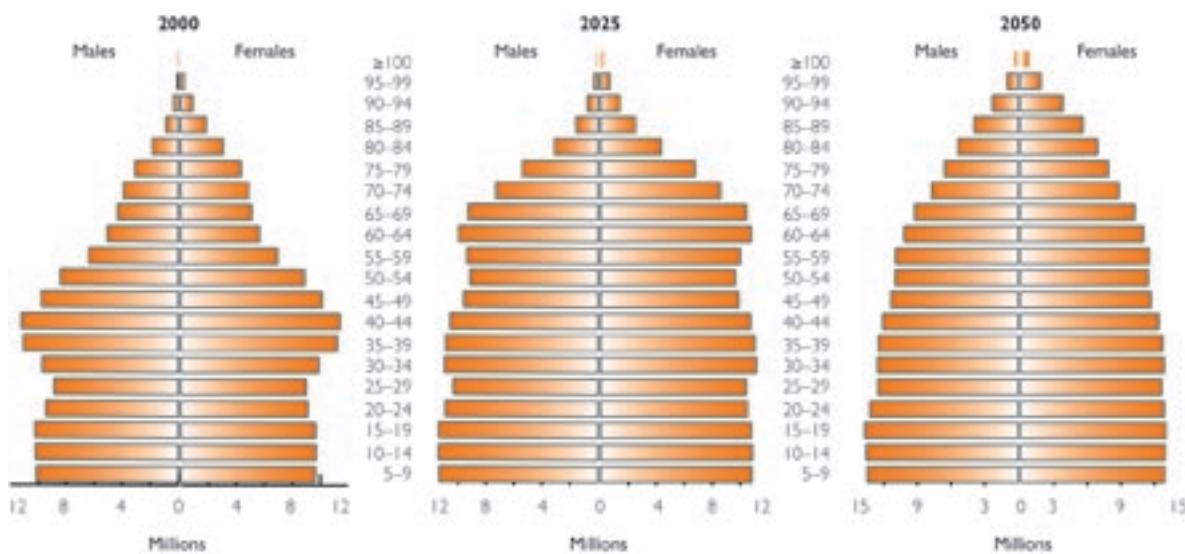
Also, many states have enacted a homestead exemption or have given tax credits that reduce the amount of property taxes paid by the elderly. This exemption may restrict local revenues, possibly putting greater emphasis on intergovernmental aid.

Work force shortages are on the horizon and will be particularly problematic in certain sectors of the economy. Since a vibrant economy can translate into a healthy revenue base, states are closely examining aging's impact on the work force. Baby boomers comprise as much as 60 percent of today's prime-age work force, and their retirement will leave many vacancies.

Some economic sectors will be hit harder than others. Don Jakeway, CEO of the Michigan Economic Development Corporation, notes that the need for many manufacturing positions may be eliminated by industry advancements as technology, robotics and new techniques increase productivity and require fewer people.

Demographic Changes: An Aging Population

The generations trailing the baby boomers are smaller, resulting in increased competition for those workers. Given the healthcare needs of an elderly population, this shift is only going to exacerbate current health care work force shortages.



Source: U.S. Census Bureau

However, the labor-intensive service sectors may face a different scenario. Health care, teaching and other service industries are expected to experience acute shortages as the need for additional workers increases just as many workers are eligible to retire. State governments are particularly vulnerable to future work force shortages. Thirty percent of the states' work force will be eligible for retirement by 2006, according to a 2002 study by CSG and the National Association of State Personnel Executives.

State pension and retirement systems face funding problems. As federal policy-makers debate the future of Social Security, state pension and retirement funds face similar funding dilemmas. The combination of poor economic returns in the recent past and growing liabilities from increasing numbers of retirees has translated into funding problems for nearly every state's public retirement system.

This is occurring at a time when state revenues are not rising sharply and the costs of other state priorities, health care in particular, are increasing. Since state courts have declared that government must pay all pension benefits regardless of the state's fiscal situation, states are looking into ways to deal with the current funding situation and avoid similar situations in the future.

There is a growing need for elder-ready communities. "States and communities would be well advised to adapt their physical infrastructures and services to the needs of older Americans," said Vermont Gov. Jim Douglas. Elder-ready communities are pedestrian-friendly, have public transportation options and are relatively compact so that people do not have to travel far to get to the grocery store, pharmacy or health care providers. Because mobility is a major consideration as people age, elder-friendly communities focus on alleviating the problems associated with elderly drivers. As age increases, sensory and motor capabilities decline, perception and attention impairments become more common and, as a result, driving becomes more difficult. According to the National Highway Traffic Safety Administration, drivers over the age of 65 are more likely than all other drivers to be involved in and killed in traffic accidents on a per-mile-driven and per-licensed-driver basis.

Elder-ready communities have elder-friendly housing such as smaller, one-story dwellings. Older people often do not want to live in large houses that require a lot of upkeep. In addition, as more people retire and live on fixed incomes, housing affordability will become a major issue.

States are already promoting the concept of elder-ready communities. In 2000, Florida launched its Elder Ready Communities Program to help local leaders assess their community's elder readiness and develop a plan to promote an elder-friendly environment. By actively encouraging local communities to be sensitive to the needs of seniors, states can play a major role in addressing the effects of the aging population.

What does the future hold?

In the next few years, we won't experience cataclysmic effects from the aging population. The changes will be gradual, but over time the cumulative demographic, social and political consequences will likely be dramatic.

Scientific and medical advances will continue to contribute to long and relatively healthy lives. The recent trend toward policies that favor home- and community-based care, rather than institutional care, will continue, and new technologies will allow seniors to live independently longer. Health care and services that cater to older Americans will play an increasingly significant role in the economy. End-of-life and quality-of-life issues will take a prominent place in political debates as people live longer—sometimes with serious medical conditions.

The aging baby boomers will redefine what it means to retire. Many will continue working well into their 70s and 80s, perhaps retiring from one career to try something new. Others will be actively engaged in their communities through volunteer work or political activism. One way or another, the boomers will force policy-makers to reconsider the way retirement systems are structured and funded.



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expenditures will increase 25 percent by 2030.

Immigrant Nation: Changing Face of America

What are the trends?

The United States is known as a nation of immigrants, and recent trends have continued that tradition. The U.S. Census Bureau estimates that immigrants comprised about 12 percent of the total U.S. population in 2004 with 34.2 million people, an all-time high number of people. This proportion is close to the record percentage reached during the early 20th century.

Compared to historic trends, the landscape of immigration today is unique in two ways. First, the majority of immigrants no longer come from Europe. In recent years, people from Latin America and Asia have made up the largest segments of the foreign-born population. According to the Census Bureau, in 2004, 53 percent of the foreign-born population originated in Latin America, while 25 percent were born in Asia.



Second, many of these newcomers are dispersing to areas and states where immigrants have not traditionally lived. Although most immigrants live in the gateway states of California, Florida, Illinois, New Jersey, New York and Texas, other states have experienced a substantial influx of immigrants over the past decade.

Immigrants play an important role in the U.S. economy. They contribute to the nation's cultural diversity, and those who have

fled conflict and persecution in their countries of origin are important spokespersons for the United States and the values for which it stands. There is debate over whether America should be known as a "melting

pot," in which immigrants assimilate into one mainstream culture, or as a "mixed salad" consisting of unique cultures and traditions. Nevertheless, diversity is an important value that strengthens states and local communities, but it also presents challenges and costs.

What do the trends mean for states?

Given a lack of national policy or guidance, states are taking matters into their own hands to provide immigrants with jobs, education, training and health care—critical components to social integration. All of this, however, comes with a price tag. A report by the National Academy of Sciences in 1997 found that immigrants and their children contribute more in taxes than they receive in federal, state and local government benefits combined over their lifetimes. When looking at just the state and local levels, however, immigrants use more government services than they pay state and local taxes.

Immigrants play an important role in state economies. Immigrants provide skilled and unskilled labor needed to keep the U.S. economy going. According to the Census Bureau, immigrants account for 14 percent of the total work force and 20 percent of the low-wage work force. In the last decade, one out of every two new workers in the labor force was foreign born. And it is expected that immigrants will play an increasingly important role in fueling state economies by filling vacant positions created by the retiring baby boomers.

From an economic perspective, there are two distinct groups of immigrants—those with high-tech skills and high levels of educational attainment, and those without. Members of these two groups face very different futures in terms of assimilation, job opportunities and their economic contribution to society.

In some states, immigrants are a critical component of the work force for specific industries, such as agriculture, hotel services, construction, health care and computer programming. "Immigrants fulfill important work force shortages and add economic value to state and local communities," said Senate President Earl Ray Tomblin of West Virginia.

Although most foreign-born workers are here legally, undocumented workers play a significant role in our econo-

According to a 2004 Census Bureau report, the foreign-born population is more than twice as likely as natives to be uninsured. In 2002, for example, 12.8 percent of the native population did not have health insurance compared to 33.4 percent of the foreign-born population.

my—but one that is harder to measure. Exactly how much undocumented immigrants contribute to state economies, pay in taxes and use public services is unclear.

As with native children, educating immigrants is a vital social and economic interest. Educating immigrants at the elementary, secondary and post-secondary levels, however, presents many unique challenges. Most notably, studies have shown that language and cultural differences between students and teachers inhibits learning and widens the achievement gaps between natives and immigrants. Even when students speak English, teachers often struggle to communicate effectively with non-English speaking parents about their children's performance and needs.

Not all foreign-born students face similar learning challenges. Compared with other immigrant groups, Asian immigrants, for example, have a relatively high educational attainment rate. Nevertheless, states with high levels of immigration appear unprepared to deal with the influx of non-English speaking students. The number of K–12 English Language Learners (ELL) in the United States, for example, has increased dramatically since 1990. Despite this change, few public school teachers instructing ELL students have received proper training or have a degree in English as a Second Language or bilingual education.

Although immigrants are less likely than natives to possess a high school diploma, those who have completed high school are more likely to have a graduate degree than their native born counterparts. However, immigrants without a high school degree outnumber those with graduate degrees.

Health care systems must prepare for and respond to racial and ethnic health differences and cultural and health literacy issues. States face many challenges in providing necessary health care to immigrants, both documented and undocumented. Asians, for example, have higher rates of stomach and liver cancers. Hispanics have higher rates of cervical, esophageal, gallbladder and stomach cancer, and a disproportionate number of Hispanics die from cancer.

People from different cultures may shy away from certain treatments, and some cultures may prefer nontraditional remedies over mainstream medical practices. Health literacy, which is the ability to read, understand and act on health information, is much more problematic for non-English speakers. Even a lack of basic awareness about the American health care system can lead to problems. For example, immigrants may show up at a hospital or clinic expecting free health care, if a national health system provides free care in their homeland.

In addition, according to a 2004 Census Bureau report, the foreign-born population is more than twice as likely as natives to be uninsured. In 2002, for example, 12.8 percent of the native population did not have health in-

- The number of immigrants continues to increase to record levels.
- Immigrants are becoming a larger proportion of the American population.
- Immigrants from Latin America and Asia make up the largest segments of the foreign-born population.
- Immigrants are dispersing to nontraditional immigrant states.



“Immigrants fulfill important work force shortages and add economic value to state and local communities.”

—Senate President Earl Ray Tomblin, West Virginia

surance compared to 33.4 percent of the foreign-born population. The lack of insurance, spiraling Medicaid costs and a shortage of health care workers are causing many states to consider health benefit reforms that may disproportionately impact immigrant communities.

States can help address the differences among groups by ensuring that relevant health care information is available in various languages through educational campaigns geared at certain populations and by helping to ensure that health care providers are equipped to serve the states' diverse populations.

Immigrants may not have a clear understanding of state, local and federal laws. This lack of knowledge, combined with cultural differences, can lead to unnecessary encounters with law enforcement and the criminal justice system. A lack of language and cultural training among police and corrections officers often exacerbates problems in some communities. Additionally, many undocumented immigrants are reluctant to report crimes and resist help from law enforcement officials for fear of being deported.

A study outlined in the 2003 *National Institute of Justice Journal*, for example, found that immigrant women who are victims of domestic violence face many unique challenges. Like other domestic violence victims, they are afraid to report abuse to the authorities for fear of exacerbating their abusers' anger and losing the abusers' economic support. For immigrant women, however, these fears are "compounded by additional worries caused by language barriers and possible immigration problems for themselves and their extended families. Like many minority crime victims, these women also face personal and cultural obstacles."

Undocumented immigrants present special challenges for state criminal justice officials. According to the U.S. Bureau of Justice Statistics, as many as 250,000 illegal aliens marked for deportation are now serving time in U.S. prisons or are on probation or parole. States pay part of the



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costs of incarcerating and supervising deportees and undocumented immigrants who commit state and local-level crimes. Considering that incarceration costs average more than \$30,000 a year per prisoner, state officials are seeking ways to reduce expenses, without compromising public safety. In fact, Arizona Gov. Janet Napolitano has asked the federal government to pay the state almost \$118 million for keeping thousands of undocumented immigrants behind bars over the past 18 months.

What does the future hold?

Barring significant changes in federal immigration policies, states will continue to see a rise in their foreign-born populations, with Latinos and Asians comprising the bulk of these increases. Although immigrants will continue to gravitate toward states like California, Florida and New York, they will also disperse to other states that are not as familiar with the unique needs of immigrants. And immigrants will continue to play a critical, yet evolving role in our society

and economy.

"Long-term success for multiethnic societies requires sustained attention to ... solving the immigrant and minority integration puzzle in ways that fully respect the democratic and associated principles that define these societies," according to Dr. Demetrios G. Papademetriou, president of the Migration Policy Institute. Schools will shoulder the burden of English language training and assimilation. In states where immigrants are eligible for public services, many low-income immigrants will continue to require assistance with health care and related services. States that invest in helping immigrants assimilate into American society will benefit as new generations of American citizens are born into immigrant families. These mixed-status families can make larger social and economic contributions if given the opportunity and if states invest now.

Growth Dynamics: Regional Hot Spots

What are the trends?

In today's world of instant communications and rapid economic changes, people—and companies—are more mobile than they used to be. People are more footloose than in the past, and many choose where to live based on quality-of-life factors such as safety and natural amenities. According to the U.S. Census Bureau, the proportions of the population living in the West and South are on the rise, while the Midwest and Northeast's shares of the population are decreasing.

California, the demographic and economic giant of the West, has fueled much of the region's expansion for years. International immigration is a major factor in the West's continued growth while much of the South's population increase is attributable to domestic migration. By the mid-1990s jobs were following people to the West, while migration to the South has been partly the result of intense state economic development efforts, from promoting research and development in North Carolina's Research Triangle to recruiting automobile manufacturers throughout the region.

Population growth continues to concentrate in and around suburbia. This trend has been around for a long time. What has changed, however, is the definition of suburbia. As the inner rings of suburbs around growing cities have expanded, people are choosing to move into the less populated outer rings of suburbia, which are now known as exurbia. Urban sprawl, or low-density, suburban development, is occurring across the country, and it is reaching new dimensions. But this trend is particularly pronounced in the South.

What do these trends mean for the states?

Both the quantity of population growth in the South and West as well as the type of growth—low-density development into the outer rings of suburbia—have profound effects at the state level.

There is increasing demand for government services in growing regions. As the population grows, state officials have to respond to their needs. "More people means more demand for government services such as education, public safety, infrastructure development and health care," said Nevada Assemblyman Lynn Hettrick. "This is coming at a time when the costs of many of these services are on the rise."

On the flip side, some states will experience slow growth or even population losses in the future. These states will have relatively smaller tax bases, but they will still have to provide certain core services. So providing cost-effective services is an important issue.

The cost of housing is rising in growing areas. As affordable housing has become scarcer in many parts of the country, housing has become a

- The West and South are leading the nation in population growth.
- Population growth continues to concentrate in and around suburbia.
- Suburbia is spreading into exurbia.



“**More people means more demand for government services such as education, public safety, infrastructure development and health care. This is coming at a time when the costs of many of these services are on the rise.**”

—Assemblyman Lynn Hettrick, Nevada

more prominent issue on state officials' radar screens. In the new economy, affordable housing is an important quality-of-life factor that can influence where people choose to live, and, consequently, where companies choose to locate.

Home values are highest in the fast-growing West, leading some people to search for less expensive housing in other locations. Some Californians, for example, are leaving the state. For the most part, they're moving to other fast-growing but relatively less expensive places in Nevada, Texas, Georgia, Colorado and North Carolina.

Growing regions are experiencing increasing demands for highways and public transportation. A growing number of people work outside their home counties, partly because of the search for affordable housing. The results are more traffic and longer commute times.

Longer commutes mean less time to spend with family and friends and less time for hobbies, recreational activities and civic involvement. Commuting is stressful, which can lead to several health and work-related problems. Partly due to the stress associated with commuting, there is an increased interest in public commuter rail lines in the South.

Growing regions are under pressure to construct new schools and educate more children. Overcrowding in schools can be attributed to several circumstances, including increases in enrollment because of immigration, domestic migration and the baby boom echo—the children of baby boomers. Increasing enrollment in these growing areas leads to a need for more teachers and possibly new school

buildings. At the same time, concerns about equitable education finance are leading some states to distribute resources more evenly among growing, stagnant and declining areas.

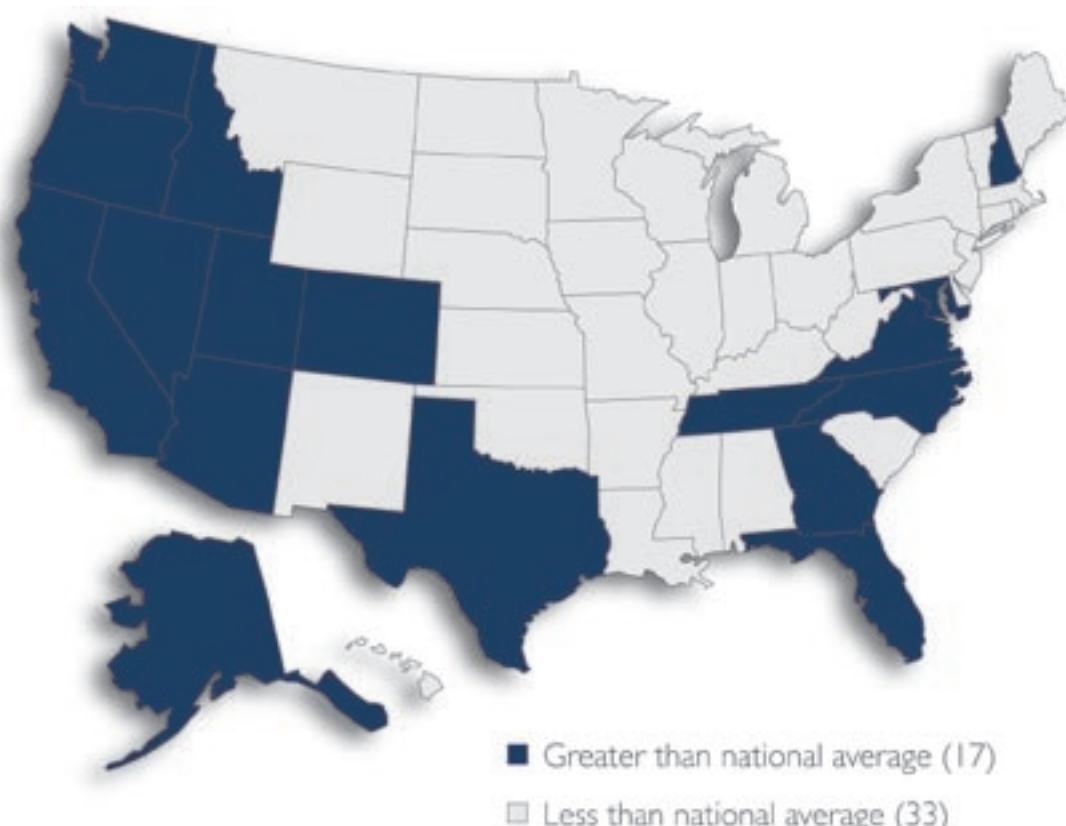
Because the South and parts of the Southwest are retirement destinations, these regions will especially feel the effects of the aging baby boom generation, but they are also experiencing a growing school-age population. The confluence of these two trends is a double drain on state finances.

As people migrate to growing suburbs in the South and West, this may lead to critical work force shortages in other regions. Work force shortages can negatively impact state economies by increasing the cost of or restricting access to certain goods and services. In addition, work force shortages have the potential to limit state revenues by lowering the income tax base.

States are already experiencing work force shortages in certain sectors, such as health care. In many rural areas, clinics and hospitals are struggling to survive as the population base shrinks. Operating margins at safety net hospitals and clinics can plummet, threatening health care access for many residents.

The changing demographic landscape is altering the political landscape. As the population shifts, growing regions will gain political power as others regions lose political clout. This is true at both the national level and within states.

Percent Change in Population Projections, 2005–2030



Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005

Policy-makers need to know how many people will be using government services, but they also need to know what types of services they will need and how to pay for them.

As the United States becomes more and more a suburban nation, the political power of rural areas is diminishing. Redistricting plans will likely continue shifting legislative power to the metropolitan areas, and the number of rural residents elected to state offices will continue to decrease.

Increasing demands are being placed on environmental resources. For instance, urban sprawl contributes to air pollution, especially ozone pollution, because of increased commuting time. And as urban areas spread into neighboring lands, preserving ecologically valuable wetlands and other habitats becomes more important. A great deal of plant and animal species extinction can be attributed to loss or degradation of habitat caused by residential and commercial development, so states are likely to face challenges balancing the needs of humans with those of endangered species.

In addition, regional shifts in population are accentuating water shortages. There is a growing disconnect between rural and urban water interests. In rural areas, farmers need water for irrigation. Growing populations in urban areas, however, compete for water supplies to service their increasing residential and industrial demand. While these intrastate and interstate conflicts are relatively common in some areas of the West, they are becoming increasingly common in other parts of the country.

Demographic shifts are affecting farming practices. Shifting population patterns are changing farming practices in many areas. Some farmers are taking advantage of growing populations by operating equine facilities and agritourism operations that cater to these populations. At the other extreme, some farmers are choosing to get out of the business all together. According to the American Farmland Trust, more than 1 million acres of farmland are developed for residential, industrial and commercial use each year.

As subdivisions are constructed next to operating farms, there is an increasing conflict between farmers and residents. Some residents, after moving to these subdivisions, complain of the noise and odors produced on farms. This potential conflict is especially likely in areas with large-scale farming operations. These conflicts are creating a growing demand for some states to address “right-to-farm” laws, which exempt farms from nuisance laws.

What does the future hold?

These trends in regional population growth are likely to continue for the

foreseeable future. For the next few decades, the West is predicted to grow twice as fast as the national average. The Northeast and the Midwest will grow at just one-half of the average. However, there is some evidence of a countertrend. For instance, some places in the Midwest are becoming more attractive to people fleeing California’s high property costs and long commutes. Whether this trend continues or how it impacts the Midwest’s population growth remains to be seen.

The percentage of the population living in metropolitan areas, more specifically suburban areas, is expected to increase over the next two decades. While suburbia is expected to grow, there is increasing interest in how this development occurs. The principles of smart growth, livable communities, healthy communities, new community design and elder-friendly communities are starting to merge to create momentum for addressing issues related to urban sprawl. As Delaware Gov. Ruth Ann Minner explains, “Neighborhoods are not just a collection of individual houses; they are a community. Just as we are striving to create livable communities as our state grows, we have an opportunity to turn our existing subdivisions into livable neighborhoods.”

Population shifts affect all areas of public policy. To plan for the future, “The numbers alone won’t tell you what you need to know. State policy-makers should understand how and why these demographic shifts are occurring,” said Marc Perry of the Census Bureau. That is, policy-makers need to know how many people will be using government services, but they also need to know what types of services they will need and how to pay for them.



Urban sprawl contributes to air pollution, especially ozone pollution, because of increased commuting time. And as urban areas spread into neighboring lands, preserving ecologically valuable wetlands and other habitats becomes more important.

Economic Transformation: Knowledge Is King

What are the trends?

The “new economy” is a general term used to describe the many factors that have transformed the U.S. economy over the past few decades. Technological changes have given rise to new industries such as those based on biotechnology and nanotechnology. The United States is shifting to a service-based economy focused on ideas and knowledge, one that involves different skill sets than those required by the previous manufacturing-based system. In addition, our economy is now intricately linked to the rest of the world through globalization. The hallmark of the new economy is innovation, which is occurring at an increasingly rapid pace.

In the old economy, inexpensive land, labor and access to roads and natural resources gave states a competitive advantage. To be successful in the new economy, however, states also need good information infrastructure, highly skilled workers and amenities that enhance workers’ quality of life.

The old economy was characterized by large firms that did not always respond quickly to change. The new economy, in contrast, is characterized by small, entrepreneurial firms that are innovative and flexible. These firms are better equipped than many larger firms to take advantage of rapidly emerging and constantly changing niche markets. These small, innovative firms are responsible for most of the job creation in this country.

In contrast to the workers of the old economy who worked for the same company for life, workers in the new economy, asserts author Daniel Pink, act as free agents. Many of these workers are members of the creative class who generate new ideas and new technology. According to the economist Richard Florida, in 2002, creative professions such as engineering, computer programming, financial services, and the arts and entertainment comprised 30 percent of the work force, up from 20 percent in 1980. And creative sector workers account for nearly half of all wage and salary income.

What do these trends mean for the states?

Although much of the nation’s economic growth is generated by small, entrepreneurial firms, many state economic development efforts focus primarily on traditional industrial recruitment programs. States, however, are beginning to realize that economic development efforts in the 21st century may be different than those used in the

past. “Developing state policies to foster economic growth and expansion in the new economy is one strategy that can pay large dividends in the future,” said Delaware Gov. Ruth Ann Minner.

There is a growing need for lifelong learning opportunities. For generations, Americans have heard that education is the key to a brighter future. There is more truth to this statement today than ever before, but education doesn’t necessarily stop with a high school or college degree.

For lifelong learning to be fruitful, people need a good basic education. And a solid background in science and technology is important in the new economy. More Americans are enrolling in and receiving degrees from post-secondary institutions. However, the rate of degrees awarded in science and engineering fields is declining. The National Science Foundation reports that 21 percent of master’s degrees awarded in the United States in 2001 were in science and engineering, down from 30 percent in the 1960s. At the same time, foreign institutions have improved their programs and are now awarding the majority of such degrees.

Investment in research and development is becoming more important. While public funding for research and development was key to American innovation and the resulting economic expansion experienced during the 1950s and 1960s, federal funding for basic engineering and physical science research has experienced negligible growth over the last 30 years. Currently, according to the National Science Foundation, private sector investment in research and development now far outpaces public investments, with private sources funding more than 68 percent of research and development efforts.

This increasing importance of research and development is coming at a time when state investment in higher education is declining. This is putting some states in a precarious situation when it comes to competing in the new economy.

Venture capital and other types of financial capital are important to the creation and survival of many new economy firms. Venture capital is concentrated in just a few regions in the United States. Since most high-growth, high-tech firms may require venture capital, states are increasingly looking at options to help entrepreneurs access this type of financing.

The new economy will continue to force states to strike a balance between retaining elements of traditional sectors while adapting to the ever-changing demands of the new economy. Investments in education, services, technology and the creative sectors will prove an important part of state economic development efforts going forward.

In addition, a new type of financier is emerging. Angel investors, who are often successful entrepreneurs willing to invest in other entrepreneurial firms, are investing more and more money in growth firms. As a result, some states are looking at ways to encourage angel investors to provide financing for new economy firms.

Quality-of-life issues are important to the creative workers of the new economy. The workers of the creative class prefer vibrant downtowns, numerous recreational opportunities and cultural amenities. And, according to Richard Florida, they don't like urban sprawl.

This is leading to an increased interest in downtown revitalization and smart growth policies. Although community development and community revitalization are sometimes considered local issues, some states are looking to aid communities in their efforts.

Most state tax codes are built around the old economy, which may limit their revenue streams. The existing state tax structures are not in line with the fastest growing sectors of the economy. For instance, most states do not broadly tax services like those rendered by doctors, lawyers, accountants or auto mechanics. As a result, they are unable to tap the revenues from this growing sector of their economy.

In addition, the new economy has stewardship of the rise of e-commerce. Many products are increasingly sold on the Internet and through catalogs, but states currently aren't able to collect sales taxes on these purchases. Some economists estimate that states are currently losing more than \$16 billion in annual tax revenue to remote and Internet sales. A federal moratorium prohibits states from collecting tax on electronic transactions completed out of state. While the moratorium is set to expire in 2007, establishing uniform tax collection systems is a highly complex endeavor. This situation has prompted many states to join the Streamlined Sales and Use Tax Project—an initiative established to simplify and modernize sales and use tax collection and administration.

What does the future hold?

States face several challenges in the coming years that amount to an economic checkmate. The new economy will continue to force states to strike a balance between retaining elements of traditional sectors while adapting to the ever-changing demands of the new economy. Investments in education, services, technology and the creative sectors will prove an important part of state economic development efforts going forward.

The economic landscape is rapidly changing. State officials who scan the horizon and adapt policies, tax structures and economic development efforts in order to meet the changing demands will have the capacity to capture more of the benefits of the new economy while reducing the negative effects.

- The United States has gradually shifted from a manufacturing-based economy to a service-based economy.
- Innovation is the driving force of the new economy.
- Small entrepreneurial firms are creating more jobs than large firms.



“Developing state policies to foster economic growth and expansion in the new economy is one strategy that can pay large dividends in the future.”

—Gov. Ruth Ann Minner; Delaware

Globalization Era: New Forces at Work

What are the trends?

From the comfort of our homes or offices, we can communicate with people anywhere in the world with the click of a mouse. The pace of our lives is faster, more dynamic and more challenging than ever before. All of these trends are caused by a phenomenon called globalization. According to the Center for Strategic and International Studies, “Globalization is a process of integration among businesses, governments and people of different nations.” This process is driven by trade and investment and is accelerated by information technology.

Globalization poses challenges to 21st century governance. The power of non-state actors, including corporations and non-governmental organizations, is increasing. Economic globalization and the dispersion of technologies, especially information technologies, can place enormous new strains on national and state governments. Growing connectivity and the proliferation of virtual communities of interest are starting to complicate states’ ability to govern. Corporations are becoming global and more diverse, so they are increasingly outside the control of any state or nation.

Although globalization is here to stay, it is a dynamic process that requires constant monitoring and evaluation. Rapid changes in the global economy have propelled state governments into the international arena and constantly demand greater levels of awareness and engagement among state officials. “We are living in a highly connected environment, so we have to recognize all the challenges and opportunities of globalization,” said Gov. Jim Douglas of Vermont. Today, no state can afford to ignore the trade relationships, environmental issues, cultural ties and other interests that link all levels of American government with the broader international community.

What do the trends mean for states?

Globalization has a profound impact on all aspects of state governance, from the economy to security, the environment and health. States, active players in the international arena, both contribute to and are affected by the increasing pace of globalization.

States are actively seeking international trade, cultural and educational opportunities. In a global economy, state

international engagement is essential for promoting economic growth and creating jobs for state residents. States have responded to the increased pace of globalization by investing in trade-promotion programs, cross-border environmental cooperation efforts, educational exchanges and a wide range of partnerships with counterparts around the globe. According to George Washington University’s *Global Activities by U.S. States: Findings of a Survey of State Government International Activities*, in 2002 states spent approximately \$190 million on international programs (excluding investment incentives), up from \$20 million in 1982.

According to the State International Development Organizations, only four states maintained overseas offices in 1980. Today, there are as many as 240 such offices. During the 2001–2002 legislative sessions, state legislatures passed 270 bills or resolutions on international topics, up from 72 in 1991–1992. States spend more than \$40 million a year for international cultural activities. Additionally, governors and lieutenant governors often lead or host international delegations to broaden knowledge and understanding of economic and cultural ties between the United States and our international partners.

International competition and trade agreements are challenging states. American businesses have to face not only domestic competition from their industry colleagues, they also have to respond and react to increasing international competition. In addition, international trade agreements decided at the federal level may limit states’ abilities to exercise regulatory and legislative powers. The agreements often impose new compliance costs and regulatory burdens. States may find themselves inadvertently violating trade agreements that were passed without their input. States may also be directly affected by decisions rendered by multinational bodies, such as the World Trade Organization.

This was the case when the Methanex Corporation of Vancouver, British Columbia, challenged the U.S. federal government under Chapter 11 of the North American Free Trade Agreement on California’s decision to phase out the use of a gasoline additive containing methanol, which the company makes. Methanex was not asking for the ban to be lifted, but rather for \$970 million in compensation if the

Rapid changes in the global economy have propelled state governments into the international arena and constantly demand greater levels of awareness and engagement among state officials.

company were prevented from doing business in California because of the ban. The decision is still pending.

Recent negotiations of the Central American Free Trade Agreement and the proposed Free Trade Area of the Americas clearly point out that states have a lot at stake and need to be active partners and advisors to the federal government in making decisions to join international trade agreements. State officials also have to fully understand all of the consequences such agreements may bring.

“Off-shoring” and “outsourcing” are impacting state economies. Manufacturing jobs are disappearing from the United States. As a result of stiff competition and economic shifts, labor-intensive jobs are moving to cheaper markets overseas. However, many jobs that require significantly higher levels of skill, such as computer programming and other IT applications, are also being off-shored. Potential job losses because of off-shoring and outsourcing could profoundly affect state economies.

At the same time, many critical U.S.-based occupations, such as teachers, doctors and nurses, that are not filled by Americans are being “in-sourced” to highly skilled foreign nationals. Moreover, foreign companies continue to invest in U.S. industries, which have a positive impact on the “bottom line.”

Protecting public health is more difficult than ever. In the era of global connectedness, the ease of international travel has resulted in the worldwide spread of infectious diseases and other health threats. For example, the Severe Acute Respiratory Syndrome (SARS) epidemic, potential outbreaks of monkey pox or the cases of bovine spongiform encephalopathy, commonly known as mad cow disease, all had economic ramifications in the affected countries.

Such incidents, while creating panic and directly affecting states’ economies, also raise questions about the potential for terrorist attacks on our food and water supplies. States are playing a larger role in protecting the safety of our food system and critical water infrastructure. First responders have more complex roles and responsibilities, including responding to potential terrorist attacks, such as the use of biological or chemical weapons.

Globalization presents unique challenges in environmental management. For instance, states are concerned with the threat of invasive species. The United Nations Convention on Biological Diversity defines invasive alien species as “species introduced deliberately or unintentionally outside their natural habitats where they have the ability to establish themselves, invade, out-compete natives and take over the new environments.”

- The pace of globalization is accelerating.
- Globalization poses challenges to state governance.
- Globalization is a dynamic process that requires constant monitoring and evaluation.



“**We are living in a highly connected environment, so we have to recognize all the challenges and opportunities of globalization.**”

—Gov. Jim Douglas, Vermont



Invasive alien species are considered the most important threat to biological diversity loss after habitat destruction. Once in place, it is very difficult to eradicate those organisms from the local flora and fauna. Just last year, Asian carp invasion was featured in many headlines. And zebra mussels' infestation of the Great Lakes area is expanding. Recently they were discovered in Lake George, N.Y. According to the Lake George Association, "They pose a multibillion dollar threat to the Lake George region's outdoor recreation, tourism, property value and municipal water supply."

Globalization presents challenges in the field of public safety and justice, such as transnational terrorism and drug cartels. In the age of global interconnectedness, it is easier for criminals to gather information, acquire weapons and—most importantly—to remain connected and organized from remote and multiple locations. The recent arrests of three individuals who plotted attacks on U.S. financial institutions provide an example of such activities. In April 2005, federal authorities revealed an indictment against three men in British custody in connection with possible terrorist attacks on financial targets in the United States. Officials have identified the targets as the New York Stock Exchange and Citigroup Center in Manhattan, the International Monetary Fund and the World Bank in Washington, and Prudential headquarters in Newark, New Jersey. Obviously, state officials in New York and New Jersey are concerned with the possibility of these types of terrorist attacks, but these terrorism concerns are not limited to these two states.



American businesses have to face not only domestic competition from their industry colleagues, they also have to respond and react to increasing international competition. International trade agreements decided at the federal level may limit states' abilities to exercise regulatory and legislative powers.

States are more involved in protecting our homeland and are bearing significant costs of this expanded responsibility. For instance, states need to train and equip law enforcement personnel to respond to different types of threats. As the role of state and local law enforcement in protecting the homeland expands, so does the need for cooperation and coordination within and among the various state institutions and organizations. This networking and better communication may help leverage limited state resources.

What does the future hold?

Globalization is not a new phenomenon, but its future is not fixed, either. The magnitude and speed of change resulting from globalization will define the future of the United States and the rest of the world. As states continue to struggle to meet domestic needs with limited resources, they cannot afford to neglect the pursuit of international engagement. Elected leaders need to increase their awareness of their states' international interests and activities in order to make informed decisions. States' future prosperity will depend on their ability to react and adapt to changing global dynamics.

In the era of globalization, efforts to inform policy-makers and the general public about our increasingly global society are critical. As globalization expert Earl Fry explains, "States are putting more emphasis on curriculum which will provide the skills that people need. They need to continue this approach, maybe adding more on international relations and language training, which will make Americans more sensitive to what is going on around the world." Ensuring that the U.S. work force adequately understands the economic and political dynamics of globalization is also important. Meanwhile, policy-makers must become fully aware of the needs and strengths of their own states to remain competitive in the global economy.

Information Revolution: Sorting it Out

What are the trends?

The Internet has revolutionized access to information. There is a vast amount of information available in cyberspace. That's both good news and bad news. It's good because people can get the information they want when they need it. On the other hand, there is so much information out there that it's difficult to sort through all of it to discern the quality information from the "junk."

Because of increased access to all types of information, people are becoming more demanding of both business and government. For instance, patients no longer have to take their doctor's word at face value. They can go online and find information about their condition. And people now have more access to information about government services, regulations and legislation than ever before.

The information revolution has brought with it an increased emphasis on communication. The Internet is one communication tool, but there are many others, including cell phones with text messaging and personal digital assistants. Instant access to information is now becoming instant access to people.

In the midst of all this, there is a growing need to integrate and make sense out of the fragmented information at our fingertips. There is a growing movement to turn this information into value-added knowledge, both for government and the private sector. After all, knowledge is power.

What do the trends mean for the states?

With increased access to information, people's expectations are changing. This is leading to numerous transformations in the public sector, ranging from changes in communication strategies to significant operational and structural modifications in state government. "Access to more information significantly improves decision-making and organizational efficiency but is creating new problems, particularly concerning privacy," said Rep. Roger Roy of Delaware.

Communication between state officials and the public is changing. In addition to state Web sites, many elected officials have personal Web pages and campaign pages. E-mail gives citizens unparalleled access to public officials and vice versa. Those communication vehicles will continue, but they are being supplemented by emerging technologies such as Web logs, also known as "blogs." Blogs are an extension of electronic bulletin boards where people can and do comment about almost anything.

Because of these changes, state officials can no longer rely solely on local newspapers or radio and TV stations to communicate their

- There is a vast amount of information available.
- Increased access to information empowers people and changes their expectations of business and government.
- There is increased emphasis on ways to communicate information.
- There is a growing need to coordinate fragmented information.



“**Access to more information significantly improves decision-making and organizational efficiency but is creating new problems, particularly concerning privacy.**”

—Rep. Roger Roy, Delaware



messages. They may have to post their messages on their Web sites, post on their blogs or comment on someone else's blog. Blogging offers candidates and elected officials the opportunity to quickly and efficiently broadcast their messages to anyone who is willing to receive it. Without the constraints of waiting for local news coverage or raising lots of money, blogs could level the playing field between candidates who have large campaign funds and those who don't.

E-government is changing the way government operates. E-government is helping states become more efficient. Access to information has empowered citizens. They now expect government to do more with less. In order to do that, governments are being challenged to integrate and streamline their operations, and e-government is an important part of the process.

During the first stage of e-government, states created Web sites on which they posted documents and forms. Most states are currently in the second stage of e-government, in which they provide at least some services online. For instance, several states allow residents to purchase licenses, pay taxes or renew vehicle registrations through their Web sites.

We are now entering the third stage of e-government, which is even more citizen-focused than the previous stages. Rather than organizing Web sites along the lines of how government is structured, states are beginning to organize them according to function, thus making it easier for citizens

State officials can no longer rely solely on local newspapers or radio and TV stations to communicate their messages.

who may not realize that one function is the responsibility of several agencies. Integration and streamlining are the guiding principles in this stage, and new technologies and easier access to information are allowing government agencies to collaborate more.

Information technology sets the stage for networking governmental services. Many governmental services are actually provided by nonprofit organizations or private companies. Information technology allows government agencies to focus on managing these partnerships rather than providing the services themselves.

Technology and information are the keys to making these partnerships successful. New technology has allowed state officials to access significant amounts of information about clients, the efficiency of services and the contracted organizations that provide the services. Information technology also allows government and partner organizations to coordinate efforts, collaborate on projects and establish systems of accountability.

New technologies allow for more public participation in the policy-making process. Citizens and interest groups have more opportunities for involvement in the political process. For example, while blogs are a new communication tool for state officials, blogging also enables the average citizen to compliment or critique candidates, government officials and government policies before a wide audience. People can use blogs to rally others to take action for or against public policies, which could bring new players to the policy debate and create additional competition for government officials' time and attention. In addition, bloggers are becoming fact checkers who could eventually usurp the mainstream news media as government watchdogs. Public officials' comments will be under closer scrutiny than ever before.

Interest groups can quickly learn what other states are doing in certain policy areas, a process that used to take a lot of time and resources. They can then pass this information on to their group members and public officials in an effort to influence the decision-making process. At the extreme, information technology can increase factionalism by helping individuals and groups with narrow agendas find one another in cyberspace and form ad hoc groups focused on a single issue.

Critics argue that information technology is allowing interest groups to have too much influence in policy-making. In Colorado, for example, some legislators recently moved to ban the use of personal digital assistants on the floor because lobbyists were sending messages to legislators telling them how to vote on certain issues. Critics

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claim that this instant access to state officials doesn't allow them time to think about issues and puts pressure on them to act too quickly.

There is a need to verify information. Rumors can spread quickly in the information age. There is no formal mechanism for people to know if they can trust information on the Internet. Bloggers now check facts and can shed light on misinformation. At the same time, they have the ability to disseminate any information they want before someone else can check their facts.

As futurist M. Rex Miller put it in the May–June 2005 issue of *The Futurist*, “We have little or no connection to the original sources of information and things we buy, use or believe. We’re moving away from a world we can touch and hold to a world that operates on intangibles like information and reputation.”

To maintain a good reputation among constituents, government officials have less room for error than ever before. Any inaccuracies or mistakes in communications are quickly reported in cyberspace. Consequently, the need for highly skilled policy analysts and communication specialists is increasing.

State and local governments are trying to determine their roles in addressing the digital divide. For example, several municipalities are considering different ways to provide high-speed access to their residents. Some cities want to create wireless “hot spots.” Some want to provide Internet service directly, while others want to pay for the Internet infrastructure and then turn it over to the private sector to provide the service.

Municipal broadband development is leading to tensions with the private sector. Some business spokespersons and other critics argue that government is overstepping its boundaries and is competing directly with the private sector. Consequently, some private companies are lobbying state legislatures to either restrict or ban municipalities’ broadband efforts. These efforts are also leading to intergovernmental tensions as local officials feel that state restrictions are limiting residents’ Internet access.

What does the future hold?

The amount of information available will continue to increase at an exponential rate. New communication technologies are in the works, and there is no end in sight to this information revolution. As more emphasis is placed on integrating and coordinating information, organizational and policy boundaries will begin to disappear. Consequently, there will be more emphasis on taking a holistic approach to decision-making.

This integration and coordination may be expedited by certain technologies. For example, technologies that enable face-to-face interactions, such as video teleconferences and telemedicine, may help overcome some of the limitations of current forms of communication. And the ability to share information easily has the potential to facilitate more cooperation among state agencies, among agencies in different states and among all levels of government. In short, the information revolution has the potential to revolutionize state government.

Privacy vs. Security: A Balancing Act

What are the trends?

New technologies present amazing opportunities for businesses and governments to increase their efficiency and offer new products and services. But they also have the potential to dramatically erode personal privacy. Innovations such as the Internet, satellites, nanotechnology, biometrics, radio frequency identification and DNA analysis are transforming our society—but at a price.

Meanwhile, the political landscape concerning personal privacy and access to public and private information has dramatically changed in recent years. There is without doubt an increased awareness of and emphasis on homeland security, as the war in Iraq continues and the threat of potential terrorist attacks persists at home and abroad. 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.

Genetic testing may eventually allow health insurance companies to target policy-holders at risk of certain medical conditions to educate them and encourage them to take preventive measures. But it could just as easily be used to deny them coverage for that condition.



What do these trends mean for states?

The combination of technological innovations and heightened security concerns has led to more surveillance of public and private spaces, including cyberspace, and more tracking of individuals and their behavior. These trends have also raised concerns about possible violations of constitutional rights and civil liberties. As technology advances, states are struggling with the issues of privacy and security and are finding themselves on the frontlines of far-reaching policy questions that will have significant implications for individual privacy.

States have new homeland security responsibilities. The threat of terrorism and homeland security requirements have forced states to transform and balance new responsibilities in many ways. For example, state officials are now responsible for helping protect critical infrastructure, ensuring safety of the food supply and helping federal law enforcement authorities identify terrorists before they act. State agencies are involved in a range of homeland security planning efforts, which require time and resources.

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.

States are busy preparing for massive emergency response operations at home, and first responders and National Guard members are playing a larger role in national defense overseas.

While their homeland security responsibilities are increasing, state law enforcement officials still have to deal with traditional public safety concerns, such as drug trafficking and other crimes. There is concern that some crime-fighting efforts have suffered as a result of terrorism-related demands. There are also concerns about the time and budget constraints on first responders. According to a 2004 report by the National Emergency Management Association, “The new era of disaster management for state government is a balance between the growing need to protect and prepare communities for domestic terrorism and the ever-present threat of natural disasters.”

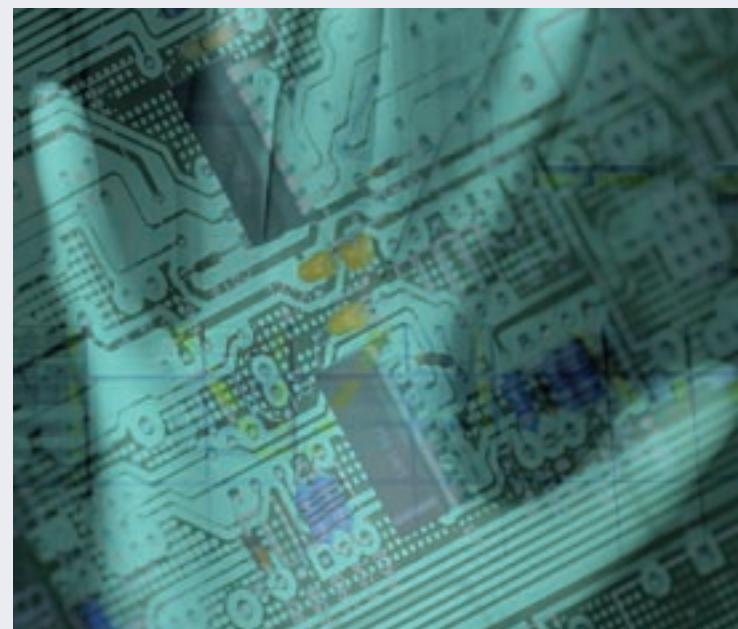
States are fighting new types of crime created by technology. State and local law enforcement agencies are fighting new types of crimes such as identity theft and cybercrimes. More than 9.3 million Americans had their identities stolen in 2004, costing more than \$52 billion in fraudulent activities, according to the Privacy Rights Clearinghouse, a nonprofit consumer group that tracks privacy issues. The Federal Trade Commission reports that more than 27.5 million Americans have been victims of identity theft in the last five years. Because of the staggering costs and negative effects on the economy, state leaders are continually searching for new ways to combat and prevent identity theft.

“I had thought about identity theft and the impact it has on our citizens and economy, but only from a disconnected perspective—until it happened to me,” said Delaware Gov. Ruth Ann Minner. “I had my identity stolen and used for fraudulent purposes in early 2005 and it was only because as governor my time is strictly scheduled and accounted for that I could prove to creditors that it wasn’t me out there spending money, but someone who had appropriated my identity. Others may not be so fortunate in proving identity theft.”

In addition, new technologies present unique challenges when it comes to protecting personal privacy. For example, while government officials may be able to pass laws against spam or Internet fraud, can they enforce them? 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.

States have access to valuable new tools, but they require increased diligence in safeguarding individuals’ personal information. Information technology allows people in different state agencies, or even counterparts in other states, to share information in order to enhance government’s efficiency and effectiveness. But it also increases the need to ensure that individuals’ privacy is maintained. The Multistate

- New technologies allow business and government to increase efficiency and offer new products and services.
- These same technologies have the potential to erode personal privacy.
- The combination of new technologies and homeland security concerns have led to more surveillance and tracking.



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—Gov. Ruth Ann Minner, Delaware

Privacy and Security: A Balancing Act

How ID theft victims' information is misused, 2002–2004

Credit card fraud.....	28%
Phone or utilities fraud	19%
Bank fraud	18%
Employment-related fraud	13%
Government documents or benefits fraud.....	8%
Loan fraud	5%
Other ID theft.....	22%

Source: National & States Trends in Fraud and Identity Theft, Federal Trade Commission, Feb. 2005

Anti-Terrorism Information Exchange (MATRIX) project, for example, was designed after Sept. 11 to help law enforcement officials exchange sensitive information about criminal activity and potential terrorists. But, partly because some people raised such strong objections due to privacy concerns, most of the participating states eventually withdrew from the project, which ended in April 2005.

Similarly, many states have turned to data mining, a practice used increasingly in the private sector. Governments and private companies maintain enormous databases of information, whether on market trends or taxation. According to the National Association of State Chief Information Officers, “The purpose of data mining is to identify patterns in order to make predictions from information contained in databases. It allows the user to be proactive in identifying and predicting trends with that information.” States are using data mining to reduce waste, fraud and abuse. For example, the U.S. Government Accountability Office reports that 21 states use data mining to help detect fraudulent Medicaid billing.

While data mining creates new efficiencies, it can also lead to personal profiling. Government agencies are contracting with private companies to maintain databases, and citizens expect that the information they supply to government agencies is safe, protected and will not be shared. This blurring of the line between government and corporate America raises questions about how secure personal information really is. States are working to determine what the appropriate levels of access to information should be, how that information can be better protected and opportunities for citizens to opt out of data mining, especially in light of recent security breaches involving several private sector customer databases.

The use of new technologies by the private sector raises questions about 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 personal information about individuals and families, such as purchasing patterns, personal finances and medical conditions.

Combined with other new technologies, these trends may be a double-edged sword, and states will play a key role

in determining how new technologies are used. For example, genetic testing may eventually allow health insurance companies to target policy-holders at risk of certain medical conditions to educate them and encourage them to take preventive measures. But it could just as easily be used to deny them coverage for that condition.

Similarly, automobile black boxes—a standard part of newer American-built cars—are able to record information about a car’s speed, brake performance and other factors. Proponents believe that the recorders provide important information for crash investigations, can help improve road safety and allow insurance companies to verify accident claims.

Opponents believe they are an invasion of privacy. One issue to be resolved is who owns the data—the car owner, private industry or the government? Another issue concerns how and when the information can be used. Can it be used against a person in court? The resolution of those two issues is taking state government into new territory.

There is debate over what government records should be open to the public. In recent years, all levels of government have faced difficult questions about when the need to ensure public safety outweighs the public’s right to have access to government information. Many states reconsidered their Freedom of Information Acts after Sept. 11, often adding new exemptions.

The need to protect critical infrastructure owned by the private sector, such as railroads, nuclear power plants or electric utilities, poses special challenges, since private companies may be reluctant to reveal sensitive information if they think their competitors will have access to it through open government records. States are trying to balance the public’s desire to know about possible security risks with the dangers of releasing this type of data to possible terrorists.

What does the future hold?

The threat of terrorism is expected to evolve in the next several years, and state law enforcement agencies may see additional responsibilities for implementing homeland security programs. Government surveillance and tracking is likely to continue evolving along its current course—targeting specific areas to regulate physical security. But these cutting-edge surveillance techniques will heighten demands from citizens for states to ensure their security while protecting their individual rights to privacy.

As more databases are created and interconnected, the volume of personal information available to the private sector and government agencies will increase. Data mining and information sharing between government and the private sector will continue to be a problem as the move to run government like a business continues to push the envelope of efficiency and risks encroaching on individuals’ privacy. And the interconnectedness of many types of data will make the consequences of identity theft even more serious than they currently are. State leaders, as the guardians of individual liberty, have an opportunity to help balance the needs for privacy and security.

— Change Drivers —

Resource Management: Sustaining Our Future

What are the trends?

Population growth, combined with economic growth and increased consumption in the United States and other nations, is increasing demands on natural resources and the environment's capacity to assimilate waste. Future population growth will occur within a setting that has already seen profound changes over the last half century. The Millennium Ecosystem Assessment recently concluded that humans have changed most ecosystems such as water, forests and air supply beyond recognition over the last 50 years. "Approximately 60 percent of the ecosystem services that support life on Earth ... are being degraded or used unsustainably," the assessment found.

In the United States, we live in a society noted for its consumerism. Compared to the rest of the world, Americans use large amounts of energy, electronic devices, food, paper and natural resources. This high level of consumption generates large volumes of waste. U.S. consumers are used to the availability of well-packaged disposable items, from paper towels and paper plates to disposable razors and contacts. According to the U.S. Environmental Protection Agency, in the last 40 years the amount of waste the average American produces has nearly doubled.

Population growth and economic development choices can affect environmental quality and can contribute to gradual climate changes. There are more automobiles on the road than ever, and these contribute to carbon dioxide emissions. And power generation and industrial processes, especially those that involve fossil fuel combustion, contribute to carbon dioxide and other greenhouse gas emissions. These emissions are linked to global warming and have the potential to worsen existing environmental problems like air pollution.

States play a central role in managing natural resources and protecting the environment because they are responsible for implementing most federal environmental programs. According to the Environmental Council of the States, states perform 90 percent of the work necessary to carry out federal programs such as the Clean Air Act, Clean Water Act and many others. States spend \$15 billion annually on environmental protection, 70 percent of which comes from state revenues.

What do the trends mean for states?

States have a lot at stake in terms of providing for sustainable growth of their economies. Developing long-range plans for the use and protection of natural resources is among the most important challenges for state planners.

States are dealing with the growing amount of waste, including e-waste. While we have made gains in the proper disposal of solid

- Americans' high level of consumption requires large amounts of natural resources and generates large volumes of waste.
- Population growth in the United States and improved standards of living in other parts of the world are straining supplies of natural resources.
- Population growth and economic development choices can affect environmental quality and lead to gradual climate changes.
- States are increasingly playing a leading role in managing natural resources and protecting the environment.



**“We have to remind ourselves that
sustaining our natural resources
is not a one-time project.”**

—Assemblyman Lynn Hettrick, Nevada



and hazardous waste, we still generate large amounts of waste materials. State and local governments already face problems locating landfills, providing sanitary trash pick-up services and recycling products. As consumption continues to increase, these problems will only grow in the years to come.

In addition, the new economy brings a new type of waste: e-waste from electronic products, including computers and cell phones. According to the EPA, Americans have about 500 million old, unused cell phones, and they go through approximately 130 million more each year—the equivalent of 65,000 tons of waste. Cell phones contain toxic metals such as arsenic, beryllium, cadmium, copper and nickel. While some companies offer take-back programs, most cell phones are not disposed of properly.

Similarly, between 300 million and 600 million computers became obsolete between 1997 and 2004. Computers and monitors often contain heavy metals and other hazardous substances, and disposing of them can be dangerous and costly. As technological advances push new generations

of electronic products to the market more quickly and as the life cycle of such products becomes shorter, states are examining new ways to deal with e-waste.

States are exploring ways to encourage alternative energy sources and energy conservation. The prevalent view among experts is that the world could reach peak oil production capacity in the next 10 to 40 years. Likewise, natural gas supplies are projected to last about 50 years. Given these predictions and the push to reduce dependence on foreign energy sources, alternative fuels such as ethanol, biodiesel and hydrogen are gaining prominence.

Many states are taking action to promote alternatives to oil and other fossil fuels. Several states offer incentive programs to encourage 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. States are looking at alternative energy not only as a power source, but also to fuel economic development. However, as this industry grows, so does the need for best practices, model solutions and incentives.

States are also acting to conserve energy and promote energy efficiency. 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 and regulations that promote energy efficiency.

Population growth is placing demands on water resources. According to the U.S. Census Bureau, 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 partly to population growth. For many state officials, water is the issue for the 2000s. “At the heart, it is an issue of scarcity,” said David Kranz of the California Farm Bureau told *State Government News* in 2003. “Water supply cannot keep up with population growth.”



Even though agricultural lands in parts of the West are very productive, farmers increasingly face competition from cheaper imports. In light of these changes, the most lucrative option for an aging population of agricultural producers may be to sell their water rights to the growing cities of the arid West. The effect on their states’

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economies, food supply and plans for natural resource management may be significant.

Changes in environmental quality affect human health. Environmental health issues are gaining in importance. Environmental and public health experts suspect that many chronic diseases, such as asthma and cancers, are linked to environmental factors. In recent years, there has been a growing body of scientific evidence indicating that exposure to environmental hazards accounts for a significant proportion of prevalent chronic diseases—the most expensive factor in overall health care costs. While it is well known that lead is highly toxic to humans, especially young children, there are hundreds of other chemicals for which there are no data connecting environmental releases and human health consequences. Also, where data exist, the data sets often are not linked in a usable way.

Air quality poses unique risks for older Americans. EPA studies of human exposure to air pollutants indicate that indoor levels of pollutants may be two to five times—and occasionally 100 times—higher than outdoor levels. Older Americans spend more time indoors, which raises concerns about identifying and addressing sources of indoor air pollution. As states carry a significant burden of overall health spending, facts like these will have to be taken into consideration in future budget plans.

States face environmental and economic consequences from climate change. With higher temperatures, smog levels may increase in urban areas, posing health hazards for residents. Climate change is expected to alter weather patterns and can increase the chance of severe droughts that can devastate state economies based on agriculture. In addition, warmer temperatures can result in significant declines in the levels of surface water. Meanwhile, melting ice caps lead to rising sea levels, contributing to coastal erosion—which can be extremely costly for states. Recently, an Alaskan tribe had to be relocated from its submerging island to the mainland, at a cost of close to \$400 million.

The tribe members are now known as the first “refugees of global warming.”

States are looking for solutions to prevent such impacts or develop approaches to respond to and mitigate them. In recent years, state leaders have recognized this and have led efforts to reduce emissions of greenhouse gases. Most noteworthy are two regional, multistate initiatives: the Regional Greenhouse Gas Initiative and the West Coast Governors’ Global Warming Initiative.

What does the future hold?

States face a range of challenges related to natural resource management. As the population grows in the United States and throughout the world, more natural resources will be used and more waste will be generated. Increasing populations and regional growth in the West and South will place increasing pressure on our already oversubscribed water resources.

Climate change threatens to fundamentally alter natural systems such as coasts, forests and agricultural lands. Development pressures generated by humans in rich and poor countries already pose great risks to many species’ survival; climate change will add to these pressures. Mitigating the threat of climate change will require the spread of new technologies such as renewable energy, fuel cells and alternative fuels, along with technologies and practices that remove carbon from the atmosphere and sequester it either in the ground or in forests.

In the coming years, state policy-makers will be challenged to develop state and local strategies to manage these resources, balancing regional economic development with protection of the resources on which states rely. “We have to remind ourselves that sustaining our natural resources is not a one-time project,” said Assemblyman Lynn Hettrick of Nevada. It needs to become a continuous process, one that is flexible and adaptable to ever-changing conditions.

Polarized Populace: Eroding Common Ground

What are the trends?

Political scientists and politicians agree that over the last three decades, the nation's political environment has become more polarized than during much of the 20th century. This polarization is partly due to a realignment of the two major political parties since the civil rights movement. As conservative Southern Democrats shifted to the Republican Party, the two parties have become more clearly divided along ideological lines. At the same time, the numbers of Republicans and Democrats have grown so close that in many state legislatures, one or two seat changes could alter the entire balance of party control.

But is the general public as polarized as the politicians? Not necessarily. Some experts contend that the general public is less polarized than in the past, although political activists are becoming more polarized. Other experts,

however, believe the populace is divided. In any event, it is clear that certain issues are more divisive than others among the general public and in the political process. Although Americans may ultimately have more similarities than differences, the so-called "culture wars" over issues such as abortion, gay and lesbian rights, and the role of religion in public life have taken a prominent place in the nation's politics.

At the same time that the country has become more polarized in the political arena, there has also been a trend in recent decades of greater income inequality between the "haves" and the "have nots." According to the U.S. Census Bureau, this trend has been caused by changes in the labor market, such as the shift from a manufacturing-based economy to a relatively lower-paying service economy; the increasing importance of higher education and high-tech skills; the

decreasing influence of labor unions; and the declining value of the minimum wage. Other factors include economic competition between the United States and low-wage developing countries; an increasing number of immigrants working for low wages; and changes in household composition, including more single-parent families and individuals living alone.

Compromise and consensus are increasingly difficult to achieve—a fact that can lead to political gridlock, burnout and frustration among elected officials and voters.

What do the trends mean for the states?

Political and economic polarization have far-reaching consequences at all levels of government. But, especially with political polarization, what the future holds will depend on how state officials respond to the current environment.

The political process has become more adversarial. As politics have become more polarized, there has been a marked decline in civility among members of different parties. Compromise and consensus are increasingly difficult to achieve—a fact that can lead to political gridlock, burnout and frustration among elected officials and voters. Some states can't agree on legislative leadership positions, committee assignments or even office space. Alan Rosenthal, a professor at Rutgers University, said that in addition to partisanship, outside interest group advocacy—particularly on ideological



Polarized politics may increase political participation by mobilizing voters and advocates on all sides of an issue. However, it runs the risk of alienating the general public, causing them to turn to independent candidates or third parties—or away from politics altogether.

and social issues—contributes heavily to legislative incivility. “They do believe the other side is the enemy and is evil,” said Rosenthal.

Polarized politics may increase political participation by mobilizing voters and advocates on all sides of an issue. However, it runs the risk of alienating the general public, causing them to turn to independent candidates or third parties—or away from politics altogether. Some voters are even crying out to send their elected officials to “civility classes” to learn how to interact with their colleagues, because they see their representatives as spending more time fighting than getting things done.

There is a greater emphasis on social issues. State governments are still responsible for providing and ensuring basic services on which everyone depends: schools, roads, health care and public safety. But state officials spend an increasing amount of time on controversial social and moral issues such as gay marriage, abortion and contraception. And as family structures and women’s roles have changed in recent decades, states have taken a greater interest in areas that used to be exclusive to the private sphere, such as child care and child support. Some people see the focus on controversial social 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.

While interest groups and activists on both ends of the political spectrum have been active for generations regarding social issues, the speed of communication has intensified the debates. Often, the groups and individuals involved in a particular political battle are not just locals, and local cases on controversial issues may take on national significance, such as the Massachusetts Supreme Court’s 2003 ruling legalizing gay marriage. Similarly, Terri Schiavo’s case sparked a national debate recently, as the brain-damaged woman’s husband and parents fought in the courts over whether or not to remove her feeding tube. Social issues like these can polarize the populace, but they also highlight struggles between the various branches of government at both the federal and state levels over their appropriate roles in policy-making. Legislatures, governors and courts are all actively engaging on social issues.

Close elections have increased pressure on states to examine their elections processes. As the state and national political parties look for new strategies to gain seats, state legislatures’ role in redistricting is receiving a closer look. Some observers believe that changes in the redistricting process are both a cause and consequence of political polarization. Texas Democrats, for example, drew national attention in 2003 when they left the state in order to prevent Republicans from

- The nation’s political environment has become increasingly polarized.
- There is debate about whether the populace as a whole is as divided as the political arena.
- Income inequality between the richest and poorest Americans is increasing.



“The real question may be whether the bitter partisan battles continue, or whether politicians can find ways to moderate the debate and focus on common ground.”

—Rep. Roger Roy, Delaware



redrawing congressional districts to their party's advantage. This incident helped spark a trend for states to redistrict when party control of legislatures changes, not in response to the decennial census. With the creation of "safe" districts, the real competition comes in the primary, not in the general election—a fact that makes candidates who are to the left or the right of the average voter more likely to get elected.

At the same time that legislators are creating safe districts, there are also instances of close elections. The closeness of the 2000 presidential election revealed several flaws in the nation's election system and led to calls for reform. In response, the Help America Vote Act of 2002 mandates, among other things, provisional voting and identification requirements for some first-time voters. And some states are updating voting equipment, while others are experimenting with Internet voting. Paying for election reforms, many of which are mandated by the federal government, places additional stress on state budgets.

Access to quality education is critical to prevent increased economic inequality. In today's world, education is essential—not only in economic terms, but also to shape informed citizens who are capable of participating fully in civil society and the political process. In recent years, there has been increasing emphasis on an array of educational issues, including early childhood education, "the achievement gap," equity and adequacy of K–12 funding, and school choice. At the same time, rising health care costs are consuming a larger portion of state budgets, threatening to edge out education as the largest category of state spending.

Higher education is increasingly important not just for individuals, but as an engine of economic development for

entire communities and regions. Meanwhile, the cost of college continues to rise at the same time that states are forced to make difficult budget cuts, leaving students to foot more of the bill.

States may face an increased demand for social services and public programs from low-income people. With rising income inequality, more people may qualify for state-supported services such as Medicaid, unemployment insurance or Temporary Assistance to Needy Families. Many low-income workers are employed in service-sector jobs that don't offer health insurance or other benefits, or they can't afford the benefits that are offered.

At the same time, states may face decreased tax revenues as low-income workers struggle financially. Since income taxes are a major source of revenue in most states, states' fiscal health is closely tied with the income levels of their citizens. In addition, with the costs of housing, health care, food and gas all rising, low-income people may have less discretionary income, which could affect revenues from sales taxes.

What does the future hold?

In terms of political polarization, some observers say the nation can't get any more divided than it already is. "The real question may be whether the bitter partisan battles continue, or whether politicians can find ways to moderate the debate and focus on common ground," said state Rep. Roger Roy of Delaware. The answer may determine whether the majority of Americans engage in the political process; become increasingly alienated and apathetic; or turn away from the traditional two-party system, backing third parties and independents and advocating electoral reforms that encourage their success. If Congress and the statehouses remain polarized, then look to the courts to continue playing an active role in deciding controversial issues.

In addition to potential conflicts between the economic "haves" and "have nots," states may face new challenges in the future. Generational gaps are likely to become increasingly important as the population ages. Issues such as Social Security and Medicare are already taking center stage, and older Americans are recognized as a powerful political lobby. Younger Americans, on the other hand, are known as a group for being less engaged in the political process and for being more likely to identify themselves as independents.

In an era of budget deficits and scarce resources, competing demands for government services, such as education and long-term care, may lead to intergenerational conflicts. Some members of the "sandwich generation" may be torn between supporting policies that help their aging parents and those that focus on their children. Intergenerational conflicts may take on racial and ethnic tones, since, in general, African American and Hispanic populations are younger than the aging white population. They may also overlap with geographic divisions, as older and younger people tend to gravitate toward certain locations.

Although Americans may ultimately have more similarities than differences, the so-called "culture wars" have taken a prominent place in the nation's politics.



Ambiguous Authority: Who's In Charge?

What are the trends?

Like most everything else in today's world, governing in the 21st century is more complex than ever. The number of subjects government agencies and public officials address has soared, and the nature of these issues is changing. State officials are dealing with complicated questions that weren't on their radar screens 20 years ago, such as stem cell research, homeland security and the impact of international trade agreements.

In the midst of this complexity, the balance of power is changing. "Trying to describe the current balance of powers among various branches or levels of government is a challenge, but the balance of power in the American federal system seems to be shifting toward the federal government," said Senate President Earl Ray Tomblin of West Virginia.

State and local governments have faced a dramatic increase in the number of federal mandates, conditions of aid and pre-emptions of their powers in recent decades. Although they are playing a larger role in implementing some federal programs, and picking up the slack in areas where federal funding has declined, state and local governments increasingly find their budgets determined and constrained by federal policies.

In recent years, the relationship between citizens and government has also changed. There has been a push to make government more efficient and accountable by adopting business practices from the private sector. And although some Americans have disengaged from politics, citizens have grown more active in the policy-making process with new models of governance and with the rising influence of various interest groups. In addition, there has been a resurgence in "direct democracy," such as the use of citizen initiatives and referenda, especially in the West.

What do the trends mean for the states?

The complexity of public policy issues, combined with the ever-changing interactions among the various levels of government, have many implications for state government. Add to the mix the evolving relationship between government and the public, and it's clear that state officials work in a challenging, dynamic environment.

States are being asked to do more with less. Although some of the recent budget shortfalls were caused by short-term or cyclical conditions, 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 and conditions of aid such as those related to the No Child Left Behind Act, the Help America Vote Act, the Medicare Modernization Act, the Individuals with Disabilities Education Act and the Medicaid program. And they

- Governing is more complex than ever before.
- The balance of power has shifted toward the federal government.
- The relationship between government and citizens is changing.



“Trying to describe the current balance of powers among various branches or levels of government is a challenge, but the balance of power in the American federal system seems to be shifting toward the federal government.”

—Senate President Earl Ray Tomblin, West Virginia



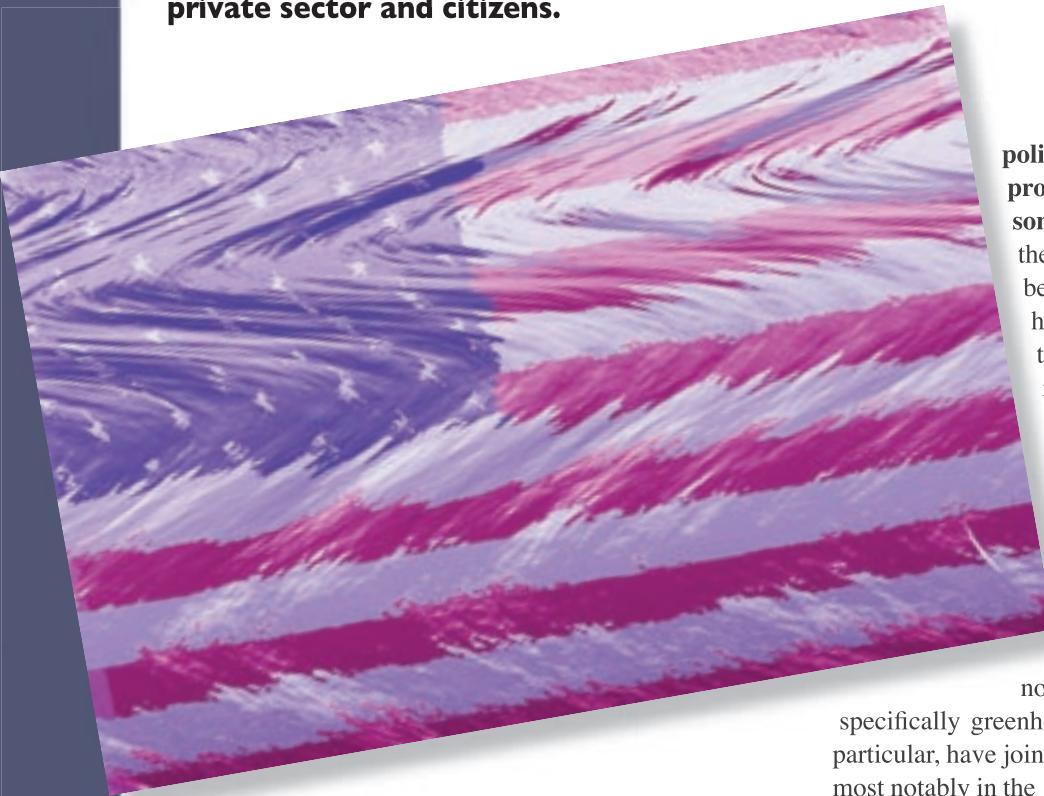
face increased costs related to homeland security, even as states are playing a larger role in national defense through the National Guard's presence in Iraq and Afghanistan.

These demands and constraints on state government are coming at the same time that some federal policies are constraining states' abilities to raise revenues. For example, a federal moratorium prohibits states from collecting taxes on electronic transactions completed out of state. The moratorium followed a 1992 Supreme Court ruling that said requiring businesses to collect taxes in numerous tax jurisdictions is an undue burden on interstate commerce. While the federal moratorium currently is set to expire in 2007, the complexity of establishing uniform tax collection systems makes it unlikely that a federal solution to the problem will be found by that date.

In addition, experts argue that there is a general anti-tax sentiment in the country, further putting pressure on state budgets. Meanwhile, in some cases, citizen ballot initiatives have created costly programs without providing revenue sources for them.

The federal government is increasingly pre-empting

States will continue to be “the laboratories of democracy,” developing innovative solutions to the new century’s challenges. Increasingly, these solutions will involve cooperation and collaboration among the various branches of government; among states; and among government, the private sector and citizens.



powers that used to belong to the states. The No Child Left Behind Act is perhaps the most obvious example of federal government involvement in an area that has traditionally been the realm of state and local governments, but it's certainly not the only one. According to Joseph F. Zimmerman, a professor of political science at the State University of New York at Albany, the number of congressional pre-emptions of state powers exploded starting in 1965, mostly related to civil rights, environmental protection, commerce, finance, health and banking. Recently proposed or enacted federal legislation would continue this trend in areas ranging from driver's licenses to class action lawsuits to regulation of the insurance industry.

Legislation is not the only vehicle for pre-empting state powers; pre-emption also comes through regulations and cases. Both state and federal courts have a significant impact on state spending in areas such as health care and education and are likely to affect governors' and legislators' decisions on how to resolve the current budgetary crisis in state governments.

Meanwhile, mechanisms to promote cooperation between the states, local governments and the federal government, such as the U.S. Advisory Commission on Intergovernmental Relations, have disappeared. And federalism scholar John Kincaid noted in *The Book of the States* 2002 that "There has been a decline in federal-state cooperation in major grant programs such as Medicaid and surface transportation, with Congress altering programs more in response to interest groups than state and local governments, which are now viewed as little more than interest groups."

While the federal government is playing a larger role in certain policy areas, states are taking a more proactive and cooperative approach to some regional and national issues. In the face of common problems that span beyond their individual boundaries, states have joined together in recent years to address regional and even national issues. This cooperation may come through formal agreements, such as interstate compacts, or through more informal collaborative mechanisms.

Some people see this increasing cooperation among states as a strategy to prevent or address federal pre-emption of state powers. One area where multistate efforts are notable is in environmental policy, more specifically greenhouse gases. State attorneys general, in particular, have joined together to address shared problems, most notably in the 1998 tobacco settlement. But governors

In the face of common problems that span beyond their individual boundaries, states have joined together in recent years to address regional and even national issues.

have also thrown their hats in the ring on national issues. For example, states are cooperating to address the rising costs of prescription medications, and several governors have promoted reimportation of prescription drugs, despite a federal prohibition.

State officials face increasing and competing demands. The growing number and complexity of issues that affect state government is placing increasing time demands on state officials. Participants in a recent focus group conducted by CSG-WEST agreed that pressured elected officials spend less time analyzing policy responses, increase their reliance on staff and lobbyists and end up making quicker decisions based on ideology rather than on detailed, nonpartisan analysis.

This is particularly obvious in citizen legislatures that lack the staff and support required to meet these increased demands. According to Gary Moncrief, a professor of political science at Boise State University, 90 percent of veteran state legislators believe the pressures of the job have increased. In the last 20 years, constituency size for state legislators has increased more than 500 percent in some areas and the number of bills introduced has more than tripled.

Many state legislators and governors face term limits, so not only are they under daily time constraints but they are limited to a certain amount of time in office. While term limits were designed to increase accountability and diversity, the high turnover caused by term limits in some cases has led to loss of institutional memory, has allowed legislators with relatively little experience to take leadership positions and has increased the need for training programs for new legislators. Combined with the existing complexity in public policy, this has led to increased pressures on state officials.

The emphasis on efficiency has led to the rise of consumer-driven government. Both government and citizens are focusing more on the efficiency of transactions. Citizens want to make sure they get the best value for their tax dollars. They are advocating and politicians are campaigning for a business-like, consumer-based approach to government. As a result, some states are looking for ways to restructure government and institute performance measures to increase efficiency.

This shift may improve the daily services of government to citizens through a rise in one-stop shops for government services

and consolidation of various permitting and regulating structures, but there are downsides as well. If individuals tend to think of themselves merely as consumers of government services, rather than as citizens working toward a common good, they could adopt a “what’s-in-it-for-me” approach to government, in which they only support policies that directly benefit them or their loved ones. In an era when all levels of government face difficult questions about how to allocate resources, this attitude makes it harder than ever to compromise or build consensus.

The increase in consumer-driven government is particularly obvious in much of the West and other states with citizen initiatives and referenda. Individuals and special interest groups can use these tools to appeal directly to the public, bypassing the more deliberative process of the legislature. While the initiative process does allow the public to quickly address an issue, votes are generally up or down, often making decisions on complex issues too simplistic. States are experiencing a conflict between what citizens want and what they are willing to pay for.

What does the future hold?

For the foreseeable future, the shift in the balance of powers toward the federal government is likely to continue. In light of growing federal deficits and increased spending on defense and entitlement programs, discretionary federal spending is likely to decrease. This means that states will not only face federal mandates, they will also face pressure to spend money in areas where federal spending is declining, such as low-income housing, transportation and economic development. In general, demand for government services will continue to grow, but state budgets will be increasingly constrained by existing programs and federal laws, regulations and conditions of aid, along with constituents' aversion to tax increases and revenue streams based on stagnant or declining sectors of the economy.

Despite these challenges, states will continue to be “the laboratories of democracy,” developing innovative solutions to the new century’s challenges. Increasingly, these solutions will involve cooperation and collaboration among the various branches of government; among states; and among government, the private sector and citizens.



— Voice of Leadership —

The Council of State Governments' leaders help identify emerging trends that affect state government. And CSG's leadership is out front and on the cutting edge of the 10 change drivers with innovative programs, policies and legislation. Below are the voices of the people who help make CSG the premier organization in forecasting state trends.



Governor Ruth Ann Minner (Delaware) 2005 CSG President

Economic Transformation: Knowledge Is King

"Delaware's New Economy Initiative was developed with the challenges of the 21st century in mind. One of the components of the initiative is a virtual emerging technologies incubator to provide services needed by start-up technology firms. We are also providing technology-based small business seed funds. In addition, we are planning to create a clean energy research center focused initially on fuel cell research."

Privacy and Security: A Balancing Act

"Like several other policy areas currently being impacted by science and technology, privacy and security's future has yet to be written. State leaders have an opportunity and an obligation to balance the needs of both privacy and security in order to preserve and protect the values that make America great."

Growth Dynamics: Regional Hot Spots

"The Livable Delaware program is a positive, proactive strategy designed to coordinate state, county and local government actions to curb sprawl and increase the 'livability' of Delaware communities. Governmental actions are only one part of the equation; the efforts of individual homeowners, neighborhood associations, civic groups and others are just as important in achieving a Livable Delaware."



Governor Jim Douglas (Vermont) 2005 CSG President-Elect

Silver Society: Aging in America

"States can prevent significant costs to the health care system and keep older Americans active and involved in their communities. In Vermont, the Governor's Commission on Healthy Aging works to ensure focus and coordination among state agencies as we work to meet two important goals: containing health care costs and keeping elders active and productive in the community."

Globalization Era: New Forces at Work

"Vermont's Agency of Commerce and Community Development, in conjunction with the Vermont World Trade Office, provides classes and workshops to stimulate international trade education and global awareness in Vermont. We want to offer educational programs and resources online, as well as personalized services to individuals and companies statewide that will result in higher participation and understanding of international business, culture and trade."

— Voice of Leadership —



Assemblyman Lynn C. Hettrick (Nevada) 2005 CSG Chair

Growth Dynamics: Regional Hot Spot

"Nevada is the fastest-growing state in the nation, so we know firsthand both the opportunities and challenges that growth brings. CSG provides a forum to discuss these issues with my colleagues in other growing states. But CSG, with its unique regional structure, also focuses on how these population shifts to the West and South affect the states in the other regions. This helps me put the whole trend into perspective."

Resource Management: Sustaining Our Future

"We face a future that presents a number of uncertainties. Will we have enough water resources to supply a growing population? What is an equitable system for sharing these resources? What is certain is that we must remain open to innovative solutions that address current and emerging natural resource issues. Now more than ever, and for the foreseeable future, states will remain in the forefront of providing those innovative solutions to these critical questions."



Senate President Earl Ray Tomblin (West Virginia) 2005 CSG Chair-Elect

Ambiguous Authority: Who's in Charge

"State and local officials play a vital role in our country's federalist system of government. We're on the front lines, implementing programs, providing services and interacting with our citizens every day. Of course, like everything else, government has to change with the times. But as we adapt to the challenges and opportunities of the new century, we need to preserve the balance of powers that has helped make America great."

Immigrant Nation: Changing Face of America

"Educating immigrants at the elementary, secondary and post-secondary levels presents educators with unique challenges. Language and cultural differences between students and teachers may inhibit learning and widen the achievement gap. Since the need for skilled workers will likely increase in the future, educating immigrants and their children is critical."



Representative Roger Roy (Delaware) 2005 CSG Vice-Chair

Information Revolution: Sorting it Out

"My state's economy depends upon timely and accurate financial information from markets around the world. As a state leader, it's increasingly important to help ensure that the global flow of information remains unimpeded so businesses and governments can make the best decisions about delivering products and services to citizens."

Polarized Populace: Eroding Common Ground

"As individuals and as members of a certain party, we may have our differences, but we can't let partisanship and political gamesmanship prevent us from doing our jobs. We have an obligation to our constituents and to future generations to honestly address these difficult issues the best we can, and to try to come to some sort of consensus."



What's Next?

Trends in America: Charting the Course Ahead addresses the 10 most powerful change drivers impacting the United States, its citizens and those who make state government policy decisions. These cutting-edge change drivers affect state policies and resource allocations. Just as the beam of a lighthouse points out obstacles in the path of sailing ships and helps them navigate their course, The Council of State Governments identifies trends and also alerts states to innovative programs and policies that have allowed other states to make significant advances in an array of policy areas.

The Council of State Governments knows that state officials care about widening the scope of their vision and increasing awareness of trends that will shape the future. CSG understands that state decision-makers are seeking to stay ahead of the curve in terms of new programs and policies to improve the everyday lives of constituents.

For this reason, The Council of State Governments is here to help state officials stay informed of policy innovations across the nation and to chart a path of policy implementation based on the successes of similar programs. The first edition of *Trends in America* has illuminated 10 major change drivers affecting state government. In December 2005, CSG will shift its focus to highlight innovative state legislative and executive approaches capable of addressing these change drivers and the challenges they present.

Get Involved With Trends

The expertise and insight of key decision-makers is invaluable to The Council of State Governments. CSG invites its members—legislators, governors, cabinet secretaries and judges—to provide feedback about potential change drivers and emerging state trends.

Please visit our Web site at www.csg.org, e-mail us at trends@csg.org, or contact Annette DuPont-Ewing, national policy director, at (859) 244-8228 or Melissa Taylor Bell, Ph.D., director of research, at (859) 244-8147 with suggestions, questions or information regarding state innovations and policy options that should be part of the December publication of *Trends in America*.