The Minnesota Economy: Three Comparisons

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Three Comparisons

• MN vs. US
  For the US as a whole, the process of repairing the damage done by the Great Recession has been agonizingly slow. Minnesota has recovered significantly faster than the US, and growth should continue for several years.

• MN vs. WI
  Not only has Minnesota recovered faster than Wisconsin—it has outperformed consistently for the almost two decades.

• MN vs. MN
  For over a decade Minnesota’s official budget forecast has been biased; it’s time to fix this.
MN vs. US

- Officially the “Great Recession” began in January 2008 and ended in June 2009—but try telling that to a non-economist!
  - GDP is growing at a modest pace, but is still about $1 trillion below potential—a huge annual loss of income.
  - Unemployment is down from its recession peak, but remains very high.

- Massive “fiscal drag” (federal, state, and local) is slowly dissipating, and the damage from the housing bust is being repaired.
The Great Recession was by far the worst downturn since the 1930s. US employment is forecast to regain its December 2007 level in late 2014—almost seven years after the recession began!
MN vs. US

• Movements in the Minnesota economy are highly correlated with movements in the US economy—it could hardly be otherwise!

• But fortunately we have been recovering from the Great Recession much faster than the US.
Though the Great Recession had a severe impact on Minnesota, the state fared much better than the US, and MN employment regained its previous peak level early in 2013. Had MN performed in line with the US, it would now be missing over 40 thousand jobs!
Minnesota’s superior performance during the Great Recession was mostly due to jobs in the private sector—which are about 85% of the total. Private-sector employment never declined as much as it did in the US and recovered faster.
Normally government employment grows modestly during a recession. The pattern held through mid-2009, but afterward government jobs in both the US and MN declined significantly. During the last couple of years, MN recovered its losses, but there is still no sign of a rebound in the US.
The US unemployment rate has declined sharply during the last four years, but much of the drop has been due to anemic growth of the labor force. The MN rate has been cut in half from its peak in 2009. Further declines are likely, but almost certainly they will be more modest than in recent months.
MN vs. US

• For Minnesota to extend its lead, investment is crucial.

• Financing costs for creditworthy borrowers are not as attractive as they were last year, but they remain at historically low levels (and probably negative after adjustment for future inflation).

• Governor Dayton has proposed a large bonding bill for this session of the legislature, but a supermajority is required for passage. We shall see....
MN vs. WI

- In January 2011 Governor Walker predicted that Wisconsin would add 250,000 new jobs during the next four years—equal to 9.1% growth from December 2010. This was never a realistic goal, and actual growth so far has been only 94,000, or 3.4%.

- In a recent op-ed (“Right vs. Left in the Midwest,” New York Times, November 23, 2013) Lawrence Jacobs, a professor at the Humphrey School, highlighted the contrast in economic policy and economic performance in MN and WI—but said it was too early to draw any conclusions.
During the Great Recession, Wisconsin lost more jobs than Minnesota, and its recovery has been far slower. Since January 2011, when Governors Walker and Dayton began their terms, the gap has widened steadily.
Wisconsin’s job growth has lagged that in Minnesota consistently since the mid-1990s. The slippage appears to have accelerated a bit during the last three years, but it is too soon to be sure that this is a new trend.
MN vs. WI

- The most likely public-policy factors behind Minnesota’s consistent lead in jobs over Wisconsin:
  - Investment in education
  - Investment in infrastructure

- In both cases the investments have taken place over decades (e.g., the “Minnesota Miracle” of the 1970s).
MN vs. WI

- Minnesota has a huge advantage in education, and it probably was the main factor giving the state a substantial lead over Wisconsin in job creation in recent years.

<table>
<thead>
<tr>
<th>2012 American Community Survey</th>
<th>MN</th>
<th>WI</th>
<th>90% C.I.</th>
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<tbody>
<tr>
<td>HS Graduate or Higher</td>
<td>92.5%</td>
<td>90.7%</td>
<td>+/- 0.2%</td>
</tr>
<tr>
<td>BA Degree or Higher</td>
<td>33.2%</td>
<td>27.1%</td>
<td>+/- 0.4%</td>
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Data are estimates for the population aged 25+ years. A 90% confidence interval is the range in which the true percentage should lie 90% of the time.

Source: Census Bureau.
The November budget forecast for the State of Minnesota, released on December 5, projected large surpluses.

- $1.086 billion at the end of the current biennium (6/30/15)—or $0.825 billion after paybacks.
- $2.197 billion at the end of the next biennium (6/30/17).

The surpluses are likely to be somewhat larger when the February forecast is released.

- US economic growth mostly has surprised on the upside since November.
- State revenues also were stronger than expected in November and December.
From 2002 onward, the official surplus forecasts have been biased upward, because they incorporate expected inflation on the revenue side but omit it on the expenditure side.

- By the end of the next biennium (6/30/17), the inflation bias is estimated to be $1.173—over half of the projected surplus!
- And that is happening while inflation is at a historically low rate!

The deliberate bias is inconsistent with the spirit of the Minnesota constitution and contributes to poor decision making by the Legislature regarding taxes and spending.

It’s time to fix this!