

The Great Inflection

SCSBA Annual Legislative Advocacy Conference 2013

Saturday, December 7th

Shipyards Plantation, Hilton Head Island

Recommendations for Reading

- The Smartest Kids in the World (and How they Got that Way) by Amanda Ripley published by Simon & Schuster.
- “The Case Against High School Sports” published in The Atlantic, October 2013 by Amanda Ripley

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In-flec-tion (noun)-

a bend or angle. In mathematics, a change of curvature.

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Other Titles in Recent Years

- The Breach (2010)
- Era of Austerity (2011)
- A Slight Acquaintance (2012)

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Economic and Budget Dashboard

- State Economic Data.
- FY 12-13 Close-Out.
- FY 13-14 Budget.
- FY 14-15 Outlook.

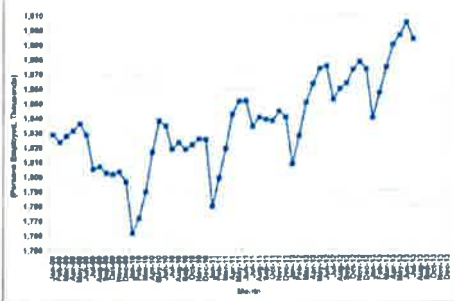
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Economic Data

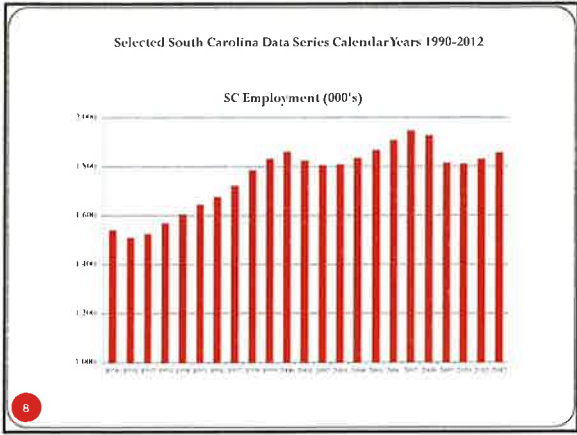
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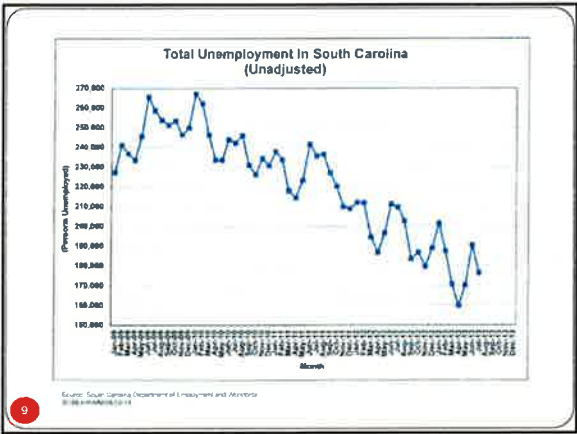
Total Employment in South Carolina

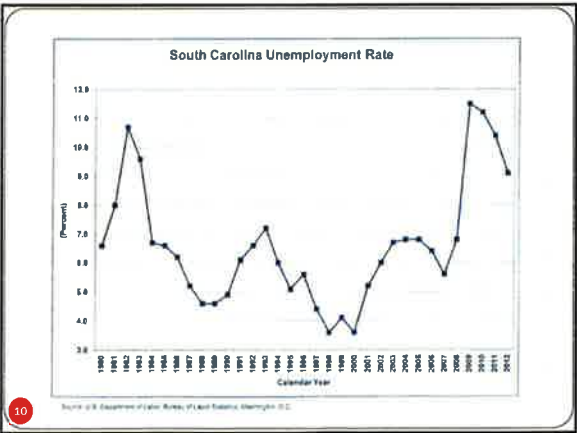


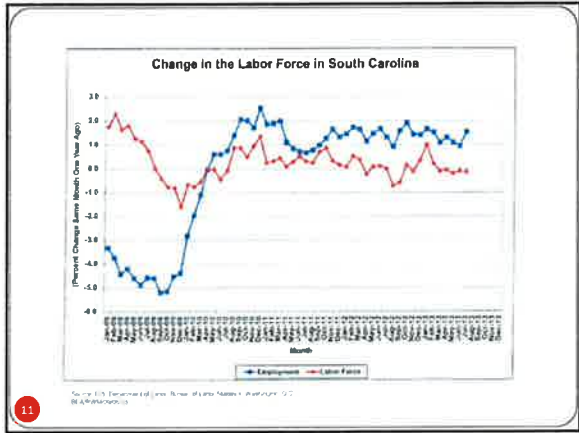
Source: South Carolina Department of Employment and Workforce
SCDEAR/ASDC/07/13

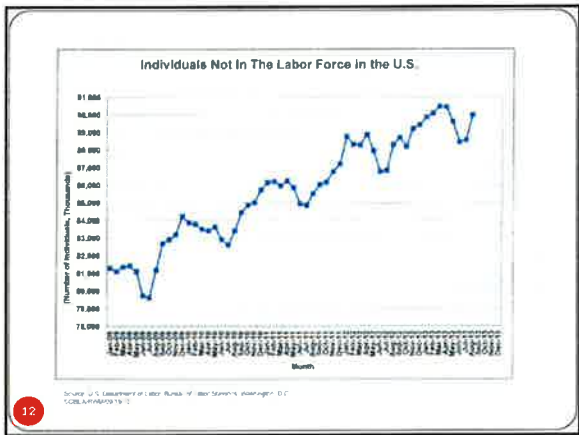
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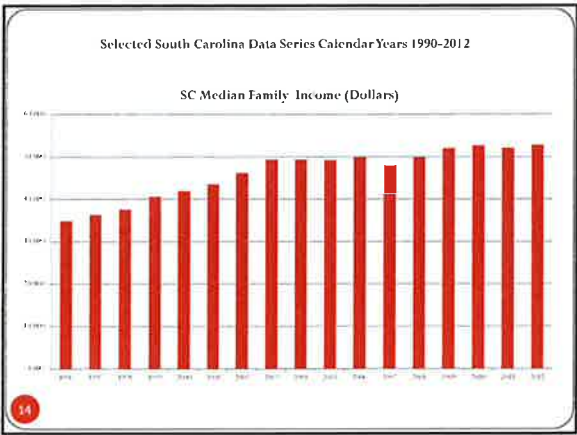


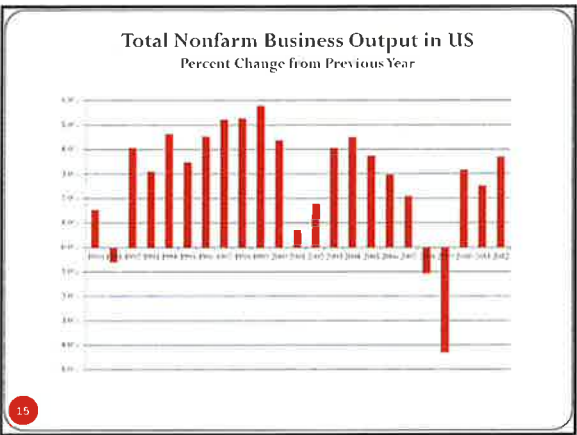


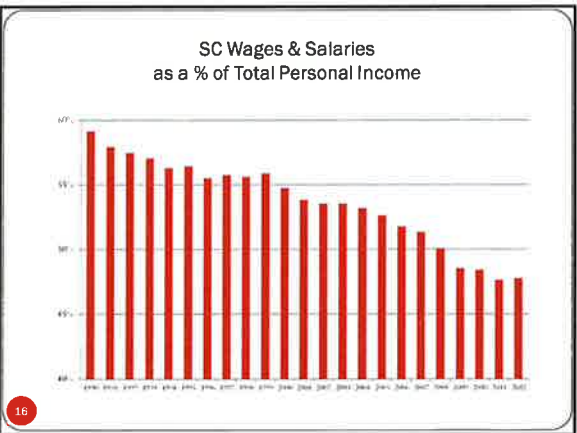


The 37 Percent Mystery: Where Did All the Workers Go? The Atlantic, April 2013 by Derek Thompson

- (1) **They retired.** The country is getting older, and older countries have a smaller share of workers.
- (2) **They went to school.** More young people are going to college, and young people in college are less likely to look for work.
- (3) **They just stayed home** -- they stopped looking for work and decided instead to raise their kids; they sat on the couch waiting for the market to thaw; they filed for disability insurance. The recession discouraged them from seeking a job.
- (4) **And the factories closed.** Behind all of these stories lurks the long decline of manufacturing, which has very little to do with the Great Recession, or college attendance, or demographics, but nonetheless explains a significant portion of falling participation rates among prime-age workers.







**“Jobless Recoveries Are Here to Stay,
Economists Say, But It’s a Mystery Why”**

By Jim Tankersley, September 19, 2013 WAPO

The U.S. economy just hasn’t looked like its old self lately, especially when it comes to regaining the jobs lost during a recession. It looks a lot more like 1980s-era Europe — slow to rebound and hire after a downturn, leaving workers to flail for years in a weak job market.

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Why Is This Important to SC State Government?

- ✓ Most income taxes are derived from wage withholdings.
- ✓ State and Local Governments provide most educational services from kindergarten through graduate school.
- ✓ State Government administers the unemployment insurance program, Medicaid, SNAP.

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FY 12-13 Close-Out

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State of South Carolina
BUDGETARY HIGHLIGHTS
BUDGETARY GENERAL FUND
Fiscal Year Ended June 30, 2013
(Unaudited)

Factors that produced the fiscal year budgetary surplus:

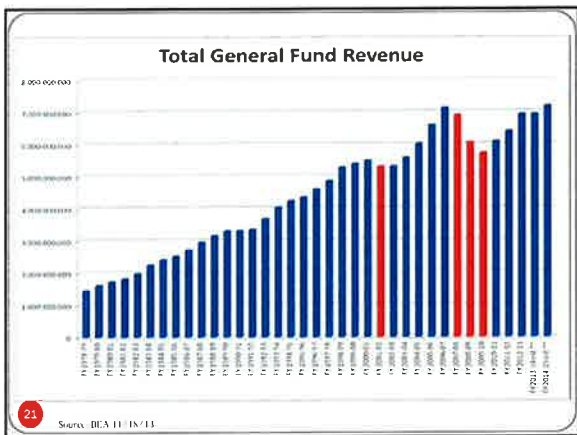
Actual revenue over revenue estimates used in Appropriations Act	\$ 270,870,197
Agency appropriations that lapsed at year-end	1,166,792
Governor's FY12,13 vetoes that were sustained by General Assembly	1,038,300
"Open Ended" appropriations	(2,437,072)
Net budgetary surplus available for distribution	270,848,717

Distribution of Surplus:

Supplementarily appropriated by FY13-14 Proviso 118-17, net of Governor's vetoes totaling \$2,751,286 that were sustained	(158,876,570)
Supplementarily appropriated by FY13-14 Act 68	(50,000,000)
Available for transfer to Contingency Reserve Fund as of July 1, 2013...	\$ 81,770,147*

* Effective September 1, 2013, an unappropriated balance of \$6,600,000 in the Capital Reserve will lapse to the General Fund and also will be available for transfer to the Contingency Reserve.

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SC State Budget

	FY 12-13 (appropriations)	FY 13-14 (appropriations)
• General Funds	\$6.1 Billion	\$6.4 Billion
• Federal Funds	\$8.7 Billion	\$7.6 Billion*
• Other Funds	\$8.2 Billion	\$8.6 Billion
TOTAL:	\$23.0 Billion	\$22.5 Billion

* \$1.5 Billion transferred to unbudgeted account for SNAP (food stamps)

SC Personal Income \$161.9 Billion
(Budget is about 14% or 1/7th of economy)

Source: State Budget Recapitulation

Where is the Money Spent? FY 2013-14 Appropriations

General Funds

Total Funds

Source: Office of State Budget

Top 10 Statewide Federal Revenue Sources Fiscal Years 1994-95 and 2011-12

Description	Amount		Difference	Avg. Annual % Change
	1994-95	2011-12		
1 DHS Medicaid (MHP) Reimbursement Payments	1,443,589,191	2,917,664,200	1,474,075,009	4.2%
2 DHS Paid Stamp Coupons	301,813,000	1,267,433,551	965,620,551	9.3%
3 DOT Federal Grants	245,643,933	771,366,111	525,722,178	7.9%
4 DHS Disproportionate Share (DSHS)	181,748,478	321,466,739	139,718,261	7.6%
5 DOE New Mt Part B Reimbursement	20,381,976	173,643,423	153,261,447	14.9%
DHS Medicaid Assl Pymts - Retired Prior Yr Exp-itures		138,261,913	138,261,913	
7 DOE Solid Fuel Services - Grants	97,846,645	122,958,938	25,112,293	5.2%
8 DOE Chapter 1 - Low Income HSIC Health Services Research and Development Grants	87,184,295	211,133,429	123,949,134	5.4%
9 DOE Technology Assistance (TA) Grants	29,814,506	142,376,919	112,562,413	3.9%
10 DOE Technology Assistance (TA) Grants	23,231,215	211,777,248	188,546,033	
Total (Top 10)	3,233,914,949	6,551,944,772	3,318,029,823	6.5%
Total All		3,734,815,687		

Source: Office of State Budget, Sept. 2013

Top 10 Statewide Other Revenue Sources Fiscal Years 1994-95 and 2011-12

Destination	Amounts		Collection	Avg Annual % Change
	1994-95	2011-12		
1. University Fees	498,475,336	2,083,715,337	1,418,264,691	8.8%
2. Sales Tax - RIA	366,650,309	880,448,343	223,783,936	2.8%
3. Medicare and Medicaid Reimbursements	378,563,206	483,881,237	86,133,838	-3.7%
4. Gasoline Tax	214,376,940	418,411,164	204,024,324	4.8%
5. Auxiliary Enterprises - Sales and Services Contributions Hospitals/Medical Hospital MHA	182,279,795	288,540,891	310,541,928	4.7%
6. Lottery Proceeds	92,746,470	222,883,736	178,887,398	8.9%
7. Medical CPE	--	187,954,832	187,894,832	--
8. Corporate Tax - Medicaid	--	147,295,845	187,299,845	--
9. Motor Vehicle Licenses	--	145,683,615	145,683,615	--
Total (Exp 181) Exp 26	1,641,091,119	4,999,302,894	3,194,212,319	8.1%

Source: Office of State Budget, Sept. 2013

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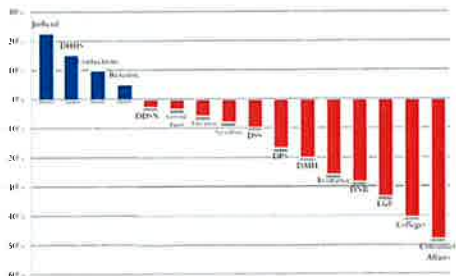
2002-2012

Year	Personal Income Growth	Population Growth	Actual General Fund Revenue Growth
2002	2.7%	1.1%	-3.4%
2003	3.4%	1.0%	0.1%
2004	6.0%	1.5%	5.0%
2005	6.1%	1.4%	7.8%
2006	7.9%	2.1%	9.7%
2007	5.9%	2.0%	8.2%
2008	5.0%	1.9%	-3.1%
2009	-3.3%	1.3%	-12.5%
2010	3.4%	1.0%	-5.3%
2011	4.7%	0.9%	6.4%
2012	3.6%	1.0%	5.2%
Average Annual Percent Change	4.2%	1.4%	1.9%

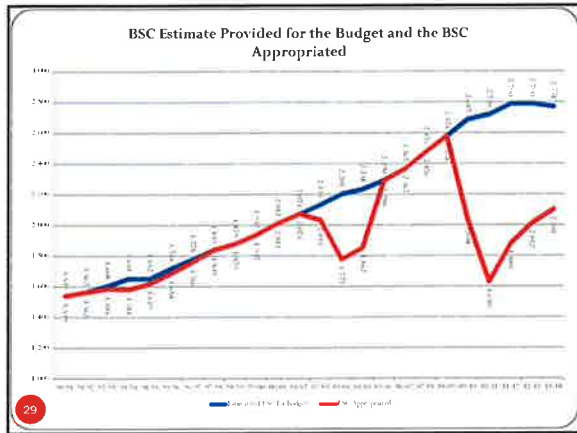
Updated March 27, 2013 Sources: US Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau

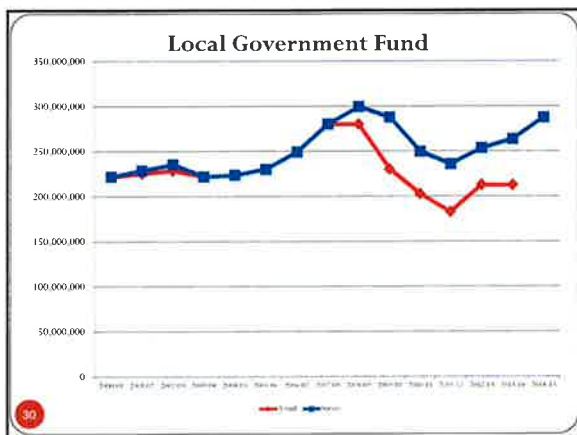
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Cumulative General Fund Changes July 2008 - July 2013



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**Fiscal Year 2013-14 Budget:
H3710 General Appropriations Bill &
H3711 Capital Reserve Fund**

Sources of Revenue above previous year Appropriation Base

Recurring General Fund Revenue Growth	\$349 Million
Non-Recurring Sources	
Capital Reserve Fund	\$ 113 Million
Non-Recurring Revenue	\$ 132 Million
Tobacco MSA	\$ 121 Million

Fiscal Year 2013-14 Appropriations

State Department of Education	
Education Finance Act	\$77 Million
Instructional Materials	\$24 Million
4K Expansion	\$26 Million
Health and Human Services (Medicaid)	\$110 Million
Local Government Fund	\$30 Million
Department of Commerce Closing Fund	\$16 Million
Ready SC (Worker Training)	\$8 Million

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Fiscal Year 2013-14 Appropriations

Transportation Funding	
Sales Tax on Cars Transfer to DOT	\$41 Million Recurring
SIB – Bridges / Interstates	\$50 Million Recurring
Excess 12-13 Revenue to DOT	\$50 Million
Employee Health Insurance	\$54 Million
Small Business Tax Relief	\$40 Million (\$60 Million when fully implemented)
Homestead Exemption Shortfall	\$12 Million
General Reserve Fund	\$11 Million (Fully funded at a level of 5%)

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Two Viewpoints on the Use of General Funds for Transportation Needs

Good Policy

- Overall taxes are too high.
- Reprioritize spending.
- Borrowing Issue

Bad Policy

- Gas Tax is a user fee and South Carolina's gas tax is low.
- Using General Fund for road repair squeezes out funding for other needs.

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Good Policy: Use of General Funds for Transportation Needs

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Bad Policy: Use of General Funds for Transportation Needs

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The Policy Choice and Implications

Please indulge me for a moment while I offer a very “earthy” description of public budgeting.

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Three "Big" Pigs

K12 Education, Health Care/Social Services and Higher Education comprise 82% of General Fund spending.

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"Welcome" to Transportation

SC Dept of Transportation General Fund Appropriations for FY12-13 were \$57,270. DOT's TOTAL funds budget was \$1,401,764,666.

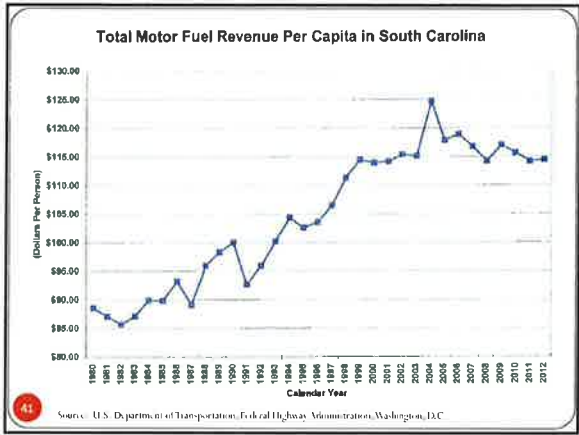
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QUESTION

Will gas tax collections (at the current level of tax per gallon) produce the amount of funding necessary to meet expected needs?

Hint: the answer is no.

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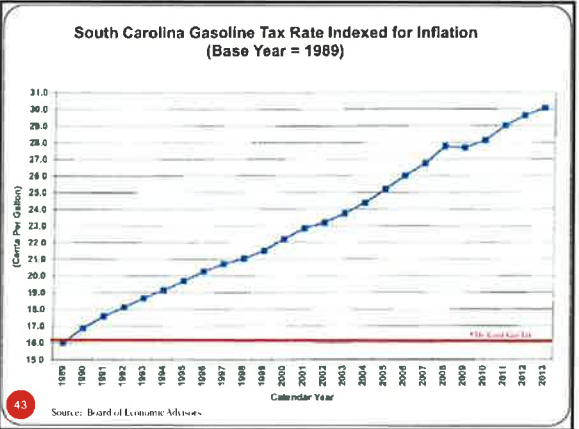


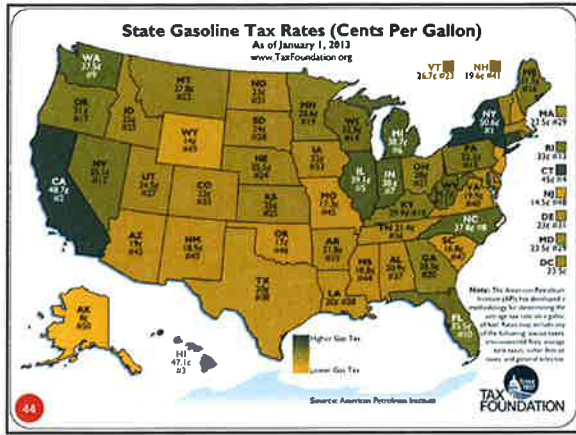
South Carolina Motor Fuels Tax Rates By Date of Tax Rate Change (Cents Per Gallon)

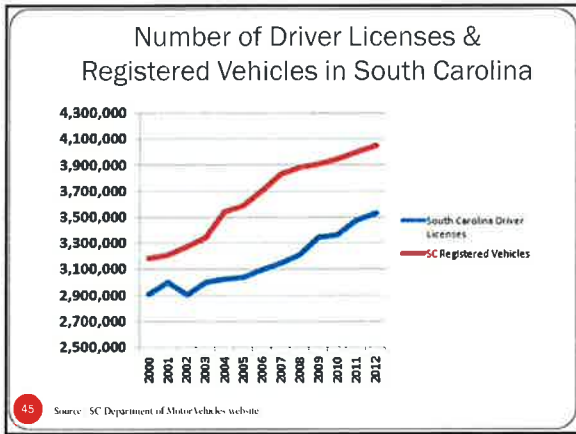
Year	Tax Rate	Legislative Enactment
1922	2 cents	Act 494 of 1922
1923	3 cents	Act 146 of 1923
1925	5 cents	Act 34 of 1925
1929	6 cents	Act 102 of 1929
1958	7 cents	Act 855 of 1958
1972	8 cents	Act 1575 of 1972
1977	9 cents	Act 141 of 1977
1979	10 cents	Act 197 of 1979
1980	11 cents	Act 506 of 1980
1981	13 cents	Act 177 of 1981
1987	15 cents	Act 197 of 1987
1989 1/	16 cents	1/

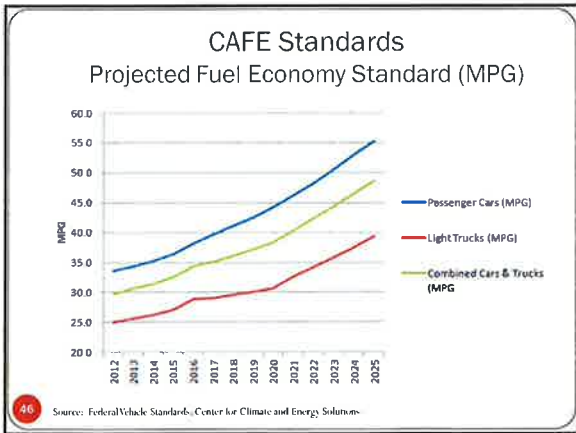
Note: 1/ Increase rate of gasoline and special fuels to 15 cents per gallon on July 1, 1987. Tax rate increase to 16 cents per gallon on July 1, 1989.

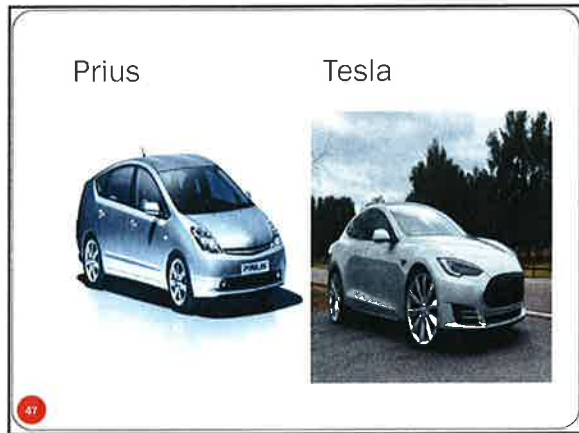
Source: South Carolina Department of Revenue, U.S. Department of Transportation, Federal Highway Administration, Office of Highway Policy Information, Washington, DC











Statewide Transportation Needs Through 2033

	Cost (\$ Billion)
Bridge Replacement	\$3.00
Highway System Maintenance	\$17.00
Highway System Upgrades	\$11.00
Interstate System Upgrades	\$11.00
Mass Transit	\$3.90
Premium Transit and Passenger Rail	\$1.40
Safety	\$1.00
Total Needs	\$48.30
Currently Anticipated Funding	\$19.00
Shortfall	\$29.30

Source: South Carolina Department of Transportation Commission, Transportation Infrastructure Task Force (December 6, 2012).

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The First Step for Statewide Transportation Needs: Act 98

- DOT to annually transfer \$50 M to the SIB to be used to finance bridge replacement, rehabilitation projects, and expansion and improvements to existing mainline interstates.
 - Approximately \$500 M in bonds may be issued
- Redirects 50% of the General Fund portion of the sales tax on motor vehicles to the State Non-Federal Aid Highway Fund. Used exclusively for highway, road and bridge maintenance, construction and repair.
 - Estimated to be \$41.4 M (EIA held harmless)
- Provides DOT a one-time appropriation of \$50 M from FY 2012-13 surplus revenue.
 - At a 5:1 match \$50 M will generate \$250 M in total funds

Source: scstatehouse.gov

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FY 14-15 Outlook

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FY 14-15 General Fund Revenue ("New Money") Outlook

SUMMARY OF AVAILABLE REVENUES (est. "New Money") - FY14-15

Recurring:	\$238,712,675
Non-Recurring:	
FY12-13 Carryforward/Surplus	\$68,370,147
FY13-14 Surplus (est.)	\$95,397,420
FY13-14 Capital Reserve Fund	\$117,155,905
Est. TOTAL "New Money" (recurring and non)*:	\$519,636,147

Source: BFA 11/18/14

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- ### FY 2014-15 Appropriation Outlook
- Just the basics*
- | | |
|---|---|
| <ul style="list-style-type: none"> • EFA MOE @ s2101: \$34M • EFA Full Funding: \$537M • Local Government Fund Annualization: \$30M • Local Government Fund Full Funding: \$75M • Medicaid: \$??? (Tens or Hundreds of Millions) | <ul style="list-style-type: none"> • Employee Health Plan Annualization: \$23M • Employee Raise: \$15M per 1% • General Reserve Fund: \$27M • Capital Reserve Fund: \$11M • Higher Education: \$??? • Transportation: \$??? |
|---|---|

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Budget Summary

- FY 12-13 Close Out, All reserve funds full (7% Total) & \$68M in Unobligated Reserve.
- FY 13-14, likely no General Fund Budget Shortfall Because Appropriations are Below the Previous Year's Revenue Collections.
- FY 14-15, Formula Funding Challenges, Cost of Health Care (Medicaid & State Health Plan), Transportation, Tuition.

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"It's P.Q. and C.Q. as Much as I.Q." By Thomas Friedman

New York Time Editorial
Published January 29, 2013

P.Q. is Passion Quotient
C.Q. is Curiosity Quotient

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Friedman

- President Obama's first term was absorbed by dealing with the Great Recession. I hope that in his second term he'll be able to devote more attention to the Great Inflection.
- Dealing with the Great Recession was largely about "Yes It Can" — about government, about what we can and must do "together" to shore up the safety nets and institutions that undergird our society and economy. Obama's Inaugural Address was a full-throated defense of that "public" side of the unique public-private partnership that makes America great. But, if we're to sustain the kind of public institutions and safety nets that we're used to, it will require a lot more growth by the private side (not just more taxes), a lot more entrepreneurship, a lot more start-ups and a lot more individual risk-taking — things the president rarely speaks about. And it will all have to happen in the context of the Great Inflection.
- What do I mean by the Great Inflection? I mean something very big happened in the last decade. The world went from connected to hyperconnected in a way that is impacting every job, industry and school, but was largely disguised by post-9/11 and the Great Recession.

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From Connected to Hyper-Connected

From the World Wide Web and Internet to
Facebook, Twitter, LinkedIn, Cloud Computing 4G
Wireless and Skype

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Remember this?



57



Linked in

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Because of this technology, it is now cheaper to:

- Work
- Invent
- Entertain
- Collaborate
- Learn

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❖The use of this technology means that many labor markets are now international in scope.

❖“Everyone who wants a job must now demonstrate how they can add value better than the new alternatives.”

❖“The speed with which every job and industry changes goes into hypermode.”

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ABC News, December 3, 2013

Applebee's announced today it will be installing a tablet computer at of every one of its 100,000 restaurant and bar tabletops across the U.S. With the devices, diners will be able to order menu items, play games, pay their check and enjoy other services. But will the tablets help or hinder family conversations?

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Amazon Prime Air would use unmanned flying vehicles for delivering packages
CNN Report, December 4, 2013

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The old assumption was that your educational foundation would last your whole lifetime.
Now the norm is lifelong learning.

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Race Against the Machine
by Erik Byrnjolfsson and Andrew McAfee.

http://www.ted.com/talks/erik_byrnjolfsson_the_key_to_growth_race_em_with_em_the_machines.html

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Erik Byrnjolfsson
and Andrew McAfee.

Their Observation:
Productivity, Median Income
and Employment have tracked
each other for two centuries.

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Byrnjolfsson:

- “Some people think it's a law that when productivity goes up, everybody benefits. There is no economic law that says technological progress has to benefit everybody or even most people. It's possible that productivity can go up and the economic pie gets bigger, but a majority of people don't share in that gain.”

Source: New York Times, “Our Economic Pickle,” Steven Greenhouse, 1/12/13

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Where Did the Jobs Go? Economic Explanations

- Cyclical Unemployment – absence of demand.
- Stagnation – long term decline in the ability to innovate and increase productivity.
- End of Work – (Jeremy Rifkin's 1995 book) “we are entering a new phase in world history – one in which fewer and fewer workers will be needed to produce the goods and services for the global population.”

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The Division of Rewards

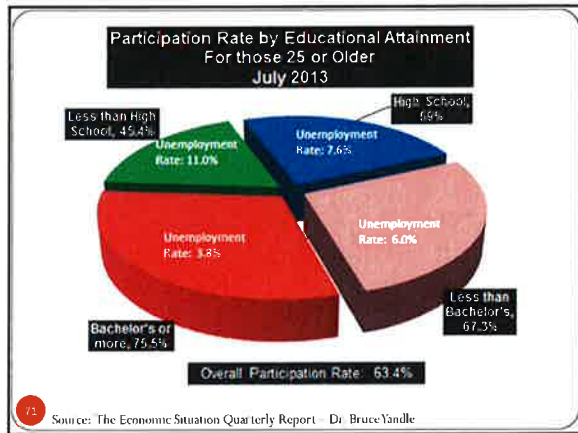
Winners

- High Skilled Workers
- Superstars
- Capital

Losers

- Low Skilled Workers
- Everyone Else
- Labor

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Their Conclusion

“The stagnation in median income is not because of the lack of technological progress. On the contrary, the problem is that our skills and institutions have not kept up with the rapid changes in technology.”

- Toward an Agenda for Action**
- EDUCATION
1. Invest in education.
 2. Hold teachers accountable.
 3. Separate student instruction from testing and certification.
 4. Keep K-12 students in classrooms longer.
 5. Increase the ratio of skilled workers in the US by encouraging skilled immigrants.

Toward an Agenda for Action

ENTREPRENEURSHIP

6. Teach entrepreneurship as a skill.
7. Boost entrepreneurship in US by creating founders' visas for entrepreneurs.
8. Create clearinghouses and databases to disseminate templates for new business.
9. Aggressively lower the governmental barriers to business creation.

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Toward an Agenda for Action

INVESTMENT

10. Invest in communications and transportation infrastructure.
11. Increase funding for basic research and government R&D institutions.

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Toward an Agenda for Action

LAWS, REGULATIONS & TAXES

12. Preserve flexibility in labor markets.
13. Make it comparatively more attractive to hire a person than to buy more technology.
14. Decouple benefits from jobs to increase dynamism.
15. Don't rush to regulate new network businesses.
16. Eliminate or reduce the massive home mortgage subsidy.
17. Reduce subsidies to financial services.
18. Reform the patent system.
19. Shorten copyright periods.

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So, What Does All This Mean?

Let's Return to Friedman

"It's a 401(k) World" NY Times 4/30/13

- More now rest on you.
- Self motivated.
- There will be fewer guarantees from institutions that were the foundation of previous economies: companies, unions and government.
- For Youth:
 - More mentors, social networks, and role models
 - More "Certification" employment.

Paul Romer, (economist, NYU)

Library of Economics and Liberty

Economic growth occurs whenever people take resources and rearrange them in ways that make them more valuable. A useful metaphor for production in an economy comes from the kitchen.

To create valuable final products, we mix inexpensive ingredients together according to a recipe. The cooking one can do is limited by the supply of ingredients, and most cooking in the economy produces undesirable side effects.

If economic growth could be achieved only by doing more and more of the same kind of cooking, we would eventually run out of raw materials and suffer from unacceptable levels of pollution and nuisance. Human history teaches us, however, that economic growth springs from better recipes, not just from more cooking.

New recipes generally produce fewer unpleasant side effects and generate more economic value per unit of raw material.

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Paul Romer, Library of Economics and Liberty

Every generation has perceived the limits to growth that finite resources and undesirable side effects would pose if no new recipes or ideas were discovered.

And every generation has underestimated the potential for finding new recipes and ideas.

We consistently fail to grasp how many ideas remain to be discovered.

The difficulty is the same one we have with compounding: possibilities do not merely add up; they multiply.

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The Great Inflection

- Used in the context by Friedman, the Great Inflection refers to the steep angle in which technological change is growing.
- But, if Romer is correct, another inflection of growth can occur if new recipes or ideas are discovered and applied to the economy.

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Justice Louis Brandeis, dissenting opinion, *New State Ice Company v. Liebmann* 285 US 262 (1932)

- "There must be power in the states and the nation to remould, through experimentation, our economic practices and institutions to meet changing social and economic needs. I cannot believe that the framers of the Fourteenth Amendment, or the states which ratified it, intended to deprive us of the power to correct the evils of technological unemployment and excess productive capacity which have attended progress in the useful arts. . . . To stay experimentation in things social and economic is a grave responsibility. Denial of the right to experiment may be fraught with serious consequences to the nation. It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a *laboratory*; and try novel social and economic experiments without risk to the rest of the country."

- Note: this opinion is where the term "laboratory of democracy" originated.

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The Take-Away

Let's get cooking, trying new recipes, in the state and local government kitchens that are our laboratories of democracy.

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