

# MINNESOTA Journal

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## Minnesota's shrinking government

The state must reinvest in itself to ensure Minnesota's future success

by Jeff Van Wychen

Proponents of "no new taxes" have argued that the state's ongoing budget deficit must be resolved exclusively through spending reforms, not tax increases. The insistence that tax increases are off the table is based more on ideology than on precepts of good public policy. A balanced approach is the best way to ensure the state's future economic vitality.

### Facts on government spending

The portrait of rapid government expansion presented by advocates of "no new taxes" is frequently based on a comparison of current spending to spending levels from the 1970s. In fact, the rapid rate of growth in government spending seen during the 1970s and 1980s has long been halted. An examination of a more recent history is more relevant to the state's current fiscal situation.

If we ignore the effects of inflation and population growth, state general fund spending is growing. However, inflation erodes the purchasing power of the dollar over time. In addition, population growth contributes to an increased need for state services. For these reasons, it is important that we examine growth in general fund spending in real (i.e., inflation adjusted) dollars per capita.

From the FY 1994-95 biennium to the FY 2004-05 biennium, state general fund spending increased by 14.1 percent in real dollars per capita. Most of this growth was due to the state buydown of general education property taxes, which did not represent increased public spending, but rather a change in how we pay for that spending—away from local property taxes and into the

state's general fund. Excluding the buydown of education property taxes, state general fund spending has grown by 1.0 percent in real dollars per capita over the last decade—an average annual growth rate of one-tenth of one percent.

More recently, state general fund spending has shrunk. In real dollars per capita, state general fund spending will decline by 2.6 percent from the FY 2002-03 biennium to the FY 2004-05 biennium; if not for increased spending due to the state buydown of education property taxes, the decline would have been approximately 5.7 percent. The real per capita decline in general fund spending from FY 2004-05 to FY 2006-07 is projected to be 1.4 percent under current law; under the governor's supplemental budget, the decline is projected to be 2.6 percent.

If general fund spending is declining, why does the state have a budget deficit? Because general fund revenues are declining even more rapidly than general fund spending. Under current law, general fund current resources are projected to decline by 5.1 percent from the FY 2004-05 biennium to the FY 2006-07 biennium.

Unfortunately, we can take little solace from the state's February forecast of revenues and expenditures. Relative to the previous forecast, the projected inflation adjusted deficit for the FY 2006-07 biennium declined, but the projected deficit for the FY 2008-09 biennium grew. While we have two years to adjust the state's finances to deal with the FY 2008-09 deficit, the growth in this deficit is bad news.

The real per capita revenue of local governments is also declining. From 2002 to 2005 (FY 2003 to FY 2006), total school district revenues are projected to decline by 2.1 percent in real

## INSIDE

2  
Will land use planning end?

3  
Viewpoint: Let's put an end to policy purgatory

4  
On Balance

5  
Higher taxes and fewer services aren't the only answers

8  
Take Note

*Shrinking government continued on page 6*

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# From the members: Budget could end land use planning in Greater Minnesota

by John LaVine

Minnesota has a long history of encouraging and assisting land use planning. Yet in the governor's proposed budget for fiscal year 2006-07, all funding for the Local Planning Assistance Center in the Department of Administration would be eliminated. If approved, this would end land use planning assistance as a function of state government for Greater Minnesota.

In the early 1960s it was generally recognized that a number of existing and anticipated land use issues had to be addressed while their control and mitigation was feasible, among them urban sprawl, cropland loss, uncontrolled lake shore and riverfront development, expansion of potential mining activity, power plant siting, undesirable population distribution, and the loss and/or destruction of important natural, historical and recreational resources.

In 1965, the first State Planning Agency was established to provide state assistance to local communities and to develop a state comprehensive plan. In 1967, the Office of Local and Urban Affairs was created to provide direct aid and advice to local governments.

Over the next 30 years, the Legislature passed laws in almost every subsequent legislative session—through the Community Based Planning Act of 1997—that specifically addressed the issues above.

Providing land use planning assistance to local governments and encouraging them to plan was part of the response to the greater public and legislative concern over how Minnesota managed its finite resources.

In 1981, the State Planning Agency was merged into Department of Energy, Planning and Development. Local government assistance continued in a Community Services section of the department's Office of Local Government.

In 1983, the State Planning Agency was recreated as a separate agency following a task force's recommendations. Local government assistance continued in its State-

Local Relations Program, which provided technical assistance and conducted research designed to help local governments operate more efficiently.

In 1991, the Office of Strategic and Long-Range Planning was created and the State Planning Agency was abolished. The functions and the activities of the State Planning Agency continued in what

**Many areas in Greater Minnesota are now facing growth. Shouldn't we be as interested in conserving those resources and ensuring their future quality of life as we were in the metro area?**

became known as Minnesota Planning.

In 1997, within Minnesota Planning, the Local Planning Assistance team was created, following passage of the Community-Based Planning Act. The team's role was to administer planning grants the Legislature had appropriated to select local communities to assist communities with developing land use plans and to provide technical services, data and tools to help other local governments with comprehensive planning.

The diversity of the enacted statutes and laws is ample proof of the Legislature's recognition of the holistic interrelationships of these issues. Some of these statutes do mandate minimum standards of compliance or performance by the local government unit or the private person. Examples include shoreland management, solid waste management, air quality controls, water quality controls, and pollution controls. A number of these statutes were enacted to move the state into conformance with national legislation, such as the 1967 legislation establishing the Minnesota Pollution Control Agency.

Also in 1967, the Legislature created the seven-county Metropolitan Council

and granted the council certain planning and review responsibilities. In 1974, some of these were revised by the Metropolitan Reorganization Act. The Metropolitan Council Act mandated the Council to prepare a comprehensive guide for an orderly and economic development of the area, both public and private. The guide was to cover social, physical and economic needs of the area and include such specifics as land use, land needs, parks, open spaces, the need for and location of highways, public transit, hospitals, schools, libraries, and other public facilities.

Minnesota is a recognized national leader in land use planning. What would our metro-area quality of life be like today if it were not for the Legislature's far-sighted moves to mandate coordinated regional land use planning?

Many areas in Greater Minnesota are now facing growth. Shouldn't we be as interested in conserving those resources and ensuring *their* future quality of life as we were in the metro area? Can we as a state afford to be so short-sighted? Can we afford to not assist our local communities and citizens in planning for their futures?

We are moving further and further from the statewide program for coordinated land use planning envisioned in 1965. In 2003, the Office of Strategic and Long-Range Planning was terminated and the Local Planning Assistance Center and its functions were transferred to the Department of Administration through a reorganization order from the governor.

The Legislature has yet to complete its work this session, but if the governor's budget prevails, it would seem that with little, if any, public discussion or gauging of public opinion, the state will abandon decades of commitment to land use planning in Greater Minnesota. Elimination of this bare bones program from the budget amounts to a savings of \$299,000.

Should we sacrifice Minnesota's commitment to the wise use of our land and water resources with a stroke of the budgetary pen? **MJ**

*John LaVine is the former mayor of Grand Marais and has served as the chairman of the Cook County Planning Commission.*

# Viewpoint

## Mental Health Action Group: A model for ending our ‘policy purgatory’

by Sean Kershaw



I spend a lot of time in fairly dysfunctional policy situations, where the participants (me included) wonder why nothing happens. It's as if break-through ideas and happy implementation endings should fall from the sky like Old Testament manna after we've publicly declared our good intentions and suffered through enough meetings together.

This consumes a great deal of time and consistently delivers little in return. It's time for a new approach in Minnesota. Good intentions and good people are not enough. We need a new model for better policy, and there's one that holds promise: the Minnesota Mental Health Action Group.

### Mental health reform

Minnesota's mental health system is in crisis—and thousands of Minnesotans suffer tremendously because of it. By comparison our traditional healthcare system is a model of functionality. Our mental health system emphasizes programs not participants; it lacks any rational financial framework for achieving good outcomes; and it's

riddled with perverse incentives and tragic consequences.

The system has also produced an amazing group of leaders who came together in 2003 to form the Minnesota Mental Health Action Group. They will complete their current phase of work in June.

Their vision is “a comprehensive mental health system that is accessible and responsive to consumers, guided by clear goals and outcomes, and grounded in public/private partnerships.” It's been chaired by former League Board Chair Gary Cunningham and Department of Human Services Commissioner Kevin Goodno—each of whom deserves an enormous amount of credit for the group's success. The League convened the process.

From the beginning, the action group was clear about the desired outcome: real and sustainable improvements in the lives of people with mental illnesses. Based on this goal the work has only started.

But I'm willing to bet that the group will achieve these outcomes if they continue to move their agenda forward because they built the comprehensive relationships and identified the necessary ingredients to create an effective framework for success.

### What worked?

I'll suggest four reasons why this group deserves attention from other policy leaders, and more time to work together.

**Stakeholders defined the problem.** The actual stakeholders—those impacted by and those able to impact the mental health system—defined the problem. And they did so in light of a common set of democratic principles which helped to resolve the tensions that always emerge from this process.

**Everyone antes up.** All the participants, from health plans to people with mental illness, from hospitals to state agencies, came forward with the assumption that they are not just part of the problem, but also are part of the solution and ready to put their own resources on the table.

These “resources” also included changing the way each does their work. This couldn't have happened without everyone taking part of the responsibility. And it wouldn't have happened if they had just done more of the same thing.

**Everyone helps solve the problem.** Much of the decision-making and problem solving was delegated to work groups that involved hundreds of participants. Each participant was expected to be a policy maker: to make decisions and recommendations to solve the problems they defined in the places where they could actually have an impact, and according to the principles they agreed on together.

**Everyone is at the table together.** Only by working across institutions and traditional barriers can any group begin to address complex public problems. Despite very real differences, the action groups' participants formed strong and constructive relationships that went beyond their own institutional self-interest because they found common ground and shared principles. As obvious as this is, it rarely happens. It's hard to blame the Commissioner or the health plans if you have broken bread together around a shared public problem and outcome.

### Honesty and hope

The action group's steering committee was recently honest enough to question whether they should continue their work after June—given that their outcomes have not been achieved—but hopeful enough to know this work must continue because the outcomes are now possible.

The sum of this work to date and the real possibility of significant progress ahead are more than the result of good leadership and good luck. This work reflects a new approach that could help put an end to the “policy purgatory” that plagues Minnesota policy makers on a number of issues. **MJ**

*Sean Kershaw is President of the Citizens League, and can be reached at [skershaw@citizensleague.net](mailto:skershaw@citizensleague.net) or 651-293-0575x14.*

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Publisher—Sean Kershaw

Editor—J. Trout Lowen

Managing Editor—Bob DeBoer

Contributing Editor—Ted Kolderie

Sketches—Ray Hanson

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# OnBalance

## Views From Around the State

*A tax referendum plan and proposals to hike speed limits and state salaries get mixed reviews*

Governor Pawlenty's proposal for a "Turbocharged Truth-in-Taxation Notice" has some editors around the state seeing red. Among its provisions, the proposal calls for a "Taxpayer Satisfaction Survey," which would enable Minnesotans to fight proposed property tax increases by checking "no" at the bottom of their annual tax notices. If at least 20 percent of the property owners in a city checked that box, city government would have to hold a referendum to increase property taxes.

**Mankato Free Press** (3/10) applauds the governor's attempt to give more information, and more authority, to taxpayers but is unconvinced that adding another layer of bureaucracy will do any good. "Pawlenty's prototype of the revised Truth-in-Taxation Notice does make sense. It would include specific budget numbers, in addition to the proposed property tax levy. That simple change would put some teeth back into the notice because property owners would be able to compare actual budget figures and levy projections. That simple change would arm all Minnesotans with better information to cast an informed vote in the next election."

The **Fergus Falls Daily Journal** (3/10) calls the plan redundant. "A special new referendum might make it easier to prevent local government tax increases, but, ironically, it is a typical government reaction to a situation: A new law that merely adds a layer of complexity to existing systems... It is an interesting idea but redundant. Minnesotans already have a method of controlling taxes: It's called 'representative government.'"

More than redundant, the **West Central Tribune** (3/10) called the plan anti-democratic and outlined numerous ways that it falls short. "The proposal is poorly worded and not fully thought out. It is also stacked in favor of people who oppose any tax increase. There is no option provided for taxpayers who wish to invest more in their government for vital services. The proposal is highly inefficient. The tax referendum timing

would fall at the end of January, creating significant problems for cities and counties already one month into their budget year. The proposal is also stacked in favor of owners of multiple land parcels. Rather than being based on America's traditional one-person-one-vote democracy, landowners would get one voter for each parcel of land they own. Pawlenty's tax proposal is also unfair to renters as they would have no ballot option in the process to call or not call for a tax referendum. And neither would one half of most married couples..." Their conclusion? "This proposal is not sound policy for Minnesota. One needs to look no further than California to see the chaos caused by tax referendum."

A state Department of Transportation plan to raise speed limits on some Twin Cities highways and many rural roads from 55 to 60 miles per hour is getting a green light from editors in the Willmar area. "The time is here for somewhat higher speeds," writes the **West Central Tribune** (3/11). "Seatbelts are the law and have increased safety. Vehicles are also safer than in the past. The new speed limit of 60 mph on rural roads would be safer as well. Many cars already travel 65 mph and would then come across slower vehicles traveling 55 mph... This is a MnDOT plan whose time has come."

The **Fergus Falls Daily Tribune** (3/11) is of another mind. "Raising speed limits might increase convenience, but at too great a cost," concludes the paper. "MnDOT's theory is that those who are now driving 65 mph will adjust down to 60 mph, thus improving safety. It's an idea that sounds like it was hatched over a couple of beers: sure, it would be nice to legally drive faster. But a good idea? No. The reality is that when speed limits go up, so will average speeds. To think that speeders will slow down reflects a poor understanding of human nature. The likeliest result is that those who now drive 64 mph will speed up to 69 mph. There are all sorts of opinions out there on speed limits, but most are colored by the desire of drivers to go faster and generally ignore basic physics.

A driver who sees a deer in her headlights is going to have a harder time stopping or maneuvering at 60 mph than at 55 mph. A driver whose car hits a deer or goes off the road is subject to greater impact forces at 60 mph than 55 mph."

Should pay caps on state officials be lifted or increased? Not now, argues the **Duluth News Tribune** (3/10). "No one having any understanding of mainstream Minnesota politics—and state finances—for the past couple of years would dare suggest raising the pay of state leaders at a time when the state is plagued with persistent budget deficits, with no end in sight." A recent report from the Compensation Council recommended raises of almost 15 percent for the governor and nearly 28 percent for state lawmakers. The paper acknowledges that increased salaries might be necessary to attract talented people to public service, "but these tight budget times do not lend themselves to such raises ... shelve it for better days, whenever that might be."

The **Rochester Post-Bulletin** (3/10) takes the opposite view. "Pay caps should be lifted," the paper opines, for two distinct reasons: because state officials deserve regular pay raises (avoiding them only forces a politically dangerous larger increase in the future) and because state law caps municipal official pay to 95 percent of the governor's pay. "What happens because of the cap is that as senior department heads advance in their careers and salaries, they invariably hit the cap. Then, a city has several employees making the same amount of money regardless of responsibility." **MJ**

# Higher taxes or service cuts: a false choice

by Stacy Becker

The recurring budget shortfalls in Minnesota are not really budget problems. They represent a major and necessary transition to a higher performing, more productive government. Fiscal problems recur because we balance numbers but we ignore thinking about how government might be restructured to achieve the results we want at acceptable costs. Efforts at better management, streamlined processes and reorganization simply are not enough.

The Minnesota formula—a high tax, high service state—has worked seemingly well in the past. Our economy has the highest labor force participation rate, our personal income ranks seventh in the nation; our unemployment is consistently lower than the national average.

But lately, we're not so sure about this formula. Government expenditures as a percentage of personal income are falling after having been constant for many years. This may reflect unease over whether government is spending tax dollars well. Polls show that Minnesotans have clear priorities: effective schools, efficient transportation systems, and a high quality of life. We also believe in helping the less fortunate. Polls also show that Minnesotans favor reform over higher taxes or spending cuts.

Minnesotans' intuitive sense is right. It is pretty clear that more money without restructuring is not sustainable. We need to do things differently. For example, we know that we need to improve high school graduation rates, especially for non-white students, but roughly 400 studies trying to connect the amount spent in K-12 schools with student achievement find no conclusive link.

We also know that our population is aging. If the provision of long-term care for the elderly is not reformed, state expenditures could double or even quadruple by 2030, creating tremendous pressure on all other expenditures—including K-12 education.

While Minnesota's poverty rate is among the nation's lowest—and despite many well-intentioned efforts—nearly one in four children in the central cities still live in poverty.

In response to these challenges, typically we hear only two choices offered by the

major political parties: higher taxes to support services as they are, or cutbacks that dismantle those services. Visit the state capitol during the legislative session and it quickly becomes apparent why. Lobby after lobby, constituency after constituency, petition for more money. Equally powerful interests work against higher taxes. There is no lobby for reform.

It could be that we should spend more money on some things, and less for others. But this is not our only choice. Instead, we can make our tax dollars more productive. We can rethink some basic premises about the way government gets things done.

## Rethink public service delivery

We have grown up in an era where government functions are carried out by monopoly public bureaus delivering services. This is not necessarily the least expensive way; it is not always the most effective way. Nor is it the only way. In fact, this very structure may be the culprit.

When bureaucracies are given the authority to identify problems, solve them and “cure” society's ills, certain unintended but troubling things happen. First, society becomes a series of problems to be solved. “Community participation” processes spring up everywhere—which is very strange if you think about it—the need for separate processes so that people can have a say (and usually marginalized at that) in what happens in their communities. We become distanced from being active participants in our own lives. Government seems controlling instead of supportive.

Second, we become dependent. If professional systems do our work for us, we begin relying on those systems rather than ourselves. Sometimes it weakens our sense of personal responsibility. In a recent national poll, 80 percent of respondents said they thought it was the government's responsibility to care for them in their retirement. Other times, we become so used to government's role that we take it for granted, even if the outcomes are not optimal. One example: traffic engineering experiments in Europe have actually improved safety by removing traffic control devices from intersections because people drive more attentively.

Finally, the monopolistic bureaucracy structure tends to respond to problems

with highly specialized yet standardized programs, usually with professional services and some kind of “big machine.”

Bureaucracies are organized by professional specialties. Each specialty defines problems and seeks answers according to the teachings and tools of their trade. But life is not composed of a series of free-standing issues, so specialists bump up against each other with conflicting goals and methods, resulting in inefficient and ineffective outcomes.

## Government programs are not always the answer

Bureaucratic programs tend to segment individuals and communities. Look at all the different programs we have to help the poor—housing vouchers, food stamps, health insurance, day care assistance, tax credits—each with their own set of costly rules and caseworkers—when from the point of view of the family the problem in every case is the same—not enough income to support the family's needs. One study shows that the eligibility guidelines for various poverty assistance programs are so counterproductive that a single mother of two gets to keep only 20 cents of every dollar she earns once she reaches an income of just \$11,000 per year.

Not every problem needs, or is best solved, with standardized programs—or programs at all. Our K-12 system of education suffers from the assumption that all children learn through the same methods and at the same speed (age-based standardized courses)—the batch-processing of our children.

Affordable housing is a case where the market could provide more of a solution if allowed. Minnesota's largest source of affordable housing is provided through the private sector—some 50,000 households live in manufactured housing. We might decide that manufactured housing is of inferior quality and restrict, ban or eliminate its use (all of which is happening even though its quality has improved dramatically). Then, however, we should be prepared to acknowledge that we have priced many low-income families out of the housing market. These families can only be housed if we subsidize a higher quality of housing with our tax dollars.

*False choice continued on page 7*

dollars per pupil; total non-school local government (i.e., cities, counties, towns, and special taxing districts) revenues are projected to fall by 3.1 percent in real dollars per capita.

The days of rapid government growth are behind us. Government in Minnesota is shrinking. Is this shrinkage in Minnesota's best interest?

## Minnesota relative to other states

Minnesota is fifth among the 50 states in total state and local government taxes per capita. However, state and local taxes represent only half of total state and local revenue. Other revenues include fees, special assessments, tuition, and federal aid. In short, Minnesota's fifth place ranking in taxes per capita is based on only one-half of total state and local government revenue.

Economists generally agree that it is more meaningful to rank states based on government revenue as a percentage of personal income as opposed to revenue per capita. High-income states—such as Minnesota—typically have higher labor costs than low-income states. Given that labor costs are a major component of government budgets, some adjustment needs to be made for the higher labor costs in high-income states. A practical way of doing this is by examining government revenues as a percentage of personal income.

In terms of total government revenues as a percentage of personal income, Minnesota ranks 24th highest among the 50 states. As recently as 1992, Minnesota ranked ninth highest among the states. Furthermore, the ranking of 24th in 2002 does not take into account revenue reductions since 2002. In short, the size of government in Minnesota is declining relative to other states.

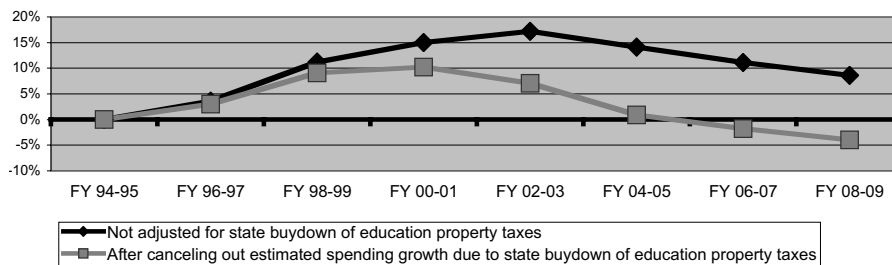
Minnesota will be confronting serious economic challenges in the future. As the state's population ages and the ratio of retirees to workers increases, growth in the need for public services will outpace the ability of government to generate the revenue needed to pay for these services. Several strategies should be undertaken in order to avoid this bleak fiscal future.

## Spend smarter, more efficiently

The need to prioritize government spending and achieve greater efficiency is

## State general fund spending since the FY 1994-95 biennium

Percent change in State General Fund Expenditures from FY 1994-1995 Base in real (i.e., inflation adjusted) dollars per capita FY 2006-07 and FY 2007-08 based on governor's supplemental budget



The top line in the graph shows the percent change in real per capita state general fund spending since FY 1994-95. The bottom line shows the estimated growth in real per capita general fund spending after canceling out the growth due to the state buydown of education property taxes.

Real per capita spending declined from FY 2001-02 to FY 2003-04 and declined again in FY 2004-05. The decline is projected to continue in FY 2006-07 and FY 2008-09 under the governor's supplemental budget. Real per capita general fund spending under the governor's budget in FY 2008-09 is projected to be 4.0 percent less than in FY 1994-95 after canceling the growth due to the state buydown of education property taxes.

clear. Minnesotans need to know that government leaders have been doing this for many years. For example, from 1987 to 2002 the per capita spending of Minnesota cities has gone from significantly above the national average to modestly below. This was accomplished through increased collaboration among cities, improved productivity, and plain old-fashioned belt tightening. These efforts have been going on for many years and should continue.

However, we must be careful to distinguish between spending smarter and spending less. Reductions in funding for health insurance for low-income people may appear to be a cost-saving measure. However, the cost saved by reducing access to health insurance for low-income individuals may be wiped out as more uninsured individuals seek emergency room treatment, which is ultimately more expensive. Thus, reducing access to health insurance may lead to greater public costs in the long term.

## Invest to promote economic growth

Some government expenditures will pay for themselves in the long term through increased economic growth and/or reductions in future costs. Examples of this sort of expenditure include:

▲ **Education.** Minnesota public schools

are confronting increased costs due to increased numbers of special education and limited English proficiency students and new federal mandates. At the same time, real per pupil funding for early childhood, elementary, and secondary education is being cut. Both on a per pupil basis and as a percentage of personal income, Minnesota has slipped below the national average in terms of public school current spending. Large increases in local property taxes have not been sufficient to offset the reduction in real per pupil state aid. The erosion of education funding cannot continue if Minnesota is going to have the work force it needs to compete and prosper in the challenging times ahead.

▲ **Infrastructure.** Minnesota needs to invest in roads, bridges, mass transit, and other forms of public infrastructure in order to prosper economically. This investment will not be possible without real money. Minnesota needs a gas tax increase now.

▲ **Quality of life.** The advent of an information-based economy makes it possible to locate economic growth virtually anywhere. In order to attract and retain economic development, we will need to foster communities that are safe, clean, livable, and appealing. Public investment is inevitable if we are to create and maintain such commu-

## False choice *from page 5*

There are many different ways to accomplish our public goals. Monopoly bureaus and their service programs are just one. This structure was built on the assumption that the outcomes we seek through government are so crucial that they can only be safeguarded by giving government the responsibility for delivering the services with its own employees. Experience suggests that no matter how well-intended, committed, or hard-working public employees may be, this is not always a good assumption. Some of the most dismal and demeaning housing through the years has been provided by government. Fewer than one-half of the students in our central cities graduate from high school. Programs for the poor actually contain incentives that work against families ever climbing out of poverty.

### Public-private strategies

Obviously, the marketplace alone will not produce quality education, affordable housing, traffic control and other public goods. Government has a critical role to play. But what if we focused that role more on setting goals, developing policies that encourage desirable behaviors, and financing and enforcing outcomes? What if we relied more on individuals, the community and other organizations to choose and pro-

vide services? What if professionals played a role of supporting, not replacing, the efforts of individuals and communities? What if policymakers turned to other ways to make things happen: pricing, regulation and deregulation, incentives, volunteerism, targeted rather than universal programs, consumer choice and competition?

For example, pilot programs in Medicaid provide people cash allowances and counseling so that they might make their own care choices. Early results show that the pilots save money and improve recipients' satisfaction. Charter schools and alternative schools allow students the opportunity to find the right learning environments, and parents, students and teachers are more engaged and satisfied than in traditional schools. Congestion pricing and gas taxes can signal to drivers the true cost of their transportation and location choices. The City of Chaska has demonstrated that regulatory relief alone can produce affordable ownership housing.

Above all, Minnesotans want results. The desired results often cannot be imposed. They are achieved collectively through thousands upon thousands of individual decisions: whether to work hard in school, whether to carpool or whether to save for long-term care in retirement. Arrayed against this societal-scale deci-

sion-making, is it realistic to expect government to achieve its goals through the use of bureaucratic programs?

The surest way to get results is to design policies that provide individuals, communities and markets with the incentives to act consistently to achieve the results we want. Minnesota has a reputation for innovative policy design, which frankly is waning. Our "Minnesota Miracle" redesigned state finance and captured national attention. Minnesota created regional systems of coordination and cooperation that are models throughout the country. Chartered schools, HMOs and assisted living for seniors were piloted here, in Minnesota. These innovations came about because public and private institutions (such as the Citizens League, General Mills, and state planning's Local and Urban Affairs office) recognized the critical importance of policy design.

We need to rekindle thoughtful policy design efforts. We're using the wrong public service structures, and unless we change those structures, we really cannot complain when faced with relentless tax hikes or unwanted service cuts. **MJ**

*Stacy Becker is a policy consultant and a member of the Citizens League Policy Advisory Committee.*

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## Shrinking government *from page 6*

ities. Such investments will not be possible if government revenues continue to erode.

▲ **Buying back shifts.** In recent years, state leaders have been shifting costs into future years in order to avoid the immediate need for a tax increase. An example of this is the postponement of school aid payments enacted in 2003. Such shifts ultimately cause cash flow problems and create the need for short-term borrowing and larger government budget reserves. The long-term cost of government could be reduced by "buying back" these shifts.

Baby boomers will begin moving out of their peak earning years in 2011. At this time, government revenues will decline and costs will increase. Thus, it is essential that a campaign of strategic public investment not be delayed.

Will a strategy of public investment lead to ruinous levels of taxation? There is no reason to believe it will. If state and local government revenue as a percentage of statewide personal income remains constant for the next several years at the FY 2005 level, we should be able to generate sufficient revenue to halt the real per capita decline in state general fund and local government revenue and to begin a strategy of investment that will prepare Minnesota for the future.

Minnesota's investment in education, infrastructure, and quality of life has served the state well in the past. In recent decades, national studies based upon a broad range of measures have ranked Minnesota's economic performance among the best in the nation. Relative to neigh-

boring states, Minnesota has consistently had a higher rate of job and income growth and a lower rate of unemployment and business failures.

Advocates of "no new taxes" have argued that Minnesota's strategy of stimulating economic growth through prudent public investments will not necessarily guarantee success in the future. On the other hand, continued disinvestment in education and other critical public services will guarantee failure. Minnesota's future prosperity depends on a balanced approach that seeks greater efficiency in spending while halting the erosion in government revenue. **MJ**

*Jeff Van Wychen is a policy analyst and consultant to Minnesota Citizens for Tax Justice.*

# TakeNote

## Policy Tidbits

### Have oil prices moved permanently higher?

From 1991 to 1999, the demand for world oil rose annually by about one million barrels a day. However, according to Guy Caruso, head of the U.S. Energy Information Administration, demand unexpectedly jumped to 2.7 million barrels a day in 2004. Higher demand plus the fear of supply disruptions has pushed prices higher. But these higher energy prices are not deterring people in wealthier countries from consuming it. In the last month, American oil demand was up two percent from a year earlier. Plus, big oil companies seem less willing or able to find new oil. A study by Credit Suisse First Boston reports major companies have replaced more than half their reserves by buying reserves from other companies or re-estimating existing reserves. [www.washingtonpost.com](http://www.washingtonpost.com)

**There is no free parking**, according to a new book by Donald Shoup, urban planning professor at UCLA. Shoup says that cities make big mistakes by not pricing parking. The land is extremely valuable, yet curb parking is free or has very low prices. Driving around looking for a curb space causes increases in congestion and pollution. In addition, cities require too many parking spaces that have very high costs and are almost invisible to consumers. Everyone pays for the hidden cost of parking, even if they don't drive. [http://www.civic-strategies.com/resources/issues/transportation\\_issues.htm](http://www.civic-strategies.com/resources/issues/transportation_issues.htm)

### True or false: what gets measured gets done.

Prisons expert John Rakis, in an article appearing in the June issue of *Federal Probation*, says "yes," and it's time to start measuring what really makes a difference in community safety: parolee employment. Employment significantly reduces the likelihood that an ex-felon will commit new crimes—and Rakis argues that parole officers should be held accountable for achieving results. If the employment rates of parolees were tracked, it could help determine if program interventions work or if they are a waste of time, money, and resources, and it would send a powerful message to parole supervisors and staff about the importance of connecting ex-offenders to work. Would it really work? The U.S. probation office for the Eastern District of Missouri initiated an offender workforce development program in 2000 and

the unemployment rate of people under its supervision decreased by 52 percent over the next four years. By the end of fiscal year 2003, the rate of incarceration as a result of violating a condition of supervision in this district was 28 percent lower than the federal average, despite a 54 percent increase in the number of persons supervised. Rakis argues we can stop the revolving door of our criminal justice system and make our communities safer by paying attention to employment and supporting an offender's return to the workplace. [www.csmonitor.com](http://www.csmonitor.com)

**Leave no retiree behind?** Researchers at the Brookings Institution are looking at the actual and potential uses of automatic enrollment in 401(k) plans. Currently, employees must elect to join their workplaces' retirement plans, and many neglect to do so. In contrast, under an automatic 401(k), they would participate unless they actively choose not to do so. Contributions would be made, increased gradually over time, invested prudently, and preserved for retirement, all without putting the onus on workers to take the initiative for any of these steps. Workers, however, would remain free to override the default options and to control how their savings are invested, but those who fail to act would not be left behind. A complete report is available at [www.brookings.edu](http://www.brookings.edu).

### What is safe, healthy, and nice all over?

Why, the state of Minnesota, of course. Morgan Quinto Press recently released some of its state and city rankings for 2005. Minnesota ranked the 14th safest state and the fourth healthiest. Iowa, Wisconsin, and the Dakotas were also well ranked in each study. Do these results prove that the upper

Midwest is a great place to live? Well, Minnesota was named the second most livable state behind New Hampshire, and our four neighbor states were among the top 15. To find out more about the rankings and the methodology, go to [www.morganquinto.com](http://www.morganquinto.com)

### A single tax rate is simpler to administer,

offers fewer opportunities for tax cheats and could result in substantially increased collections, the *Economist* argues. Because every dollar is taxed at the same rate, it does not matter to the tax collector how many dollars are going to whom. Thus, in principle, the taxman could withhold 20 percent of a company's payroll. Once you add a second rate (or multiple rates) the picture gets complicated. The tax collector must find out how much money is going to each employee before he can be sure of collecting the right amount from the right person. In this country, that means the IRS has to tax the wages of 130 million employees instead of taxing the payrolls of 8 million or so enterprises.

And simplicity can pay, too. In a typical year, the IRS estimates that for every dollar it collects, another 19 or 20 cents is owed, but not paid. This shortfall amounted to between \$312 billion and \$353 billion in 2001.

Are tax dodgers and the IRS locked in a mutually destructive "arms race" as some have suggested? In part, the tax system is burdensome because people dodge it. Every loophole that is exploited must be plugged. Every blurry line that is crossed must be sharpened. More people then seek to avoid taxes. Is simplicity then, the best way to fight tax avoidance?

[www.economist.com](http://www.economist.com) MJ

*Take Note compiled by Citizens League staff and members.*