



JOURNAL

Expanding the Civic Imagination



Will Minnesotans engage in a discussion of the state fiscal challenges? You betcha!

By Lindsey Alexander

Family dinnertime conversations can get interesting, especially around the holidays. I don't know about your family's conversations, but mine run the gamut, from the stain color of the neighbor's new fence to health reform. (Throw a bottle of wine in there and it's a free-for-all.) This year my holiday dinner conversation broke new ground: Minnesota's state budget. After taking part in a tour of Minnesota and talking to people from all walks of life about the state's budget challenges, I felt I was up on the topic. Using the principles we employed in these statewide conversations, by the end of dinner everyone else was too.

COMMON CENTS

These statewide budget conversations revolved around the idea that, when presented with straightforward and unbiased information, not only can Minnesotans grasp the state's fiscal situation, they can provide insightful feedback and solutions. With this premise in mind, the Citizens League recently began a new project, **Common Cents**, funded by the Bush Foundation's **Prospects and Possibilities** initiative.

The Common Cents project has four main goals: to educate citizens on the realities facing the state budget; to inform the Bush Foundation's work on community life; to model meaningful civic discussion on important issues; and, most importantly, to have citizens share their vision, values and priorities on what's important them as policymakers work to solve the state's budget challenges.

The centerpiece of the Common Cents project was a series of community workshops. Citizens could also contribute their **input** online. The workshops were typically two hours long, split relatively evenly between

presentations of nonbiased, factual information about the state's finances, and discussions of ways to address the fiscal challenges facing the Minnesota—not only the current \$6.2 billion budget deficit, but long-term challenges as well. As we went through the information, participants were given time to discuss and to respond to questions designed to identify their priorities. They used small, hand-held polling devices to respond to questions and their collective responses were displayed instantly on a big screen so that everybody could see how their priorities compared with their neighbors' priorities.

Participants discussed and then voted individually on four general approaches to budget balancing: spending cuts, higher taxes, reform and economic growth. They reviewed information on areas of state spending and then discussed with others at their table



We framed the budget as a statement of values—centered on the idea that budget spending decisions reflect what kind of state Minnesotans want to live in.

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CONNECTIONS

Building a League of Citizens

MEMBER SPOTLIGHT

JENNIFER FORD REEDY

Jennifer Ford Reedy is Vice President of Strategy and Knowledge Management for the Minnesota Community Foundation and the Saint Paul Foundation. She is a member of the Citizens League Board of Directors and co-chair of the Communications Committee. She has been a member for more than seven years.



Why she would recommend membership in the Citizens League to others: The Citizens League makes it easy for you to learn about critical issues so that you can connect and engage with others who also care about the future of Minnesota.

Why she joined the Citizens League:

I was active in a number of issues the Citizens League was working on and I saw that the Citizens League was bringing thoughtful analysis and fresh energy to those issues. I wanted to support that effort.

How she practices civic engagement:

I work for two community foundations. A large part of our mission is to energize people to give to and collaborate for the benefit of their communities. My involvement in the Citizens League helps me more deeply understand strategies for civic engagement that directly apply to the work we are doing throughout Minnesota.

Thank you for your support in 2010

Our members' generosity helped us to succeed in 2010! We are excited to report that your contributions exceeded our fundraising goals and earned a \$10,000 matching grant from the Pohlad Family Foundation.

The Citizens League gained 781 new members in 2010, and more than 250 renewing members increased their contributions. In addition, members gave introductory gift memberships to 90 friends, family members, and colleagues, all of which brought us close to reaching our overall membership goal.

Your increased support will allow us to amplify outreach, enhance communications, expand our engagement work, and continue our policy success in 2011 as we head into our 60th year in 2012.

Thank you to our new sustaining members!

Sustaining members schedule regular monthly or quarterly payments of any amount.

Sheila Graham

Victoria Ford and Matt Crowley

Suzanne Peterson and Sean Fuhrmann

Dana and Jon Schroeder

New and rejoining members and contributing organizations

Individual members

Michael J. Anderson
Dave Astin
Sue Astin
Cindy Banchy
John Banchy
CoCo Banken
Paul Barnes
Stephanie Barnes
Jim Bartholomew
Julia Bartholomew
David Barton
Carol Becker
Thomas Bell
Bart Bevins
Bill Bloedow
Barbara Blumer
Mallory Boeyink
Russell Boverhuis
Anni Bowers
Dan Brady
Anne Brick
Bob Brick
John Bridgeman
Melodie Bridgeman
Don Brown
Donald P. Brown
Erica Brown
Raichel Brown
Steven Brunn
Judy Budreau
Katie Burns

David Bushnell
Jon Caliri
Christine Carragee
Gary Charles
Leo Christenson
Rob Colasanti
Charles Coskran
Megan Cox
Kimberly R. Crockett
Mark Cullen
Jane Cunningham
Cynthia Daggett
Gordy Dalman
Edward Dayton
Nick Doty
Anna Dunbar-Hester
Amelia Eddleman
Thomas Edman
Gordon Eid
Marilyn Eid
Deborah Ellsworth
Kenneth Ellsworth
Dan Brady
Mike Engel
Linda Fauchald
Andrea Feshbach
Daniel Flies
Anita Foster
Darrell Gerber
William Gerst
Ellen Mary Gibson
Maureen Gitlin
Bill Glahn
Lisa Glass

Kris Grangaard
Tom Griffin
Carl Haave
Bob Haines
Dona Haines
Carol Halonen
Sue Hamilton
Bette Hammel
Mona Hannon
Shepard Harris
Robert Hatheway
Todd Heiman
Sally Hermanto
Amy Hertel
Bill Hilty
Sam Hinton
Elizabeth Hjelman
Dustin Hoffman
Arthur L Hogenson
Allie Hutchins
Joe Hutchins
Jim Ivey
Takida Jaco
Ashley James
Rebecca Jergenson
Kim Kang
Patt Keane
Anna Kershaw
David Kershaw
Ellen Kershaw
Mark Kershaw
Scott Kindrick
Richard Kleven

Renee Klitzke
Theodore Koepen
David Krahn
Les Kraus
Susan Rosenthal
Kraus
Matt Kriha
Ryan Kroening
Chad Kulas
Joyce LaFontaine
Nick LaFontaine
Deanna Lane
John Larsen
Jane Leonard
Bill Lerman
Mary Lerman
Carla LeVander
Harold LeVander Jr
James Lewis
Lee Lewis
Matthew Lewis
Randi Lyders
Renee Maass
Ali Machendrie-Eckland
Gerald Magnuson
Bonnie Marshall
Olivia Mastry
Patricia McCormack
Erica McDougall
Rob McGarry
Mary McKinley
Melissa McLean

Andy McMahan
Thomas McSteen
Opheila Mensah
Gene Merriam
Lindsey Miller
Reed Miller
Catherine Mohn
David Mona
Linda Mona
James Morton
Teri Naab
Sharon Natzel
Monesa Newell
Rolf Nordstrom
Kimberly Nuckles
Deb Olkon
Cynthia Orbovich
Samuel Orbovich
Lars Pekay
Caryn Pernu
Amanda Petersen
Maya Petrovic
Brad Petry
Sharon Pfeifer
Mary E. Pickard
Patricia Pool
Nancy Powell
Tom Prather
Joseph Presseller
Sara Rabolt
Michael Reading
Tom Renshaw
Denise Robertson

Keith Robinson
Lisa Robinson
Jeanne Ronayne
Anne Rosenberg
Marilyn Rothschild
Steven M. Rothschild
Kelly Rowan
Cristina Sainati
Jeff Sammon
Bob Samon
Arnd Scheel
Kathy Schmidkofer
Patty Schmidt
Jason Schoch
Samuel Schulhofer-Wohl
Kelly Schultz
Charlotte Sebastian
Clarence J. Shallbetter
Alan P Shilepsky
Becky Siekmeier
Joseph Sixta
Beckie Skelton
Kristine J Smith
Katherine Speer
Matt Spillum
Mario Splichal
Karen Stauber
Frank Steck
Alison Thurner
Dan Turner
Dori Ullman

Mary Ann Van Cura
Natalie Vestin
Patrice Vick
Marya Waletzko
Wendy C. Wehr
William Weir
Adam Welle
Keely Wheaton
Monica Williams
Josh Wing
Bob Samon
Ramyra Winstead
Richard Zemel
Mike Zis

Firms and organizations

AgeWell Home Care
Aging Services of Minnesota
Allina Health System
Bellcomb Technologies Incorporated
Best Buy Co. Inc.
Blandin Foundation
Blue Cross & Blue Shield of Minnesota
Bush Foundation
Care Providers of Minnesota
City of Moorhead
Comcast
Consulate General of Canada
Corporate Incentives, Inc.
Dorsey & Whitney
Ecumen
Faribault Foods Inc.
FOCUS St. Louis
Fredrikson & Byron, P.A.
Grassroots Solutions
Growth & Justice
HealthPartners
Jefferson Lines
LarsonAllen LLP
Marshall & Ilsley Bank
McCarthy Center for Public Policy & Civic Engagement
Medica
Northwest Area Foundation
Portico Healthnet
Robins, Kaplan, Miller, & Ciresi
Rochester Post-Bulletin
Scott County Administration
The Dorsey & Whitney Foundation
Thomson Reuters
Twin Cities Local Initiatives Support Corporation
Weber Shandwick Worldwide

ENGAGEMENT

What We're Doing and How You Can Get Involved

CITIZENS LEAGUE 2011 POLICY ADVANCEMENT

The Citizens League advances policy development on several levels, from processes geared to find common values among divergent viewpoints to specific legislative proposals. Here are some of the areas we will be working to advance in 2011.

LONG-TERM CARE FINANCING FOR THE ELDERLY

- Redesign Medicaid to provide a co-insurance option.
- Make available and promote a variety of financial products, especially those aimed at middle income households: prize-linked savings, a hybrid home equity/reverse mortgage, and a broader mix of affordable insurance options.
- Make unbiased information about long-term care planning and financial options readily available to the general public so that long-term care planning becomes an essential and intrinsic part of retirement planning.

PATHWAYS TO PROSPERITY

Family prosperity (decision making and independence): The current focus on "navigating the lines" of poverty should change. Poverty programs should work toward family prosperity goals by:

- Removing current asset limits. Rather than restrict assets, shift the focus to asset-building and define policy, program and individual success in those terms.
- Using conditional cash transfers as a more straightforward and targeted way to demonstrate results.
- Using prize-linked savings and other tools to get more families on a path to financial stability and encourage the "unbanked" to use the financial system.

Building community networks and civic infrastructure: Despite all the good work currently being done in our communities, the plethora of non-governmental organizations working in conjunction with government services has resulted in a system that requires high levels of navigation to access.

- The current service-delivery system should move aggressively toward integrated community resource hubs that are unique to the needs and resources of each community. These hubs should aim to significantly reduce the amount of time and resources spent "navigating the line."

Change in government role to support prosperity: Government plays a dominant role not only in determining who is poor and who deserves assistance but also in the delivery of benefits, services and programs. Funding streams are currently aligned with various policy "silos" and committees. We must significantly reallocate resources to better support family prosperity and community networks.

- Human capital performance bonds that invest directly in building the capacity of people.
- New definition of government benefits that includes tax expenditures.

COMMON CENTS

This statewide project will develop principles, priorities and an action plan for elected officials and the public to address Minnesota's budget shortfall in the next two years and in the long term. The project will inform a broad cross section of the public, engage a spectrum of perspectives, values and interests, and develop guidelines on budget priorities and decisions from Minnesotans to the governor and the Legislature.

TRANSPORTATION

Build on the 2005 report "Driving Blind" which calls for a more transparent accounting of the costs of transportation behaviors and a more transparent financing system based on actual costs and benefits. Evaluate and expand the efforts of the Urban Partnership Agreement (UPA) and the recent study of value capture options.

WATER GOVERNANCE

Valuing eco-services in agriculture: Expand the approach of the Livestock Environmental Quality Assurance program which uses an index to assess farm impact on a variety of factors. Give farms "water quality scores" to communicate and align incentives among farms, businesses and government agencies.

Collaborating on urban stormwater: Local governments and residents should better collaborate to frame issues, set priorities and address challenges like nonpoint source pollution.

Make water quality information accessible to the public: From individual citizens to decision makers at the capitol, Minnesotans lack the necessary data and analysis to make effective water policy decisions. In many cases this could be improved by better communicating existing data. The Citizens League is exploring a data mash-up (for web and mobile app) that would provide information about water quality, fish, invasive species, and government and civic organizations working on water quality. The app would combine government data and user-generated content.

ELECTRICAL ENERGY

The Citizens League is convening electrical energy producers and distributors, businesses, environmental organizations, government and unaffiliated citizens to identify the needs and define the key attributes of Minnesota's electrical system in 2040 in a way that lays the foundation for advancing these definitions.

JUDICIAL SELECTION AND ELECTIONS

The top requirement of Minnesota's judicial system is to be an impartial interpreter of the law. The current electoral process directly challenges that role by including the mechanism for partisan political campaigns where judges are expected to take positions (make political promises) before they hear the merits of a specific case. This violates the principle of impartiality. The Citizens League has joined the [Coalition for Impartial Justice](#) to pursue a constitutional amendment that would change the way judges are selected, elected and retained.

To get involved or find out more about any of these projects, contact Annie Levenson-Falk at alevensonfalk@citizensleague.org or 651-293-0575 ext. 16. Get more information about all of our work at www.citizensleague.org

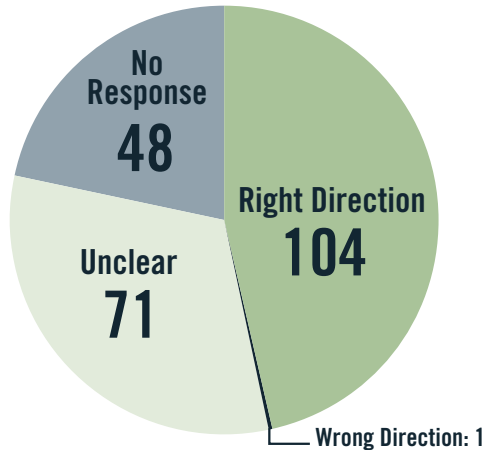
We asked and you responded

The annual member survey results are in

Thank you to the more than 200 members who recently completed our annual member survey. We appreciate the time you took to share your opinions and ideas. Here is some of what we heard from you.

Communication.

The good news is that 60 percent of members who responded think the Citizens League is moving in the right direction. The bad news: 40 percent said the direction of the Citizens League is unclear. That tells us that we need to do a better job communicating our work and its impact. We will increase our communications capacity in 2011, an opportunity made possible by increased member contributions.



Impact. You told us that we need to demonstrate effectiveness and to insure that the work of our members doesn't just end up in a filing cabinet. We agree.

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Policy impact used to be defined mainly in terms of our ability to influence and effect change at the governmental level. While that continues to be a major area of activity, much of the Citizens League's current efforts are focused on helping all citizens become policymakers and governing members of society. By doing so we believe we create a more sustainable base and basis for policymaking in Minnesota.

Government alone cannot solve many of the problems facing our state today. Citizens must foster change individually and within the organizations where they have influence. To effectively impact policy, the Citizens League needs to work to identify com-

mon values among Minnesotans and build sustainable policy solutions based on those values. In some ways, this is a significant shift from the way the Citizens League has operated in the past (and it is a work in progress) but we feel that this approach will greatly increase the impact of our work. We have already had some successes, and there will be many more opportunities for us to demonstrate the effectiveness of this approach in 2011 (see [page 3](#)).

Collaboration. Members requested we develop additional partnerships and collaborate more with community groups. Collaboration is at the heart of Citizens League's work. By involving people with a broad range of viewpoints in our work we are able to arrive at stronger, more realistic recommendations and conclusions, and we are better able to advance those recommendations. For example, our long-term care financing steering team included representatives from more than 20 organizations. That project has received significant media coverage and we are hopeful that there will be action on our recommendations this year. Visit www.citizensleague.org/press/ or www.citizensleague.org/what/policy/aging to read more.

More email correspondence. Fewer mailed reminders. The Minnesota Journal online. You can opt to have the *Minnesota Journal* delivered to your inbox. Email info@citizensleague.org to sign up. In 2011, we will be working to make the electronic *Minnesota Journal* a more robust and interactive publication.

Also this year, we are switching to a quarterly membership cycle, with more frequent email reminders. This switch will save postage and processing costs, and allow staff to spend more time on engagement and retention—per your requests!

More member-to-member contact. Sixty-seven percent of members said they heard about the Citizens League from a friend, family member, colleague, or by word of mouth, and many of you want more connection with other members. In 2011, the Citizens League will host quarterly member-to-member outreach events. For more information or to volunteer contact Cat Beltmann cbeltmann@citizensleague.org or 651.293.0575 ext. 10.

Affordable membership dues. Contribute any amount and become a member! We're committed to keeping membership affordable. Suggested membership dues are \$25 per year. Of course, to insure that we have the necessary funding to continue our work (25% of our budget comes from individual contributions), we encourage from those who are able to make larger contributions.

Thank you for taking the time to respond! Your input will inform our work in 2011 and beyond. Still want to weigh in? Take the survey at www.Bit.ly/eJZhhm.



Minnesotans are ready and willing to cross the great divide

We just need to give them the opportunity and the tools to govern for the common good

by Sean Kershaw

If I've learned one thing about this job, it's that the best policy work always begins with a better definition of the problem. The way we frame a problem determines what resources and strategies we use to address it, and, ultimately, whether we can address it at all.

Minnesota's budget crisis is bad, and it will only get worse if we fail to make significant reforms. However, the nature of any reform or solution will require the buy-in and active involvement of Minnesotans everywhere. Are Minnesotans able to make the changes necessary to preserve our quality of life and economic health? Or do we simply want more than we are willing to pay for? Are we paralyzed by partisanship?

Our recent experience as conveners of the **Common Cents** budget discussions sponsored by the **Bush Foundation** demonstrates that Minnesotans have the capacity to understand the causes and consequences of our current budget woes. They can come together, despite partisanship, and imagine how to achieve the reforms we need. Minnesotans are not the problem.

ORGANIZING AND CONNECTING

The Common Cents conversations often began with folded arms and cautious looks, but it wasn't long before things began to thaw. Under florescent lights in community rooms and school auditoriums around the state, self-described socialist farmers, Tea Party-supporting small business owners and suburban soccer moms let down their guard, rolled up their sleeves and negotiated with their neighbors over ways to fund the things they value most, those things which, in their eyes, make Minnesota great.

What made these gatherings highly unusual is that most policy and political conversations rarely cross boundaries of ideology or background. We talk with like-minded neighbors and coworkers about people we really don't know or understand

Minnesotans are willing to sacrifice if the result is real and long-lasting reform.

and wonder why *they* don't get it. As a result, we misunderstand others' concerns and motivations and miss opportunities to see that we share the same values and goals for the future. By reframing our budget conversations around the values we share as Minnesotans (e.g. caring for our kids, our parents and our natural resources), we create opportunities for compromises that will allow us to preserve those values into the future.

INFORMATION AND CONVERSATION

One thing that is standing in the way of addressing our budget crisis is the lack of clear, understandable and unbiased information on our state's spending. Most Minnesotans simply don't have the facts they need, and the information that is out there is often incomplete. We began the Common Cents discussions by presenting information on the scale of the budget crisis and its underlying causes. Then we reframed the discussion. We moved away from the traditional tax and spend debate and instead framed the budget as a statement of our collective values.

Many policy experts think Minnesotans *can't* understand the complexity of our state's funding crisis. We found that is simply not true. No matter how diverse the group, after reviewing just a few basic PowerPoint slides illustrating our structural budget trends, participants quickly drew nuanced and sophisticated conclusions. And at each meeting they expressed a willingness to accept short-term pain if it would result in genuine long-term reform.

Common Cents participants may not have left the discussion agreeing on specific budget solutions (that wasn't the

purpose), but they left with something more valuable: trust and an increased capacity to develop solutions. They left with the realization that those "other" Minnesotans aren't evil, that they often value the same things, and they even have some good ideas.

CREATING BETTER POLICIES TOGETHER

These Common Cents conversations have shown us that Minnesotans are passionate about our shared future; they share a common set of long-term priorities and they want to play a role in solving our state's budget problems. Given the right tools and the opportunity, Minnesotans can see past their ideological differences and find common ground that serves the common good. And they are willing to sacrifice if the result is real and long-lasting reform.

We can no longer rely *only* on our leaders at the Capitol to craft solutions to our state's problems. We all share responsibility for how we consume the states limited funding and resources, so it is essential that we create the imagination and capacity for all Minnesotans to participate in governing around these issues. Isolated conversations and partisan solutions only create more gridlock. The Common Cents conversations demonstrate how, with better information and the opportunity to work across our differences, we can build the trust and motivation we need to develop and accept the long-term solutions to our state's financial problems.

This is ultimately what the Citizens League mission statement "building civic imagination and capacity" means. "Common ground common good" is not some cheesy tagline; it's a practical approach to solving our most important policy problems. ●

Sean Kershaw is the Citizens League's executive director. He can be reached at skershaw@citizensleague.org, [@seankershaw](https://twitter.com/seankershaw) (Twitter), Facebook, or his blog at citizensleague.org/blogs/sean/.



Solving Minnesota fiscal challenges will require courage and leadership

Legislators and the executive branch need to bone up on the fine art of compromise

By Dee Long

“All government, indeed every human benefit and enjoyment, every virtue, and every prudent act, is founded on compromise and barter.” —EDMUND BURKE, 1775.

“You can’t always get what you want, but if you try sometimes, you might find you get what you need.” —THE ROLLING STONES, 1969.

Minnesota’s new state leaders are facing challenges of historic proportions: an unprecedented budget deficit, a volatile and divided electorate, and significant budget gaps that are projected to continue for the next several years. These challenges present obstacles that only courageous and pragmatic political leadership can overcome.

Unlike the federal government, Minnesota cannot maintain services during an economic downturn by running a deficit. Our constitution requires a balanced budget. Closing the projected \$6.2 billion shortfall for FY 2012-13 (about 16 percent of the state’s general fund budget) and planning for sustainable, structurally-balanced budgets in the years to follow will require political courage and creativity, a willingness to compromise, and bipartisan cooperation at levels unprecedented in recent years.

So are courage, creativity and cooperation antithetical to leadership in politics? Effective governance requires compromises that diverge from the promises of the campaign.

The mixed results of last November’s election create additional barriers to finding successful solutions to the budget crisis. The results can be interpreted in several ways: a negative response to elected officials’ failure to deliver perceived campaign promises, disgust with ongoing gridlock, economic angst and general mistrust of government.

In this political climate, courageous leadership can be risky. Campaigning is increasingly driven by slogans rather than ideas—“Repeal Obamacare,” “Tax the Rich,” “No New Taxes”—and the politician seen as reneging on these slogans is in jeopardy of losing the next election.

So are courage, creativity and cooperation antithetical to leadership in politics? Effective governance requires compromises that diverge from the promises of the campaign. The most effective political figures are adept at resolving different views and at negotiating and responding to unexpected crises. While these skills may promote the greater good, they may also be viewed as unacceptable by at least a portion of the electoral base, even as moderate voters support them. Real political courage sometimes

requires an elected official to decide between winning the next election and leaving a lasting legacy of fiscal stability.

Seeking more immediate as well as long-term solutions to Minnesota’s budget problems will entail a number of steps. State leaders must first understand the scope of the problem, and then be willing to seek and accept advice and counsel from many different and often conflicting sources. They must be open to considering new ways of governing and accept the necessity for compromise.

THE SCOPE OF THE PROBLEM

A number of one-time budget “fixes” have been used by both the executive and legislative branches over the last decade. The FY 2010-2011 budget included:

- \$2.3 billion in federal stimulus funds that won’t be there in FY 2012-13.
- \$1.9 billion for K-12 education that was shifted into the FY 2012-13 biennium. The shift forced a number of school districts to drain their reserves or resort to short-term borrowing.
- \$660 million in one-time cuts or unallotments.

Balancing acts in prior years have included draining the state’s entire budget reserve fund, which stood at more than \$600 million in 2003, and raiding other funds, such as the Health Care Access Fund, the tobacco settlement dollars, and the Temporary Assistance for Needy Families account. But these so-called “solutions” have been used up and are unavailable to balance the FY 2012-13 budget. Lawmakers will have to find other strategies.

There will be a tendency for policymakers to focus on the immediate budget problems. However, responsible governing requires that legislators also examine the future impacts of the decisions they make this session. One key piece of this analysis must include studying and understanding the data and projections drafted by State Economist Tom Stinson and State Demographer Tom Gillaspay. Their work links the impacts of future demographic changes to anticipated future state costs and revenues. Their message is clear: We cannot continue to conduct “business as usual” and hope to maintain the standards that have made Minnesota a great place to live.

RELYING ON OTHER RESOURCES

There is a wealth of information and expertise available to legislators and the executive branch as they progress in their deliberations. Twenty-seven percent of Minnesota House members and almost 37 percent of state senators are newly elected. The new majority should draw on experienced legislators’ knowledge and institutional memories. In a similar way, former governors can lend their expertise to both branches of government.

Almost all states have experienced fiscal problems during this economic downturn. Since the start of the recession, states have dealt with more than \$425 billion in budget shortfalls, and significant budget gaps are likely to continue for the next several

years. The successes and pitfalls of other states' actions can help guide Minnesota's solutions. [The National Governors Association](#), the [National Conference of State Legislators](#), and the [Council of State Governments](#) can provide helpful information on other states' approaches.

We cannot continue to conduct “business as usual” and hope to maintain the standards that have made Minnesota a great place to live.

Homegrown Minnesota organizations and individuals have produced a wealth of thoughtful analyses and recommendations that can help shape our budget solutions including:

- The recently released Citizens League [report](#) on long-term care.
- The Citizens League's civic [organizing approach](#) to policymaking is a useful tool for engaging the public in understanding the state's problems and acknowledging that we are all in this together.
- The Civic Caucus, a group of experienced policy thinkers, recently issued a [statement](#) to the governor and Legislature recommending procedural changes to ensure a more constructive approach to governing during the upcoming session.
- The Civic Caucus also issued a [report](#) on redesigning public services to deliver more with less in times of fiscal constraint.
- The Center of the American Experiment convened a bipartisan task force on legislative reform in 2006. Their [recommendations](#) remain relevant today.
- Arthur Rolnick, former Citizens League board member and former director of research at Minneapolis Federal Reserve Bank is a knowledgeable and passionate advocate for the importance of [early childhood education](#) in ensuring a productive and contributing labor force.

Public-private partnerships can also play a significant role in determining Minnesota's future. Business leaders who have led their organizations through successful restructuring can use their skills to help the state find new ways to deliver services.

Public participation is another essential element in formulating solutions. Communication needs to be two-way. The executive branch and every legislator should be obligated to inform the public accurately of the nature and size of the state's budget problems, and the potential short- and long-term impacts of the budget “fixes” being contemplated. Public officials should welcome and seriously consider ideas offered by an informed public.

THINKING OUTSIDE THE BOX

Innovative and unconventional approaches and solutions will be required to make our state competitive nationally and globally. There is no one answer. Rather, decision makers must be open to all ideas and strategies and be willing to seriously consider even those ideas that run counter to their preset ideologies.

As part of this process, lawmakers must be willing to examine and challenge old assumptions. The belief that a sales tax on clothing adversely affects middle and low income households is one example. Actually, adding clothing to the sales tax mix makes the current sales tax somewhat less regressive, even without lowering the rate or adding measures to protect lower income families.

Policymakers must also introduce greater accountability into the budget process, developing results-based or program performance budgeting, rather than simply adding or cutting a program's existing budget.

COMPROMISE IS NOT A DIRTY WORD

Achieving compromise between divided branches of government is much easier in theory than in practice. Since 1991 at least one legislative body has been controlled by a different political party than that of the governor's office. And since 1991 the level of

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compromise between and among the parties has decreased as end-of-session gridlock grows. Special sessions have been needed to complete passage of budget bills, sometimes accompanied by unilateral (and probably unconstitutional) unallotments by the executive branch, government shutdowns, and corresponding perceptions by the public of a thoroughly dysfunctional process.

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An important piece in budgetary puzzle

Tax expenditures impact the state budget in the same way as spending programs, with less scrutiny

By Ward Einess

When it comes to tax issues, agreement at the Capitol can be famously hard to come by. But with Minnesota facing a \$6.2 billion budget deficit, elected officials on both sides of the aisle should be encouraged to set aside the usual partisan brinkmanship. While that's easier said than done, a budget hole this big will require them to find some common ground, grab some rope and work together to find a way out.

Given the divided nature of the new Legislature and governor, it seems unlikely that the partisan divide—which is part of our system, after all—will melt away with the spring thaw. But there is one area of tax policy that may offer a bit of solid middle ground on which to build during this session, and in years to come. Can

Can anyone argue against the notion of taking a close look at a part of the budget that has grown sharply over time, remains largely without scrutiny and contains billions of dollars?

anyone argue against the notion of taking a closer look at a part of the budget that has grown sharply over time, remains largely without scrutiny and contains billions of dollars?

I am talking about tax expenditures, selective tax provisions that bestow preferential tax treatment on, “certain persons, types of income, transactions or property” (*Minn. Stat. 270C.11*). Examples include the mortgage interest tax deduction and the sales tax exemption on clothing. Less well-known examples include tax deductions for wind energy conversion systems and foster care payments. Tax expenditures aren't inherently bad. They may provide aid to families in need, boost an increasingly squeezed middle-class or foster economic growth. But they are not without controversy. Critics often deride them as “tax loopholes,” “corporate subsidies” or “welfare giveaways.”

Whatever one's view on any given tax provision, certain facts are beyond argument: Tax expenditures impact the state budget just like direct spending programs. Some specific provisions are quite small (less than \$50,000 per year), but others are much larger—and their collective cost is several billion dollars each year.

USEFUL BUT HARD TO TRACK

A 2009 study by the Center on Budget and Policy Priorities noted that tax expenditures, like direct spending, “are a tool that states can use to accomplish policy goals.” However, tax expenditures almost never receive the same level of scrutiny as direct spending.

For a direct spending program to continue, the Legislature must appropriate funds in each two-year budget period. But tax expen-

ditures are written into the tax code and show up on the revenue side of the budget. As such, they may continue indefinitely without further legislative action, unless the enabling statute contains a “sunset” date.

The state's cost for a given tax expenditure, both in lost revenue and administrative overhead, may escalate sharply over time. Too often, this happens without any meaningful evaluation of the effectiveness of the provision. In fact, the statutes rarely if ever lay out a clear goal on which to base this type of analysis.

That is not to say that the state makes no effort to track tax expenditures. In fact, Minnesota is widely recognized as a leader when it comes to tax expenditure reporting, although there is still much room for improvement.

Minnesota was among the earliest states to track and report on tax expenditures after the legislature mandated a biennial study in 1983. The Department of Revenue presented its first Tax Expenditure Budget (TEB) to the Legislature in 1985 and released its 12th report in 2010. Although 41 other states issue similar reports, few are as detailed as Minnesota's TEB, which summarizes each provision, including its history and fiscal impact.

Since the first report in 1985, the number of provisions that qualify as tax expenditures has grown by 25 percent. The 2010 TEB names 296 tax expenditures. The number of sales tax provisions has increased the most, more than doubling to 85. There are 89 income tax provisions and 35 related to the corporate franchise tax.

Costs have increased too. Calculating the combined cost of all tax expenditures is impractical because of the way that different parts of the tax code interact. However, a 2009 estimate by the Department of Revenue indicated that from 1990 to 2010 sales tax expenditures for a select set of consumer products and services grew from \$767 million \$2 billion, an amount that is still less than half of all tax expenditures.

Although Minnesota is a leader in tracking tax expenditures, the fact remains that this type of provision, and the tax expenditure budget itself, generally do not get as much scrutiny as other parts of the general fund budget. Given the persistent deficits in recent years and the overall scarcity of government resources, it is crucial that we bring a higher level of rigor to the budgeting process with regard to these provisions.

A GOOD FIRST STEP

In 2010, the Legislature recognized the need to take a better look at tax expenditures and tasked the Department of Revenue with formulating recommendations to measure the effectiveness and/or value of tax expenditures and to improve on the current review process.

To that end, the department has convened a tax expenditure working group of accomplished economists from across the political spectrum. Their report is due February 15. Members of this panel include: Marsha Blumenthal, professor emerita of economics at the University of St. Thomas; Laura Kalambokidis and Judy

Temple, associate professors in the Department of Applied Economics at the University of Minnesota, and Jay Kiedrowski, a senior fellow; John Spry, associate professor of business economics at the University of St. Thomas; and Jenny Wahl, professor of economics at Carleton College.

The difficulties involved in this endeavor serve as a microcosm of the public discussion on taxes in general. Each observer or participant brings his or her own viewpoint to such discussions,

Whatever one's view on any given tax provision, certain facts are beyond argument: Tax expenditures impact the state budget just like direct spending programs.

with attendant baggage. The underlying issues or problems are complex, and potential solutions or alternatives are never as easy as they first appear, or as easy as we would like them to be.

As recent debates at the Capitol have reminded us, every provision has its constituency, supporters and detractors. Provisions like the angel investment or research and development (R&D) credits are either corporate giveaways or essential tools to create jobs and economic growth, depending on who is speaking. Similarly, the low-income working family credit or renter's credits may be characterized as either crucial anti-poverty measures or undeserved "welfare."

This type of debate is rarely productive. More importantly, it misses the point. This discussion needs to be about how we can make the best use of tightly squeezed state resources to meet the needs of our state and its citizens.

As noted above, tax statutes generally don't include a goal for these special provisions. But knowing the purpose or objective of a tax provision is crucial if we are to determine whether it provides a good return on investment. It can be quite difficult to divine legislative intent in these situations. This is particularly true for extremely narrow provisions that affect only a small number of taxpayers or for provisions enacted decades ago.

Political factors also can come into play, as the state House of Representatives research department noted in a 2009 presentation to the Federation of Tax Administrators. The tax code is filled with sacred cows, many of which have strong legislative backers at the Capitol or vocal outside constituencies that benefit from specific provisions.

Most of the current tax expenditure data and analysis comes from the Department of Revenue and is based on information

reported in tax returns (after it is "scrubbed" to maintain taxpayer privacy). In some cases, the department lacks the data needed for a more thorough ROI-based analysis. More researchers would probably be needed to expand the department's scope of tax expenditure reporting beyond its current level. Requiring more information from taxpayers and adding to the state payroll are tricky subjects in the best of times, and these definitely aren't the best of times.

Although the legislation creating the tax expenditure working group was not as strong as some earlier proposals, it still lays out an ambitious agenda. The final report will include recommendations on:

- What information is needed and how best to evaluate if tax expenditures are working as intended.
- Whether the provisions meet general tax principles such as transparency, understandability, simplicity, fairness, stability and competitiveness (among others).
- A process—and a timetable—to ensure periodic review of current and future tax expenditures, including any additional reports, oversight groups or resources that will be needed.

Putting in place a process to scrutinize tax expenditures more effectively won't be easy, but the creation of this panel shows that legislators recognize the need.

We need to be willing to go where our improved analysis takes us. We may find that some provisions serve no public purpose and should be taken off the books while others are working as intended. And even those definitions may be subject to debate.

The statute that created the angel investment credit (*Minn. Stat. 116J.8737*) in 2010 offers additional hope for increasing scrutiny of tax expenditures. This law requires the Department of Employment and Economic Development to analyze and issue a report on the efficacy of the angel credit. It also includes a sunset date. This will force lawmakers and the governor to revisit this expenditure rather than simply leave it on "autopilot" in perpetuity, a small but important step in the process of shedding light on the tax expenditure budget.

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Common Cents

continued from page 1

where the state should spend less. The choices included K-12 education, higher education, long-term care for the elderly, public safety, and no spending cuts. Findings from the discussions released at the end of January, including cumulative results of the polling.

People have different starting viewpoints, but they often get to same conclusions if they are allowed the right opportunity for dialogue. The key ingredients seem to be reputable information, presented with no agenda and with no assumptions on what conclusions will be drawn from the information.

Most revealing, perhaps, were the group exercises near the end of the workshop. We framed the budget as a statement of values—based on the idea that budget spending decisions reflect what kind of state Minnesotans want. The first part of the group exercise asked participants to set priorities for the state for the next 15 years (i.e., high quality of life, protect natural resources, a well-educated population, etc.). Once their priorities were determined, participants were asked to decide which budget strategies should be used to achieve those priorities (increase taxes, cut spending or reform). But there was a catch; each table had to come to a *consensus*.



We have completed 30 of these community workshops statewide and engaged people online at CitiZing.org, the Citizens League's new civic engagement platform. We're currently working on a final report to present to the governor and the Legislature at the end of January.

While the process produced many interesting areas of discussion, one of the most interesting results was learning that Minnesotans have plenty to say about the state budget and the state's spending priorities. And although some might think the state budget is too complex for citizens to weigh in on, Minnesotans' thoughts and opinions are both relevant and valuable.

BUILDING ON PRIOR WORK

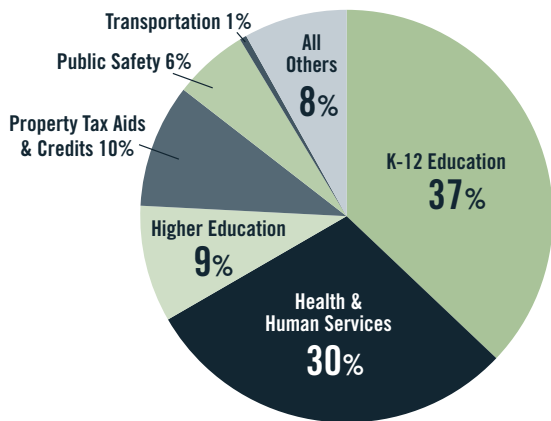
The Citizens League's citizen engagement work with the Department of Natural Resources (DNR) around spending priorities for the state's Legacy Amendment funds provided a road map for how to approach

the budget. While Common Cents seems a bit more dry and intricate, those of us working on the project felt we were tackling an issue of great importance, and one where Minnesotans would indeed provide meaningful input if questions were framed appropriately.

As part of the Citizens League's **Minnesota Anniversary Project** (MAP150) process a few years back, we asked citizens what they really wanted to know about property taxes. From my experience in local government, I wondered whether we could truly engage people in talking about property taxes, a topic many view as tedious. After all, I'd seen the dismal turnout at Truth-in-Taxation hearings. I was thrilled to be proven wrong. Not only were Minnesotans engaged in the discussion, they quickly grasped the important concepts and zeroed in on some really important questions and conclusions. We structured the property tax discussions with a focus on two-way dialogue. Information was presented, participants asked questions and we provided answers. Along the way we learned something about the type of questions citizens had about property taxes and how they wanted them answered.

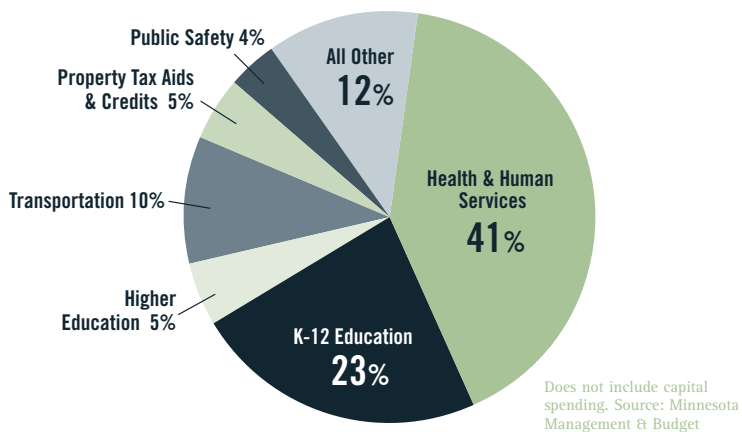
Given our MAP150 experience, I had high hopes for the Common Cents conversations. The foundation was the same—give citizens some good, non-partisan information and they'll get it. But we were a bit stuck initially as we tried to figure out how we could get Minnesotans to trust us with this conversation. After all, we know from prior work that a lot of citizens have had bad experiences with public decision-making processes. Public meetings, such as Truth-in-Taxation meetings, are often built around the one-way delivery of information, or a presentation of technical information where there is limited opportunity to reach a shared understanding or effect change. A lot of people are understandably hesitant to dig into numbers, much less numbers of considerable complexity. There are hundreds of state funds (likely as many agencies) and state laws to consider, and when you throw politics into the mix it can seem like an impossible task.

State General Fund Spending, FY10-11: \$31 Billion



**FY2012-2013:
\$6.2 Billion shortfall**

State Spending in Total, FY10-11: \$60 Billion



People lead busy lives. We weren't sure we could get people to trust that we would set up the conversation in the right way. And, more importantly, that they would have something of value to add to the discussion.

WHAT WE FOUND

The community workshops confirmed our belief that citizens can handle the tough issues and questions, even on a topic as intimidating as the state budget. There are four main findings in this regard:

Process. People have different starting viewpoints, but they often get to the same conclusions if they are allowed the right opportunity for dialogue. The key ingredients seem to be reputable information, presented with no agenda and with no assumptions about what conclusions will be drawn; the freedom for people to express their views, the expectation that they will, and the freedom to disagree; and the understanding that the work is difficult and requires some form of consensus in order for progress to be made.

One workshop included a table of four people—three with fairly liberal points of view and one with a quite conservative viewpoint. If there was a group that might not achieve consensus, this was it. The four started out discussing their priorities. They quickly discovered that, with the exception of one or two items on the list, they agreed on what was important for Minnesota's future. Watching individuals from completely different ends of the political spectrum find agreement was remarkable. During the second part of the exercise, in which they had to reach consensus on strategies, they again found common ground. More than half of their support (indicated with poker chips) went to across-the-board reform strategies. Despite differing political ideologies, they found common ground around what was important to them and agreed upon a general outline to get there.

Clarity of values. As was the case with the MAP150 property tax work, Common Cents participants demonstrated the capacity to be involved in the tough questions in a quintessential public role: making clear their values and priorities. We imagined that "reform" was something that citizens would want to put on the table, but we were surprised at just how eager they were for reform. The presentation was structured in such a way that spending was discussed first, then taxes, then tax base growth, and then, finally, reform. From the first workshop, citizens consistently asked for reform. When talking about spending cuts, many participants would vote "other" from the list of options and say, "I don't want spending cuts. I want reform." They would put the idea on the table before we would! Ninety-nine percent of participants in workshops all across the state said Minnesota needs to overcome any barriers to reform. It was remarkable to see Minnesotans from different perspectives speaking with one voice.

Participants also expressed a fairly consistent set of priorities for Minnesota's future. The top three priorities across workshops were a strong economy (average ranking of 4.58 out of 5), well-educated people (average rating 4.27) and competent and innovative government (average rating 4.25). Minnesotans see these priorities as intertwined and government as instrumental in helping us get to where we want to be.



Another idea discussed dealt with blame, roles and responsibilities. One of the first questions asked in each workshop was “The state has had a history of recurring budget shortfalls. Why do you think that is?” It would be easy for people to blame politicians and political parties for the state’s budget woes. The answer most often chosen (33%) was “short term political decisions ignore long-term problems.” However, participants were quick to note that this was not an indictment of public officials. In fact, participants’ comments indicated the reverse. They felt that to a great extent the political system set elected officials up for failure

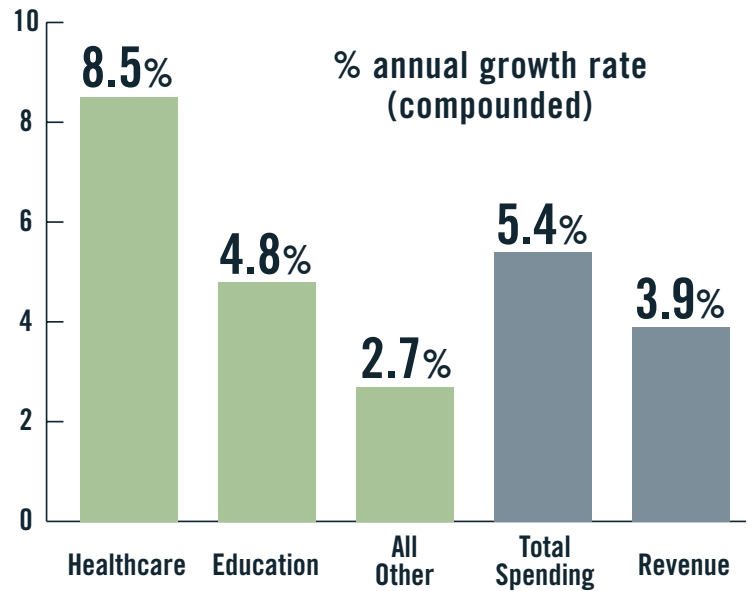
Watching individuals from completely different ends of the political spectrum find agreement was remarkable.

by fostering an antagonistic legislative process. A great number of the comments written on workshop evaluations thanked elected officials for serving and wished them well as they begin their budget work. In addition, participants indicated in their answers to several questions that they see Minnesotans as playing an active role in solving the state’s budget problems.

Common ground. When we started the Common Cents workshops, we felt it was important to model meaningful civic discussion. We asked citizens to share their values with us and each other, and to discuss what was important to them and for the state. Was this expectation too grandiose given the divided results of our recent election? In a word, no. We saw Minnesotans from all different walks of life and from all different parts of the state engage in meaningful, intelligent conversations with their neighbors about



Over next 25 years, state spending will outpace revenue



an issue of great importance to their future and the future of Minnesota. I don’t want to give the impression that there were no disagreements; there were. But again and again Minnesotans were able to evaluate complex information and use it to find areas of commonality with others.

Engagement. At the end of each workshop participants completed an evaluation of the process. Participants indicated that they appreciated the opportunity to learn, and to engage in discussion with others who hold different views. On a scale of 1 (not at all) to four (a great deal), participants enjoyed the workshops (average rating 3.76); learned quite a bit (3.28) and found the table discussions helpful (3.14). In addition, participants expressed appreciation for the opportunity to learn more about and discuss the challenges facing the state.

Common Cents brought Minnesotans together to discuss questions that have no easy answers. It was an exercise in active citizenship and it also produced valuable information that can help to solve one of our state’s most pressing challenges. ●

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Leadership

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Elected officials interested in compromise face barriers not present in other venues; they tend to operate in a constant campaign mode rather than governing for the greater good of the state. How often have you heard a candidate promise compromise with the other party?

Compromise is more feasible with colleagues whom you like and respect. Long-time observers of the legislature frequently comment on the decrease in collegiality between party caucuses in both bodies. The Center of the American Experiment's task force report noted this decline from 40 years ago when Minnesota was at the forefront in making public policy and concluded that "many of these significant policy innovations were the byproducts of political compromise forged by friends from opposing parties." Legislative leaders can and should facilitate bipartisan interaction.

Great problems can create great opportunities. At the start of the 1982 legislative session, Minnesota's fiscal condition was dismal. Repeated budget cuts had left both state and local units of government in dire condition and state revenues had fallen by 15 percent. Republican Governor Al Quie, despite running on a platform of cutting taxes in 1978, understood the need to restore stability to the state budget and allowed a 7 percent temporary income tax surcharge to become law. Quie decided not to seek

re-election, and his successor, Rudy Perpich, assumed office with a budget surplus.

MinnesotaCare is another example of a successful bipartisan effort. In 1991, the DFL-controlled legislature recognized the need to provide coverage for low-income Minnesotans without access to affordable health care. Republican Governor Arne Carlson vetoed the bill, saying it went too far. But Carlson also vowed to work with the legislature to craft legislation acceptable to both sides. A bi-partisan group of legislators, dubbed the "gang of seven" worked with Carlson's staff over a nine-month period to come up with the proposal which became MinnesotaCare. Carlson also worked to ensure there were sufficient Republican votes for the bill to pass.

The 2010 legislative session will provide many chances for courageous leadership to come to the fore. If policy makers are going to successfully meet the challenges ahead, they must find a way to cooperate and compromise. ●

Dee Long served in the Minnesota House of Representatives for 20 years. During her tenure, she served as Speaker of the House and House Majority Leader, and she chaired the Tax and Local Government committees. She is a former chairperson of the Citizens League Board of Directors and a current Citizens League member.

Tax expenditures

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NOT A ZERO-SUM GAME

Improving our analysis of tax expenditures should not be viewed simply as a way to eliminate expenditures and thereby increase state revenues to help balance the budget. The future of our state demands that we take a broader view. All parts of our budget must carry their weight, but the ultimate goal is to find better ways to make the most efficient use of state resources in both good times and bad.

We need to be willing to go where our improved analysis takes us. We may find that some provisions serve no public purpose and should be taken off the books while others are working as intended. And even those definitions may be subject to debate. For example, low-income credits like our working family credit may cost a lot in foregone revenue and administrative costs, but many people feel they are a more efficient use of resources than additional social services programs.

In some cases, we may find that direct spending programs will better serve the needs being addressed. In others, we may find that the existing provision should be expanded. For example, early indications are that the expanded R&D credit and new angel investment credit will attract new investment to Minnesota—which means it may be worth increasing them.

Debates on tax issues too often take on a harshly partisan "us versus them/taxes versus spending" cast. But we must not force this zero-sum mentality into the discussion over tax expenditures. Our goal should be to create a process that allows an honest analysis of existing provisions and demands clarity when any new provisions are written. Only then can public policymakers evaluate whether tax expenditures are meeting their purpose or if something else would work better. ●

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PERSPECTIVES

Expanding Minnesota's Conversation



When it comes to taxes, let's focus on economics, not fairness

By Peter J. Nelson

Calls to tax the rich grew substantially louder in 2010. The 111th Congress concluded with a lively debate over the fairness of extending the Bush tax cuts to the wealthy. Governor Mark Dayton stirred up similar debates with his call to solve the state's looming budget deficit with a tax hike on the rich.

For those leading the tax-the-rich charge, raising taxes on high-income earners is a matter of basic fairness. But what is fair, and is fairness even relevant?

In a recent *Wall Street Journal* column, Princeton economist Alan S. Blinder makes the fairness case for raising taxes. To Blinder, there is a "Great Disqualification" occurring where the haves continue to gain while economic life is "miserable for those near the bottom and is getting worse for those in the middle." In making his case, he takes a familiar tack and peppers the reader with a scattershot of economic statistics that purportedly prove the haves are gaining at the expense of the have-nots.

While Blinder admits that "fairness is in the eye of the beholder," his reliance on statistics suggests that the beholder of the statistics will know fairness (or unfairness) when he or she sees it.

The trouble with this approach is that, especially when it comes to fairness, there are nearly always countervailing statistics. Consider the fact that the top 1 percent pay 40 percent of all income taxes. To my eye, that appears to be more than a fair share. But to Blinder's eye, the income tax paints an incomplete picture. To fill it in, he points out that the payroll tax—a tax that falls more evenly across incomes—now brings in about 96 percent as much revenue as the income tax when, "as recently as 2000, it brought in just 65 percent as much." Fair point, but does it complete the picture?

People might also be interested to know that, when you combine the income and payroll taxes, the average combined tax rate for a family of four at half the median income dropped from 10.58 percent in 2000 to a negative 0.63 percent in 2009.

These ping-ponging statistics demonstrate the difficulty, if not the futility, in debating the fairness of the current tax proposals at the state and federal level. There's rarely ever a way to pinpoint what's fair.

Fairness is a moving target.

These ping-ponging statistics demonstrate the difficulty, if not the futility in debating the fairness of the current tax proposals at the state and federal level. There's rarely ever a way to pinpoint what's fair. Fairness is a moving target. You have to think on one hand and then on the other hand. Consequently, we must give considerable breadth and range to defining whether something is fair. Indeed, when we say something is fair, we're not saying it's precisely right. We're saying it's reasonable and just. Try to get too precise and you enter a futile debate no one can win.

The point here is that something has to be pretty far out of whack in our tax system to even bring up the fairness issue. For instance, the pre-Reagan 70 percent income tax bracket strikes me as unfairly confiscatory.

It's difficult to imagine our state lawmakers proposing the sort of change that would make fairness a legitimate issue in Minnesota's ongoing tax debate. Therefore, I encourage people both on the left and the right to leave their fairness gripes at home when they come to the debate. This will help move things along in at least two

ways. First, it will lower the pitch and the divisiveness of the debate. Emotions bubble to the surface in debates over fairness. Fairness is about justice and getting what you're entitled to. People fight for justice and people fight for what they are entitled to. Indeed, have you ever heard a child calmly say, "That's not fair"? Have you ever heard a European calmly say, "That's not fair"?

Second, leaving fairness out of the debate will let us focus on the real tax issues, namely the economic and budgetary impacts of any change to our tax system. Everyone agrees that we need to put Minnesota's economy

back in high gear. Instead of asking what's fair, there are far more important economic questions that need answers. How would an income tax increase impact Minnesota's business climate? Would broadening the sales tax create a more stable budget? To keep tax rates low and competitive, does the tax system capture the breadth of the state's economic activity? Is the tax system unproductively complex? Would eliminating the corporate income tax attract businesses to Minnesota?

Some might think that I'm ignoring the elephant in the room. Namely, if we don't raise taxes, then we must make substantial budget cuts. Is there then a point where budget cuts become unfairly severe? I think that's a separate question. The debate over tax fairness is not about the level of taxation and whether it is adequate. Rather, it's a debate over how the revenue is collected and whether it's collected fairly.

Let's agree that there are number of fair ways to collect taxes and focus on the economic issues. ●

Peter Nelson is a policy fellow at Center of the American Experiment in Minneapolis. He can be reached at Peter.Nelson@americanexperiment.org.



To lift ourselves out of recession, raise taxes on the wealthy to encourage public spending

by Chris Conry

Our \$6.2 billion state budget deficit is unprecedented. In fact, some would argue it's the perfect storm: an unpredictable recession triggered by an unforeseen speculative asset bubble that was an unusual market failure. It was none of these. Markets collapse. When they do, we have to dig out. Fortunately, Minnesotans know how to use a shovel.

State tax revenues fall during recessions. As the economy contracts, people lose jobs. People nervous about employment spend less. Less spending equals less business and fewer profits. As each shrinks, income, consumption and profits, and state tax revenues fall. In fact, tax revenues fell during the 1981-82, 1990-91, and 2001 recessions. The banking collapse, which deepened our recession, is hardly new either. It is a species of market failure that's relatively common. In 2008, the International Monetary Fund identified 124 systemic banking crises over the last 40 years. (Yes, on average, that's three per year.) We haven't had a major crisis in the United States since the saving & loan debacle in the late 1980's, but we have, fortunately, preserved some of the tools we need to start digging out. What are those tools?

Short-term, we need to maintain state spending and raise the income taxes of the wealthiest Minnesotans. Why? To lift ourselves out of the recession, we need to encourage economic activity, like state spending. If the goal is more buying and selling, either public or private dollars will do. The point is, when the car is stalling don't remove the gas from the engine. Some argue that raising income taxes on the wealthy removes just such economic fuel. True, but raising taxes on the middle class removes more. And firing public employees removes much, much more.

A dollar in a nursing assistant's paycheck will be spent next Thursday at the local grocery store. A dollar in a CEO's index fund may not be spent at all.

Long term, we need to make sure Minnesota's spending is focused on more than stimulus. It needs to be focused on stewardship. We ought to ask ourselves what spending best prepares Minnesota for the state we are becoming? Is the state as a whole better prepared if more individuals

If the goal is more buying and selling, either public or private dollars will do. The point is, when the car is stalling don't remove the gas from the engine.

buy Range Rovers or if more schools buy school buses? Even in a recession, Minnesota's resources are considerable. As we steward them, we should be clear about who the next stewards will be and the challenges they will face.

Our state is becoming older, more racially diverse, and less equal. If current trends continue, around 2025 the number of Minnesotans over the age of 65 will be greater than the number of school age children. By 2035, one in four Minnesotans will be nonwhite or Latino. In other words, as the baby boomers age out of the workforce, the incoming workforce will be much more racially diverse. These trends, by themselves, are important but not alarming. The problems arise when they are paired with a second set of trends.

First, wages have stagnated. In the United States, between 1947 and 1977 real average hourly earnings went up by \$6.83 per hour. In the next 30 years, from 1977

to 2007, real wages increased 85 cents per hour. Where household income has increased it's often come as a result of adding a second income-earner (often a woman) and increasing the number of hours both income-earners work each week. Without a third spouse or an eighth day, those gains top out.

Second, by virtually every measure of well-being people of color in Minnesota are getting left behind. Compared to white Minnesotans, people of color are more than three times as likely to live in poverty, half as likely to graduate high school on time, almost two and a half times more likely to lack health insurance, and (for African-Americans in the Twin Cities) more than three times as likely to be unemployed. Our racial disparities are among the worst in the country. We ought to call this what it is: a moral and economic failure that threatens everyone's future.

If we don't invest in improving livelihoods and reducing racial disparities we risk becoming a stagnant, divided place we would hardly recognize as Minnesota.

Over the coming months many elected officials will talk about the need to make "some tough choices." Too often, this turn of phrase is another way of saying "we have no choice but to cut." In other words, it's not a choice (because they've already ruled out tax increases) and it's not tough. Tough is what we do during blizzards, floods and fires. Tough would be getting everyone to pitch in for the sake of our state. Asking the wealthiest Minnesotans to pay higher income taxes may not be easy, but it's necessary. Our economy and our future depend on it. ●

Chris Conry is the strategic initiatives coordinator at TakeAction Minnesota. He can be reached at chrisc@takeactionminnesota.org.

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This year, we're changing our membership renewal cycle from monthly to quarterly. This change has several benefits:

- Saves time and allows us to make better use of member donations.
- Better for the environment. Fewer renewal mailings and more email reminders.
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As we implement this change, you may hear from us earlier than expected.

Contact Cat Beltmann with questions at
651-293-0575 x10 or cbeltmann@citizensleague.org.

PERIODICALS



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