



INTRODUCTION

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In a famous *Time* magazine story in 1973, Minnesota was epitomized, not just as a particularly well-run state, but as *the* “State that Works.” Other states might have been close in the eyes of editors but those places didn’t wind up having their governor holding up one of their state’s iconic fish on an iconic cover, as Wendy Anderson did with a northern pike.

Forty-two years later, Minnesota is still held up by national publications like the *New York Times* as the poster child for the “Blue State” model. A favorite pastime of journalists is comparing Minnesota to Wisconsin, extolling the virtues of a “high tax, high service” model for state government. Minnesota’s relatively strong and diverse economy is used to disparage our next door neighbors who just chose conservative Scott Walker again as their governor.

This 2015 *Minnesota Policy Blueprint* makes clear that we do in fact enjoy a good and diverse economy, for which we are grateful. But more pointedly it shows that we are resting on our laurels, as Minnesota is just not the same impressive outlier we were in 1973. In fact, we are an outlier in reverse when measuring the achievement gap, road quality, estate and income taxes, venture capital and other significant features predictive of a robust, opportunity society. Following the enactment of a new gift tax in 2013, *The Wall Street Journal’s* editors, citing the Center’s research, declared Minnesota one of the “Die Harder States” and awarded Minnesota “The grand prize for self-abuse...” That editorial tolled like a bell throughout the state, facilitating the repeal of the gift tax the next year.

At the very same time that Minnesota has been regressing to national means

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when it comes to urban and myriad problems, other states have been upping their game, especially when it comes to increasing their attractiveness as places where entrepreneurs are best able to create jobs, often prolifically. Several of these states, not incidentally, also are places where older Minnesotans of means increasingly are choosing to retire, taking their philanthropic contributions and venture capital with them. Not that retirees are the only ones leaving, as men and women in their peak earning years are likewise finding greener pastures elsewhere.

In a 2013 study, Peter J. Nelson, American Experiment's director of public policy, calculated that, "Between 1995 and 2010, an average of \$340 million in income—based on 2010 dollars—moved each year from Minnesota to other states, a movement totaling more than \$5 billion over 15 years." While Nelson of course acknowledged that "people move for all sorts of reasons," he nevertheless wrote that "a closer look at this data strongly suggests that state tax policies are influencing movement to and from Minnesota."

Lest you think we measure most everything in dollars, we are more worried about losing the accumulated experience and warmth of legions of grandparents and others when they are annually forced to prove they've been out of Minnesota for six months and a day, in case the Department of Revenue comes calling. Foregone income and tax revenues can be measured; foregone time with loved ones is beyond measure.

To the extent the vibrancy of a state can be captured in a few words, life in Minnesota remains good, often exceptionally so for most residents. But that is not to say enough leaders and others adequately grasp our position in the global economy or sobering facts about an aging population and other demographic trends that increasingly will demand a fundamental redesigning of programs and refiguring of priorities (which is to say spending) across a wide range of areas. This new *Minnesota Policy Blueprint* is focused on tackling, not merely patching, problems like these by comprehensively building a *culture* of prosperity.

A culture, more precisely, grounded in full appreciation of the importance of opportunity and earned success; one which appreciates how individuals crave the ability to contribute and shape the world in which they live, not just have their material needs met. A culture which grasps that the wealth we enjoy is a product of many efforts, and that our bounty will grow even faster if we enable many more men and women to join in its creation.

A culture which recognizes there is simply no substitute for successful private businesses providing good jobs for people of all backgrounds and skills. Minnesota's great success in the 20th century was built on continuous streams of successful new businesses, each of which decided that Minnesota was a good place to grow. But if we continue discouraging new businesses from starting or growing in Minnesota, we will not have the resources to assure that our children and grandchildren will have better lives than we have. Or even

matching our lives, for that matter.

A culture, moreover, that rewards hard work, creative talent, and risk-taking by recognizing the limits of what government can do while placing few limits on what individuals can do for each other. A way of governing which affords job creators greatest possible freedom in pursuing new ideas and technologies by recognizing that conducive tax, regulatory, and related policies are not perks to the affluent but indispensable means forward for all.

In sum, the *Blueprint* is grounded in the recognition that Minnesota, for all its virtues, is insufficiently hospitable to business and is widely understood as such. Among other results of this mixture of fact and perception are phone calls and perpetual pitches from governors and other officials across the country inviting owners and managers of Minnesota-based businesses, especially young firms of great potential, to relocate to their respective states with friendlier tax and regulatory climates. Invitations that are accepted too often.

We alluded above to how this wasn't American Experiment's first *Minnesota Policy Blueprint*. It's actually our second, with the first released sixteen years ago in 1999, with that iteration taking both different and similar tacks. Most notably, whereas the first *Blueprint* focused on specific departments and agencies, this new one focuses on issues which routinely cut across departments and agencies.

Several explicit principles animated the several-year project which resulted in the 1999 *Blueprint*.

- Government's reach must be limited and individual opportunity and responsibility must be enhanced.
- Identifiable institutions and individuals should be held accountable for what government does.
- Growth is best served by economic liberty, which includes low-tax and flexible regulatory policies.
- State policies and programs should be based on time-tested family and social values.
- And competition (which is not always the same as "privatization") should almost always be sought in the delivery of public services.

Spelled out similarly herein are assumptions like the next four, as cited by former American Experiment Chairman Chuck Spevacek at a major kick-off event for this project, attracting more than 200, at the University of St. Thomas last June. That session was keynoted by economist Stephen Moore, late of the *Wall Street Journal* and currently at the Heritage Foundation.

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- We believe in equal *opportunity*, as the frequent obsession with equality of *outcomes* is shortsighted and counterproductive. Forward-looking economic policies should stop fretting about redistributing individual slices of Minnesota's economic pie and instead focus on making the pie bigger.
- There are extremely important functions that must be performed by government as they can't be performed well by other institutions or anyone else. But a government that tries to do too much won't do anything well. We need a government that knows its boundaries and that strives to provide tangible value in everything it does.
- If Minnesota were a country our GDP would rank around 40th in the world, and as such, policymakers need to view our economy by world standards. We must successfully compete with, as well as attract, the world's most talented people.
- And one more time, the creation of private-sector jobs is always the foundation of a growing and prosperous society. We enable job creators to do what they brilliantly and invaluable do by providing strong talent (think strong education), a high-functioning infrastructure (think good roads), and a jobs-friendly regulatory environment (think sunset commissions among other steps).

The ten chapters rising from these assumptions and principles were released serially, from July 10 through October 15, 2014. Each paper was presented by one or more of its authors at ten events—which drew 50 to 80 people each time—hosted by chambers of commerce, businesses, or educational institutions across the Twin Cities metropolitan area as well as just outside of St. Cloud. Our great thanks to authors and presenters for their first-tier work as well as to our institutional hosts for their similar hospitality.

In the order as they appear in the pages that follow, here are brief excerpts from each paper's description of the main problems in need of fixing.

***Strengthening Families and Rescuing Marriage: Reducing Very High Fragmentation Rates and Strengthening All Families*, by Mitch Pearlstein.**

Very high rates of family fragmentation in the United States are subtracting from what very large numbers of young people are learning in school and holding them back in other ways. This, in turn, is damaging our country economically by making us less hospitable to innovation while also making millions of Americans less competitive in an increasingly demanding worldwide marketplace. All of which is leading, and can only lead, to deepening class divisions in a nation which has never viewed itself or

operated in such splintered ways. The same dynamic is destined to play out in Minnesota unless attitudes, behaviors, and numbers change.

***Education: Student Achievement and Prosperity: The Indispensability of Competition and Choice in Minnesota K-12 Education*, by Mitch Pearlstein.**

Minnesota must narrow not just one achievement gap but three. As commonly used in Minnesota, the term “achievement gap” refers to uncommonly large gulfs between the academic performance of white students and minority students. But there is also the gap between *all* Minnesota students (as well as all American students) compared to *all* students in much of the industrialized world, with young people in many countries routinely learning more across the board. And another gap exists between Minnesota and America’s *strongest* students compared to the strongest students in much of the rest of the world, with such young people elsewhere, once again learning more.

***Aligning Taxes with Economic Growth*, by John A. Spry.**

Understanding the problems with Minnesota’s tax code first requires an understanding of the principles that should guide the state’s tax policy. Sound tax policy should promote three core principles: economic efficiency and growth, equal taxation of equally situated people, and simplicity. These principles generally favor *low tax rates* levied on a *broad tax base*. The basic problem with Minnesota’s tax code is that it fails to follow these principles. Instead of low tax rates, Minnesota’s personal, sales, and corporate tax rates are among the highest in the nation. The state boasts the 2nd highest personal income tax rate on the bottom bracket, 4th highest personal income tax on the top bracket, 7th highest sales tax rate, and 3rd highest corporate income tax rate.

***Rethinking Energy: Supplying Competitive Electricity Rates*, by Bill Glahn.**

Not long ago, Minnesota’s energy policy focused on providing “adequate and reliable service at reasonable rates.” As a result, Minnesota benefited from low and competitive electricity prices. This gave Minnesota businesses an important advantage, spurred job growth and provided relief for strained family budgets. Over the past decade, however, Minnesota electricity prices rose faster than other states. Minnesota is now among the twenty states with the highest electricity prices. It is no coincidence that Minnesota electricity prices started rising faster after state energy policy shifted its focus to subsidizing and mandating green energy.

***Smart Budgeting for an Era of Limits*, by King Banaian and Peter J. Nelson.**

Minnesota’s state budget continues to grow and grow, even after adjusting

for inflation and population. Total spending in Minnesota's current FY 2014-15 budget grew by 9.8 percent over the previous budget, which translates to a hefty \$1,130 per Minnesotan. As spending grows, the state budget continues to face long-term challenges from an aging population, rising health care costs, unfunded pensions and uncertainty over federal spending. Minnesota's competitiveness will suffer if we do not gain control of state spending. . . . Future budget challenges will almost certainly require higher, economically damaging taxes if nothing is done soon to control spending.

Transportation: Moving People and Commerce Where They Want and Need to Go, by Fritz Knaak and Amy Roberts.

Efficient road traffic fuels Minnesota's economic engine and is essential to job creation and improving the quality of life for all Minnesotans. . . . [But not only is congestion increasing, it is happening on even poorer quality roads. In 2002, 310 miles (2 percent) of state highways were in poor condition. By 2011, the miles of poor roads rose to 940 (7 percent) and MnDOT expects the mileage to rise to 1,300 (9 percent) by 2016. In the National Highway System, the pavement condition of Minnesota's rural highways ranks 43rd. The pavement condition of Minnesota's urban highways ranks much higher at 16th. However, comparing urban interstates, the state ranks 41st.

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.

The Met Council has rejected the mission the legislature assigned it—to *accommodate growth* in the region by planning for and delivering regional services—and flipped the mission to *directing growth* by leveraging its power over planning, transportation, and sewers. *Thrive MSP 2040* is the Dayton administration's 30-year plan for development in the Twin Cities seven-county region. The plan 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. *Thrive MSP 2040* seeks to commit future administrations to reshape the region to reflect an urban-centric vision of an "ideal society" that is planned and administered by people who have not been elected by the region's residents.

Pensions: Keeping the Promise: Securing Retirement Benefits for Current and Future Public Employees, by Kim Crockett.

Minnesota's public employee pension system is broken. The state's reported unfunded liabilities are estimated by the state to be \$17.3 billion. If reasonable economic assumptions are used, the amount is far larger. This is a ticking

fiscal time bomb for Minnesota. Escalating costs will force us to choose between reducing spending on core services that are essential to our quality of life, raising taxes by a far larger amount than the Legislature did in 2013, or breaking our promises to retirees. These choices can be avoided if we redesign the system now. Ignoring the problem puts everybody at risk—current and future retirees, taxpayers and consumers of public goods and services.

***Health Care: State Solutions in an Era of Federal Control*, by Peter J. Nelson.**

In 2010, Congress passed the Affordable Care Act (ACA), also known as Obamacare. Unfortunately, the ACA puts Minnesota’s health care system at serious risk. The federal law tends to double down on everything that’s currently driving dysfunction in our health care system. Thus, the ACA tends to aggravate problems, not solve them. All the while, the federal law took problem-solving flexibility away from states like Minnesota that were doing many things right. The ACA in combination with other health care trends is diminishing patient control over their own health care, including their relationship with their doctor, their health records, and their privacy.

***Unleashing Minnesota’s Job Creating Potential*, by Ron Eibensteiner, Ted Risdall, and John Gaylord.**

Minnesota’s history of successful business enterprises now extends well beyond the companies that sprouted from the state’s prairies and forests, proving that the people of Minnesota are the state’s most valuable resource. The diversity and success of Minnesota businesses now form the foundation of an enviable economy. These positives point to the biggest risk facing Minnesota’s economy: complacency. Minnesota’s past performance does not guarantee future results. . . . Despite Minnesota’s low unemployment rate, there are a number of weak spots in the labor market. Though Minnesota regained jobs lost during the recession quicker than many states, job growth fell behind the national average in the past two years. . . . In addition, startup activity is down, and IRS data show income leaving the state.

The 1999 *Blueprint*, all 400 pages of it, is still frequently perused by legislators, legislative staff and others (a state senator recently proudly showed Mitch her well-worn copy). This again will be the case with the 2015 *Blueprint*, as our business plan stresses engagement with legislators and other policy leaders as a top priority. This means the Center will focus, as much as our staffing and funding allow, on turning *Blueprint* ideas into law.

To be successful, this work will need to be reinforced and propelled by the multiple coalitions of key players we have been pulling together since last summer and with whom authors consulted frequently in writing

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their particular chapters. Updating and flip-siding the cliché, the scores of recommendations filling American Experiment's new *Minnesota Policy Blueprint* will not go unexamined on dusty shelves or unopened in website archives.

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