PAYING FOR THE RECESSION
Rebalancing Montana's Economy

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Longest and Deepest Recession Since WW II

Real Gross Domestic Product as a Percent of pre-Recession Peak
Source: U.S. Bureau of Economic Analysis
Economic Balance: A Process Not an Outcome

Consumption
Saving
Supply
Exports

Production
Investment
Demand
Imports
Signs of Economic Imbalance

1. Housing Price Boom
2. Low Savings and High Borrowing
3. Global Trade Imbalances
4. Government Deficits
“Things that can’t go on forever usually don’t”

The Recession Corrected Some

1. Housing Price Boom ✓
2. Low Savings and High Borrowing ✓
3. Global Trade Imbalances No
4. Government Deficits Getting Worse
New Home Construction
Right in Line with Fundamentals

Growth in Households (thousands)

New Home Construction (thousands)

1960-69 1970-79
1980-89
1990-99 2000-07
Housing Price to Income Ratio Comes Back to Earth

Ratio of Home Price Index to Median Household Income, U.S., Index Jan 2000 = 100
Consumers are shedding debt

Household financial obligations as a percent of disposable personal income

Source: Federal Reserve.
Households Are Saving More of Their Income

U.S. Savings as Percent of Disposable Personal Income.
Source: Bureau of Economic Analysis and IHS Global Insight.
Current Account Surpluses and Deficits as a Percentage of World GDP

Source: International Monetary Fund.
Total Tax Collections by State and Local Governments, Inflation-Adjusted and Seasonally Adjusted. Index, 1989Q1 = 100

Source: U.S. Census Bureau.
Challenges to Status Quo for State and Local Governments

• Budget deficits from recession: $140 bill. in FY11, $102 bill. in FY12
• End of stimulus
• Property tax declines lag changes in property values
• Medicaid obligations are growing
• Underfunded pensions
Public Pension Shortfalls: Worse Than You Think

Pew Center for the States estimates total shortfall at end of FY 2008.

Since this study, pension funds have declined in value by 25%.

AEI study estimated total shortfall in 2010 if public funds used the same accounting rules private sector funds have to use.

$1 Trillion

$3 Trillion
Even Optimistic Projections Say Federal Debt Will Grow
Drivers of Entitlement Spending Growth

Social Security and Health Program Spending as Percent of GDP

Effect of Excess Cost Growth

Effect of Aging

Spending in the Absence of Aging and Excess Cost Growth

Paying for the Recession: Rebalancing Montana’s Economy
Outlook 2011
Symptoms of Congressional Dysfunction

- Inability to pass a budget this year
- Difficulty in dealing with temporary tax provisions
- Opposition to defense cuts advocated by the Secretary of Defense
- Persistent inability to pass appropriations bills by the beginning of fiscal year
- Embodying controversial policies in must-pass legislation
- Republicans vehemently opposed to tax hikes, Democrats vehemently opposed to benefit cuts
Getting on the Right Course

• Housing Price Bubble
• Consumer Debt Repair
• International Trade Imbalances
  Retaliation versus Cooperation
• Government deficits

States: Redesign Medicaid  U.S.: Health Care Costs
Reform Pensions  Entitlement Reform
Questions?