

Q&A WITH RENOWNED AUTHOR STEVE HAYWARD

THINKING MINNESOTA



ISSUE 5
FALL 2016

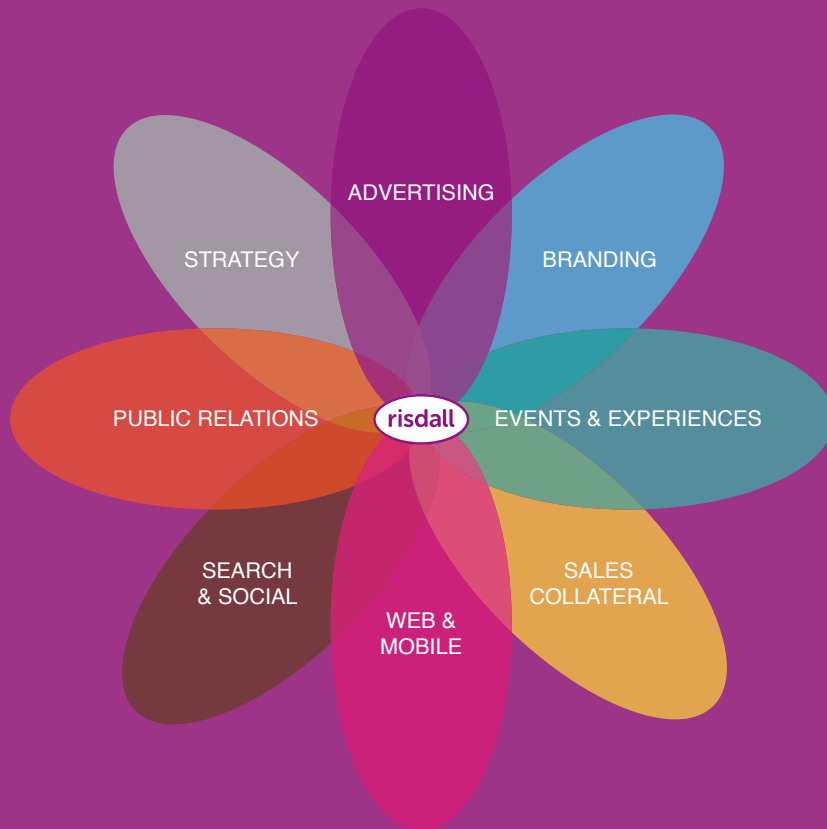
MINNESOTA'S ECONOMY: MEDIocre AT BEST

Set aside the hype: Minnesota lags national averages in a wide range of economic indicators, exposing deep vulnerabilities for the future





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NOTE FROM THE CHAIRMAN

CONVENIENT TRUTHS?

Liberals *know* so much that isn't true

Yogi Berra, the New York Yankee catcher and sometime social analyst, once said that "you can observe a whole lot just by watching." Here in Minnesota, we've been keenly "watching" our job creators, business leaders and wealthy retirees leave the state to escape our high income tax, estate tax and regulatory burdens. Where are they going? No surprise here: to low tax states! Just ask any financial planner, accountant, or trust attorney. They'll tell you that the Dayton Administration's record tax increase in 2012 prompted throngs of clients to leave the state permanently.

Not satisfied to make policy recommendations based only on Yogi-esque anecdotes (even when we know they're true), American Experiment's Peter Nelson used publicly available IRS data to verify this phenomenon in his study, *Minnesotans on the Move*, which appeared in the last edition of *Thinking Minnesota*. He showed that approximately \$1 billion had left the state in 2014 alone.

Liberals in St. Paul and the *Star Tribune* responded with predictably ferocious attacks on Peter's work, relying heavily on anecdotes and casual observations, but never challenging Peter's underlying facts.

The *Star Tribune* featured a screaming front-page headline announcing that despite the fact that Minnesota is a high tax state, nobody was moving out of state in any significant numbers



Ron Eibensteiner

due to high taxes, without citing any government data to dispute our conclusion. In addition, Minnesota Revenue Commissioner Cynthia Bauerly wrote a half-hearted rebuttal that was light on facts and big on anecdotes. In spite of evidence, why is it that so many so called smart elected officials and bureaucrats in St. Paul and in the media continue to believe in things that simply aren't true?

There are other examples. Earlier this summer, the Center hosted a luncheon in which the American Enterprise Institute's Peter Wallison used a mountain of evidence to show how the financial

continued on page 4

continued on page 2



Why not make it even more fun?

My wife Laurie joined the Center's Peter Nelson, Tom Mason and me for a recent road trip to Fergus Falls, where we joined Representative Bud Nornes in a town meeting about how local citizens have helped manufacturers confront the skills gap without seeking government funding (page 14). Along the way, we paused in Fergus' Adams Park for a photo with Otto the Big Otter, a 40-foot long concrete city monument. We also visited (and highly recommend) Dairyland (especially the fish and chips) and the downtown City Bakery (home of the caramel walnut bear claw).

“reforms” in Dodd-Frank make it increasingly difficult for middle class borrowers to gain access to capital, whether for home or business (page 19). Any community banker will readily tell you that Dodd-Frank may be great for big business and Wall Street, but this legislation is freezing marginal borrowers out of the capital markets. Yet liberal policy makers ignore the crippling effects of Dodd-Frank and are now proposing more regulations to make it even more difficult for Main Street to secure loans to grow their businesses.

It all illustrates the closed loop echo chamber of our political system, in which liberal policy makers and government bureaucrats conspire to perpetuate an ever-deeper morass of rules and guidelines. If regulations are deemed to “work,” they immediately double down on more regulations to make

them “even better.” If they don’t work, such as Dodd-Frank, they declare the need to create more regulations to “fix” them. (Obamacare come to mind?) It’s never ending. Tell me when a bureaucrat has ever said, “Oops, that regulation didn’t work. Let’s eliminate it.”

Also in this issue, John Hinderaker, our president, interviews renowned conservative author and academic Steve Hayward. The Center has contracted with Steve to write three papers yet this year pertaining to Minnesota regulations. He’ll start with mining, then turn to so-called green energy policies, and end with agriculture.

On September 8th, the Center will host a debate on the minimum wage as contemplated by the Minneapolis City Council. We’ll see whether increasing the minimum wage to \$15 per hour (whether well intentioned or politically expedient), will result in the unintend-

ed consequence of pricing more young or unskilled workers out of the market.

You get the picture. The nagging question still remains: why do so many so called smart people in government *know* so much that simply isn’t true? Our mission at the Center is to aggressively use policy papers, town hall meetings, op/eds, and public forums to argue against these hurtful policies that make it harder and harder for the middle class, low income wage earners and minorities to get ahead economically and improve their lives. ★

➔ ONE MORE THING

We’re thrilled at the overwhelming enthusiasm for *Thinking Minnesota*. The other day I found a well-thumbed copy in the magazine rack of the service department at my local car dealer. We don’t circulate to car dealers, so it can only mean that someone finished their copy and wanted to share our messages with others. In this issue, we’re already making improvements. We now have a readership of roughly 25,000 Minnesotans and we’ve goosed the size to 48 pages, with several new departments. We continue to hope that *Thinking Minnesota* can be a connector to all groups, organizations, and individuals who care about public policies related to limited, accountable government, low taxes, personal responsibility and respect for the job-creating power of the entrepreneur.

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UP FRONT

Employee Freedom

BOLTING THE SEIU

If Minnesota's PCAs are successful, labor experts say this will be the largest decertification in U.S. history

Lakeville mother Kris Greene and other home-based personal care assistants (PCAs) in Minnesota do not want to be represented by the Service Employees International Union (SEIU). With help from the Center's Employee Freedom Project and others, PCAs have launched a statewide decertification campaign aimed at eliminating the new collective bargaining unit formed in 2014.

They need to collect about 9,000 signatures by December 2 to force a follow-up election, reigniting one of the state's most controversial political issues of recent years.

If the PCAs successfully overturn the union vote, labor experts say, this will be the largest union decertification in U.S. history.

American Experiment's vice president and senior policy fellow Kim Crockett launched the Employee Freedom Project late last year along with labor attorney Doug Seaton, and the non-profit litigation firm Americans for Lawful Unionism (ALU). The team notched a huge victory on March 1 when it helped home-based child care providers end an effort to force them into a union by a decisive two-to-one margin.

Like child care providers, home-based PCAs were targeted for forced unionization via executive order by Governor Mark Dayton. Seaton defeated Dayton and the unions in court but Dayton and his allies passed a law in 2013 that used



PCA and mother Kris Greene. "I work for my daughter, not the state of Minnesota."

transfer payments intended for low-income children and disabled Minnesotans to designate caregivers "state employees" for purposes of collective bargaining. The child care providers beat the union back but the PCAs were successfully organized by the SEIU with just 13 percent of the 27,000 PCAs eligible to vote.

"Many PCAs were simply unaware of the union vote in 2014 and threw the ballot away. Or they signed a union card not understanding what it meant," Crockett says. "Or they were just too busy caring for a loved one!"

That 2014 vote, and the contract that followed, allows SEIU to collect voluntary dues from PCAs paid under Medicaid who chose to be members (or who unwittingly signed a card), thereby reducing funding for all PCAs. "But here's the kicker," Crockett says. "SEIU now speaks for all 27,000 PCAs, whether they voted for or against the union, or did not vote at all."

"At the very least, this vote deserves a do-over with a majority of PCAs getting to vote," she added.

Many PCAs, like Greene, reject the idea that they are public employees and do not want SEIU representation. Like Greene, most PCAs care for a disabled family member in their home. This program gives families the option to provide high quality, loving care at home rather than placing loved ones in an institution.

The Washington, D.C.-based Center for Worker Freedom has also pledged support.

In addition to collecting election cards to call for a new election, PCAs and the Employee Freedom Project launched MNPCA.org "so that PCAs could build a community, and perhaps create an association that would keep them informed and represent them in the future at the Capitol," according to Crockett. "It would be great if PCAs could use the power of the internet to network with one another. An association would cost a lot less than the SEIU and would be more effective at protecting the PCA program." ★



For more on the Center's Employee Freedom Project go to www.americanexperiment.org.

Economic Realities

Minnesota's Dismal Outlook

Hinderaker predicts major CAE study will prompt vigorous debate about the future of “blue state” policies

Center of the American Experiment used a Capitol press conference on August 15 to unveil a report that debunks the belief that Minnesota’s strong economy vindicates the “blue state” policies that have prevailed in Minnesota for a number of years.

“Unfortunately, a systematic review of the facts does not bear this assumption out,” Center President John Hinderaker told the press conference. The data show that Minnesota’s economy has been average, at best, over the past 15 years,

Even the Dayton Administration predicts that Minnesota’s future performance will be below average.

he said. “Worse, leading indicators are nearly all pointing downward. If nothing changes, Minnesotans can expect their economy to perform below average in the years to come.”

The report, *Minnesota’s Economy: Mediocre Performance Threatens the State’s Future*, was prepared over the past seven months by Dr. Joe Kennedy, in close collaboration with Peter Nelson, the



The Capitol press conference: Joe Kennedy (center) is flanked by CAE President John Hinderaker (left) and Vice President and Senior Policy Fellow Peter Nelson (right)

Center’s vice president and senior policy fellow. Kennedy was chief economist in the Commerce Department under President George Bush. He received a law degree and a master’s in agricultural and applied economics from the University of Minnesota and a PhD in economics from George Washington University.

Hinderaker hopes the report will spark a meaningful public conversation about the prospects of Minnesota’s economy and what policies should help strengthen it.

Using a broad analysis of economic data, the paper demonstrates that Minnesota’s economic growth is now just average while productivity continues to be below average. Minnesota ranks 30th in per capita income growth, 34th in growth in disposable income, and 28th in rate of job creation. And the Twin Cities ranks ninth out of the largest 15 metropolitan areas in growth in economic output since 2001, and eighth out of 15 in job creation.

Other signals highlight other potential vulnerabilities: Recent job growth has come from less productive jobs; local entrepreneurial activity is in serious decline; and productive Minnesotans are leaving the state. In 2014, the net house-

hold income lost in this out-migration was \$948 million, a figure that has been rising steadily. Minnesota now ranks 47th among the states as a net destination for households with incomes over \$200,000, the paper said.

What’s more, the paper quotes predictions from the Dayton administration that Minnesota’s future performance will be below average. Minnesota Management and Budget projects growth in personal income and jobs to be lower than the national average in each of the next four years. The Minnesota Department of Employment and Economic Development projects that in the ten years from 2014 to 2024, Minnesota will underperform the nation with respect to job creation in 19 of the 22 major job categories.

The release of the Kennedy paper was the first of an aggressive public outreach agenda for American Experiment.

Beyond that, the Center is organizing community-wide town meetings in St. Cloud, Rochester, and Mankato at press time. More are being planned. ★

Full coverage of the paper can be found on page 26. The complete report can be retrieved at www.americanexperiment.org.

Costly Pipeline Delay

Slow regulatory approval puts tax revenue and jobs at risk in northern Minnesota

Enbridge, the Calgary-based energy company, has announced plans to invest a \$1.5 billion stake in the Dakota Access pipeline, likely putting at risk the company's Sandpiper Pipeline Project, its effort to transport oil across northern Minnesota from the Bakken oil field to a terminal in Superior, Wisconsin.

The Dakota Access pipeline should provide enough new capacity to decrease Enbridge's mid-term need for the Sandpiper pipeline.

"Minnesota is clearly not open for business."

- PETER NELSON

Enbridge has been trying to gain approval to build the Sandpiper pipeline for three years, three times the typical approval timeline, according to Peter Nelson, vice president and senior policy fellow at Center of the American Experience.

"Minnesota is clearly not open for business," he said. "That's the message Minnesota regulators are communicating to any business paying attention to this process."

Nelson called it a "huge blow" to northern Minnesota's economy. "An uncertain future for the Sandpiper pipeline means an uncertain future for \$25 million in annual property taxes the pipeline would pay to revenue-strapped northern Minnesota communities."

It also means an uncertain future for 1,500 construction jobs, Nelson said.

The approval process for the Dakota Access pipeline in states surrounding Minnesota exposes just how excessive and burdensome Minnesota's regulatory

process is.

The 1,172-mile Dakota Access pipeline will transport Bakken oil to Patoka, Illinois, through the Dakotas, Iowa and Illinois, bypassing Minnesota entirely. Permit applications for the Dakota Access pipeline were filed a year after Enbridge began the permitting process for the Sandpiper pipeline in Minnesota.

"And all this delay is over a pipeline that will largely rest alongside pipelines in existing utility corridors," Nelson said. "Only a quarter of the pipeline's path will blaze new trail."

The accompanying table shows that all of the state permits necessary for the Dakota Access pipeline were approved within a year and half, and two of the four were approved in under a year. By contrast, the time to approve the Minnesota permit for the Sandpiper pipeline just surpassed 1,000 days with no clear end in sight.

"There's simply no reasonable justification for the Minnesota permitting process to take three times as long as the process in surrounding states," Nelson

Dakota Access PIPELINE ROUTE



said. "But that is in fact the case."

This map shows the route for the Dakota Access pipeline. The pipeline's route takes it within about 15 miles of Minnesota. Of course, it's no coincidence the pipeline avoids the state. The picture illustrates quite plainly the problem with Minnesota's regulatory process and prompts an important question: Just how many businesses across other industries are avoiding Minnesota to avoid the state's excessive regulatory burdens? ★

PERMIT APPROVAL TIMELINE FOR THE SANDPIPER PIPELINE

	Date Filed	Date Approved	Elapsed Time
North Dakota	October 30, 2013	June 25, 2014	238 Days
Minnesota	November 8, 2013	In Process	1,000 Days and Counting

PERMIT APPROVAL TIMELINE FOR THE DAKOTA ACCESS PIPELINE

	Date Filed	Date Approved	Elapsed Time
Iowa	October 29, 2014	March 10, 2016	498 Days
South Dakota	December 15, 2014	November 30, 2015	350 Days
North Dakota	December 22, 2014	January 20, 2016	394 Days
Illinois	December 22, 2014	December 16, 2015	359 Days

Pensions

Pension Pixie Dust

Dayton vetoes pension bill that passed with overwhelmingly bipartisan support

Kim Crockett was one of many perplexed observers scratching their heads when Governor Mark Dayton vetoed a pension bill that was vetted by the Pension Commission and passed overwhelmingly in both houses of the legislature, 120-3 in

the House and 61-1 in the Senate.

Crockett, vice president and senior policy fellow at the Center, for five years has monitored the ticking time bomb of Minnesota's unfunded pension liabilities, while educating Minnesotans about this "off the books" but non-negotiable multi-billion-dollar shortfall. "We must keep our promise to retirees but that doesn't include compounding annual COLA increases."

Dayton objected to a one-year reduction in cost of living adjustments, which was projected to save about \$81 million over decades. "I am a critic of the status quo but the bill would have helped stabilize the funds," she said of the veto. "Dayton claims to be a fan but public unions objected so he vetoed it." The bill also lowered the teacher fund's assumed rate of return from 8.5% to 8.0%, still

much too high but an improvement.

Crockett thinks most Minnesotans are no longer fooled. "I think we have succeeded in educating voters. They know pension math is wishful thinking topped with pixy dust," Crockett said. "Now we need to reframe the problem by talking to younger employees, explaining to them that almost half of their pension contribution is going toward an unfunded liability for somebody else's pension. And there isn't going to be anybody there to do that for them." Crockett says the best way to keep pension promises is by shifting younger employees to a defined contribution benefit. ★

To read more of Kim Crockett's extensive research into Minnesota's pending pension crisis go to www.americanexperiment.org.

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Follow up

More Chaos

St. Paul schools continue the reign of disarray

St. Paul public school leaders seem determined that chaos should reign in the district's high school hallways. The school board's contract for "school resource officers" (SROs) is up for renewal with the St. Paul Police Department, and students demanded changes in cops' role at the board's July 26 meeting. According to the *Pioneer Press*:

The Pan-African Student Union at Central High School wants police to stop arresting students for minor crimes such as theft, fighting and drug possession. They say unnecessarily arresting teens is

"The recent firing of St. Paul Schools' superintendent Valeria Silva was supposed to signal a turn-around in the state's most dysfunctional school system. This latest insanity appears to dash any hope of that."

counterproductive, pushing students out of schools and into the criminal justice system.

"Do we want to contribute to the school-to-prison pipeline, or are we really trying to protect students?" Central senior Saffiyah Alaziz asked the school board.

So it's now OK to steal, assault others, and use drugs on school grounds. What's left to prohibit—murder?

At least school officials are taking a hard line, right?

Laurie Olson, security director for the school district, said she shared the students' demands with the police department last week. She said the district hasn't taken a position on the types of crimes SROs should enforce, but the issue merits discussion.

"It absolutely will be something that we bring to the table for discussion. I can't tell you where that will go," she said.

It's clear where that *should* go. Moms and dads, get your kids out now!

But some parents appear to be OK with letting lawlessness rule school hallways:

Laura Jones, a parent of two district students and a proponent of restorative justice, thinks resource officers should focus on stopping threats to school safety.

That means minor crimes that take place at school, such as trespassing, truancy, theft, fighting and drug use, she said, would be "dealt with more appropriately in other ways" that don't involve arrest and prosecution.

Who's going to "deal with" these infractions, if not police? The last time a teacher tried to stop a fight at Central High, he ended up in the hospital with a traumatic brain injury.

If anarchy in St. Paul schools is to end, *kids'* behavior must change. But the folks whom the *Pioneer Press* calls "advocates" of "a gentler, more lenient approach to law enforcement in the city's high schools" reject that notion. It is cops' behavior that must change,



Katherine Kersten wrote about the discipline problems in the St. Paul schools in the last edition of Thinking Minnesota. Read it at www.americanexperiment.org.

they say:

Chauntyll Allen, an education assistant and community organizer, said SROs aren't properly trained to work with students. The officers get the same fundamental "Beyond Diversity" training other employees get, but Allen said they need additional training in de-escalation, cultural relevance and dealing with children with traumatic life histories.

Not a word about reforming the kids whose unruly behavior is making it impossible for the rest of their classmates to learn.

The recent firing of St. Paul Schools' superintendent Valeria Silva was supposed to signal a turn-around in the state's most dysfunctional school system. This latest insanity appears to dash any hope of that. ★

—Katherine Kersten

Annual Dinner

Perino Wows Annual Dinner Guests



Former White House press secretary and current Fox News pundit Dana Perino entertained 870 attendees as keynote speaker at Center of the American Experiment's 2016 Annual Dinner in late May at the Hilton Hotel in Minneapolis.

Perino is co-host of Fox's *The Five*, currently the second-most watched program in all of cable television, and author of *And the Good News Is ... Lessons and Advice from the Bright Side*.

She spoke for almost an hour including Q&A, inscribed and signed dozens of books, and spent over an hour at the after-party sponsored by American Experiment's Young Leadership Council.



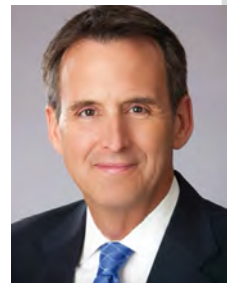
BLUEPRINT USED TO BRIEF CANDIDATES

Former Minnesota Governor Tim Pawlenty will kick off an exclusive issues briefing for Minnesota's legislative candidates, sponsored by Center of American Experiment, on Friday, August 26th, on the St. Paul campus of the University of St. Thomas.

The event plans to use the Center's *Minnesota Policy Blueprint* as the basis for eight 30-minute "action briefings," presented by Center personnel as well as other top legislative experts. The non-partisan curriculum will emphasize the Center's priorities of limited, accountable government, low taxes, personal responsibility and respect for the job-creating power of the entrepreneur. Key-note Pawlenty was scheduled to

discuss *What it Means to Govern as a Conservative*.

"First time legislative candidates always face the unfair expectation that their nomination somehow bestows knowledge about every legislative topic and initiative," said John Hinderaker, president of Center of the American Experiment. "One minute they're operating a family farm, the next minute they get nominated for office, and some people expect you to know the details of Minnesota's education funding formula. The fact is, there's a lot of information to absorb, all while they're also knocking on doors, walking in parades, and sitting in booths at county fairs."



Tim Pawlenty



Milton Friedman Celebration



Rebecca Friedrichs

Friedrichs Celebrates Freedom to Choose

The hero of the fight against mandatory union fees says 'this battle for liberty cannot be abandoned'

Rebecca Friedrichs, the California school teacher who argued that mandatory union fees violate her speech and association rights, was the featured speaker in July at Center of the American Experiment's annual birthday celebration of Dr. Milton Friedman, a champion of the school choice movement.

Friedrichs won her oral argument 5-4 in January 2016 at the Supreme Court, but lost the case when Justice Scalia died before issuing a written opinion.

More than 100 people, including many school teachers, attended the event at the Crowne Plaza in Minneapolis. They heard Friedrichs say she fought for all public employees, but at her core, she is a teacher, so it is really about students. "My heart is broken for America's children, as their teachers will continue to be forced to fund policies and highly political collective bargaining processes which place the desires of adults above the rights and needs of children," she said. "This battle for liberty cannot be

abandoned, and we've built an incredible network, so I'm optimistic we can continue working together to restore First Amendment rights to teachers and other public sector workers. Our kids are worth the fight."

American Experiment's Kim Crockett agreed. "I am optimistic, too," she said. "But we cannot place our faith in the courts. Recall our excitement as we waited for the Obamacare decision, only to be crushed by a too clever opinion by Chief Justice Roberts."

Crockett is the Center's vice president and senior policy fellow. She said a victory in the Friedrichs case would have relieved us from having to wage the battle state by state.

"While we cannot stop taking our case to the courts and Congress, we must renew our fight in the court of public opinion and the legislative process. Let's follow Rebecca's example and introduce ourselves to teachers and other public employees." ★



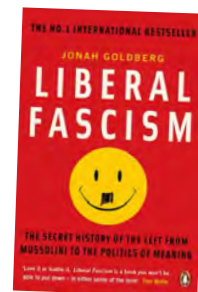
FALL BRIEFING

National Review's Jonah Goldberg to headline fall event

Conservative author and pundit Jonah Goldberg will headline Center of the American Experiment's 2016 Fall Briefing, 4:30 p.m., October 24th at the Guthrie Theater.

Named one of the top 50 political commentators in America by *The Atlantic* magazine, *National Review* senior editor Jonah Goldberg is the author of two *New York Times* bestsellers, *Liberal Fascism: The Secret History of the American Left from Mussolini to the Politics of Meaning* and *The Tyranny of Clichés - How Liberals Cheat in the War of Ideas*.

As a Fox News contributor, he frequently serves as a guest on shows including *Special Report with Bret Baier*, *The Five* and *Outnumbered*. He has also appeared on a range of leading shows including *Good Morning America*, *Larry King Live*, *TODAY*, *Hardball with Chris Matthews*, and *NBC Nightly News*.



Writer and Think Tank Hero Heather Mac Donald Scheduled for December

The Manhattan Institute's Heather Mac Donald will headline the December installment of the Center of the American Experiment popular speaker series, *How liberal policies hurt the middle class, the poor, and minorities*. Her latest book, *The War on Cops* (2016), explains how race-based attacks on the criminal-justice system are eroding the authority of law and putting lives at risk.

Mac Donald is the Thomas W. Smith Fellow at the Manhattan Institute and a contributing editor of *City Journal*. She is a recipient of the 2005 Bradley Prize. Mac Donald's work at *City Journal* has canvassed a range of topics, including higher education, immigration, policing and "racial" profiling, homelessness and homeless advocacy, criminal-justice reform, and race relations. Her writing has appeared in the *Wall Street Journal*, *Washington Post*, *New York Times*, *Los Angeles Times*, *The New Republic*, and *The New Criterion*.

Other previous works include *The*



Burden of Bad Ideas (2001), a collection of Mac Donald's *City Journal* essays detailing the effects of the 1960s counterculture's destructive march through America's institutions.

In *The Immigration Solution: A Better Plan than Today's* (2007), coauthored with Victor Davis Hanson and Steven Malanga, she chronicles the effects of broken immigration laws and proposes a practical solution to securing the country's porous borders. In *Are Cops Racist?* (2010), another *City Journal* anthology,

Mac Donald investigates the workings of the police, the controversy over so-called racial profiling, and the anti-profiling lobby's harmful effects on black Americans.

Mac Donald is a frequent guest on Fox News, CNN, and other TV and radio programs. She holds a B.A. in English from Yale University, graduating with a Mellon Fellowship to Cambridge University, where she earned an M.A. in English, and studied in Italy through a Clare College study grant. She holds a J.D. from Stanford University Law School. ★

Panel Will Debate the Minimum Wage

Noon, September 20, Hilton Hotel, Minneapolis

As the 2016 campaign season will undoubtedly feature a debate around the merits of raising the minimum wage, Center of the American Experiment will host its own local forum on the controversial proposal at noon, Tuesday, September 20th, at the Hilton Hotel in downtown Minneapolis. The lunch is one of a series of quarterly forums focused on how liberal policies hurt the middle class, the poor and minorities.

The event's panel of speakers includes:



Sen. John Marty, one of the leading liberal voices in the Senate, chairs the Senate Environment and Energy Committee and the Environment and Energy Budget Division.

Dan McElroy, a seasoned veteran of Minnesota policy discussions, is president and CEO of Hospitality Minnesota and executive vice president of the MN Restaurant Association, the MN Lodging Association and the



MN Resort & Campground Association. McElroy formerly served as chief of staff for Governor Tim Pawlenty.

Dr. Mark Perry is currently a scholar at American Enterprise Institute (AEI) and a professor of economics at the University of Michigan's Flint Campus. His research areas include financial markets and U.S. and international economics. Dr. Perry is also the creator and editor of the popular economics blog *Carpe Diem*. ★





An Economic Choke Hold

Speaker: Dodd-Frank prevents small business from creating jobs

Author and scholar Peter Wallison connects the agonizingly slow eight-year recovery of the American economy to ill-conceived financial regulations imposed by the 2010 Dodd-Frank Act, which effectively chokes off credit to small business borrowers, particularly job-creating startups.

Wallison spoke before a sold-out audience of more than 200 people in the summer installment of the American Experiment's quarterly series *How liberal policies hurt the middle class, the poor, and minorities* at the Minneapolis Marriott City Center.

Wallison holds the Arthur F. Burns chair in financial studies at the American Enterprise Institute, the Washington, D.C.-based think tank. He was White House Counsel to President Ronald Reagan and general counsel of the United States Department of Treasury.

His recent book, *Hidden in Plain Sight: What Really Caused the World's Worst Financial Crisis and Why It Could Happen Again*, challenges the liberal notion that Dodd-Frank was necessitated after lax government oversight, excessive risk-taking and greed in the mortgage markets led to the

Great Recession. He argues instead that the mortgage bubble was inflated when congressional meddling to expand affordable housing forced government underwriters to dramatically reduce their underwriting standards.

The Dodd-Frank Act has put the government in substantial control of most



How liberal policies hurt the middle class, the poor, and minorities

of our financial system: large banks, small business, non-bank financial institutions, housing, mortgage policies, insurance, insurance derivatives and consumer finance, he said. "That is why we have such slow growth." Dodd-Frank is "the most restrictive financial regulatory legislation adopted by the government since the New Deal."

Most vulnerable to the Dodd-Frank

AEI's Peter Wallison told a sold-out luncheon that the Dodd-Frank Act has put the government in substantial control of most of our financial system.

regulations are small banks, which are less equipped to bear the substantial compliance costs, Wallison said. "Small banks are not lending at the rate they used to. New community banks are not being formed," he said, noting that U.S. regulators once registered about 100 new banks annually; last year there were three. "Some years there is one," he added.

"If small banks aren't lending, then small business is not getting the credit it needs, particularly startups, which are typically responsible for about 20 percent of new jobs in the U.S. economy."

Startups, he said, don't have the financial track records that the new era of Dodd-Frank's one-size-fits-all examiners are looking for. The new compliance obligations have compelled banks to hire compliance officers in lieu of lending officers, "who used to facilitate growth." ★



PHOTOGRAPHS BY JEREMY PETRICK

Town Meeting

Mind the Gap

Fergus Falls educators, manufacturers take on the skills gap

Facing an increasing shortage of skilled employees to fill jobs vacated by retiring Baby Boomers, manufacturers, educators and civic leaders in Fergus Falls teamed up last year to outfit a state-of-the-art manufacturing lab in the local high school—funded entirely by private donations.

This triumph of community initiative prompted several representatives of Center of the American Experiment (CAE) to join longtime local legislator Bud Nornes in July for a meeting to discover how activists raised almost \$320,000 for high tech improvements to the lab in less than six months.

“This is an example of what can happen when you have outstanding community leaders,” Ron Eibensteiner told an audience of more than 60 people in the Roosevelt meeting room in the Fergus Falls’ secondary school. Eibensteiner, a Minneapolis-based venture capitalist, is

board chairman at CAE.

Eibensteiner coauthored the chapter on job creation in the Center’s *Minnesota Policy Blueprint*, published last year. He was joined by CAE’s Peter Nelson, vice president and senior policy fellow.

A panel of educators, manufacturers and community activists said the idea was conceived at the local Rotary when Evan Westra and Mike Westergard formed a working group to address the worsening skills gap. Westra owns West Tool and Design and Westergard is director of manufacturing at StoneL.

“My motivation was to get young people to be able to go into the trades,” Westra said.

The high school shop at the time, he said, misrepresented modern manufacturing. The large, dimly-lit facility had been accumulating dirt and grime since it was first acquired in the 1960s.

The event was co-hosted by Bud Nornes, long time legislator from Fergus Falls. Panelists included: Kim Embretson, retired executive at the West Central Initiative; Evan Westra, owner, West Tool & Design; plus Jerry Ness, superintendent; Mike Donaghue, instructor; and Dennis Wutzke, instructor, all from the Fergus Falls Public Schools. Other participants included Peggy Kennedy, president, Minnesota State Community and Technical College, Fergus Falls; and Brad Barth, president, West Central Initiative.

Fellow Rotarian Kim Embretson, then a development specialist at the Fergus Falls-based West Central Initiative, surmised the shop needed more than a paint job. “We needed something that would inspire students to say, “Whoa, this is re-



TOWN MEETING

This is part of an ongoing series to profile how Center of the American Experiment is using “town hall-style” public meetings to discuss issues that are essential to growing Minnesota’s economy.

ally interesting.” Embretson spearheaded the fundraising.

New equipment would show students that modern manufacturing “isn’t working in grease and dirt, and dingy conditions. It is pretty modern and cutting edge, and a lot of it is computer based,” according to Westergard.

The teachers delivered a wish list of equipment that included an array of CNC welding equipment, in addition to plans to clean and repaint the facility, to install epoxy flooring, a new exhaust system, and new lighting. The price tag: close to \$350,000.

In six months the group had commitments for \$240,000. The final tab for the project came in at \$317,000. In addition, local manufacturers volunteered to loan their tech people to set up the

machines and help show the students how they work.

But the bigger accomplishment, the teachers agree, is that they can now show students and parents the possibilities in

“This is an example of what can happen when you have outstanding community leaders.”

manufacturing. “It’s exciting and new every day. I think it’s our job to make sure students know that and understand that it’s not what it was even 10 years ago,” Wutzke says.

“I don’t need to describe the importance that manufacturers have to their communities, particularly in Greater Minnesota,” said Eibensteiner, who grew up on a farm not far south from Fergus Falls.

“Manufacturers form the bedrock of many Minnesota communities. They offer high-wage, high-skill jobs that create economic opportunity and stability,” he said, adding a list of statistics.

- Half of Minnesota’s 7,400 manufacturers operate in Greater Minnesota.
- They represent the largest private sector component of Minnesota’s GDP.
- They provide 13 percent of all jobs in Minnesota and 16 percent of all wages paid. They pay 21.6 percent higher than the average wage for all industries. ★

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NOTE FROM THE FOUNDER

APPRENTICESHIPS

Many teens would benefit from educational experiences in which they learn, not only abstractly, but hands-on in various fields

It's pretty late in the season, but if you're still looking for good beach reading this summer, permit me to recommend Yuval Levin's new book, *The Fractured Republic: Renewing America's Social Contract in the Age of Individualism*. True, its subject matter is more than sober enough to give you away as someone not inclined to romp in the sand barely dressed. But the risk to whatever fun-loving reputation you may have is worth it, as the book is more than path-breaking enough. Writing from the right side of the ideological aisle, Levin, who is the founder and editor of *National Affairs*, makes points like these about our

Too many teenagers and young adults are bored, if not to tears, then to academic indifference.

economy and its demands:

"[T]he United States, as the world's wealthiest nation, has increasingly specialized in higher-skill work, while countries with lower costs of living and labor have specialized in lower-skill work. Such specialization is good for the global economy, and therefore for the consumers of its products, but it is not so good if you are a low-skilled worker in a nation increasingly specializing in higher-skill work."



Mitch Pearlstein

And a short time later: "It is not a coincidence that we repeatedly find education and access to work at the core of the mobility dilemma in America. Our review of the forces shaping the U.S. economy today should lead us to see that education and skills training (which are not the same thing) are absolutely essential to the revival of mobility."

On-target observations like these should lead us to better appreciate the value of apprenticeship programs, which are much less common in the United States than they are in many other places. Given the dearth, what exactly needs to be said about the potential of apprenticeships and that of millions of young Americans?

One big thing is that too many teenag-

ers and young adults are bored, if not to tears, then to academic indifference. Many of them would benefit from educational experiences in which they learn, not only abstractly, but hands-on in various fields, while simultaneously taking classes and (no small point) earning real money.

Greater use of apprenticeships in which young people acquire critical and satisfying skills would especially help some number who might otherwise wind up in four-year colleges, not because they really want to be there, but because they feel obliged, often going into huge debt in the dispiriting process. Think here of men and women who would prefer to make their livings as artisans or in technical fields in which baccalaureate degrees are not needed.

Then there is the problem of too few "marriageable men;" men without the skills required for the types of jobs which make them attractive marriage partners in the properly discerning eyes of many women. In this instance, think of apprenticeships as underused linking pins connecting more effective learning, with more widely shared prosperity, with stronger families.

Interest is reasonably strong among Minnesota leaders when it comes to expanding what are already significant apprenticeship opportunities. The Minnesota Department of Labor and Industry, for example, says that 110,000 apprentices have been registered in the state over the last nearly 75 years, with about 105 occupations currently training more than 10,500 apprentices. ★



Chris Gerlach has dealt with the Met Council as a legislator and a county commissioner.

Wake-Up Call

Frustrated Dakota County commissioner fights the unfettered power of the Met Council

As a veteran state senator, Chris Gerlach always looked apprehensively at the potentially unfettered power that might be commandeered by Metropolitan Council, the unelected bureaucracy that was once created to accommodate and coordinate growth in the Twin Cities.

“It tends to be more of a back burner at the legislature because it’s not something that affects legislators’ day-to-day life,” he says. “I was certainly part of a group of hand wringers who said, ‘this is a problem that should be dealt with.’ Now that I’m in local government I regret that I was not more aggressive at the time.”

A member of the Dakota County Board of Commissioners since 2013, Gerlach says he got a “serious wake-up call” in 2014 when he read *Thrive MSP 2040*, the Met Council’s manifesto of

left-wing policy mandates that it is trying to impose on local jurisdictions—and he’s working to fix that.

Thrive MSP 2040 is the Dayton administration’s 30-year development plan for the Twin Cities that “entrenches a model of regional administration that neuters the power of local elected officials and centralizes decision-making authority in the unelected, unaccountable bureaucrats of the Met Council,” according to Katherine Kersten and Kim Crockett who in 2014 coauthored the paper *Met Council Power Grab: How the Dayton Administration Intends to Transform the Twin Cities Region for Decades to Come*.

In response, Gerlach has helped mobilize local government officials across the Twin Cities to combat the Met Council’s

urban-centric ambitions that critics say use mandated city planning authority to apply left-wing “solutions” to everything from income inequality to mitigating climate change.

“By law, it says it’s a unit of local government, and it’s supposed to be collaborative and cooperative in planning and aiding municipalities and counties. You have all those things, but yet, all of a sudden, we wake up and see a very sharp agenda that is very urban-centric and clearly left the suburbs on the outside looking in.” ★

Read *Met Council Power Grab: How the Dayton Administration Intends to Transform the Twin Cities Region for Decades to Come*, by Katherine Kersten and Kim Crockett. (www.blueprint.endorsecommunications.com).

School Choice

So Close

Catholic Conference's Peterson helps OAK get to, but not across, the legislative finish line

With 20-plus years of experience working around the Minnesota legislature, Shawn Peterson has definitely learned to take the long view when advocating serious education reform at the state level, especially in the hard fought battles for school choice.

But even he thought the stars might have aligned this year as the legislature seemed primed to enact the Equity and Opportunity Scholarship Act, a bill that would allow individuals and businesses to receive a tax credit for donating to charitable entities that award K-12 scholarships to children from income-qualifying families.

Peterson, associate director for public policy at the Minnesota Catholic Conference, is a founder and a key lobbyist at Opportunity for All Kids (OAK), a nascent coalition of advocates for school choice in Minnesota that in 2015 decided to formally mobilize another school choice agenda, even after others had tried and failed. American Experiment's Mitch Pearlstein, whom Peterson calls "the grandfather of school choice in Minnesota," is chairman of the organization.

Peterson had the resume and temperament to help assemble the effort. He spent four years earning a double major in Russian Studies and International Affairs at Hamline University as he plotted a career as a counterintelligence officer some 1,105 miles away at the FBI or the State Department in Washington, D.C. Come graduation, however, he fell about 1,101 miles short, landing instead at Minnesota's State Capitol.



Shawn Peterson

"I think it just got thrown in there with the end-of-session mess."

The reason? Love. Peterson met his wife, Susan, during his junior year at Hamline and shelved an already negotiated internship at the FBI. "There was no job in the world worth taking a chance of messing this (relationship) up," he says now.

In the pre-internet days of 1993, Peterson regularly traveled to the Capitol every Monday morning, where both the House and the Senate would post job openings on bulletin boards outside their HR offices. He eventually scored a job as page for Speaker Steve Swiggum and occupied a desk outside the speaker's

office, where he handled personal legislative projects for the speaker.

"I made \$18,500 a year. I thought it was all the money in the world. I had health insurance so it was awesome and I was right in the thick of it. The 17-year Swiggum relationship was a good one, he says, where he learned "there were really good people on both sides of the aisle who were really trying to do the right thing for their constituents." But it also gave him broad bipartisan experience as he moved up the ranks first as Republican sergeant at arms, chief sergeant at arms, and then bipartisan director of research and constituent services. In 2006, when Governor Tim Pawlenty appointed Swiggum Minnesota's commissioner of Labor and Industry, Swiggum three days later asked Peterson to be director of research there, where he stayed until 2011.

The OAK coalition saw that its legislation was supported by key legislators in both parties, including Senator Majority Leader Tom Bakk and House Minority Leader Paul Thissen. Plus, they were armed with a well-publicized public opinion survey that revealed two-thirds of Minnesotans support this kind of legislation.

But OAK got caught in the political crossfire that also took down the transportation and bonding bills. "We were definitely a huge casualty, from our perspective. I think it just got kind of thrown in there with the end-of-session mess."

Undaunted, Peterson thinks the good-news lesson from the last session is that there appears to be a legislative appetite for school choice.

"I think we got a lot farther faster than I think we thought we would when we started this," he says. "We thought this was going to be a marathon and not a sprint, which is expected any time you introduce a big policy change. But sometimes a little bit of luck and prayer and good timing is everything at the legislature." ★

→ **YLC**
YOUNG
LEADERSHIP
COUNCIL

CAE's Young Leadership Council (YLC) was established to attract rising stars to the world of public policy.



JACK SUNDRY

AGE: 26

EDUCATION: Minnetonka High School, Indiana University, Economics, 2012

OCCUPATION: Institutional equity sales, Craig-Hallum

Frustration: It seems like there's a schism between people who are really interested in politics and policy and the people who don't really follow it at all. There is a difference between reading headlines versus actually understanding policies and the effects that they can have.

About the YLC: It's been great meeting a lot of people who are motivated, who like to meet with other people with similar interests, if not different backgrounds.

News gathering: I'm pretty much digital. There are more ways to get information than ever before for winning the battle of ideas. There're a million different editorials and different blogs, different Twitter accounts you can follow.



2016
FALL BRIEFING



AN EVENING WITH
JONAH GOLDBERG

SYNDICATED POLITICAL COLUMNIST,
NATIONAL REVIEW SENIOR EDITOR,
FOX NEWS CONTRIBUTOR AND BESTSELLING AUTHOR

MONDAY, OCTOBER 24TH

Call **Kristen Sheehan** at (612) 325-3597
or **development@americanexperiment.org**,
or register online at **www.AmericanExperiment.org**.

5 QUESTIONS

WITH
LAURA
DEAN, M.D.

Laura Dean is on the executive board of the national OB-GYN board, the mother of three, and a ubiquitous campaigner for her husband, Representative Matt Dean (R-Dellwood).



Are there challenges to being a conservative in the medical community?

Last year, I was elected to the national executive board of the American College of Obstetricians and Gynecologists. A lot of what we do deals with political issues at that level, especially because I'm also a member of the PAC's governing board for the National OB-GYNs. We come from a variety of political backgrounds, but like many professional organizations, center-right and conservative professionals don't participate broadly in governance bodies. One reason I participate is because I think there has to be balance in the decision making. Though there might be some other people who want to express a more conservative viewpoint, often they are afraid to speak up because sometimes, let's face it, it's not always cool to be conservative.

How did you develop your ideology?

I'm a blue collar kid from St. Paul, raised in a working-class construction family. I was raised in a family that didn't have much extra money, but had a very strong family-work ethic. I also had two siblings who passed away at an early age from a rare degenerative brain disease. My parents lacked the wealth and knowledge of the system to self-advocate. They had to scrape for it. It was a very challenging situation and I thought, wow, more doctors should be nice and talk to people like they're real people.

How did that manifest itself, then, in your obvious interest in public policy?

I was 30 when I finished my residency and had our first baby all within 24 hours

of each other. Then you start thinking as a parent. You look around and say, whoa, what's going on? Who is making the decisions about what happens in our community and our state and our country?

People around you wonder how you make the time: You are so visible and so motivating around Matt's campaign activities. Where do you find the time?

Matt's my husband, and I believe in him more than anybody. I also think we're so lucky to have him serving at the capitol because he's a serious person who works very hard. The kids have grown up around politics and we have always brought them with us to events in the district and around the state. We drag their friends along too. We always tried to make it fun for them, mostly successfully.

You were a first-time delegate to the national convention in Cleveland. Without being partisan, what was your takeaway?

It was extremely exciting, very exciting. There was a lot of energy. It was interesting. It was fascinating to be part of this up close, interacting with other delegates, meeting people from across the country, and hearing speakers known and unknown. I was a little disappointed and frankly surprised that the delegates did not complete more real business, compared to a local or state convention. It was clearly an entertaining event for TV. I hope that it gets back a bit to the old days where more is up in the air and up to the delegates. ★

TOM STEWARD

TRACKING VOTES

Systematic voter fraud alleged in Minnesota Supreme Court case

A new voter fraud case before the Minnesota Supreme Court claims 1,366 ineligible felons have cast at least 1,670 fraudulent votes in recent statewide elections, possibly tipping the outcome of close contests, including the 2008 U.S. Senate race.

The case holds repercussions for the 2016 election, with the plaintiffs seeking a court order to prevent state and local election officials from distributing ballots to ineligible voters by implementing new safeguards.

The lawsuit marks the culmination of a years-long effort to challenge suspected voter fraud tied to Minnesota's same-day voting registration law. In general election years like 2016, more than half a million Minnesotans register to vote on Election Day.

"For the first time, the State of Minnesota will be put 'on the stand' and forced to explain why it thinks it can violate the plain text of the Minnesota Constitution, election statutes, as well as specific court orders and permit individuals to vote who election officials know are ineligible," said Minnesota Voters Alliance (MVA) Executive Director Andy Cilek in an email newsletter.

The MVA alleges the actual number of illegal ballots submitted by ineligible voters far surpasses the 1,670 votes documented through a painstaking search of voting records, hampered by a lack of cooperation by Minnesota Secretary of State Steve Simon.

MVA found 941 ineligible felons who were allowed to vote in 2008 alone, exceeding the 312 vote margin separating DFL candidate Al Franken and GOP Sen.



Tom Steward

Norm Coleman.

Altogether, more than 100,000 Minnesota felons had their right to vote restricted and reported to the Minnesota Secretary of State between 2003 and 2015. But the Minnesota Secretary of State only notifies local election officials of the ineligible status of felons and others if they're already registered to vote in the Statewide Voter Registration System.

Court papers demonstrate how the incomplete list of ineligible voters provided to local election officials routinely allows felons, wards of the state, immigrants and other ineligible persons to register and vote.

"The 1,366 identified felons who have been permitted to vote is believed to be only a fraction of the true total," the

110-page court petition filed by MVA and former Rep. Kirk Stensrud states. "Cooperation from the Secretary of State would have allowed for a more complete accounting of the number of ineligible persons who have been permitted to vote."

Simon has refused to release the data that would enable MVA to verify the actual number of ineligible people who have illegally cast a vote, ignoring a Minnesota Department of Administration opinion stating the voting records are public information.

"The Secretary of State plays a significant role with other election officials in permitting known ineligible felons to register or to vote," court documents state.

The lawsuit also alleges that election officials often allow felons flagged as ineligible in the Statewide Voter Registration System to vote anyway, provided the individual swears eligibility, according to court documents.

"There's a continuing problem in Minnesota with ineligible felons voting and the courts and Secretary of State and election judges haven't gotten on the same page, and these close elections without a doubt are being determined by the votes of ineligible felons," said Erick Kaardal, MVA's attorney.

Other states offer provisional ballots to same day registrants that are not tallied until the voter's eligibility is confirmed.

Simon's response, filed with the court, disputes the basis of the lawsuit, including "assertions regarding the number of persons ineligible due to a felony conviction who voted in various elections." ★

Repairing Our Culture

What must we do to repair our culture of massive family fragmentation?

American Experiment's most recent publication aimed at strengthening marriage is a symposium featuring 35 essays by 36 writers addressing the critical question: *Specifically, What Must We Do to Repair Our Culture of Massive Family Fragmentation?* Compiled by Founder Mitch Pearlstein and released in June, it followed up on another Center report, written by Dr. Pearlstein and released in January, based on roundtable conversations with 19 religious and other Minnesota leaders pondering the question, *Can America's Religious Traditions Strengthen Marriage?* Yes, they encouragingly concluded. Here are excerpts from the newest publication.

Bryan Dowd. "A personal example of life-long commitment based on self-sacrificial love can be intensely powerful to the people who observe it and subsequently desire it for themselves. To paraphrase Gandhi's advice, perhaps the most important step we can take is to encourage ourselves and others to be the cultural change we desire. But be forewarned: To paraphrase Bette Davis's assessment of old age: Obedience, self-discipline, self-sacrificial love, and lifelong commitments ain't no place for sissies."

Todd R. Flanders. "Repairing a culture of family fragmentation requires a culture of self-sacrifice. Self-sacrifice must be modeled and taught if it is to be handed on. There must be schools that inculcate it. Consequently, the ongoing viability of such schools requires vigorous defense of First Amendment freedoms of speech, association, and exercise of religion."

Arvonne Fraser. "So long as the good-father model is that of supporting a family, marriage rates will decline because a majority of men can no longer live up to that model, and our culture does not encourage or support sharing the responsibilities of parenthood – that is doing what has historically been called women's work."

Amber Lapp & David Lapp. "Our own interviews with working-class young adults revealed that many young people are suffering from the legacy of their own parents' divorce and other childhood traumas, like abuse. Many also hold, to borrow from psychologist Carol Dweck's terminology, a 'fixed mindset' about love and happiness, rather than a 'growth mindset.' . . . This is why further education and healing are vital."

Lawrence M. Mead. "Few today oppose the value of marriage as such, yet many do not achieve it. That's because we have not yet evolved the combination of more demanding policies with public support that has brought progress in other areas. Federal experiments have shown that counseling spouses how to marry and stay married has little effect. That is because the tested programs were nondirective and because public opinion was not yet mobilized to demand change. To be effective, policies must more clearly expect better behavior, and the public must back it up."

Erin Mundahl. "Making families stronger means spending more time with family. Only by coming to love not the ideal of family, but the people

themselves – with all their annoying habits and human flaws – can the institution be strengthened. Love is a choice; it's also hard work. The same is true of friendships."

Stephen B. Young. "Cultures do not arise by accident of faith; they are shaped by human needs and human will responding to both realities and aspiration. There once was no Buddhism, Christianity, or Islam, and then there was. There was once slavery, legal and widely accepted in England and the United States, and then it was not. Rome was once mighty, and then it wasn't. . . . Family fragmentation in America is a comparatively recent cultural expression of social preferences. It has yet to burrow its way deeply into our national soul. It is still vulnerable to attack from the right directions." ★



READY TO GROW

New business benchmarks reveal signs of stress in business climate

Minnesotans will go to the polls Nov. 8 to elect all 201 legislators in the State House and Senate. We issue our first challenge to all those elected: Let's focus on placing Minnesota in the top 10 states for job, economic and income growth.

To achieve that goal, Minnesota needs to be ready for the future – ready for change, ready to grow and ready to compete.

Our job at the Minnesota Chamber of Commerce is to help all Minnesota businesses grow and excel. We advocate for public policies to promote economic opportunity and strengthen our business climate that ultimately benefit all Minnesotans by encouraging a growing economy and good jobs.

Where does Minnesota stand? The inaugural Minnesota Business Benchmarks, a collection of key economic business indicators, shows mixed results. The report, which will be produced annually by the Minnesota Chamber and our local Chamber Federation partners, provides key data points to determine how Minnesota is faring compared with the rest of the nation.

The Business Benchmarks show we have a dynamic and diverse economy forged by a business culture that is rooted in innovation and growth. We are proud of our talented workforce. Our business owners are forward-thinking and risk-takers. Our quality of life is the envy of many states.

But despite what we have achieved, the Business Benchmarks report clearly shows that our state's business climate shows signs of stress.



Doug Loon is president of the Minnesota Chamber of Commerce – www.mnchamber.com.

Among the troubling economic statistics: Job creation is 35th in the nation at 1.1 percent versus the national average of 1.88 percent. Personal income growth is 29th in nation at 3.8 percent versus the national average of 4.4 percent. GDP growth improved from 27th ranking in 2014 to 12th in 2015 due to a strong first quarter in 2015. However, the last 12 months spanning the first quarter of 2016 show Minnesota's GDP now lagging the national average.

It's important to note that most other states including our neighbors are working to lower costs and regulations to be more attractive for business growth and expansion. Minnesota, unfortunately, is going the opposite

direction. Witness past actions and proposals by some in the Minnesota Legislature.

The 2013 tax increase created the top income-tax tier of 9.85 percent, third highest in the nation. The minimum wage was phased in to \$9.50 per hour and is now on automatic pilot with an inflation index. Proposals for new labor mandates are a regular occurrence. Gov. Mark Dayton continues to propose higher taxes on business even with billion-dollar surpluses in the state budget.

The 2016 Legislature was a missed opportunity to enact policies to help develop and grow Minnesota's economy. We still hold hope of a possible special session to complete work from the regular session, much of which was left unfinished from 2015. Our priorities are to provide much needed tax relief; invest in transportation funding for roads, bridges and transit; and provide explicit state preemption of municipal workplace mandates. That's just a start. Rarely does a new legislative session kick off without leaders pledging to advance policies to create jobs for Minnesotans. I fondly recall a favorite saying of my predecessor, David Olson: "You cannot be pro-jobs and anti-business." This seems to be forgotten by many who are advocating for new regulations, more costs and overall making it harder for job-creators in our great state.

Let's collectively pledge to deliver solutions to ensure that Minnesota is ready for change and ready to grow. That benefits all Minnesotans. We stand ready to assist. ★



MINNESOTA'S ECONOMY

MEDIOCRE AT BEST

Set aside the hype: Minnesota lags national averages in a wide range of economic indicators, exposing deep vulnerabilities for the future

By Peter Nelson



Minnesota's economy continues to surface in national debates over which public policies best promote economic growth and prosperity. Many people claim that Minnesota's economy performs well above average, so well that other states should emulate Minnesota's policies on taxes, regulation, and public programs.

President Obama made such claims last year in La Crosse, Wisconsin. He argued Minnesota is winning the border battle with Wisconsin and directly attributed Minnesota's success to a raft of recent liberal policies, including tax increases on top earners, a minimum wage hike, and Medicaid expansion.

Political rhetoric aside, Minnesotans do seem to view the condition of their state's economy more positively than residents of other states. Gallup polling ranks Minnesota as the sixth most confident state on its State Economic Confidence Index, just behind Utah, North Dakota, Texas, Nebraska, and Colorado.

This positive view, however, does not square with Minnesota's actual economic performance. With respect to the measures that matter most to people living in the state—economic growth, incomes and jobs—Minnesota's economy during the current century has been mediocre at best.

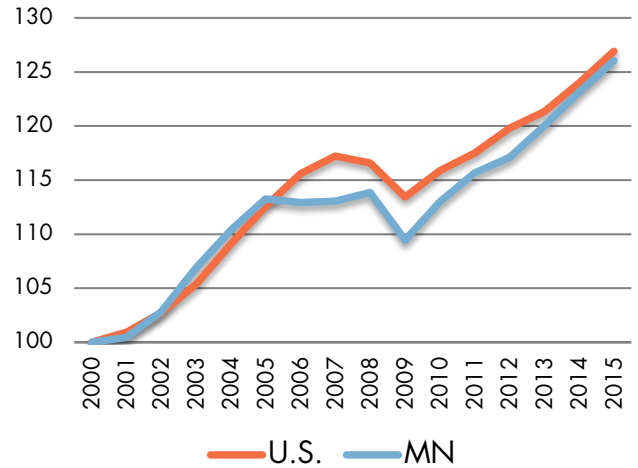
This disconnect between perception and reality presents a real danger to Minnesota's future. Misplaced confidence in the state's economy will lead to complacency, which will undermine any effort to advance the pro-growth policies Minnesota needs to regain its competitive footing.

Understandably, most Minnesotans don't have a good frame of reference to compare Minnesota. Most people don't regularly travel to places like Seattle, Dallas, Charlotte or Atlanta to see the construction cranes foresting those urban landscapes. Nor do they pore over economic data.

To help align Minnesotans' perceptions with reality, Center of the American Experiment recently set in motion a strategy to educate people on how well Minnesota's economy actually performs. As a first step, American Experiment commissioned

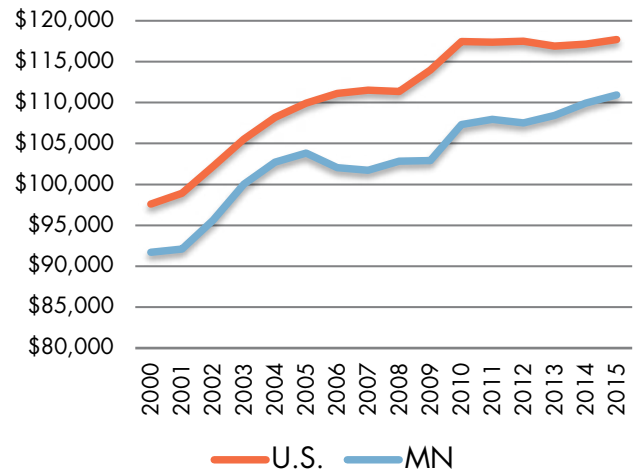
**This disconnect
between perception
and reality presents a
real danger to
Minnesota's future.**

Figure 1: GDP Growth in Minnesota and the U.S. (Index 2000=100)



Source: U.S. Bureau of Economic Analysis

Figure 2: Private Sector Productivity (Real GDP/Employee)



Source: U.S. Bureau of Economic Analysis (2009 Dollars); U.S. Bureau of Labor Statistics, Current Employment Statistics



Dr. Joe Kennedy is the author of *Minnesota's Economy: Mediocre Performance Threatens the State's Future*, a major paper from Center of the American Experiment. He has a law degree and Masters in Agricultural and Applied Economics from the University of Minnesota and a Ph.D. in Economics from George Washington University.



Joe Kennedy—a former Chief Economist at the U.S. Department of Commerce—to assess Minnesota’s recent economic performance and provide insights into where the state is heading.

While various organizations and state agencies regularly report on Minnesota’s economy, Kennedy’s report offers the most comprehensive assessment of recent trends and sets an important baseline for understanding the state’s economy moving forward.

This systematic review shows that Minnesota’s economy has been average, at best, over the past 15 years. Worse, leading indicators are nearly all pointing downward. If nothing changes, Minnesotans can expect their economy to perform consistently below average in the years to come. Indeed, this is exactly what the state’s own agencies currently project.

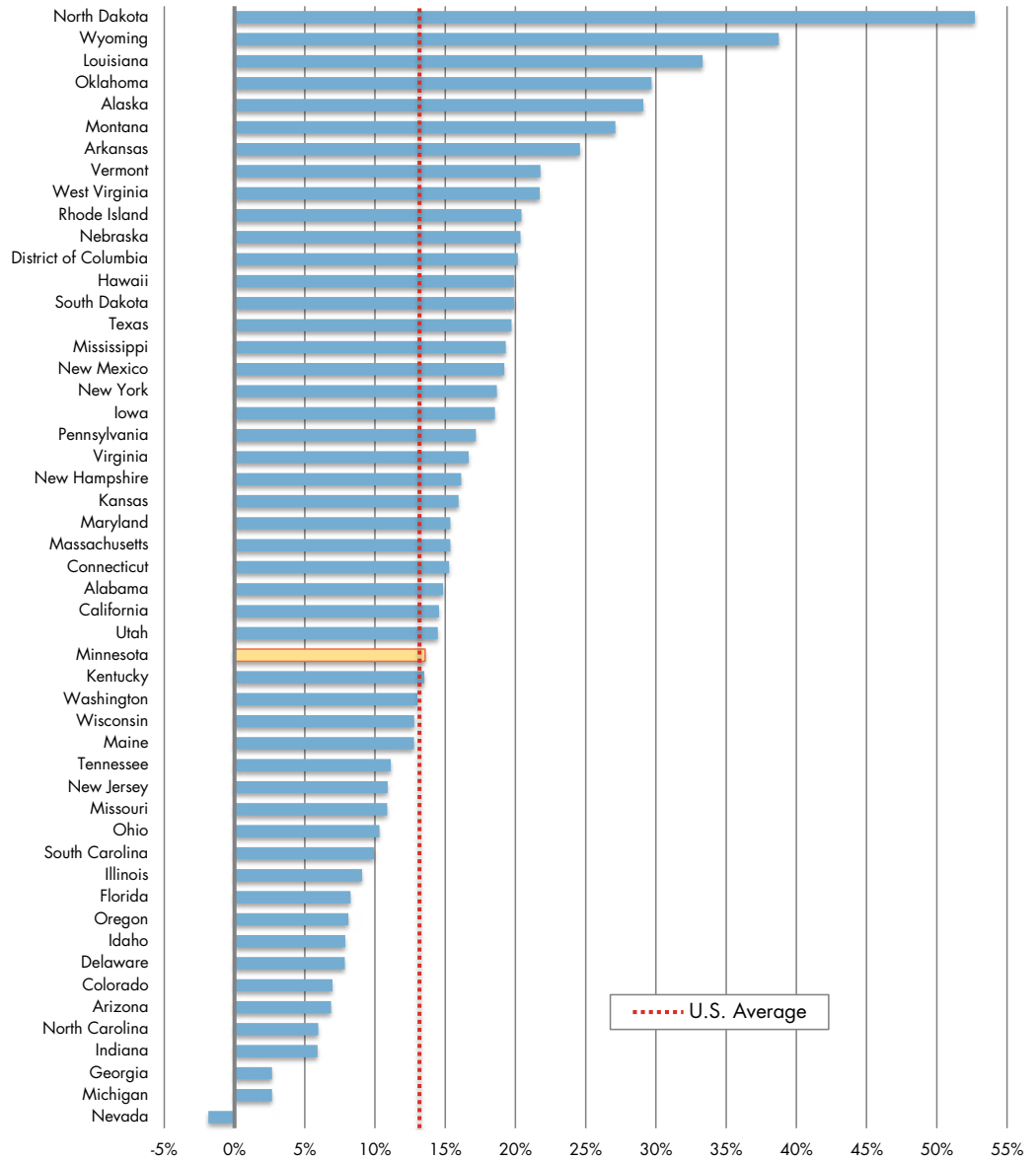
Minnesota should be held to a high standard

Minnesota’s economic performance should be held to a high standard. Anyone who lives in Minnesota knows the people of Minnesota top the nation on a wide range of factors that contribute to both a high quality of life and a productive workforce. Minnesota ranks among the top states for educational attainment, health, family cohesion, public safety, workforce participation, civic engagement and access to cultural amenities.

Among these strengths, family cohesion is worth highlighting if only because Minnesota’s advantage here is less recognized. People are well aware the average Minnesota student achieves among the highest scores on standardized tests in the nation. But how many people know Minnesota ranks second nationally behind Utah on the rate of teenagers living with both of their married biological parents?

Positive perceptions of the state’s economy are no doubt linked to these very positive attributes. The media and politicians regularly remind Minnesota residents that their

Figure 3: Real Per Capita Income Growth, 2000 to 2015



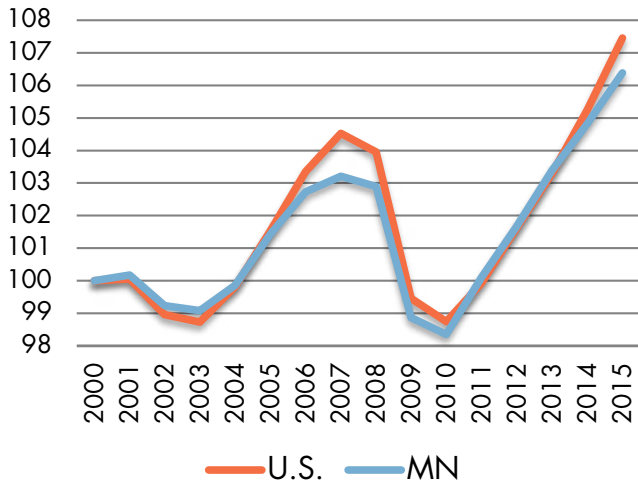
Source: U.S. Bureau of Economic Analysis.

state tops various national lists. Most recently, the Mayo Clinic regained the top spot on *US News & World Report's* Best Hospitals Honor Roll, which triggered plenty of local news stories and a tweet from the Minnesota Department of Employment and Economic Development. Minnesotans understandably presume these top rankings reflect stronger economic performance.

For much of Minnesota’s history, the state’s economy met a higher standard. Setting aside the farm crisis that hit Minnesota particularly hard in the 1980s, Minnesota’s economy consistently reported stronger than average growth in economic output, per capita income and jobs from the 1950s through to the 1990s.

Unfortunately, Minnesota’s lofty rankings do not guarantee

Figure 4: Employment Growth Index (2000=100)



Source: U.S. Bureau of Labor Statistics.

lofty economic performance. American Experiment’s new report reveals Minnesota’s economic performance over the past fifteen years has been, at best, average.

Minnesota is underperforming

Measures of state-level economic performance generally fall into three main categories: output, income and jobs. Minnesota’s economy shows strengths when viewed from certain angles, but overall these data reveal that Minnesota’s economy is underperforming and even weakening.

Historically, Minnesota tends to track national patterns across a broad range of economic indicators. The fact that the state reflects national trends is likely due to the state’s diverse economy, which includes a more even mix of agriculture, natural resource extraction, manufacturing, retail and financial services than most state economies.

With this history, the United States presents a good reference point and any prolonged underperformance within a given indicator, especially those linked to incomes, productivity or innovation, presents cause for concern.

GDP settles to the national average.

The most fundamental measure of economic performance is a state’s gross domestic product (GDP, also referred to as gross state product or GSP), the basic measure of a state’s total economic output. GDP measures

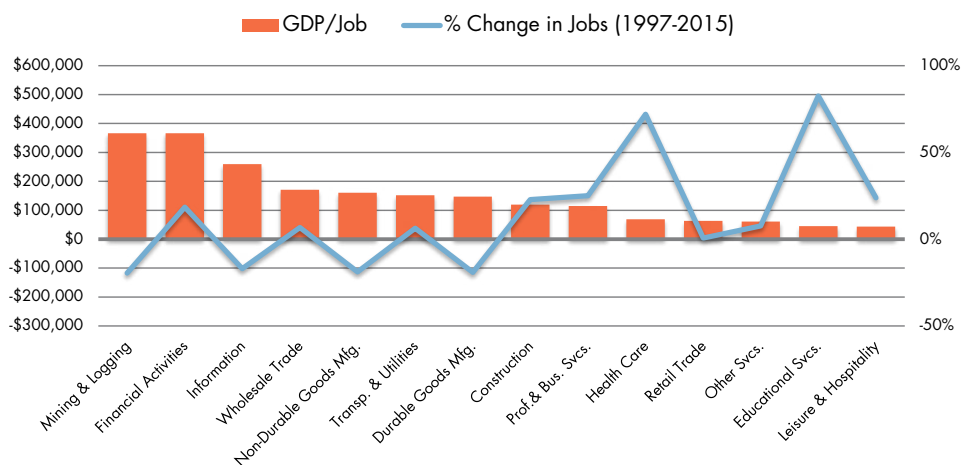
the total market value of goods and services produced within an economy. Prior to 2000, Minnesota’s consistently registered a slightly higher average annual GDP growth rate than the nation. Since 2000, however, Figure 1 shows Minnesota GDP growth has settled down to the national average. Despite playing some catch-up in recent years, state projections forecast Minnesota GDP growth will remain below average in coming years.

Productivity remains below the national average. What matters most for long-term growth is productivity. As workers become more productive, their real wages rise. Though difficult to measure precisely, state productivity can be approximated as state GDP per worker. Since 2000, Minnesota’s productivity has consistently been below the national average. As shown in Figure 2, Minnesota lost ground between 2004 and 2010 and has gained back much of that lost ground since.

Per capita incomes are higher, but growth is average at best. Growth in Minnesota’s per capita income was particularly strong in the 1990s, a time when the state’s labor force participation rate hit peak levels. Since the 1990s, Minnesota’s per capita income has grown in step with the national level. Though Minnesota growth kept pace with the nation, a majority of states still outperformed Minnesota. As shown in Figure 3, Minnesota per capita income growth from 2000 to 2015 ranked 30th overall among the states. It’s important to note that Minnesota’s high taxes take a cut out of personal income. Minnesota’s disposable income—personal income minus taxes—actually grew below the national average and this growth ranked 34th overall.

Average annual wages remain just average. Another important income measure is the average wage earned per job. The average wage provides a more accurate sense of the economic status of the typical worker than per capita income. Income earned from dividends, interest, and rental property is

Figure 5: Minnesota GDP Per Job and Job Growth



Source: U.S. Bureau of Labor Statistics; and U.S. Bureau of Economic Analysis.

important to a state's economy, but most people depend on wages they earn at a job for their livelihood. Here, Minnesota tracks very closely to national averages. In 2015, Minnesota's average wage of \$53,519 was just \$582, or 1.1 percent more than the U.S. Also, the trend in Minnesota has tracked the national average almost exactly over the last 15 years as the state's lead in the early years of the decade has all but disappeared.

Job growth just shy of the national average. Since 2000, the rate of job growth in Minnesota has lagged behind the nation as a whole. As Figure 4 shows, Minnesota slightly outpaced the national job creation rate around 2002 and 2003, but fell significantly behind between 2005 and 2008. In each of the last four years, the rate of job growth in Minnesota has been below the national average.

Unemployment rate consistently lower than average.

The most positive aspect of Minnesota's economy is the fact that Minnesota's unemployment rate has generally been lower than the national average. In May 2016, Minnesota's unemployment rate of 3.8 percent was well below the national average of 4.7 percent (although above North and South Dakota's rates of 3.2 and 2.5 percent, respectively). Minnesota's lower unemployment rate means there are fewer idled workers who would otherwise pose demands on public services. However, Minnesota maintains a low unemployment rate while at the same time recording below average job growth. Though low unemployment generally reflects efficient utilization of labor, the tightness of the state's labor market might also reflect fewer people participating in the labor market.

Overall, the measures of economic performance reviewed here show that, so far this century, Minnesota's economy does not rank among the country's

strong performers. Over the past 15 years, Minnesota GDP—the most comprehensive measure of economic performance—grew below the national average. The state's per capita personal income might be higher, but growth is just average and this middling growth falls below average when adjusted for Minnesota's high taxes. Growth in

economic output—a measure of the total value of products and services produced in Minnesota—grew by 1.5 percent per year on average from 2000 to 2013 (the latest year for which state output data are available), just below the national rate of 1.6 percent.”

Brookings also notes that “Minnesota's rapid recent productivity growth has not translated to higher wages for most workers.” Most alarming, perhaps, Brookings found that, from 1999 to 2013, “fully 70 percent of Minnesota workers experienced declining wages on average.”

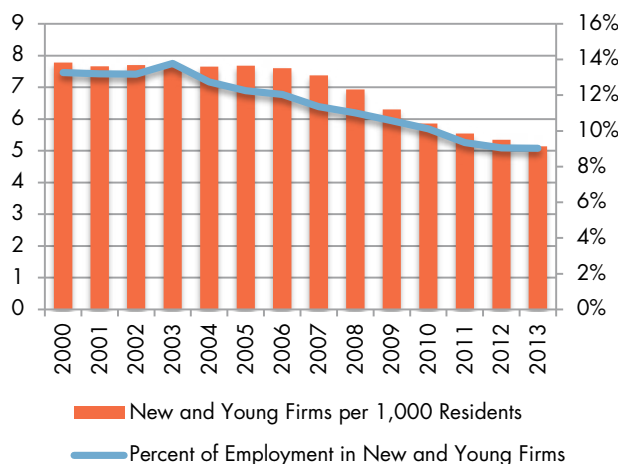
Last year the Minnesota Department of Employment and Economic Development (DEED) reviewed Minnesota's recovery from the 2008-2009 recession and, compared to the United States, reported the same generally average economic performance on growth in jobs, wages and personal income over various time periods. Though the state's low unemployment rate is an exception to the state's otherwise average performance, DEED notes that “Minnesota's tighter job market has likely contributed to the state's slower job growth.”

The Metropolitan Council also reviewed the economic competitiveness of the Twin Cities region in 2015. Though the Twin Cities regained jobs faster than the nation since the lowest point of the recession, the study found “fairly average job growth” compared with the nation's 25 largest metropolitan areas over the same time period.

Cracks in Minnesota's economy are showing

Part one of the report surveyed the general performance of Minnesota's economy over recent years and as it exists today. What does the future hold? A more in-depth look at key trends reveals weaknesses that will likely undermine future growth if left unremedied.

Figure 6: New and Young Firm Activity, Minnesota



Source: U.S. Census Bureau

wages and jobs is also just average. The state's economy is by no means in the doldrums, but the sum of these measures points to average economic performance at best.

Findings of average performance is consistent with other sources

The data presented in the report may seem surprising to Minnesotans accustomed to hearing their state's economy described in glowing terms. In fact, however, there should be nothing controversial about the fact that in recent years, Minnesota's economic performance has been average or worse. For example, a 2015 report by the Brookings Institution's Metropolitan Policy Program offered similar, and in some cases more pessimistic, data.

With respect to economic output, the Brookings report says: “The state's

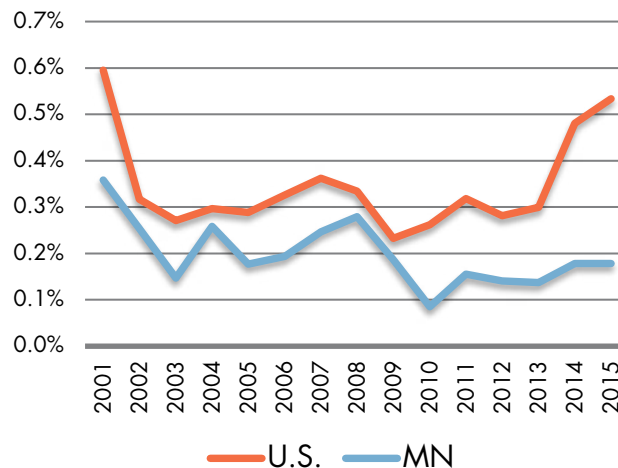
Job growth is centered on less productive jobs. Jobs may be growing in Minnesota at close to the same rate as the U.S. as a whole, but not all jobs are equal. As DEED reported last year, “the quality of job openings—in terms of hours and wage offers—is still below pre-recession levels.” Figure 5 shows the increase in GDP associated with the average job in various occupational categories as well as the increase or decrease in those jobs since 1997. It is clear that the jobs being created are not necessarily the most valuable. In some occupations with a high impact on GDP, such as mining, information and utilities, the number of jobs has stagnated or even fallen. In contrast, the fastest growing occupations, health care and educational services, have a relatively low impact on GDP. For as long as this continues to be the case, net job growth may not imply rising average incomes.

Minnesota suffers from a lack of new business creation. Economists generally recognize that most jobs are created by new businesses. Moreover, the small new businesses of today are, in some cases, the large, established businesses of tomorrow. Therefore, it is a dangerous warning signal if a state falls behind in new business formation. Unfortunately, that is what has happened in Minnesota. New firm foundation in Minnesota has steadily declined since 2000. Figure 6 shows the number of new and young firms per 1,000 residents and the percentage of employment provided by these firms. The decline in new firm employment began in approximately 2003. Despite the economic recovery, the trend has continued through 2013.

Not enough Minnesotans are employed in high-tech industries. While job creation per se is important to any state, the type of jobs being created also matters a great deal. Jobs that are in traded industries in which

a region has a competitive advantage are likely to be more secure and to pay higher wages than jobs that are not. Also, jobs that require a great deal of training almost always come with higher salaries to justify the extra investment in human capital. For these reasons, high technology jobs are especially important to Minnesota, as to any other region.

Figure 7: Venture Capital as a Share of Earnings



Source: PwC/NVAC Money Tree Report; Thomson Reuters; and U.S. Bureau of Economic Analysis.

Given the importance of high-tech jobs, it is troubling that the number of high tech jobs in Minnesota has fallen since the turn of the century.

Minnesota is attracting less venture capital. It goes without saying that capital is required today to build the businesses of tomorrow. Here, once again, Minnesota has been falling short in recent years. Venture capital is one of the important potential sources of funding for new businesses. At one time, Minnesota had the reputation of being home to an above-average network of venture capitalists. Unfortunately, that is no longer the case. In recent years, as Figure 7 shows, Minnesota has fallen well below the national average in venture capital as a share of earnings. A lack of venture capital, like a shortage of new business and declining high tech employment, is a sign of a stagnant economy.

Minnesota is experiencing a net out-migration of its most productive residents. Minnesota’s state demographer released a report in January 2015 underscoring the importance of migration to filling Minnesota’s future workforce demands. The natural rate of population change (births minus deaths) is projected to steadily decline year after year into the foreseeable future. Current migration trends, however, already show Minnesota has been, on net, losing people to domestic migration since 2002.

IRS data show that this net out-migration of residents also results in a substantial net loss of household income. In 2014, after Minnesota’s legislature enacted a significant income tax increase, the net loss in household income rose to \$948 million. It will be difficult to turn around Minnesota’s underachieving economy if every year the state loses thousands of its most productive and high income residents, and fails to attract equally productive residents from other states.

Minnesota’s racial disparities will tend to suppress future economic growth. Minnesota has one of the widest gaps in economic achievement between white and minority citizens of any state. According to a report by Minnesota’s demographer, 83 percent of all white working-age adults (ages 16-64) participate in the labor force, of whom only six percent were unemployed at the time of the report. In contrast, only 68 percent of black working-age adults and 77 percent of Mexican Americans participate in the labor force. The median full-time, year-round white worker earns \$50,000 while his black and Mexican-American counterparts earn only \$38,300 and \$28,900 respectively.

Worse, there is every reason to expect these wide disparities to continue into the next generation. At present, Minnesota has one of the widest disparities between white and minority achievement in public schools of any state. At a time

when many Minnesota companies are complaining about a lack of skilled workers, the state's poor performance in educating and integrating minorities represents a significant lost resource and a drag on the state's economy.

Official forecasts predict continued mediocre performance. Projections from Minnesota's own state agencies forecast that Minnesota will fail to keep pace with the U.S. on a number of measures. Minnesota Management and Budget publishes an economic forecast twice a year to aid in budgeting and this forecast projects growth in Minnesota personal income and employment will lag the United States in every year through 2019.

The Minnesota Department of Employment and Economic Development (DEED) also periodically publishes detailed 10-year employment projections. Of 22 major occupations, DEED projects Minnesota will outperform the nation in job creation on only three. Notably, Minnesota employment is projected to grow more slowly in a number of occupations that have historically provided a competitive advantage, including management, business and financial operations, and computer and mathematical occupations.

How Minnesota Can Do Better

For most of its history, Minnesota has enjoyed a strong and diverse economy. That history built up a high standard of living. Minnesota has long held key advantages that should contribute to a more productive and prosperous economy. Minnesota is among the nation's leaders in educational attainment, family cohesion, workforce participation, health, cultural amenities and low crime. Minnesota also possesses abundant agricultural, mining, and timber resources. Moreover, while often considered flyover country, Minnesota's central location gives its industry access to a number of important shipping avenues.

Despite all of these advantages and the state's prosperous past, the analysis of Minnesota's economy reviewed here shows that Minnesota's recent economic

performance is mediocre. Worse, data show a declining level of business creation, entrepreneurship, investment and job growth in key industries, all of which weaken future growth prospects. It seems clear that if the state continues on its present course, its economic performance will soon lag well behind that of most other states. Indeed, lagging growth is exactly what official economic projections predict will happen.

Why is Minnesota underperforming? Like other states and regions, Minnesota does suffer some drawbacks—most notably, its climate, which many consider inhospitable. But Minnesota hasn't gotten any colder in recent years. One obvious factor that appears to be largely nullifying Minnesota's historical, natural

There is no question Minnesota's higher tax and regulatory burdens add to the cost of doing business

and cultural advantages is public policy. This is a good thing, because public policies can be changed.

Minnesota is justly regarded as a blue state. Minnesota's taxes are among the highest and most progressive in the country. Minnesota's regulatory environment also ranks among the most burdensome and fits the blue-state mold.

Are Minnesota's blue-state policies responsible for its economic underperformance? There is no question Minnesota's higher tax and regulatory burdens add to the cost of doing business. In recent years, Minnesota has increased these burdens while a number of other states, such as North Carolina, Indiana and Tennessee, have taken serious steps to reduce them. Without any other obvious weak points—beyond the inescapable realities of the state's northern locale—Minnesota's tax and regulatory burdens are among the only

suspects at the scene of Minnesota's mediocre economic performance.

Minnesota's manufacturing sector may be the exception that proves the rule regarding Minnesota's blue-state policies. Minnesota's manufacturers are the main reason Minnesota GDP continues to grow at close to the same pace as the nation. The growth advantage in Minnesota's manufacturing industry—the difference between Minnesota's actual growth and what growth would have been if Minnesota's manufacturing sector grew at the national average—added another \$7.1 billion to Minnesota's economy between 2000 and 2015.

A number of factors contribute to Minnesota's manufacturing advantage. However, one particular factor, taxes, might come as a surprise. A recent analysis by the Tax Foundation reveals that Minnesota imposes one of the lowest tax burdens in the country on certain manufacturers. To make an apples-to-apples comparison of each state's tax burden on business, the Tax Foundation developed a number of model businesses and asked the national accounting firm KPMG to estimate the actual taxes each business would pay in each state. Minnesota imposed the second lowest tax burden on the model capital intensive manufacturing business. This is largely due to the fact that Minnesota does not tax income derived from the sale of goods outside the state.

Though no one piece of evidence can prove Minnesota's blue-state policies slow Minnesota's economy, the weight of the evidence strongly suggests that this is the case. Fortunately for Minnesota, these policies are the result of human decisions and these decisions can be changed and improved upon. Coupling better tax and regulatory policies with the state's current advantages in educational attainment, work ethic, public safety and family structure will give Minnesota its best opportunity to reach its full potential. ★

Peter Nelson is vice president and senior policy fellow at Center of the American Experiment.

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Q&A

THE STATE OF REGULATION

Renowned conservative author and academic **Steve Hayward** is in the process of producing three papers for Center of the American Experiment about various effects of regulation in Minnesota. CAE President **John Hinderaker** recently talked to him about his background, his books and the prospects for his upcoming CAE projects.

It's difficult to classify your academic interests into a particular niche. How would you describe them?

I have wide interests. I've always thought there is a cost to the narrow specialization in the modern world. You can see this in the decline of the liberal arts in universities. I've tried to see if it's possible to make my way as something of a generalist, and not chase down a rabbit hole into one specialty. They used to call me the intellectual Swiss Army knife at AEI (The American Enterprise Institute), because of my wide interests and wide knowledge.

What are your graduate degrees in?

I have two degrees. I took a master's degree in government, and then I did a Ph.D. through the history department at Claremont. I was studying political science, but I had this odd view that the best way to understand American government was to do it from a historical perspective. Winston Churchill used to say, "If you want to understand the secrets of politics, study history intensively." We don't do that anymore, so I went that route.

You've had multiple careers in think tanks and with various teaching appointments. Let's walk through that.

I started working in the think tank world even while I was still in graduate school. Academia has a lot of things wrong with it these days, and it's difficult for conservatives to break into. I worked first with the Claremont Institute, because that's where I was going to graduate school. Then around 1991, I worked for the Pacific Research Institute in San Francisco—I'm still affiliated with them as a senior fellow. Then I moved to Washington, DC, and worked for AEI for more than a decade, which was great fun.

There's an old joke that many conservatives go to Washington thinking they're going to drain the swamp, only to discover that it's a hot tub. I think that's a line from one of my early mentors in

journalism, M. Stanton Evans. I decided a few years ago that I was tired of writing the same old thing over and over again, so I decided to go back into academia. I had done some teaching as an adjunct at Georgetown University, and Ashland University in Ohio, and I decided to take on campus craziness as my next great white whale. I spent a year at the University in Colorado at Boulder.

Pause on that: You were appointed the first-ever professor of conservative studies at the University of Colorado in Boulder, right?

Right. I think, in the abstract, you don't want to hire people on ideological grounds, but universities are so unbalanced today that to the credit of Boulder they said, "Let's actually bring in a known conservative." I didn't want to teach conservative studies, because that just becomes like women's studies, or gender studies. I wanted to teach regular courses in regular departments. They agreed, so I taught constitutional law for undergraduates in the political science department, and a course on market-oriented environmentalism in the environmental studies department. Those departments are mostly liberal, but I got along with them just fine.

I've been at Pepperdine University for three years as the Ronald Reagan Distinguished Visiting Professor, kind of a fun title. I'm going to spend the next three years—sit down for this—at the University of California at Berkeley.

I'm not sure the Berkeley of today is the same as the Berkeley of the 1960s. My sense is that the student body is quite a bit more conservative these days. I don't know about the professors.

The single largest student club at Berkeley now is the College Republicans. It's partly because people who aren't Republicans or conservative have 50 or a hundred different clubs to choose from. If you're not inclined towards center-left or gardening, then the College Republicans is what you flock to.



PHOTOGRAPHS BY COREY MILTIMORE

STEVEN HAYWARD

has been retained to produce white papers on regulations for Center of the American Experiment. He has spent the last three years as the Ronald Reagan Distinguished Visiting Professor at Pepperdine University. He is about to begin a three-year stint at the University of California at Berkeley.

He is the author of *Churchill on Leadership: Executive Success in the Face of Adversity*; *The Age of Reagan: The Fall of the Old Liberal Order, 1964-1980*; *The Real Jimmy Carter: How Our Worst Ex-President Undermines American Foreign Policy, Coddles Dictators and Created the Party of Clinton and Kerry*; *Greatness: Reagan, Churchill, and the Making of Extraordinary Leaders*; *The Age of Reagan: The Conservative Counterrevolution: 1980-1989*; *Mere Environmentalism: A Biblical Perspective on Humans and the Natural World (Values and Capitalism)*; and *The Politically Incorrect Guide to the Presidents: From Wilson to Obama (Politically Incorrect Guides)*.



Hayward and American Experiment President Hinderaker have contributed to Power Line, the celebrated conservative American political blog.

Of course, the reason we’re talking right now is that you are working on a series of major papers for the Center dealing with regulation in Minnesota.

People like to say, “The problem today is Washington, DC, and centralization.” That’s certainly true, but one of my arguments is that the culture of modern government now goes all the way down. Four years ago or so, I started noticing stories about 40 or 50 localities shutting down little kids’ lemonade stands. I can understand why a city might be concerned if a kid had a stand on the median of a busy boulevard, but in a lot of cases they were dunning children or their parents for not having a business license—not spending \$500 for a business license to sell 25-cent lemonade on a Saturday afternoon.

This is absurd—bureaucratic rigidity run amok. That’s not the fault of the department of Health and Human Services. That is self-generated lunacy on the local level. My point is, the bureaucratic mentality now infects government at all levels. While we talk about the problems in Washington, we also need to do a deep dive into what state and local government are doing, and how they’re doing it.

In this particular case, you’re looking at some of Minnesota’s regulatory agencies.

We’re going to look at how three

different areas are affected by regulation. We’ll start with mining. We’re just gathering information and trying to understand it better. The private sector is often frustrated with the regulatory process for getting permits to do business.

Minnesota is probably much less corrupt, or maybe not corrupt at all compared to places like Chicago or New York, or parts of California, where really it’s organized and legalized bribery.

My general perception is that Minnesota is probably much less corrupt, or maybe not corrupt at all compared to places like Chicago or New York, or parts of California, where really it’s organized and legalized bribery. My initial reading is that the people who work in the agencies in Minnesota, for the most part, are sincere, trying to do a good job.

The difficulty is when you get to big projects. Mining is especially naughty. You can put a Home Depot in many

places. If one town doesn’t want it, they can put it in another town. But you can’t move a mine. It has to be sited where the minerals are. Second, big projects tend to attract a lot of attention and therefore get more politicized. When that happens, the regulatory process seizes up like an engine without enough oil. I think that serves everybody very poorly, and there’s got to be a better way to do it than this.

This kind of regulatory environment is anti-competitive, expensive and time consuming—and only the biggest players can maneuver through it. On a national level, certain regulatory schemes, like banking and communications, tend to turn industries into something of a cartel. It’s almost unthinkable that a group of investors might start a mining company. The barriers to entry are too high. Meanwhile, the process wastes a ton of time; some of the hours put in by public employees are staggering. That’s an incredible waste of resources, and it delays job creation.

The second paper will have to do with energy, particularly green energy. This is a subject that you have worked with a great deal over the years.

Minnesota, like most states, has a renewable portfolio standard. Something like 25 percent of the state’s electricity is supposed to come from renewable sources by the year 2025. I want to analyze how that will actually play out

in practice. Second, there's also a federal angle. The Environmental Protection Agency (EPA) has pushed through what it calls a Clean Power Plan, their answer, supposedly, to climate change. It involves using the Clean Air Act to regulate utilities. I like to say it amounts essentially to a federal take-over of the electric utility in America, quite beyond anything that's ever been done with the Clean Air Act.

Understand, the Clean Air Act has always worked through the states, going back to 1970. Individual states come up with plans to meet the Clean Air Act targets, and the EPA approves them. That's why the states were designated to implement this plan. The Supreme Court has put a stay on this at the moment, but my understanding is that Minnesota's going ahead with its planning anyway. They could, if they want to, impose the same standards on their own.

We'll try to use this study to de-

mystify all this. But we'll also address something that's hard for people to grasp. People think green energy means lower pollution, lower green-house gas emissions. That's not true. Wind and especially solar power have to have natural gas back up. Those plants have to run all day long. People love to point to how Germany has invested hundreds of billions of dollars in subsidies for wind and solar power, yet their green house gas emissions are rising again.

In other words, when you run through the numbers, you're going to find that a 20 percent increase in renewable energy sources in Minnesota will not yield a 20 percent reduction in green house gas emissions. It might yield none at all.

Back in the '70s, when Jimmy Carter first subsidized wind and solar power, the argument was, "We need to use renewable energy because we're running out of fossil fuels." Today the argument is exactly the same. "We need to use

renewable energy because we're running out of fossil fuels, and oh my god, if we burn them all up we're all going to die and fry to death from global warming." Peel this onion, you'll find there is a lot of money to be made on subsidies.

Just briefly, let's note that the third paper that you're going to write for the Center will relate to the impact of state regulation on agriculture.

That's another area that's hard to untangle, and I'm not sure I've got the thread completely grooved yet. Let's just limit ourselves to water for the moment. We made great strides in 40 years by upgrading waste water treatment in all our major cities. Most new chemical plants these days are essentially built to a zero discharge standard. Same with our waste water treatment facilities. We don't dump junk in the Great Lakes or the Mississippi anymore.

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Every farm's a little different, from how much rainfall it gets, what the slopes may be, what the soil might be, what you're growing, and what fertilizers you use. The idea that we would have a permit system for farms, like we do for waste-water treatment plants is ridiculous. The idea that we'd have EPA enforcers or state regulators regulating run-off from farm to farm is also ridiculous. There're not enough people or expertise to do it. The farmers are going to know best what happens on their own farms.

The EPA has been trying to figure out how to regulate this for 25 years, and they can't do it. They've pushed this off on the states. And like mining, you tend to get a lot of the special interest groups, the environmental groups, agitating to make life miserable for farmers. That's how it works in practice. We're going to try to unravel this and see if we can't point out a better way of doing it.

We haven't yet talked about the books that you've written. I think the best known is your two volume set called *The Age of Reagan*. Talk about that.

Way back in the summer of 1993, I went to a very small dinner with Edmund Morris, who had been picked to be the

People think green energy means lower pollution, lower green-house gas emissions. That's not true.

official biographer of Reagan. Morris is a great writer, but I thought at the time his approach to Reagan was very narrow. He was interested in Reagan's personality and character, but not much interested in his ideas or his political story. I thought

his book would probably be very good and a big best seller, but that there would be room for another book that puts Reagan on a larger canvas. I had in mind narratives like Paul Johnson's *Modern Times*, or William Manchester's books on Winston Churchill. Manchester is a great narrative stylist; he put Churchill's story in a wider context.

A few years later, Morris' book finally came out, called *Dutch*, where he wrote a novel and made himself a character in it. It was a strange book. People said the book should have been called *Botch*. Nancy Reagan was so upset about the book that she forbid it ever to be sold in the Reagan Library book store.

I like to say the Morris biography of Reagan is like the Star Wars prequels. We're stuck with them forever. Dreadful in both cases. Anyway, my book got longer. I ended up writing two volumes instead of one, and it turned out pretty well.

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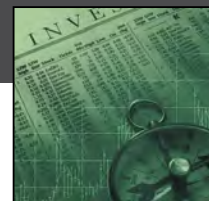


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Has it sold a lot of copies?

It's done just fine. It got reviewed very positively in the *New York Times* and the *Times Literary Supplement* in London. But I had a little bad luck with the first volume, which landed in bookstores on September 10, 2001. I was actually in Washington on September 11 for the usual schedule of TV and radio appearances to promote the book, and of course those all got canceled.

What about other books?

My very first book was called *Churchill on Leadership*, one of those executive guides to leadership that sell very well. I did another book that grew out of my Reagan work called *Greatness: Reagan, Churchill and the Making of Extraordinary Leaders*. It was kind of an accidental book. In the course of my Reagan research I started writing what I thought would be three or four paragraphs about how Reagan

used Churchill's words and thoughts. I kept working through the material, and I discovered that Reagan quoted Churchill more often than all other American presidents combined. Suddenly four or five paragraphs grew to five thousand words. My book was already going to be too long, so I gave that five thousand word excerpt as a lecture at the Hoover Institution, where a number of old Reaganites encouraged me to turn it into a book. One way of explaining it is that Reagan's grand strategy for the Cold War was Churchill's grand strategy for the Cold War.

You're one of the few thinkers these days who can claim to be an old fashioned public intellectual, someone who is wise and interesting, but who also actually gets listened to.

Public intellectual is a description I resist, for a bunch of dumb reasons, but I think it's probably true. My original

inspiration going back to when I was a teenager was William F. Buckley. I started reading George Will when he first started writing a column in 1974 or '75. They wrote interesting stuff, they made good arguments. So for a long time I wanted to be a journalist. I'm glad I didn't; that world is collapsing fast. But I always liked writing, still do. I much prefer to send a lecture than give one.

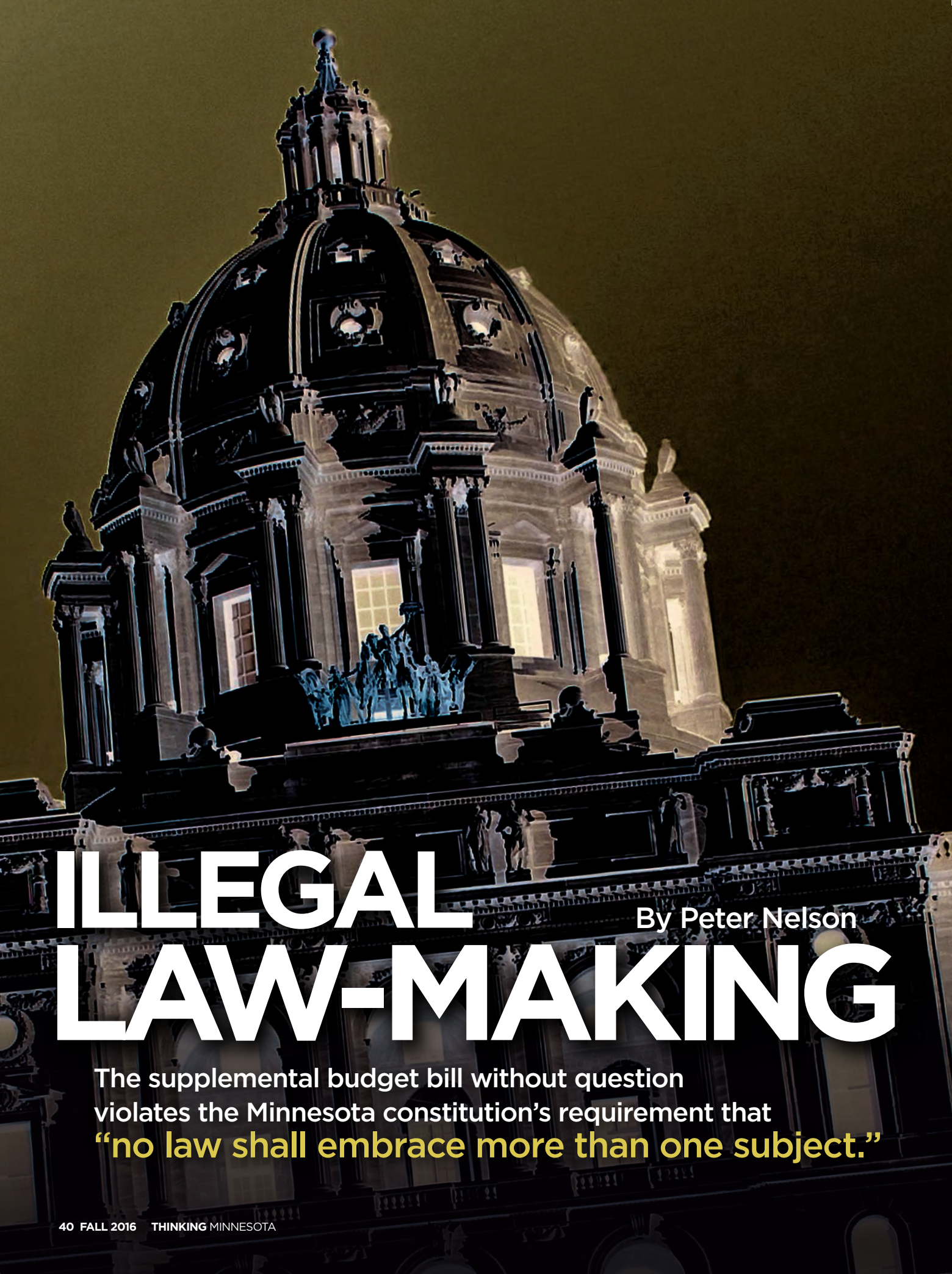
As a writer, you never know who's reading you and how they're taking it. In 2006 I was invited to a White House State Dinner for Australian Prime Minister John Howard. I went through the seating line, shook hands with President Bush, and then I got to Prime Minister Howard, who said, "I'm glad you came. I read your Reagan book, I love it." I said to him, "The book only sold three copies in Australia according to my sales statements." He says, "Well, I'm one of them. I sure wish I could have met Reagan." ★



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ILLEGAL LAW-MAKING

By Peter Nelson

The supplemental budget bill without question violates the Minnesota constitution's requirement that **“no law shall embrace more than one subject.”**

The laws listed in the accompanying table (page 42) are just a sampling of ten laws passed by the Minnesota legislature and signed by Governor Dayton in 2016. What do these laws all have in common? They were passed together in a single supplemental omnibus budget bill that spanned 599 pages.

Other than that, very little connects the subject matter each law addresses. The laws run the gamut of state policy and finance, moving from higher education to agriculture to safety standards to municipal governance to electricity regulation to economic development to occupational licensing to taxes to family law and then to education. And that is just a sample.

By touching so many different subjects, the supplemental budget bill without question violates the Minnesota constitution's requirement that "no law shall embrace more than one subject." The fact that state lawmakers passed a bill that so clearly violates the constitution calls attention to the importance of the single-subject rule, lack of legislative compliance, and poor judicial enforcement.

PROTECTS AGAINST LOGROLLING

The single-subject rule aims to protect citizens from the legislative practice of logrolling, a practice where unrelated bills are bundled together to gain enough support to pass when the bills could not gain majority support individually.

The limitation on logrolling is one of many checks and balances the state constitution built into the structure of our government to curb abuses. Properly enforced, the rule guards against legislators tucking unpopular minority special interests into an otherwise popular or necessary bill, which, in turn, helps guarantee the laws passed by the Legislature reflect the majority view—the will of the people.

The rule also increases the transparency and orderliness of the lawmaking process. A law with a single

subject is much easier to understand, manage and debate than a large omnibus bill with disparate subject matter.

A LITTLE HISTORY

The term logrolling derives from the American frontier experience of neighbors helping each other to roll logs to clear land for farming. But the effort to curb logrolling long predates America's westward expansion. The earliest known effort dates back to 98 B.C. when the Romans enacted the *Lex Cæcilia Didia*, a law forbidding the passage of laws with unrelated provisions.



The Minnesota Supreme Court in the 1980s began to grow concerned that it was being "far too lax" and failing to enforce the constitution's single subject rule.

American states did not begin including single-subject rules in their constitutions until the mid-nineteenth century, with New Jersey being the first to adopt in 1844. Today, over forty states have such a rule. Minnesota's founders included the single-subject rule in the state constitution when it was ratified in 1858. During Minnesota's constitutional convention, Justice Bradley Meeker specifically referenced "logrolling" as the reason for the rule.

In 1875, not too long after the constitution was ratified, the Minnesota Supreme Court wrote an opinion explaining the purpose of the single-subject rule:

The well-known object of [the single-subject rule] was to secure to every distinct measure of legislation a separate

consideration and decision, dependent solely upon its individual merits, by prohibiting the fraudulent insertion therein of matters wholly foreign, and in no way related to or connected with its subject, and by preventing the combination of different measures, dissimilar in character, purposes and objects, but united together with the sole view, by this means, of compelling the requisite support to secure their passage.

BUDGET BILL IS A CASE IN POINT

Despite a clear intent to check the legislative process—an intent expressed by the drafters of the constitution and acknowledged by the courts—the single-subject rule is often ignored by the Legislature. The 2016 omnibus supplemental budget bill is the latest example and possibly the most egregious.

On the House Republican side, the budget bill started as three distinct bills. One bill focused on education. The second focused on agriculture, environment, natural resources, jobs, and energy. The third focused on health and human services, state government, and public safety. After the House passed those three bills, the DFL-controlled Senate amended the education bill to include all three bills, creating the many headed omnibus budget bill.

The Senate's omnibus version of the bill represents exactly what the Minnesota's founders aimed to avoid with the single-subject rule. A substantial number of provisions in the bill could never have gained majority support in at least one legislative body. For instance, the grant program for minority owned businesses was part of Governor Dayton's broader package of policies to reduce racial disparities, a strategy Republicans in the House opposed. Provision of an income tax subtraction

Peter Nelson is vice president and senior policy fellow at Center of the American Experiment.

for military pensions failed to get a hearing in the DFL-controlled Senate. The two measures only passed because they were bound together, which is clearly what the single-subject rule was intended to stop.

In addition, the process used to pass the bill was less transparent, allowed for less debate, and more difficult to track. Legislators complained they didn't have time to even read the bill. As *Session Daily* reported, "With less than three hours to go, Rep. Rick Hansen (DFL-South St. Paul) said he was just over 100 pages into the bill looking for 'surprises' and asked if anyone else had read the whole thing." Without question, the omnibus nature of the bill limited debate. Moreover, anyone trying to track the bill's passage was presented with a far more difficult task. Summaries of the bill spanned multiple documents and spreadsheets.

NONCOMPLIANCE IS UNDERSTANDABLE

As an outsider, it's easy to criticize the legislative process that created

the omnibus budget bill. However, lawmakers always face great difficulties in coming to agreement across party lines, especially within constitutionally set deadlines. It's only natural that they gravitate towards opportunities that lay out an easier path to agreement.

JUDICIARY FINDS IT DIFFICULT TO ENFORCE

Perhaps the main reason lawmakers are bending and breaking the single-subject rule more these days is because courts are letting them get away with it. Courts have always struggled with enforcing the rule because it is so hard to define what in fact is a "subject."

To support the separation of powers, courts also show deference to legislative determinations and do their best to avoid striking down legislation. As the Minnesota Supreme Court wrote in 1875, the single-subject rule "was not intended, however, nor should it be so construed as to embarrass legislation by making laws unnecessarily restrictive in their scope and operation, and multiplying their number." So, out of respect for the

legislature, courts have long found it difficult to apply the single-subject rule.

COURTS REDISCOVER THE RULE

The Minnesota Supreme Court in the 1980s began to grow concerned that it was being "far too lax" and failing to enforce the constitution's single-subject rule. In the case marking the shift in the court's position on the rule, Justice Lawrence Yetka powerfully stated the



It's only natural that they gravitate towards opportunities that lay out an easier path to agreement.

Court's role: "The courts of this nation and of the state were uniquely given the authority to prohibit infringements by either the legislative or executive branch of the government of constitutional rights vested in the people and denied those branches of the government. If we do not act to protect the public, who will?"

At the time, the Court determined the Legislature needed some notice that the rule would be enforced and so they refused to apply the rule. Instead, they warned that, if the Legislature passed a law like the one at issue in the case in the future, "we will not hesitate to strike it down regardless of the consequences to the legislature, the public, or the courts generally." Since then, the Court has struck down a few laws after finding a violation of the single-subject rule.

The current application of the single-subject rule remains exceedingly deferential.

THE SUPREME COURT IS IN PART TO BLAME

While successful challenges in Minnesota have now revived the single-subject rule and put the legislature on

SAMPLE OF 2016 LAWS	
1)	A prohibition on state universities from requiring a remedial course if a student receives a "college ready" score in the subject on the ACT or SAT.
2)	The creation of a farmer-lender mediation task force.
3)	A mandate to install carbon monoxide detection devices in motorboats with enclosed space.
4)	Authorization for St. Paul to issue an intoxicating liquor license for IndiaFest.
5)	Repeal of the community-based energy development tariff for small-scale and locally-owned renewable energy production.
6)	Grant program to provide loans for minority-owned small businesses.
7)	Changes to barber licensing requirements.
8)	A new tax credit for parents of stillborn children.
9)	Direction to courts on modifying parenting time court orders in a divorce.
10)	Establishment of voluntary prekindergarten program for public schools.

notice, the Court has yet to provide a clear definition for when a bill violates the rule. The subject matter of a law must be connected by only a “mere filament,” which does not provide much clarity. This lack of clarity allows the Legislature to more freely pass laws that violate the single-subject rule. Lawmakers know the chances of a lawsuit are slim because potential litigants cannot challenge a law with great confidence.

Recently, the Minnesota Supreme Court stopped a single-subject rule case that could have helped clarify the rule. The case involved a challenge to provisions authorizing the construction of the new Senate office building because the provisions were included in a tax bill. The challenge, however, was ended when the Court upheld an order requiring the challenger to post an \$11 million surety bond to cover any costs tied to delaying construction.

The failure to allow the case to move forward was a surprising showing of incomplete legal analysis on the part of the Court. The order to uphold the surety bond completely missed the fact that the Legislature passed a bill to amend the surety bond statute in 1993 in direct response to a nearly identical situation. The bill required courts to consider whether a case presented an important constitutional question before requiring a surety bond. In effect, the 1993 Legislature overruled, as Rep. Howard Orenstein described it at the time, the “inherent unfairness” of how the Court required a \$30 million surety bond for a citizen to mount a constitutional challenge.

Two decades later, the Court ignored this history. Whether or not the challenge to the Senate Office Building would have succeeded, it gave the Court the chance to more clearly define the single-subject rule.

By failing to take this opportunity, the Court is, in part, responsible for any ongoing violations.

As a result, the people of Minnesota must wait for someone to file another lawsuit to gain more solid protection under the rule. Maybe the omnibus supplemental budget bill will trigger such a challenge. ★



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TRIGGER THE ALARM

Whatever you think of Minnesota's present, we are heading for a below-average future



John Hinderaker

Should Minnesotans be satisfied with a dim picture of their economic future? I don't think so.

It is always easier to convey good news than bad news. Sometimes, however, we have to tell our friends, gently, that things are not going as well as they think. That is the case with regard to Dr. Joseph Kennedy's paper on Minnesota's economy, which is featured in this issue of *Thinking Minnesota*.

Many Minnesotans—most Minnesotans, I suspect—cherish the idea that our state enjoys a progressive, high technology economy that should be envied by residents of most other states. Unfortunately, while that might have been true at one time, it is not true today. As Dr. Kennedy's paper demonstrates, Minnesota's current economy is average at best, and below average by several key measures, most notably the state's rate of economic growth.

More troubling still are multiple leading indicators that should trigger alarm in every Minnesotan. Whatever you think of Minnesota's present, we are heading for a below-average future. Declining numbers of Minnesotans working in high-tech jobs, increasing concentration of employment in low-wage occupations, a startling racial gap that is one of the widest in the United States, a declining rate of entrepreneurship, and, most concerning of all, a persistent net out-migration of prosperous Minnesotans, are just some of the trends that bode poorly for Minnesota's economic future.

If there is one thing I hope every reader takes away from Dr. Kennedy's paper, it is this: Minnesota's own state agencies currently predict a below-average economic future for our state. In the years to come, the agencies project below-average growth in real personal income, below-average payroll growth, and a below-average rate of job growth in 19 out of 22 major occupational categories. Should Minnesotans be satisfied with that picture of our future? I don't

think so.

This is not to say that there are no bright spots. Minnesotans are hard-working. While our labor force participation rate is falling, it is still well above the national average. This raises our per capita incomes. Similarly, Minnesota has more intact two-parent families than almost any other state. This means that we have more two- and three-earner families, which results in a higher than average median household income.

It is perhaps ironic that Minnesotans' conservative social and cultural values are propping up an economy that has been weakened by blue-state government policies, but that is what the data show.

One of American Experiment's themes is that Minnesota can do better. You hear this mantra in our radio ads, and see it on the baseball caps we are raffling off at the State Fair. Our cause is not hopeless; on the contrary, Minnesotans have surmounted worse economic problems than the ones we face today. But in order to identify the actions that will reverse current trends and allow our children and grandchildren to have the economic opportunity they deserve here in Minnesota, we need to start with an honest assessment of where the state now stands. Dr. Kennedy's paper provides that objective evaluation.

Minnesota is not the first blue state to experience a troubled economy; on the contrary, we are one of the last. By acting now, we can avoid the sub-par future that our own agencies foresee for our state. What, exactly, should we do? We can start with the Center's *Minnesota Policy Blueprint*, which contains policy recommendations across a broad range of state issues. The Center continues to update and expand the *Blueprint*; let's hope that it truly does become the blueprint for a brighter future for Minnesota. ★

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