

# The Sizzle of Economic Freedom and the Fizzle of Minnesota

Lawrence J. McQuillan, PhD  
Director of Business and Economic Studies  
Pacific Research Institute  
Sacramento, California

April 14, 2009



# How Does Minnesota Stack Up?

- What do the standard measures of state economic performance tell us about Minnesota?



# The Big Four . . .

- Per capita personal income growth 2005-2007: +9%  
rank 33
- Private sector employment growth 2006-2008: 0%  
rank 33 (39-total employment)
- Net domestic migration as % of population 2006-2008: -.1%  
rank 32
- Net % birth in business establishments 2003-2005: +1.2%  
rank 19
- Consensus: 30 (4th quintile)
- **Every Minnesotan must become aware of these key measures; if not, they won't care about making policy changes – MN FMI**

# Public Policies that Shape Economic Performance

These are the dials that can be adjusted to change economic performance

- **Minnesotans will be more likely to make policy changes if they clearly understand the connection between state policies and economic performance – MN FMI**

# Bird's-Eye View of State Policies . . .

- PRI's "U.S. Economic Freedom Index" 26 (44, 43)
- ALEC-Laffer's "Rich States, Poor States" 40 (39)
- Fraser's "Economic Freedom of North America" 32 (37, 35)
- Mercatus's "Freedom in the 50 States" 31 (first year)
- SBEC's "Small Business Survival Index" 46 (45, 46)
- Consensus 35 (4th quintile)
- Cato's "Fiscal Policy Report Card on America's Governors":  
Tim Pawlenty B-12 (2008)  
C-12 (2006)  
B (2004)

# Drilling Down . . .

- In what areas is Minnesota competitive; in what areas does it need to improve?
- State Borrowing
- State Taxes
- State Spending
- State Regulations
- State Legal Climate



# Minnesota Borrowing



- State & local debt outstanding per capita  
2006: \$7,132 (rank 21)
  - Debt service as a share of tax revenue  
2006: 7.6% (rank 25)
- **\*Red Flag: Local debt is area to watch!**

# Minnesota Taxes



- Minnesota's state and local tax burden has consistently been among the nation's highest. Estimated at 10.2% of income (12th-highest nationally)
- Among states levying personal income taxes, Minnesota's top marginal rate (7.85% @ \$74,650) ranks 9th-highest nationally. 6th-highest personal income tax burden per capita [41% of tax rev]
- Minnesota ranks 41 in the Tax Foundation's "State Business Tax Climate Index"
- Among states levying corporate income taxes, Minnesota's flat rate of 9.8% ranks 3rd-highest nationally (higher than California!) [5% of tax rev]
- Property taxes are 27th highest [24% of tax rev]
- State sales tax (6.5%) burden is 22nd highest [30% of tax rev]
- Ironically, April 15 is Minnesota's Tax Freedom Day in 2009  
*Source: Tax Foundation*

➤ **Extremely crushing tax code!**

## Figure 5

Tax Rates and Revenues during the 1920s

(top marginal income-tax rate vs. \$ millions total federal income-tax receipts)

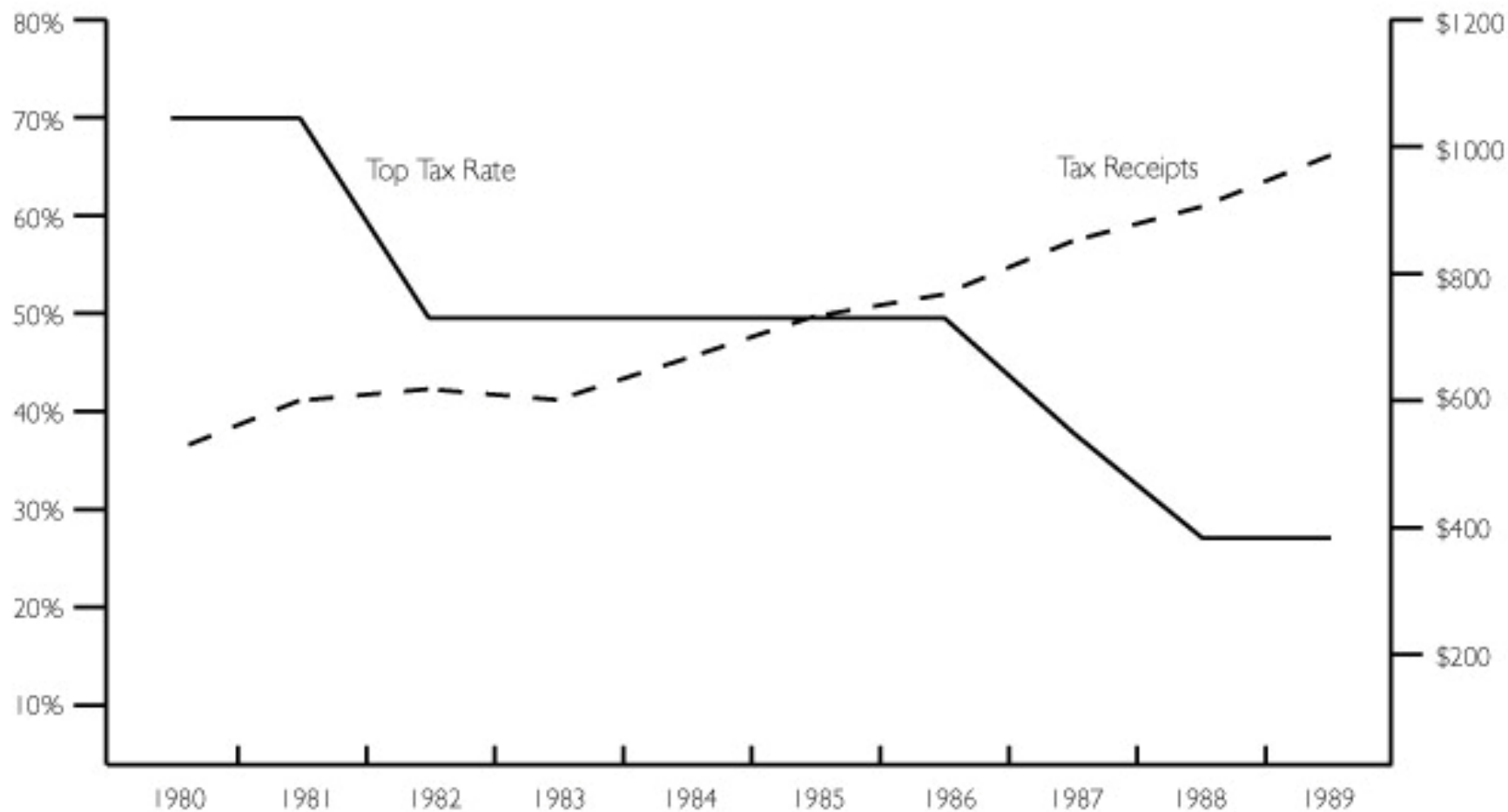


Sources: The Tax Foundation, Joint Economic Committee

## Figure 7

### Tax Rates and Revenues during the 1980s

(top marginal income-tax rate vs. \$ billions total federal income-tax receipts)



Sources: The Tax Foundation, U.S. Census Bureau



# U.S. ECONOMIC FREEDOM INDEX 2008 REPORT

Lawrence J. McQuillan  
Michael T. Maloney  
Eric Daniels  
Brent M. Eastwood

Foreword by Arthur B. Laffer



IN ASSOCIATION WITH

**Forbes**

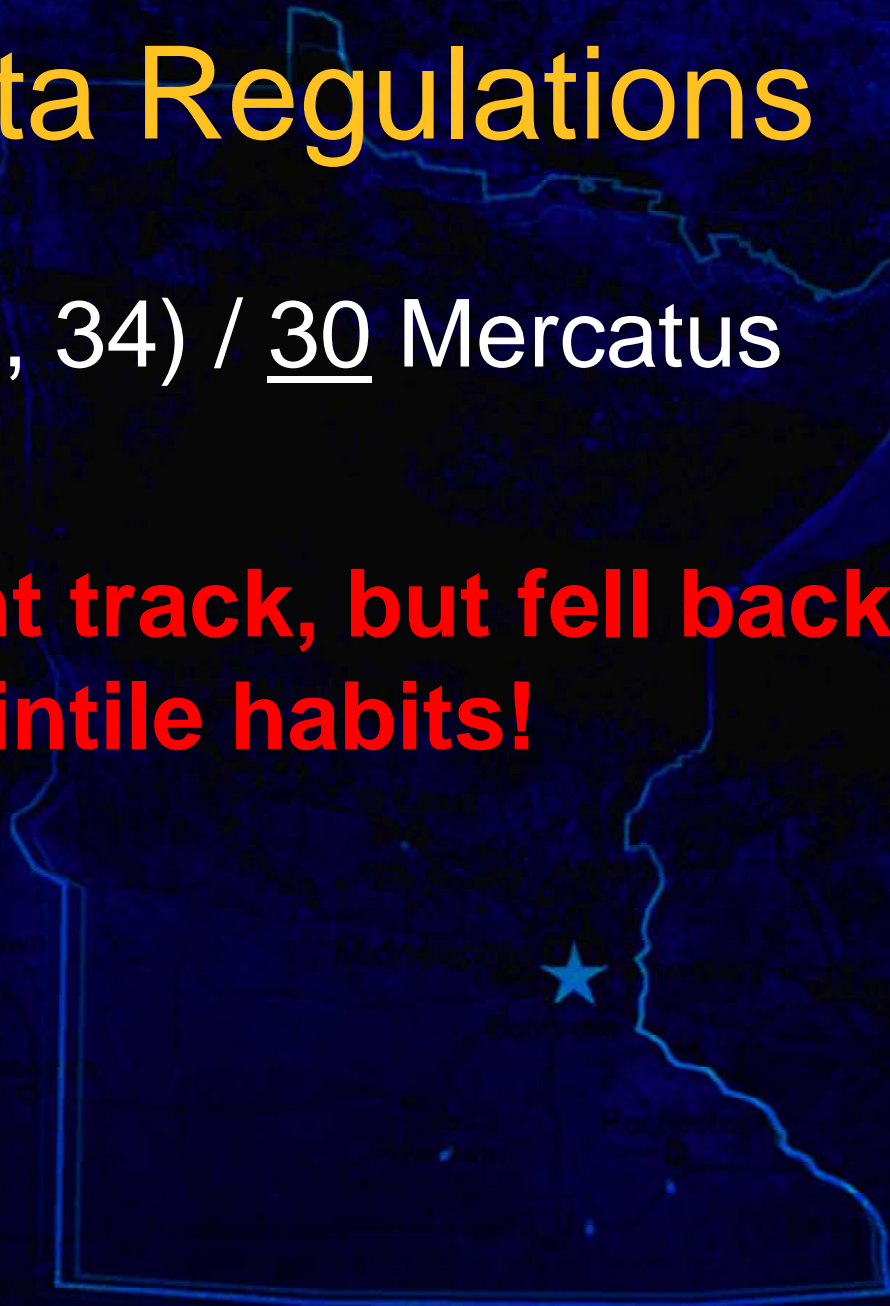
# Minnesota Spending



- State spending per capita 2007: \$6,159  
rank 36 (40)
- Government size in terms of agencies and bureaucrats: rank 33 (27, 39)  
Welfare spending: rank 29 (33, 30)  
Fiscal policy: rank 38 PRI (46, 48) / 35 Mercatus
- **Better—moving in the right direction—but still stuck in the 4th quintile!**

# Minnesota Regulations

- Rank 36 PRI (24, 34) / 30 Mercatus
- **Was on the right track, but fell back into bad 4th-quintile habits!**



# Minnesota Legal Climate

- Rule of Law and Property Rights





# U.S. TORT LIABILITY INDEX

## *2008 Report*

LAWRENCE J. MCQUILLAN *and* HOVANNES ABRAMYAN

Foreword by Jeb Bush, *Former Governor of Florida*

Minnesota's annual direct tort costs were about \$2.5 billion in 2006: rank 24

After controlling for state's population size and level of economic activity: rank 27

Overall tort costs and risks: rank 21

Source: *U.S. Tort Liability Index: 2008 Report*, p. 20

Ranking of Absolute Monetary Tort Losses, 2006

Rank	State	Losses (billions of 2006 dollars)
1	California	19.88564164
2	New York	16.03554678
3	Florida	13.15094423
4	Texas	11.11467106
5	Illinois	8.37955028
6	New Jersey	8.09960781
7	Pennsylvania	7.56788353
8	Michigan	5.24460051
9	Ohio	4.93084065
10	Georgia	4.91344419
11	Massachusetts	4.31132784
12	North Carolina	3.99906652
13	Washington	3.92941276
14	Virginia	3.59661721
15	Missouri	3.32491052
16	Maryland	3.31889248
17	Arizona	3.23622047
18	Indiana	2.87408237
19	Tennessee	2.82924657
20	Colorado	2.81848526
21	Louisiana	2.72943719
22	Connecticut	2.67193177
23	Wisconsin	2.62009820
24	Minnesota	2.54324408
25	Alabama	2.28288407
26	Nevada	2.02850867
27	Kentucky	2.01450072
28	Oregon	1.91895127
29	South Carolina	1.89501548
30	Oklahoma	1.62906598
31	Iowa	1.35435785
32	Arkansas	1.31589651
33	Kansas	1.21267359
34	Mississippi	1.19058153
35	Utah	1.14312820
36	West Virginia	1.00446228
37	Nebraska	0.87212244
38	New Mexico	0.81550602
39	Rhode Island	0.77846006
40	Delaware	0.76824777
41	New Hampshire	0.70547172
42	Hawaii	0.65792716
43	Idaho	0.61456630
44	Montana	0.55798353
45	Maine	0.55513744
46	Vermont	0.50044267
47	Alaska	0.38696620
48	South Dakota	0.36471745
49	Wyoming	0.28754606
50	North Dakota	0.26443582

Colorado, Texas, Ohio, and Georgia have the best tort rules on the books

Maryland, New York, Vermont, and Rhode Island have the worst tort rules

➤ **Minnesota has done very little tort reform compared to many other states: rank 41**

Source: *U.S. Tort Liability Index: 2008 Report, p. 47*

Saints, Sinners, Salvageables, and Suckers			
Output Rank	Input Rank	State	Classification
39	26	Alabama	Sinner
2	16	Alaska	Saint
33	21	Arizona	Sinner
30	22	Arkansas	Sinner
34	40	California	Sinner
42	1	Colorado	Salvageable
38	33	Connecticut	Sinner
24	27	Delaware	Sinner
50	6	Florida	Salvageable
27	4	Georgia	Salvageable
15	39	Hawaii	Sucker
25	10	Idaho	Salvageable
47	46	Illinois	Sinner
22	5	Indiana	Salvageable
4	37	Iowa	Sucker
26	17	Kansas	Salvageable
31	34	Kentucky	Sinner
29	8	Louisiana	Salvageable
10	28	Maine	Sucker
35	47	Maryland	Sinner
41	24	Massachusetts	Sinner
28	7	Michigan	Salvageable
21	41	Minnesota	Sinner
9	23	Mississippi	Saint
43	11	Missouri	Salvageable
46	31	Montana	Sinner
19	30	Nebraska	Sinner
36	18	Nevada	Salvageable
16	14	New Hampshire	Salvageable
49	12	New Jersey	Salvageable
6	44	New Mexico	Sucker
48	48	New York	Sinner
3	25	North Carolina	Sucker
1	20	North Dakota	Sucker
11	3	Ohio	Saint
20	13	Oklahoma	Salvageable
32	42	Oregon	Sinner
45	45	Pennsylvania	Sinner
44	50	Rhode Island	Sinner
14	19	South Carolina	Salvageable
13	36	South Dakota	Sucker
12	9	Tennessee	Saint
18	2	Texas	Salvageable
7	15	Utah	Saint
23	49	Vermont	Sinner
5	38	Virginia	Sucker
37	32	Washington	Sinner
40	43	West Virginia	Sinner
17	35	Wisconsin	Sinner
8	29	Wyoming	Sucker

# Facts are Stubborn Things . . .



- Growing local debt burdens
  - Crushing, uncompetitive tax code (hits small businesses and corporations particularly hard)
  - Spending moving in the right direction, but still greater than national average
  - Regulatory state growing once again
  - Few tort reforms to limit lawsuit abuse
  - Zero tax or expenditure limits
- But are Minnesotans willing to tackle these policy weaknesses? – MN FMI

How do we go from the “Land of the 4th Quintile” to the “Land of 10,000 Opportunities a Day”?



# How Does Minnesota Get There?



**Short term:** Identify crises (people need to see a problem before they will address it) and take on just a few top problems at a time and, more important, defend past gains

Identify allies (the political/judicial constellation matters—it's a political battle as well as a policy battle)

People need to know they can do something about the problem (make the connection between changing state policies and changing economic performance)

Get the message out (spend more on dissemination and less on content)

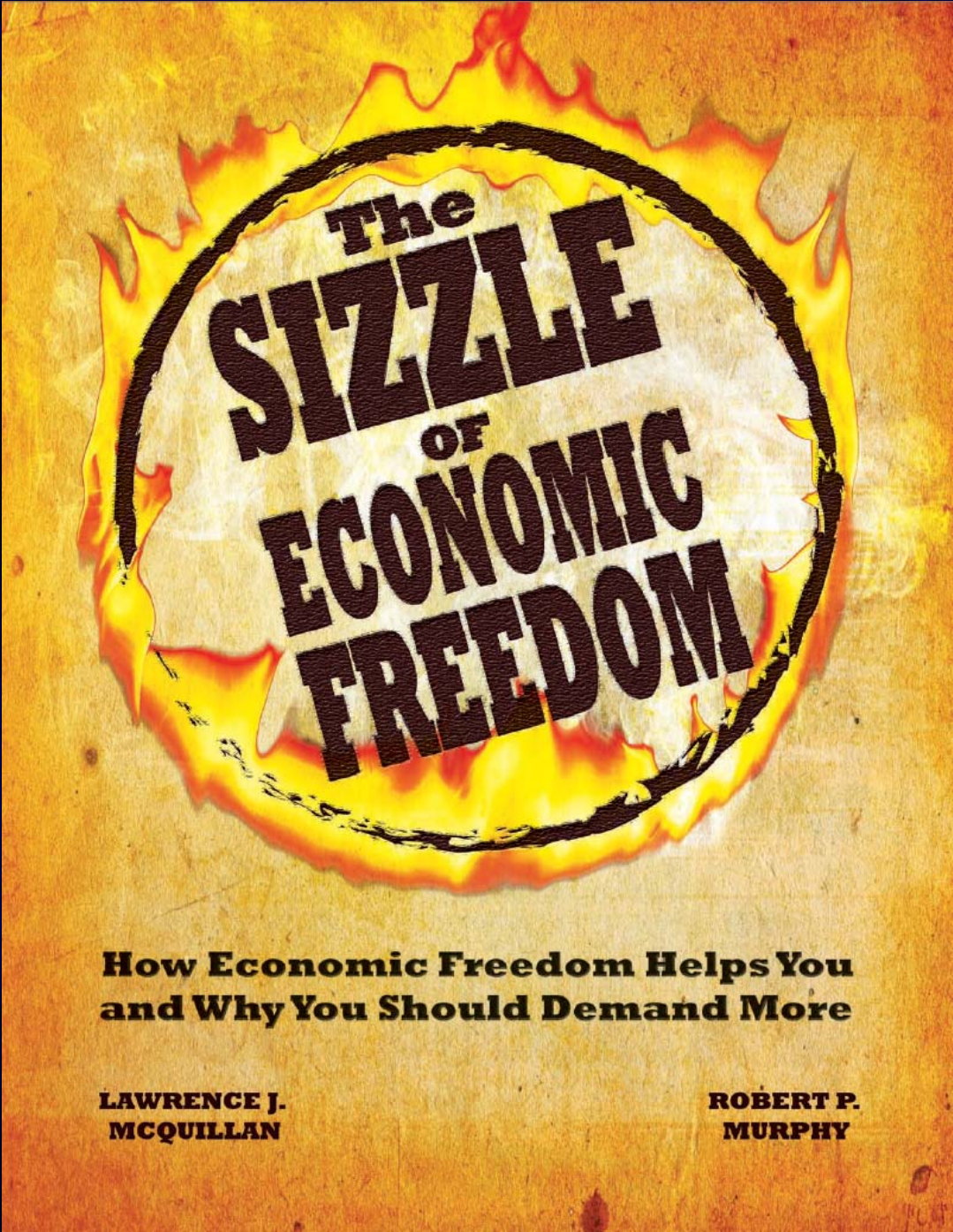
Have strategies ready to defeat opponents who will criticize the proposals on equity/fairness grounds

**Long Term:** A sustained campaign to educate the public and legislators as to the threats; to measure successes and failures; and to effectively communicate results and plans

# Why Does It Matter?

- What would be the benefits to Minnesotans if the state expands its economic freedom?





**The  
SIZZLE  
OF  
ECONOMIC  
FREEDOM**

**How Economic Freedom Helps You  
and Why You Should Demand More**

**LAWRENCE J.  
MCQUILLAN**

**ROBERT P.  
MURPHY**

# In a Nutshell, What Is Economic Freedom?


- Right of an individual to own what he earns and choose how to use his income
- Right to produce what he wants in accordance with his own values
- Right to compete in product and labor markets of his choosing
- **Restriction: Cannot use force or fraud to further his interests**

# The Sizzle of Greater Economic Freedom

A map of the state of Minnesota is shown in the background, outlined in a light blue color. A small blue star is positioned in the center of the state, representing the location of the state capital, St. Paul.

- Higher personal income (↑EF 10%, ↑PI 14%)
- Less unemployment (No indexing, 25%↓ Unemp)
- Faster economic growth
- More macroeconomic stability
- Greater capital investment and productivity
- More business startups (↑EF, ↑entrepreneurship)

# More Sizzle Benefits . . .

- More entrepreneurship and innovation ( $\uparrow EF \Rightarrow \uparrow EnA \Rightarrow \uparrow VC$  NOT  $\uparrow VC \Rightarrow \uparrow EnA$ )
  - A better-educated workforce
  - Less poverty and inequality
  - Better health
  - Greater population inflows ( $\uparrow 20EF$ ,  $+27/1000$  while  $\downarrow 20EF$ ,  $+1/1000$ )  
Impacts political map too
  - A cleaner environment
  - A better quality of life
- 



Ireland: 4.2 million, \$285 billion

Minnesota: 5.2 million, \$255 billion

Minnesota has great potential . . .

**“Potential just means you ain’t done it yet.”**

**Darrell Royal**

**Former University of Texas football coach**