

MINNESOTA Journal

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The long, slow train to nowhere

The need to reform transportation planning

by Alan Hoffman

The biggest long-term challenge facing regions like the Twin Cities is how to enhance—not merely preserve—regional quality of life.

Most American cities have been growing in ways that have led to unaffordable housing, clogged freeways, crowded neighborhoods, loss of open space, flashy but completely inadequate transit, and a deteriorating infrastructure that is increasingly difficult to maintain.

There is another path, one based on using infrastructure investments—parks, transit, and schools—strategically to create truly viable and attractive urban neighborhoods that can absorb significant growth without the usual maladies associated with such growth.

Several global cities have followed this alternative path and, as a result, are known for their improved livability. They are places where people report that their lives are getting better.

Building it better, faster, cheaper

One such example, of all places, is Bogotá, capital of Colombia. In a nation beset by guerilla war, high crime, drug trafficking, and a stagnant economy, the then-mayor of Bogotá, Enrique Peñalosa, observed that his city was designed around the needs of automobiles, not the needs of people, particularly children. What he meant, of course, was that in any given city, most “public space” is really “auto space.” What if some of that space could be reclaimed for parkland and for a truly pervasive transit system?

Bogotá had tried for years to assemble \$2.5 billion to build its first subway line, with no luck. But Peñalosa saw farther. At that price, Bogotá would never have a truly widespread or extensive transit system. He also saw that tran-

sit, intelligently developed, could free up enormous resources that could be used to improve the quality of life of all residents.

Peñalosa’s solution was called *Transmilenio*. The concept was to “colonize” the centers of Bogotá’s major roads as “transitways,” thereby getting transit vehicles out of traffic. Special stations, with raised platforms and fare payment upon entry, were built three to a mile along these routes. They then devised a network of routes, some serving every station, some running express among selected groupings of stations, some feeding from “off-corridor”—that guaranteed short waiting times and extremely fast connections.

Transmilenio uses specially designed buses that dock level at raised-platform stations (just like metros), with sets of extra-wide doors that work much like a metro does. Why buses? Besides being cheaper to build than rail lines, they’re much cheaper to operate, meaning that you can increase frequencies and economically run express services in ways cities can’t afford to do with light or heavy rail. And when transit starts saving people time like that, it starts attracting people who would otherwise drive.

For example, many light rail systems in the U.S. have adopted 15-minute frequencies throughout the day. For the same operating cost as a light rail train (about \$300 an hour), one could run *Transmilenio*-style buses (at \$60-80 an hour, according to comparable U.S. operating costs) every five minutes, plus one or two express lines that would cut travel times by at least a third between major points. The resulting service—faster and more frequent—would measurably attract new riders, many of whom would otherwise crowd the freeways.

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Doing the Common Good Better: A call to citizen action in Minnesota

by Jean King and Sean Kershaw

Last year the Citizens League turned 50 years old. In five years, Minnesota will be 150 years old. In a time of momentous change, characterized by unprecedented challenges and opportunities, it seemed necessary for the League to do a special study to assess the status of citizen engagement in the public problem-solving arena.

Twenty-seven people (not all League members) met for nine months to discuss the issue. We're publishing the results of those discussions in this report "Doing the Common Good Better."

The Issue: Minnesota's vulnerability

The Committee found that we are at a "civic crossroads." One choice is to renew and rebuild the civic institutions that made Minnesota successful. On the other hand, if we do not find new ways to engage citizens in our public life, we could weaken our public institutions, lose our competitive advantage, and diminish our quality of life.

Democracy in general, and this state in particular, depends upon the active engagement of citizens—not simply to vote—but to design, shape, and evaluate public policy, and in some cases, produce public programs. What has made Minnesota unique is the product of our public heritage and the creativity of our citizens.

- ▲ Our schools provide a well-educated work force
- ▲ Our healthcare advances making us a productive center for innovation
- ▲ Our concern for protecting the environment
- ▲ Our social consciousness to help those who are ill or in need
- ▲ Our commitment to the common good

As Ted Kolderie outlined in his paper, "Cold Sunbelt," much of what makes up the quality of life in the Twin Cities and Minnesota has been built through active citizenship and strong civic institutions. However, in interviewing people for this report, we heard a recurring theme:

- ▲ "I'm uneasy. We're living off of yesterday's work."
- ▲ "I feel Minnesota is coasting."
- ▲ "I fear Minnesota is losing its civic edge. We are no longer ahead of the curve."

▲ "Tell Minnesotans that if we don't do something about our most important problems, we may be fiddling while Rome burns."

The Problem: old ways of engaging citizens are not working

Citizen creativity is crucial to our future. Given the budget crisis, opportunities for reform and redesign will open. We must take advantage of these opportunities.

But institutions which citizens traditionally used to get their ideas into "the public square" are distracted, dysfunctional or overwhelmed.

Creative solutions to public policy issues are not likely to spring from legislators. They are already in critical overload. In 1982, there were 757 bills introduced in the Legislature. In 2002, there were 2,565 bills introduced—a 340 percent increase.

Creative solutions to public policy issues are not likely to spring from legislators. They are already in critical overload. In 1982, there were 757 bills introduced in the Legislature. In 2002, there were 2,565 bills introduced—a 340 percent increase.

Nor are innovative ideas likely to come from public agencies. They too are under great pressure to fulfill ever more complex managerial responsibilities, leaving little time and often no mandate to devise comprehensive plans.

Neither should we rely on professional experts alone to design system reforms. Our medical care is the envy of the world; our health care system is not.

Citizens *do* have the freedom to invent. Many of Minnesota's most creative policies have come through citizen-based efforts: charter schools, fiscal disparities, metropolitan governance, and property tax reform. We need to make way for a new generation of these citizen pioneers.

Will we recognize and act on the realization that there are some issues that can only be resolved by citizens working together in the public arena for the public good?

The challenge we face as Minnesotans is not that citizens are no longer interested in these roles—they are—but that the old ways of getting a hearing, playing a part in the process, are not working and new ways of having an impact have not been fully invented or publicized.

What has changed?

Everything is bigger, faster, broader, and more complicated. The primary change is scale.

More demands, less time. Two incomes are needed for most families to achieve their higher standard of living. Minnesotans are the hardest working people in the nation. Many families are in a high stress, "time starvation" mode.

More geography, less community focus. Population and job dispersal in the region has dramatically affected our sense of place and how we can exercise our civic power. We no longer live, work, shop and play in one community.

More information, less integration. Citizens are bombarded with a virtual "blizzard" of media, information and entertainment. As Jack Uldrich notes in his upcoming book, *The Exponential Economy*, "the content on the web doubles every 3-6 months."

Institutional changes

Institutions which had a role in connecting citizens to public problem-solving have withered.

The marginalization of political parties. Increasingly, political parties limit discussion, restrict members to sub-caucuses or develop litmus tests on certain issues, and surrender to professional campaign consultants rather than rely on citizen volunteers. This results in diminishing participation.

Globalization of the business community. Minnesota now ranks seventh in the nation in international trade. Seventy percent of our largest corporations have been merged or acquired. As our biggest companies have widened their geographic focus, they have narrowed or eliminated their public affairs agenda.

The "personalization" of the media. Most Americans get 80 percent of their news from television. Increasingly, that news coverage does not focus on gover-

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Viewpoint

An ending and a beginning: people, issues and making a difference

by Lyle Wray

Throughout its 52-year history, staff heads of the League have averaged about a decade-long tenure, and so after 11 years it is time for a change of staff leadership. In my March 1992 Viewpoint—the first of 133 including this one—to get my feet wet, I laid out four themes, drawn from what I had read and heard, that would be of likely interest to the League. The four themes were civic infrastructure, citizen engagement, redefining private and public responsibilities and demonstrating value for public expenditures. At that time the state budget was in crisis—some things seem to recur. Each of these themes still has a resonance today.

▲ **Civic infrastructure.** There has been a retreat on the civic front in some ways with the closure of the Spring Hill conference center, the Jefferson Center and the planned closing of the Minnesota Meeting. As part of the 50th anniversary of the League, Jean King and Sean Kershaw co-chaired a committee to look at the state of public affairs today. The committee looked at how we can make good choices to capitalize on the new opportunities, and the challenges we face today in engaging citizens as active partners, rather than as spec-

tators, in our democratic society. Clearly, as I said in that first Viewpoint, we need to reinvent citizenship and vehicles for engaging citizens in a more populous and diverse and geographically larger region.

▲ **Engaging citizens.** As general purpose civic organizations have seemingly declined, other different forms of engagement seem to thrive. Habitat for Humanity is one visible example of how to involve people in constructive community action. A big question remains, however, on how to get engagement around issues broader than the neighborhood, and how to do so in an inclusive way in an increasingly cosmopolitan community. This puzzle will challenge our best thinking and action.

▲ **Redefining public and private.** It's 11 years later and we are in a deeper state budget chasm than before. Serious attention is being paid to what is core and what can be competitively sourced in the community. There is talk of applying a “Yellow Pages Test” to public services and competitively bidding for services readily available in the marketplace. Yet Minnesota still has laws that forbid putting some services out to competition in the market for price and performance. One egregious example: Although Minnesota is a major national printing center we have a state-operated printing plant that is losing money. With a \$4.5 billion state deficit, we need to get a lot more serious about public service redesign.

▲ **Demonstrated value.** In two studies of the state budget, the League articulated five principles for getting better value for public expenditures. Providing public aid to those most in need rather than to institutions is one example. The Best Practices Review law, based on the findings of a 1992 League study committee, has for almost a decade yielded dividends on how to provide basic public services better and cheaper, ranging from snow and ice

removal to online government services. Much more needs to be done to spend smart rather than merely to feed current state programs.

Over an 11-year run at the League a few things have become clear. First, our community needs a credible convener and problem solver that involves citizens in coming up with solutions for complex public problems. The League's recent reports—on electric energy policy and e-government services—are but two of 24 completed over the past 11 years. Our community badly needs this work to continue.

My second conclusion is that we need the League to help maintain a metropolitan, regional perspective. As the League offered in 1967, there are problems that require regional solutions, whether they be transit, open space or waste water management. Now that our region is 100 miles across, regional perspective is needed as never before. With help from the League, the Metropolitan Livable Communities Act became law and has resulted in dozens of mixed-use, mixed-income and transit-related developments, models of more compact and efficient development. A regional perspective is crucial in a number of areas and the League is a valuable advocate for it.

It would be nice to go out on a note of fiscal stability for the League but alas that is not the case now, nor has it been for some time. In the first month on the job, as reported in the March 1992 *Minnesota Journal*, the late Steve Alnes quoted from his and my predecessor Curt Johnson's retirement party as saying: “...the Citizens League and the *Minnesota Journal* are in trouble. The problem is money. Neither the League nor the *Journal* will be as good as we want them to be at their current level of funding.” Regarding funding, Alnes concluded: “The brutal fact is we are going to have to beg for it, sell something for it, or pay for it ourselves. I worry that we won't do enough of any of those.” The

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Bogotá looks forward to completing their entire system within 15 years, for the total price tag about equal to what that one underground rail line would have cost them—with the difference that its network would cover virtually the entire city, not just one or two corridors. It's not just that *Transmilenio* represents good transit (Bogotans I have spoken with universally rave about the system); it represents good strategy.

Translating transit strategies

Can the Twin Cities do what Bogotá has done? The Twin Cities are much more spread-out, far wealthier, and many more of you own cars. But in other ways, you can learn from how Bogotá thought about transit and how they deployed it to achieve larger goals: by developing strategy aimed at producing results within a relatively short time frame. And for transit to play such a strategic role in the Twin Cities' transformation, four things must happen.

First, you need to develop true strategy. Strategy is based on hard-nosed analysis of the interaction of four critical elements: cost structure (namely, what it really costs to produce a trip), revenue drivers (that is, what people are willing to pay for), market structure and behavior (what it is that will get someone to leave their car at home), and competitive environment (i.e., where people are stuck in traffic or can't find a reasonable parking space). Strategy answers the question: what must transit accomplish by when in order to achieve what important goal? What can it accomplish within five or 10 years?

Viewpoint *continued from page 3*

League is needed as much now as ever, and we must find new ways of doing business and engaging the interest and the wallets of those who care about our region's future.

Thank you for the opportunity to work with great people on interesting issues and one hopes, to make a difference. **MJ**

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Second, you need the right management team. Most, if not all, U.S. transit agencies are at root welfare agencies—they are required to provide mobility services to people without other choices, and the industry has evolved a planning approach that reflects this mandate. This is not to disparage any particular agency or its personnel—there is nobility in serving the needs of people—but no one who has worked within the U.S. transit industry could ever possibly describe it as “market responsive.”

If you want to use transit strategically to shape the growth of your region it will need to attract whole classes of people who today mostly ignore transit. The challenge is immense, and requires the discipline not just to commission market research, but also to systematically follow-through on taking the steps necessary to attract that “choice” rider.

You cannot expect the managers of a welfare agency, however competent, thorough, responsible, or honest, to be able to create and sustain “competitive advantage” (that is, making transit superior to driving). This basic fact is well known to businesspeople: you hire the right managers for the task at hand. A famous adage in the world of high tech is “the person you need to take your company from \$1 million to \$10 million in sales is not the person who can take you from \$10 million to \$100 million in sales.” The two tasks are different, calling for managers with different training, outlook, experience, vision, working styles, and background.

Third, you need leadership. Most of the global cities that have achieved major positive transformations have had leadership—an elected official, a community-based group, or a coalition—that has made the development of an effective regional transit strategy the central, overriding goal, not because it's the most important challenge facing a region, but because it's the kind of challenge that, once successfully dealt with, opens the door to countless other solutions.

Fourth—and this is the most delicate, yet most pressing—you will need institutional reform, particularly with your regional transportation planning “infrastructure.” You may have many gifted and dedicated persons planning transportation

in the Twin Cities, and your agencies should be applauded for their many courageous stands regarding the need for your region to embrace “smart growth” principles. But such forward-thinking work is not enough. Smart transit planning in this country is largely undone by the widespread use of outmoded models and thinking which end up killing or maiming the very strategies that are supposed to help—not because these strategies won't work, but because of how these strategies are measured and evaluated.

Leadership outside of the box

The contrast with Bogotá is striking. Peñalosa—former head of the Colombian office of the Arthur D. Little management consulting firm—understood the need to develop effective strategy. He hired McKinsey Company, one of the leading business strategy—not transportation planning—firms in the world, to develop the new plan. He understood the danger of relying on established bureaucracies (with their entrenched interests) to implement the new strategies, so he put together a team of hungry “young Turks” interested in building this new system.

The process took just three years from initial idea to the opening of the first component of *Transmilenio*. Today, a year and half later, over 1,100,000 riders a day use the system which, because of its low capital cost (about \$8 million a mile, one-seventh that of the Hiawatha light rail line), is expanding by 10-15 miles a year. Oh, and it operates at a profit; it was *designed* to do so.

Clear strategy, the right management team, leadership, and institutional reform—these are the challenges the Twin Cities face today. If the challenges of creating truly useful transit are successfully met, then the Twin Cities can look forward to a very bright future as a globally-competitive, high quality-of-life region, one able to shape growth so that it benefits all. **MJ**

Alan Hoffman is founding principal of The Mission Group, a strategic planning firm based in San Diego working in transportation and urban development.

The state sales tax: reform it or scrap it?

by Louis D. Johnston

The vast majority of state tax systems are inadequate for the task of funding a 21st-century government. Most of those tax systems are also unfair. They break the golden rule of tax equity: collect the lowest possible rates on the widest possible base of taxpayers, “The Way We Tax,” *Governing*, February 2002.

Minnesota is one of 45 states that utilize a general sales tax. There has been much discussion of reforming this tax in order to follow the “golden rule of tax equity” quoted above. In this article, I provide a proposal to simplify the sales tax. However, it would make much more sense to scrap the sales tax and replace the lost revenue through the income tax.

How we got here

Minnesota enacted a general sales tax in 1967. The initial rate was 3 percent and now stands at 6.5 percent, with cities having the option of adding a half-percent sales tax for local projects provided they receive approval from the Legislature. The Minnesota Department of Revenue calculated that in fiscal year 2002, the sales tax raised \$3.7 billion, accounting for about 29 percent of general fund revenues.

The sales tax is collected on purchases of goods and only a few services. Food and clothing have generally been exempt from the tax, but over time distinctions among different types of food and clothing have made more and more items subject to the sales tax. This is due to the fact that the Minnesota economy has changed and evolved over this time as well. In 1967, services accounted for about half of gross domestic product (GDP). By 2000, services accounted for 61 percent of GDP and this share will continue to grow in the future. This means that if most services continue to be exempt from the sales tax, either more goods must be found to tax (for example, more distinctions between food and non-food items) or the tax rate must rise.

This problem has led to an unnecessarily complicated system. One can get a sense of this by reviewing the “Sales Tax Fact Sheets” provided by the Department of Revenue (available at www.taxes.state.mn.us/salestax/factshts/salestax.html). For

example, Fact Sheet 102B states that “Candy is taxable.” Simple enough? Not so fast. Fact Sheet 102B goes on to explain that items containing “the word ‘flour’ as an ingredient on the label are not taxable candy.” Huh? “Examples of items that contain flour that are not taxable include Kit Kats, Twix, ResseSticks, and licorice.” Does this make sense?

The current system also distorts decisions about whether to do something yourself or hire the service out. For example, if you buy a snow shovel to clear your sidewalk you pay tax on the shovel; if you hire someone to shovel it for you, you do not pay sales tax. Similarly, if you purchase software to prepare your own income taxes you pay sales tax, but if a tax professional completes your return you do not pay sales tax. Again, does this make sense?

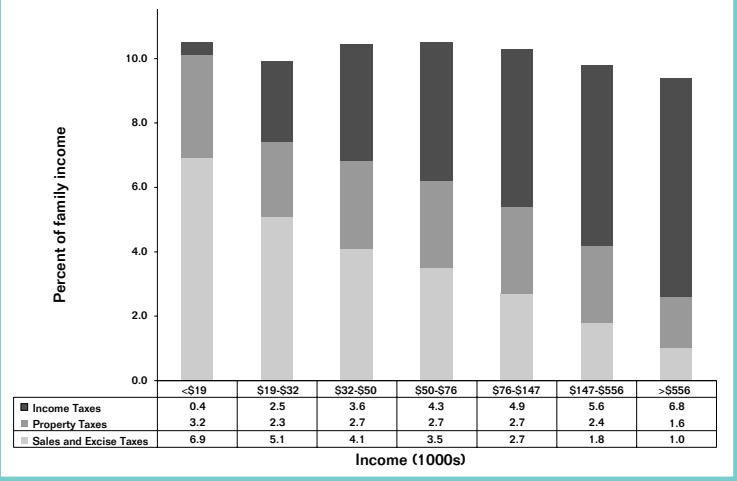
The current system also distorts decisions about whether to do something yourself or hire the service out. For example, if you buy a snow shovel to clear your sidewalk you pay tax on the shovel; if you hire someone to shovel it for you, you do not pay sales tax.

It is especially ironic that these oddities continue even after a major effort to simplify the sales tax. Thirty-three states (including Minnesota) and the District of Columbia participated in the Streamlined Sales Tax Project which allegedly “radical[ly] simplifie[d] sales and use tax collection and administration by retailers and states.”

Reform it

We can have a better system of sales taxation than one where merchants must dis-

Figure 1: State and local taxes, 2002



tinguish between beverages that contain 49 percent juice and those that contain 51 percent juice. Here is my two-part proposal:

- ▲ Exempt anything that people eat, drink, or wear.
- ▲ Impose the general sales tax on all other goods and services.

For example, under current law prescription drugs are not taxable while non-prescription drugs are taxable. There is an exception: analgesics such as aspirin, acetaminophen, or ibuprofen are all subject to tax. Under my proposal, prescription and non-prescription drugs would all be exempt. Specific taxes on tobacco products and alcoholic beverages would be unaffected.

A major objection to this proposal is the extension of the general sales tax to all services. However, the current system favors certain services, such as accounting and legal services that are performed by highly-paid professionals by exempting them from tax, and punishes other services that are typically carried out by less-skilled, lower paid workers (such as lawn care or pet boarding.) It would be more equitable to tax all services at the same rate.

An important advantage of this new system is that the sales tax rate could probably be lowered from its current 6.5 percent rate. It would also remove the distortions that currently exist between buying a product to perform a task versus employing another person to perform the same task. This proposal would truly simplify the sales

Sales tax continued on page 7

nance or policy issues. Fewer journalists seek out the more complex, textured analyses of policy options. They cover the conflict on issues: who's for it and who's against it.

The decline of civic/public affairs organizations. Minnesota has lost the following organizations, which were idea incubators:

- Upper Midwest Council
- Itasca Seminar
- Spring Hill
- Jefferson Center
- Northern Minnesota Citizens League
- Countryside Council
- Interstudy

Additional Barriers to Progress

Pressure groups have multiplied. In a democracy, people have a right to organize and to advocate around a single issue. But any asset unexamined can become a liability. Minnesota has seen a tremendous growth in special interest groups and lobbyists.

As David Broder observed at the Citizens League 2002 Annual Meeting, "...these interest groups pursuing legitimately their own agenda have become far more powerful as blocking agents than the political parties and political leaders have in building support for their change. The citizen often asks, "Is my effort worthwhile? Will I make a difference?"

The glorification of experts. With more complexity and less time constraints, we have come to rely on experts and a consumer approach to citizenship. While analysis is always essential, experts can inadvertently intimidate or exclude citizens from these governing processes.

The simplification and polarization of the political agenda. Our political dialogue is generally a high decibel debate at the extremes often with a demonizing tone:

- Heroes/villains
- Liberal/conservative
- Pro/anti
- Raise tax/cut service
- Politicians/real people

Such a two dimensional analysis creates false choices and bad policies.

The Opportunity: What can be done about it

The purpose of this assessment is not to romanticize the past or to fear the future. Quite the opposite. The challenge for all leaders and institutions in the coming years is how to harness our civic capacity and creativity.

The report issues a call to action for both the Citizens League and the broader community. Here are a few of the many action items.

Reaffirm the citizen's role. Convene a statewide summit on citizenship. Such a conference, called by the Governor, would be co-sponsored by educational institutions, the faith community, the political parties, business, labor and nonprofit organizations. The purpose would be for all institutions to consider changes. For example:

▲The political parties to implement and recommend long overdue changes to participation, and dramatically increase the number of people that take part in these processes.

▲The philanthropic community, who have greater independence than most institutions, to assess its role in supporting long-term objectives that can reform our fundamental civic institutions.

▲The media, to consider using three or more guests for an issue discussion rather than relying on two people debating extreme positions.

▲The faith community, to continue teaching people how to explore and discuss difficult public issues and to help extend our horizons beyond short-term fixes.

The summit could also highlight the need for, and work of, active citizens. One way to draw attention to the power of citizen action would be to honor citizen entrepreneurs.

Revitalize the citizen's education and practice. Recognize the fundamental role of families. We must create new ways for families to participate in public life (from schedule flexibility, to child care, to new family-based civic education tools).

Revitalize K-12 curriculum. Civics education is virtually extinct. Promoting citizenship was one of the reasons public schools were created in the first place.

Schools need to prepare students for self-sufficiency and self-government.

Recapture the citizen's creativity.

Create new governing institutions. One approach to civic engagement is to formally provide the authority for these solutions to be developed and tested by the people impacted by the problem or opportunity. Allow and reward stakeholders who are impacted by a public problem to build ownership in the solution. For example, viewing teachers as owners of their schools or programs within traditional schools.

Restructure institutions, starting with the Citizens League. All institutions have a role in this process. For the League, this means taking our own advice.

The basic mission of the Citizens League continues to be sound. However, the League needs a new framework to carry forward its mission to the next generation. The report recommends the expansion of the League's program through greater use of selected study partners, online resources and statewide participation.

The League should also consider creating an Institute for public affairs fellows, which could provide academic credit for students in the state's public and private higher education institutions, while the students assisted the League in its research and communications.

Conclusion: A brighter 'Star of the North'

Finally, we should initiate a vision-building process that can draw people from different backgrounds together to build a view of what we can achieve together. Such a vision can help us to stay on course and to make better decisions about how we govern ourselves, how we invest our public resources and our private time for the common good.

Around the ceiling of the Minnesota Senate chamber is a quotation from Daniel Webster.

"Let us develop the resources of our land, call forth its powers, build up its institutions and promote its great interests and see whether we also, in our generation, may not perform something worth to be remembered." MJ

Jean King and Sean Kershaw are co-chairs of the study committee.

tax and increase its fairness.

But, is reform the only option?

Scrap it

Hal Varian, an economist at the University of California, Berkeley, has written, “The sales tax is one of the worst taxes we have, and no amount of chewing gum and bailing wire will fix it.” I agree; it is unfair, riddled with exemptions and exceptions, and imposes unnecessary costs on businesses. We should eliminate the general sales tax and replace it with an adjusted income tax.

One of the classic arguments against the sales tax is that it is regressive. *Figure 1* provides data on the percentage of a typical family’s income that is paid in Minnesota state and local taxes.

The total amount of taxes paid across the groups is relatively constant at about 10 percent of family income. However, the types of taxes paid varies greatly: families in the lowest 40 percent of income pay 5.1 to 6.9 percent of their income in sales tax while those in the upper 40 percent pay only 1 to 3.5 percent of their income in sales tax. These figures are reversed when one looks at the state income tax. This becomes significant when federal tax policies are factored into the mix. *Figure 2* shows the result when this difference is taken into account.

The overall tax system is clearly regressive, with the lowest income families paying 10.5 percent of their income in state taxes while the richest families pay only 6.5 percent. Thus, eliminating the sales tax and replacing it with an adjusted income tax would restore balance to Minnesota’s tax system.

Another important reason why the sales tax should be eliminated is that Minnesota businesses would become more competitive. Businesses would not, for example, have to pay sales taxes on any of their purchases or bear the burden of collecting the sales tax from their customers. These savings could then be passed on to consumers (in the form of lower prices), workers (in the form of higher wages) and/or stockholders (in the form of higher profits.) This would make it more attractive to start a business in Minnesota or keep an existing company

from moving to another state. Imagine the Mall of America with no sales tax!

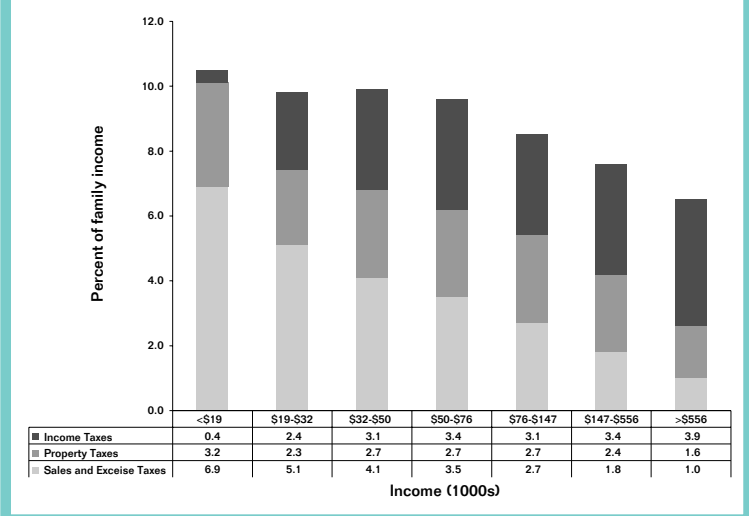
A third benefit of eliminating the sales tax is that it would reduce the cost of collecting tax revenues. We already have a system in place for collecting income taxes and the additional cost of collecting more taxes through this system is minor compared to the benefits of eliminating the entire sales tax collection machinery from state government.

A fourth advantage of removing the sales tax is that Minnesota would not have to wrestle with the issue of how to tax Internet transactions. All purchases would be tax-free, whether they were made online or from a bricks-and-mortar retailer. Thus, the government would not be in the position of distorting consumer choices or picking winners and losers among retailers.

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Finally, since state income taxes are deductible the state could raise the same amount of revenue while Minnesotans would see a decline in their federal tax burden. A recent study by economists at Iowa State University estimated that Iowans would save between \$100 and

Figure 2: State and local taxes with federal deduction of state income taxes, 2002



The data for Figures 1 and 2 are drawn from *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. 2nd Edition. Washington: Institute on Taxation and Economic Policy, January 2003, p. 62.

\$157 million dollars annually on their federal income taxes. A comparable study for Minnesota should yield similar results on a per capita basis.

One objection to this change is that the sales tax is a consumption tax and thus encourages saving while the income tax discourages saving. However, as Varian writes:

“Consumption is, by definition, income minus savings, so a tax on consumption is the same as a tax on income minus savings. Since many forms of savings, like Keough plans, I.R.A.’s and pension contributions, are deducted from income before the tax is computed, our current federal and state ‘income’ taxes are effectively consumption taxes, at least for many taxpayers.”

Minnesota currently faces a fiscal crisis. Governor Pawlenty asserts that this situation demands change and sacrifice and that we cannot continue with “business as usual.” Eliminating the sales tax and replacing it with an income-based tax would provide many benefits to individual Minnesotans and to Minnesota businesses. It is time to consider seriously this course of action. **MJ**

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TakeNote

Policy Tidbits

Spring is on the way and ideas are flowering.

Hydrogen fuel may be clean but getting it here looks messy. Jeffrey Ball wrote a front-page story for the *Wall Street Journal* (March 7, 2003) on the delivery infrastructure challenges of using hydrogen fuel for vehicles to reduce carbon emissions. If it derives from electricity produced by fossil fuels, there may be little or no gain on carbon emissions. Despite the \$1.7 billion five-year initiative announced in the President's State of the Union message, widespread use of hydrogen fuel for vehicles may be a decade to a half-century off.—*Lyle Wray*.

U.S. ranks second in global network readiness index. The World Economic Forum ranked 82 countries on their information networks in terms of market and regulatory conditions, network infrastructure, and the level of usage by individuals, businesses and governments. Finland ranked number one, the result of high usage across all three sectors, while in the U.S. usage was highest in the business sector. Singapore, Sweden and Canada filled out the top five.—*L.W.*

Minnesota ranked in the bottom third in the percentage change in high-tech employment from 1995 to 2001. According to the American Electronics Association, Minnesota has the 36th highest percentage increase in high tech employment, which grew—in five categories measured by the association—between 20-39 percent. Although this was on par or better than most of our neighbors, fourth-ranked North Dakota lead the upper Midwest with an increase in high-tech employment of more than 80 percent.—*Scott McMahon*.

States crack down on Medicaid asset spend down. In "Getting poor on purpose," *Wall Street Journal*, (Feb. 25, 2003) Michele Hoggins wrote: "Many Americans legally dispose of assets to become eligible for the federal, state and locally funded Medicaid program. A number of states are proposing to change this practice with Medicaid spending making up a good part of state budgets—about 20 percent of Connecticut's budget for example. In 2001, Medicaid paid \$47 billion for nursing home care. As much as 22 percent is estimated to go to families

that could afford to pay for their own nursing home care. An 'assets sheltering' industry has sprung up to assist individuals and families to carry out this asset spend down." Minnesota recently applied to the Centers for Medicaid and Medicare Services agency to a federal waiver to limit such asset transfers.—*L.W.*

Governor Tom Vilsack of Iowa wants \$50 million of a proposed \$500 million Iowa Values Fund to be devoted to increased renewable energy for the state. The proposal calls for \$10 million to help schools use wind technology, \$5 million for the Iowa Energy Center, \$10 million to encourage biomass electrical systems, \$5 million to purchase and install anaerobic digestive systems, \$10 million for grants and loans for the development of transmission and distribution systems for wind energy, and \$10 million for new wind generation facilities.—*S.M.*

Minnesota ranks 25th in renewable energy sourcing. An editorial published in the *Star Tribune*, (Feb. 26, 2003) "Green power: Other states outpace Minnesota," reports that Minnesota is ranked fourth rank for installed wind generated electricity, but 25th overall on electric generation from all renewable sources—geothermal, hydroelectric, landfill gas, biomass, solar, and waste wood, according to a U.S. Department of Energy report. The editorial concludes, "Minnesota could indeed be moving more aggressively to develop renewable power at reasonable costs—investing simultaneously in environmental quality and rural economic development. Sadly, the experience in this state suggests that new legislative man-

dates will be necessary to make that happen."—*L.W.*

Cell phone restrictions can be successful in preventing traffic accidents. November 1, 1999 it became illegal for drivers in Japan to use a handheld communication device. Statistics for November 1999 show a 75 percent decrease in cell phone related accidents compared to accidents in November 1998 and October 1999.—*S.M.*

Iowa has statewide website for property tax payments. Collaboration between the Iowa County Treasurers Association and the state of Iowa has produced a single statewide website where anyone in the state can go to file property taxes. Citizens simply select their county and then follow the standardized instructions to pay their bill. The site accepts credit cards and checking account payments.—*L.W.*

Youth may decide how the world runs in 2004. In a continuing collaboration, one of the largest entertainment organizations—World Wrestling Entertainment—and several policy organizations, including: League of Women Voters, National Association of Secretaries of State, Project Vote Smart (just to name a few), are working to energize young Americans to register to vote and to make their voices heard during the election process. The group's initiative, A Million More in 2004, seeks to register 1 million more voters ages 18-30 by the 2004 election.—*S.M.*

Take Note compiled by Citizens League staff.