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## **We're Number 19! Or is it 5?**

Progressive activists and groups are applauding a new report from the Minnesota Budget Project (<http://www.mncn.org/bp/>), an effort of the Minnesota Council of Nonprofits. On its website, the organization says: “An analysis by the Minnesota Budget Project of U.S. Census figures released last week shows Minnesota is 19th in the nation in total state and local taxes, measured as a percentage of income for Fiscal Year 2006. This is down considerably from 5th place in Fiscal Year 1995. Meanwhile, our state is falling behind in investments that are important for the state’s economic future.”

Other rankings show a very different story. According to numbers compiled by the U.S. Census Bureau ([www.census.gov/govs/statetax/05staxrank.html](http://www.census.gov/govs/statetax/05staxrank.html)), Minnesota ranks fifth in amount of taxes paid when you look at per-capita amounts. No wonder Sioux Falls runs radio commercials in the Twin Cities trying to lure businesses there – South Dakota comes in as the state with the lowest per-capita tax burden.

So we have one report saying that Minnesota ranks fifth and another saying that it ranks 19th. Which one is right?

Let’s turn for a minute to seasoning; specifically, salt. Like salt, government is useful and even necessary for life. But too much of either can cause problems, which suggests that “Yes, because we can afford to” is not a good answer to the question, “Should we spend more on this when we can afford it?”

The polemical language of a new report from the conservative American Legislative Exchange Council ([alec.org](http://alec.org)) called “Rich States, Poor States” is over the top. But the numbers laid out by authors Arthur B. Laffer and Stephen Moore are worth considering.

The rich can and do pick up from Minnesota and move to a state with no income tax (hello, Florida!). The rest of us may not wake up one day and say “The marginal income tax rate is too high; I’m going to move to Nevada.” But if the taxes imposed by an overly ambitious public sector dampen economic growth, the non-wealthy may move elsewhere simply to pursue better job prospects.

Population shifts are certainly consistent with that idea. The Northeast, whose states on average spend more per-person than the rest of the U.S. (\$5,923 versus \$5,035), has seen minimal population growth in comparison, growing only six percent between 1970 and 1995 versus 38 percent for the rest of the country.

In addition, the 10 states with the most in-migration in 2005 have a lower per-person tax burden than the 10 states with the largest out-migration.

An overly large public sector can also distort the economy. In the normal economy, fortunes are made by those who can provide customers with dependable goods and services at an acceptable price. But when taxes loom large, people go under the table. They also engage in a cat-and-mouse game with legislators, moving from tax shelter to tax shelter as one is shut down and another is created.

In the political economy, fortunes are made by those who can make deals that may or may not be in the best interests of people not in the room. Large companies such as the owners of the Mall of America and Thomson West can seek special benefits because they are visible; the small company in Bloomington is left to take up the slack. Vocal construction unions get pork-barrel projects, while non-union workers pay the taxes to pay them.

The logical solution for those left out: get political. But the humorist P.J. O'Rourke captured the distinction between gains through politics and gains through ambition and service when he asked, "Think about how we use the word 'politics.' Are office politics ever a good thing? When somebody plays politics to get a promotion, does he deserve it?"

A healthy society has checks and balances among various institutions, just as it has checks and balances within government. Religious organizations and houses of worship provide spiritual and moral guidance and instruction. Businesses large and small provide goods, services and employment through buying and selling. Bonds of friendship and family provide any number and kind of help in times of need. Nonprofit groups allow people to combine together for a common interest on a voluntary basis. Government, meanwhile, administers a legal and criminal justice system and taxes us to fund essential (and often not-so-essential) services.

But for decades now, the institution of government has ventured into areas of life traditionally managed by other institutions. Government-run schools teach children how to have sex. Other offices of government teach young adults how to be parents. In some cases, city councils and their offices of planning decide which commercial enterprise will own a parcel of land, rather than letting willing buyers and sellers sort that question out in the marketplace. The reasons for these and other cases of government action are many, including a perceived failure of another institution in life ("parents aren't teaching kids about sex, so schools have to"), the desire to stretch public budgets ("we can't allow you to smoke, since that would tax the health budget"), impatience ("government must run broadband services because the private sector is taking too long") and the simple desire for political power.

However it came about, our institutions are out of balance. The nonprofit association is calling for greater government spending. But how vital is the nonprofit sector if it becomes increasingly dependent on politics? After this recent legislative session, when it

seemed like no area of life was safe from the reach of politics, it's time to move Minnesota away from the top of those rankings.

Either one of them.