



Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

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Sound tax policy. Efficient spending. Accountable government.

Acknowledgements

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About the Minnesota Center for Fiscal Excellence

The Minnesota Center for Fiscal Excellence, formerly known as the Minnesota Taxpayers Association, was founded in 1926 to promote sound tax policy, efficient spending, and accountable government.

We pursue this mission by

- educating and informing Minnesotans about sound fiscal policy;
- providing state and local policy makers with objective, non-partisan research about the impacts of tax and spending policies
- advocating for the adoption of policies reflecting principles of fiscal excellence.

MCFE generally defers from taking positions on levels of government taxation and spending believing that citizens, through their elected officials, are responsible for determining the level of government they are willing to support with their tax dollars. Instead, MCFE seeks to ensure that revenues raised to support government adhere to good tax policy principles and that the spending supported by these revenues accomplishes its purpose in an efficient, transparent, and accountable manner.

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Table of Contents

EXECUTIVE SUMMARY	4
I. INTRODUCTION: RESOLVING MINNESOTA’S FISCAL CATCH-22	10
Defining Competitiveness	10
II. HOW MINNESOTA MEASURES UP: FOUNDATIONAL COMPETITIVENESS	12
State New Economy Index (2012), Information Technology and Innovation Foundation	13
Enterprising States (2012), U.S. Chamber of Commerce.....	14
State Competitiveness Report (2012), Beacon Hill Institute.....	16
Minnesota Performance Scorecard, Harvard University Institute for Strategy and Competitiveness	18
Assets and Opportunities Scorecard (2013), Corporation for Enterprise Development.....	19
III. HOW MINNESOTA MEASURES UP: INVESTMENT ATTRACTIVENESS – TAX AND BUSINESS COST RANKINGS	20
Total State and Local Business Taxes, COST/Ernst & Young (2012).....	21
Competitiveness of State and Local Business Taxes on New Investment, COST/Ernst & Young (2012).....	23
Location Matters: A Comparative Analysis of State Tax Costs on Business, Tax Foundation/KPMG (2012)	25
North American Business Cost Review, Moody’s Analytics (2012).....	26
Competitive Alternatives: Guide to International Business Location Costs, KPMG (2012)	28
IV. ANALYSIS AND DISCUSSION.....	30
V. RECOMMENDATIONS	40
APPENDIX A: LINKS TO STUDIES REVIEWED	44

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Executive Summary

Executive Summary

Everyone agrees Minnesota needs jobs and economic growth, but the right policies to achieve this goal are a topic of frequent disagreement. Many argue taxes and business costs must be the focus of Minnesota policy efforts. Others argue instead for a focus on human capital, physical infrastructure, workforce development, and related issues connected to long-term state productivity.

Both issues clearly matter to job creation and economic growth; the challenge is figuring out the right balance. Our state economist has described this balancing act as Minnesota's "Fiscal Catch-22." Spend too little on essential physical infrastructure and human capital, productivity declines and economic growth suffers. Tax too aggressively, businesses will choose to invest elsewhere (or disinvest here) causing job creation and economic development to stagnate or decline.

This report examines Minnesota's performance in this balancing act and provides some perspective on the policy implications for our state. We do this by reviewing and summarizing the results from a number of national ranking studies on state competitiveness and state business climate using the analytical framework of one of the nation's most authoritative voices on national and state competitiveness. We highlight key findings and conclusions and discuss several policy-related questions arising from this review. We conclude by offering our recommendations on addressing Minnesota's "Fiscal Catch-22" in the future and on issues relevant to the current budget debates.

Analytical Framework

According to competitiveness researcher and author Dr. Michael Porter of the Institute for Strategy and Competitiveness at Harvard University, the determinants of state competitiveness can be grouped into two major areas:

Foundational Competitiveness – defined as the expected level of worker productivity given the overall quality of the location as a place to do business. Foundational competitiveness is made up of the full range of public good investments that contribute to productivity improvements and set the context for an economy. It also consists of a wide range of microeconomic factors that have a more direct influence on company productivity (like workforce training, access to capital, and rich networks of interconnected businesses and institutions.)

Investment Attractiveness – defined as business costs and the cost of factor inputs relative to a state's foundational competitiveness. States with lower cost factors relative to their levels of foundational competitiveness will be more attractive and experience more rapid growth.

Applying this conceptual framework we reviewed ten prominent national evaluation and ranking studies, five pertaining to each dimension of competitiveness. For each study we include a brief description of the study and highlight key rankings and findings relevant to Minnesota.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Foundational Competitiveness-Focused Studies

- *State New Economy Index*, Information Technology and Innovation Foundation
- *Enterprising States Report*, U.S. Chamber of Commerce
- *State Competitiveness Report*, Beacon Hill Institute
- *Minnesota Performance Scorecard*, Harvard University Institute for Strategy and Competitiveness
- *Assets and Opportunities Scorecard*, Corporation for Enterprise Development

Investment Competitiveness-Focused Studies

- *Total State and Local Business Taxes*, Council on State Taxation
- *Competitiveness of State and Local Business Taxes on New Investment*, Council on State Taxation
- *Location Matters – A Comparative Analysis of State Tax Costs on Business*, Tax Foundation
- *North American Business Cost Review*, Moody’s Analytics
- *Competitive Alternatives*, KPMG

Findings and Conclusions

There is really no such thing as a “best” business climate and basing policy on the basis of any individual study is fraught with peril. Different industries – and different companies within industries -- will place different emphases on various competitive issues and factors. The tremendous variability on how individual states rank across these different indexes essentially proves this basic point.

However, these evaluations and performance scores do tell us something about where Minnesota stands, and patterns and themes do emerge from an overarching review and consideration of their results.

1. Although a few cracks are showing, Minnesota’s foundational competitiveness remains fundamentally strong.

Minnesota continues to generate consistently enviable performance rankings across the portfolio of studies on many critical foundational competitiveness issues like human capital, education quality, physical infrastructure, innovation capacity, technology, and quality of life issues. For those studies with historical data, little if any slippage in relative state performance is detectable even through a very tumultuous decade of recessions and spending cuts. In fact, for one investigation, 2012 marks our highest ranking ever.

None of these findings suggest complacency is in order – in several circumstances the rise in rankings is likely capturing decline in other states rather than improvement in our own performance. And there are some issues of potential concern. Uninspiring rankings in government/academia research and development, higher education affordability, and higher education spending efficiency are clearly potential targets for improvement.

2. Despite having some beneficial tax features, Minnesota’s investment attractiveness presents some issues of concern.

Minnesota is an above-average business cost state. Thanks to several forward-thinking and comparatively advantageous tax policy features, Minnesota still offers important competitive advantage sweet spots and compelling investment cases in areas like high value-added, capital-intensive manufacturing. But our relative position in business cost climate appears to present some headwinds with respect to our future economic performance.

Executive Summary

Of potentially the greatest concern are labor costs relative to our foundational competitiveness. Minnesota has long enjoyed the benefits of being a high wage state because the productivity justified these premiums. However, our ranks for labor costs adjusted for educational attainment and worker productivity – which captures the “value proposition” of the state workforce from the perspective of employers – are in the bottom half of the nation. Slowing wage growth is likely capturing this issue. Given the overwhelming significance of labor cost structures to business operations, it’s an issue deserving of more attention.

3. The disconnect between foundational strengths and private sector decision-making implies Minnesota’s business tax and cost climate may be preventing the state from fully benefiting from the foundational competitiveness advantages we have relative to other states.

A consistent theme in our review is the disconnect between Minnesota’s strong performance and rankings on foundational competitiveness measures and notably weaker performance and rankings on outcome metrics with respect to private sector decision-making and performance. This disconnect appears consistent across the spectrum and measures of private sector economic activity – from foreign direct investment levels to microenterprise formation.

This raises the question of whether foundational advantages can be offset by state tax and cost climate concerns. The answer is informed by both national research and practitioner experience. A 2012 research investigation found that state index ranking performance on tax and cost climate demonstrated stronger positive relationships with several types of economic outcomes than state performance on foundational competitiveness issues. Similarly, surveys of in-house corporate site location professionals and outside consultants find that tax climate and cost issues collectively have greater overall importance in business decision-making than foundational competitiveness considerations.

These findings suggest if it’s indeed possible to overstate the significance of tax burdens and business cost climate on job creation and economic growth, there is a greater danger in dismissing these considerations too readily. Business taxation has undoubtedly helped make Minnesota’s foundational advantages possible. But the price tag associated with these factors does matter, and there are economic risks in simply subordinating tax and cost climate considerations to foundational competitiveness improvements.

4. Minnesota likely has a lower margin for error in being a significant outlier on business taxes and costs than other “high tax, high service” peer states.

Compared to other “high tax, high service” state peers, Minnesota ranks substantially lower on the depth and richness of interconnected companies and supporting institutions that enable states to be a place where “business absolutely needs or wants to be” in spite of a higher tax and cost climate. At a minimum this suggests Minnesota needs to deliver a strong value proposition from its spending on foundational competitiveness and quality of life factors to continue to justify above average business tax levels.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

5. Individual income taxation is an important tax-related competitiveness issue

Labor cost competitiveness is a value proposition – finding the necessary skills sets, capabilities, and knowledge bases to compete – at the best prices. Because economic demographers have noted that some of the best rates of economic growth are occurring where the value proposition from both the employee and employer’s perspective is strongest, the impact of individual income taxes on this value proposition is a growing state competitiveness issue.

The Minneapolis metropolitan statistical area ranks 13th highest among the 50 largest cities in the nation for employers to provide an equivalent after tax, after cost of living adjusted wage – approximately 6.6% above the average for all cities studied and 21-26% above regional competitors.

As the accompanying figure illustrates, there is another dimension to the competitiveness debates surrounding the future of individual income taxation in Minnesota that should be recognized.

The commonly expressed concern	The other (perhaps larger) state competitiveness concern
Effects of individual income taxes on individual out-migration – whether higher taxes cause businesses and wealthy individuals to leave the state.	Effect of individual income taxes on individual in-migration – impact on attracting highly skilled, in-demand, highly mobile talent.
Job creation/loss – the effects of higher individual income taxes on the business and investment decisions of “pass through” entities.	Labor cost competitiveness – the effects of individual income taxation on pre-tax wages, labor cost structures and site selection.

All else equal, higher individual income taxes create an incentive for individuals to apply their talents elsewhere. But if employers compensate employees for the higher burden with higher pre-tax wages to level the playing field, their labor costs go up and the case for expanding and growing business within Minnesota becomes that much more challenging.

Recommendations

Recommendation: Prioritize foundational competitiveness spending in government and pursue spending decisions from a “value proposition” perspective.

Minnesota’s foundational competitiveness going forward will increasingly be determined by its spending priorities and how it delivers public goods and services. Future state foundational competitiveness is threatened more by demographic spending pressures than by failing to generate sufficient tax revenues.

Much has been made recently about the “three-legged stool” when it comes to state and local government revenues, but government spending can also be evaluated on its three legs:

- Adequacy – ensuring sufficient amounts of resources
- Priority –determining where resources are best allocated
- Productivity – how effectively resources are used

Executive Summary

Policy making that focuses on the adequacy leg of the stool while disregarding matters of priority and productivity is unbalanced. The spending programs and systems such unbalanced policies create will not be able to stand up in an increasingly competitive climate.

How we spend is now firmly as important as how much we spend. If Minnesota expects businesses to continue to accept higher tax burdens than imposed elsewhere, it is imperative the returns on that spending be greater than elsewhere as well. The value proposition to business must be clear and tangible. The proposed use of over \$2 billion in new tax revenue significantly funded by business taxes to finance \$1.4 billion in transfer payments to Minnesota homeowners fails this test.

More generally, to improve Minnesota's foundational competitiveness, government must address the value proposition issue by aggressively pursuing redesign and productivity improvements. The state economist has identified productivity improvement as the cornerstone of state economic success – which he has defined as producing better things, newer things and at lower cost. This theme must also apply to the provision of public goods and services to ensure economic success in the future. We can no longer balk at examining often sensitive issues like public sector cost and delivery structures and must pursue productivity improvements accordingly.

2. Recommendation: Approach state tax reform as a long-term investment in Minnesota's global competitiveness

Minnesotans are increasingly encouraged to consider government spending on a variety of public goods and services as a long term economic investment. This same long-term perspective should be taken with respect to tax reform. Unfortunately, tax debates typically have a very myopic and nearsighted perspective: frequent arguments about whether or not tax relief will create jobs in the immediate future and an abundance of proposed tax code tweaks to incentivize near term business behaviors.

Tax reform – like those spending decisions made decades ago that still pay dividends today – should be approached from the standpoint of long-term competitiveness rather than short-term stimulus. JOBZ, jobs tax credit proposals, and related initiatives are more than just administratively costly and inefficient policies to support private sector economic growth. They are an implicit acknowledgement and recognition that taxes do matter and that Minnesota's tax system has competitiveness concerns.

We offer four guidelines for treating state tax reform as an investment in Minnesota's global competitiveness.

- Embrace a Hippocratic oath – “first do no harm.”

Tax reform to secure large amounts of new revenue to fix deficits and increase program funding is not just politically difficult, it also creates a high-risk environment with respect to protecting and improving state competitiveness. Policy makers should recognize it may be better not to do something than to risk causing more harm than good.

- Whatever reform is enacted should not make Minnesota an outlier.

Our outlier exposure is greatest in the individual income tax, corporate income taxes, and commercial property taxes. Policymakers must exercise care to avoid turning a relative competitive disadvantage into a major tax outlier problem.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

- Don't dismantle or undercut the smart tax policy "investments" we already have in place with new policies.

Several longstanding features of Minnesota business taxation provide the state important competitiveness-related benefits: most notably the move to single sales apportionment, exemption of manufacturing inputs from sales taxation, and our commercial and industrial personal property exemption. Preservation of these elements is essential.

It is in this context that proposed expansion of the sales tax on business-to-business services must be considered. Business support and research facilities – two areas with strong Minnesota presence – pay more sales tax as a share of their total tax burden than other types of facilities and also have the highest total effective tax rates on new investment. Such findings suggest the deep concerns expressed by businesses over the competitive impacts of enacting this policy are not hyperbole.

- Ensure business tax revenues obtain in a high rate of return on this "investment".

Becoming a high-tax state is relatively simple; ensuring the value proposition continues to exist for business to support above-average levels of taxation is substantially more difficult. Investments can and do underperform, and simply putting more money into underperforming assets is not a sound strategy. In an increasingly competitive environment, business will find it necessary to walk away from such "investments."

Introduction: Resolving Minnesota's Fiscal Catch-22

I. Introduction: Resolving Minnesota's Fiscal Catch-22

If there is one idea state policymakers across the political continuum can get behind, it is that Minnesota needs jobs and economic growth. However, the appropriate policy path to achieve this goal is a topic of disagreement and frequent contention. Many argue that taxes and business costs must be the focus of Minnesota's policy efforts to create a highly competitive and attractive landscape for capital formation and business creation. Others argue instead for a focus on human capital, workforce development, physical infrastructure, and related issues intimately connected to long-term state productivity.

Both issues clearly matter to job creation and economic growth; the challenge is figuring out the right balance. Our state economist has described this balancing act as Minnesota's "Fiscal Catch-22." Spend too little on essential physical and social infrastructure and human capital, productivity declines and economic growth suffers. Tax too aggressively, businesses will choose to invest elsewhere (or disinvest here) causing job creation and economic development to stagnate or decline.

This report attempts to shed some light on how Minnesota is performing with respect to this balancing act and provide some perspective on the policy implications for our state. We do this by reviewing and summarizing the results from a number of national ranking studies on state competitiveness and state business climate using the analytical framework of one of the nation's most authoritative voices on national and state competitiveness. We highlight key findings and discuss several policy-related questions arising from this review. We conclude by offering recommendations on addressing Minnesota's "Fiscal Catch-22" and issues relevant to the current budget debates.

Defining Competitiveness

The Global Competitiveness Report of the World Economic Forum defines competitiveness as "*the set of institutions, policies, and factors that determine the level of productivity of a country.*"¹ Given that a broad set of issues falls under this definition, it's important to have a rigorous conceptual framework to assess and evaluate the intersection of competitiveness and public policy.

Michael E. Porter, Director of the Institute for Strategy and Competitiveness at Harvard University has been a leading authority for decades on competitive strategy and the competitiveness of nations, states, and regions. In a 2012 paper, "The Determinants of National Competitiveness,"² Dr. Porter provides an analytical framework for evaluating competitiveness. He breaks down this large, complex idea into two broad areas:

- *Foundational Competitiveness* consisting of social infrastructure, political institutions and the microeconomic environment; and,
- *Investment Attractiveness* consisting of cost issues and cost of factor inputs.

Conveniently, the existing array of state competitiveness and business climate studies largely conforms to this framework. One set of national ranking studies tends to examine and evaluate the general productivity infrastructure and innovative capacity of states

¹ Global Competitiveness Report 2012-2013, World Economic Forum, Geneva, Switzerland

² "The Determinants of National Competitiveness" NBER Working Paper No. 18249, July 2012

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

(foundational competitiveness); another set looks more specifically at tax and cost issues affecting business investment (investment attractiveness).

In the following section, we take a closer look at how Minnesota's performance measures up nationally in both these areas.

How Minnesota Measures Up: Foundational Competitiveness

II. How Minnesota Measures Up: Foundational Competitiveness

According to Harvard's Dr. Porter, foundational competitiveness is defined as the expected level of worker productivity given the overall quality of the location as a place to do business. Thus, the factors comprising and influencing foundational competitiveness include the full range of institutions, policies, and public good investments that contribute to productivity improvements and set the context for an economy. Education, health care, transportation and public safety are four examples of essential infrastructure necessary to enable economic activity. Without these foundations, the ability of large segments of society to participate in productive economic activity is limited.

In addition to these macroeconomic factors, microeconomic policies that have a more direct influence on company productivity and labor force mobilization also influence foundational competitiveness. These factors include:

- Efficient access to capital;
- Quantity and quality of workforce training, higher education, and basic research;
- Administrative and regulatory policies;
- Labor market policies;
- Openness to competition, trade and investment; and
- Existence of clusters of related and supporting industries and institutions.

We identified five prominent national reports that have evaluated states on these topics and ranked them based on their performance. Our review includes:

- ***State New Economy Index*, Information Technology and Innovation Foundation**
- ***Enterprising States Report*, U.S. Chamber of Commerce**
- ***State Competitiveness Report*, Beacon Hill Institute**
- ***Minnesota Performance Scorecard*, Harvard University Institute for Strategy and Competitiveness**
- ***Assets and Opportunities Scorecard*, Corporation for Enterprise Development**

On the following pages, we explore the findings from these studies as they relate to Minnesota.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

State New Economy Index (2012), Information Technology and Innovation Foundation

Area	MN Rank (1 = best)	Notes
Knowledge Jobs	6 th	Highest Rank: Employment in high wage service sectors (4 th) Lowest Rank: Immigration of knowledge workers (25 th)
Globalization	37 th	Highest Rank: Export focus of manufacturing and services (28 th) Lowest Rank: Foreign direct investment (29 th)
Economic Dynamism	29 th	Highest Rank: Inventor patents (12 th) Lowest Rank: Entrepreneurial activity (44 th)
Digital Economy	6 th	Highest Rank: Use of information technology in health care (1 st) Lowest Rank: Broadband speed and availability (23 rd)
Innovation Capacity	13 th	Highest Rank: Industry research and development (6 th) Lowest Rank: Non-industry research and development (38 th)
Overall Rank	13th	Minnesota has never ranked higher than 11th (2007) or lower than 14th (1999)

BACKGROUND

The mission of the Information Technology and Innovation Foundation is to “help policymakers around the world better understand the nature of the new innovation economy and the types of public policies needed to drive innovation, productivity, and broad-based prosperity.” Their *New Economy Index* assesses “innovation-based competitiveness” by measuring states’ economic structure against what is required to compete successfully in the 21st century.³ The index consists of 26 quantitative measures in 5 performance categories. The ITIF assembles the Index’s scores and rankings using data from a wide variety of public and private sector sources.

KEY FINDINGS

ITIF findings suggest that Minnesota’s foundational competitiveness remains quite strong. Minnesota continues to rank in the top 10 with respect to workforce education and workforce composition in information technology, scientific, engineering, professional, and managerial positions. Advanced adoption of information technology in government and agricultural sectors, national leadership in health care IT, and high rates of internet access and use in the general population positions the state well relative to others regarding the digital economy. Industry R&D, venture capital and patent-related performance propelled the state’s rank on innovation capacity to among the top 15 in the nation.

However, transforming these advantages and assets into economic results appears to face some obstacles. With this foundation, Minnesota’s relatively lower performance on economic dynamism and globalization is intriguing. Foreign direct investment as measured by the percentage of the workforce employed by foreign companies is in the bottom half of the nation. Minnesota is underrepresented by the nation’s fastest growing firms, and both initial public offerings and entrepreneurial activity are below the national average.

Nevertheless, at 13th overall, Minnesota is the leading regional performer with respect to this assessment of foundational competitiveness compared to Illinois (20th) Wisconsin (31st), North Dakota (34th), Iowa (38th) and South Dakota (43rd). Even though Minnesota’s state tax and fiscal policies have changed significantly since 1999, Minnesota’s overall rank has changed little in over a decade.

³ From 1999 to 2010, the *State Economy Index* was a workproduct of the Kauffman Foundation, which continues to remain involved in the development of the study.

How Minnesota Measures Up: Foundational Competitiveness

Enterprising States (2012), U.S. Chamber of Commerce

Policy Area	Avg. of MN Ranks for all area factors (1 = best)	Notes
Exports	27.3	Four metrics, rankings from 21 st – 30 th <u>Highest Ranks:</u> Export intensity (21 st), Export Growth (28 th) <u>Lowest Ranks:</u> Export intensity growth (30 th), Growth in share of national exports (30 th)
Innovation and Entrepreneurship	28.2	Six metrics, rankings from 12 th - 40 th <u>Highest Ranks:</u> STEM job concentration (12 th), High tech share of all businesses (14 th) <u>Lowest Ranks:</u> Entrepreneurial activity (40 th), STEM job growth (37 th)
Talent Pipeline	21.0	Six metrics, rankings from 3 rd - 47 th <u>Highest Ranks:</u> Educational attainment of population (3 rd), Higher education degree output (4 th) <u>Lowest Ranks:</u> Higher education spending efficiency (47 th), College affordability (29 th)
Infrastructure	15.5	Four metrics, rankings from 1 st – 29 th <u>Highest Ranks:</u> Bridge quality (1 st), Road quality (13 th) <u>Lowest Ranks:</u> Broadband speed (29 th), Broadband provider availability (19 th)
Performance	24.2	Seven metrics, rankings from 4 th – 29 th Highest Ranks: Median family income (4 th), Economic output per job (22 nd) Lowest Ranks: Long term job growth (34 th); Gross state product growth (32 nd)

BACKGROUND

According to the report authors, *Enterprising States* “measures overall economic performance along with five policy domains wherein states can proactively and meaningfully impact and stimulate new economic opportunities, create jobs, and thereby advance improvements in the quality of life and prosperity for their residents.”⁴ Unlike most other efforts, this study does not attempt to weight variables and create an overall index, but simply ranks states based on 32 separate quantitative measures associated with these policy areas.

KEY FINDINGS

The report largely confirms many of the findings from ITIF’s *New Economy Index* but adds some color especially with respect to state trends. For example, not only is Minnesota’s export orientation in the middle of the pack nationally (value of exports per manufacturing and service worker), but growth in manufactured exports – when measured relative to GSP to control for the different sizes of state economies – has lagged the nation over the last 10 years. Likewise, even though Minnesota’s concentration of science, technology, engineering and math (STEM) jobs is among the national leaders, our STEM job growth since 2001 is 37th in the nation.

⁴ We report on four of the five policy domains plus performance here. We exclude taxes and regulation since the *Enterprising States* report uses data from other organizations, which we cover in the investment attractiveness section of this report in developing their tax and regulation rankings.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Findings suggest that even in areas where Minnesota has national leadership, there are opportunities for improvement. Reinforcing the theme of a highly educated workforce, Minnesota's ranks for educational attainment of 25-44 year olds and higher education degree intensity are 3rd and 4th in the nation respectively. Yet our high school advanced placement and job placement efficiency is in the middle of the pack and the state's ranking on higher education spending efficiency is among the lowest in the nation.⁵

Interestingly, Minnesota ranks best on infrastructure including bridge quality (1st) and road quality (13th). However, since both metrics employ Federal Highway Administration statistics on percentage of infrastructure deemed "poor," "deficient," or "obsolete," Minnesota's position is best interpreted as "not as bad as other states" as opposed to necessarily having achieved high standards of infrastructure excellence.

The overall performance findings suggest, as with the *New Economy Index*, that Minnesota's many important relative advantages in foundational competitiveness factors are not translating fully into the economic performance one might expect. Our rankings for recent economic output per job and productivity growth over the last ten years were a middling 22nd and 23rd in the nation respectively; and Minnesota job growth from 2002 to 2012 ranks a disappointing 34th in the nation.

⁵ Higher education spending efficiency is defined as state higher education spending/degree awarded at 4 year research institution in 2010. The University of Minnesota is the only Minnesota higher education institution included.

How Minnesota Measures Up: Foundational Competitiveness

State Competitiveness Report (2012), Beacon Hill Institute

Policy Area	MN Rank (1 = best)	Notes
Security	7 th	4 crime and public safety related measures
Infrastructure	10 th	6 metrics pertaining to telecommunications, workforce travel, electricity costs and leasing costs
Human Resources	2 nd	8 measures related to workforce education, workforce participation and workforce/population health and healthcare
Technology	7 th	7 measures pertaining to the intensity of science and engineering education, workforce participation in high tech, and outputs (e.g. patents)
Business Incubation	39 th	8 measures pertaining to capital access, labor force cost and regulation, and regulatory environment
Openness	26 th	3 measures pertaining to immigration and foreign investment
Environmental Policy	11 th	3 measures pertaining to state performance on air, water and climate change
Overall Ranking	4th	Current ranking is highest in Minnesota history up from a low of 9th in 2006

BACKGROUND

Since 2000 the Beacon Hill Institute has published its state competitiveness report describing it as “a state based inventory of the micro-foundations of prosperity.” The overall index is based on 8 policy area subindexes which are in turn comprised of 43 separate performance measures.⁶ This grouping of performance measures is modeled closely on Michael Porter’s national competitiveness framework.

As a result, this report is the most expansive. It includes a number of performance areas that have a strong public goods orientation – security and environment policy being the two prime examples. The human resource index includes traditional workforce-specific characteristics but also contains measures such as infant mortality rates and the percentage of the state population without health insurance.

KEY FINDINGS

Given this stronger recognition of public goods in the competitiveness equation, it’s perhaps not surprising that Minnesota’s national performance ranks highest in this study among all the studies we reviewed. Minnesota’s competitive advantages (top 15 rankings) outnumber competitive disadvantages (bottom 15 rankings) by a ratio of 4 to 1. In the human resource sub index alone, Minnesota features a top ten rank in 6 of 8 areas.

Minnesota’s lowest rank – business incubation – also captures issues other reports do not. Measures of firm birth, capital access, and the cost of labor adjusted for educational attainment are part of the incubation score. However, the index also includes unique measures such as union representation in the labor force and tort liability exposure. Firm birth (34th) and cost of labor adjusted for educational attainment (37th) are the largest drags on this index.

⁶ See footnote 4. We exclude government and fiscal policy in the summary as those topic and metrics are addressed in the investment attractiveness section of this report.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Interestingly, the Beacon Hill report is only study which also “self-explores” whether its competitiveness index is actually useful in explaining affluence and economic growth. Their regression analysis concludes the competitiveness index is highly statistically significant and every additional index point is associated with \$1,893 more in real per capita income.

How Minnesota Measures Up: Foundational Competitiveness

Minnesota Performance Scorecard, Harvard University Institute for Strategy and Competitiveness

Measure	MN Rank (1 = best)	MN Trend Rank	Notes
Prosperity	12	27	GDP/Capita
Wages	13	32	Average private wage, 1998-2009
Job Creation	24	26	Private employment growth, 1998-2000 and 2007-2009
Labor Mobilization	2	31	Proportion of working age population in workforce, 2000-2010
Labor Productivity	21	26	GDP per workforce participant
New Business Formation	19	29	Traded cluster establishment growth 1998-2000 and 2007-2009
Innovation	6	14	Patents per employee 2000-2010
Cluster Strength	39	44	Employment in strong clusters 1998-2009

BACKGROUND

The Institute for Strategy and Competitiveness at Harvard University has expanded the scope of its work to examine state as well as national competitiveness. The resulting scorecard provides a snapshot of state performance on key foundational competitiveness measures.

KEY FINDINGS

Although the report's measures appear to tell a favorable story that is fairly consistent with other studies, the trend information accompanying each metric is not nearly as welcoming. Minnesota's national trend rank for each of the first five metrics in the table above is in the bottom half of the nation. Employee productivity performance (defined as real growth in gross domestic product per employed worker) is in the middle of the pack and declining versus the U.S. The bright spot is innovation where Minnesota continues to exhibit a high and improving performance relative to the rest of the country.

The additional perspective this performance scorecard offers is the introduction of metrics related to cluster development. A cluster is a geographically concentrated group of interconnected companies and associated institutions (such as academic research centers) in a particular field. "Traded clusters" are the focus of competitiveness considerations because they compete to serve national and international markets and can locate anywhere, (as opposed to "local clusters" that serve local markets and are not directly exposed to multi-state competition). Because of the richness of business, skill, and knowledge creation these relationships create, clusters are seen by the Institute as a cornerstone of competitiveness, productivity, and long term economic growth.

Minnesota's national rank of 19th in traded cluster establishment growth offers a slightly more positive view of new business formation in the state than simple business birth and entrepreneurial rankings cited previously. It suggests that the new business growth we do realize is likely of higher and lasting quality with respect to economic growth and development. However, as with most of the other performance measures, the trend rank is below national average (29th in the nation.)

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Assets and Opportunities Scorecard (2013), Corporation for Enterprise Development

Measure	MN Rank (1 = best)	Notes
Financial Assets and Income	4 th	<u>High Ranks:</u> Liquid Asset Poverty Rate (1 st), Unbanked Households (2 nd) <u>Low Ranks:</u> Avg. Credit Card Debt (26 th), Bankruptcy Rate (24 th)
Businesses And Jobs	28 th	<u>High Ranks:</u> Unemployment rate (5 th), Low Wage Jobs (10 th) <u>Low Ranks:</u> Business Creation Rate (40 th), Microenterprise Ownership Rate (34 th)
Housing and Homeownership	14 th	<u>High Rank:</u> Home Ownership Rate (1 st) <u>Low Rank:</u> Home Ownership by Race (48 th)
Health care	25 th	<u>High Ranks:</u> Employer provided insurance (4 th); Uninsured Rate (6 th) <u>Low Ranks:</u> Uninsured by Race (47 th); Uninsured by Income (45 th)
Education	12 th	<u>High Ranks:</u> High School Degree (2 nd); Math Proficiency (2 nd) <u>Low Ranks:</u> Avg. College Degree Debt (46 th); Early Childhood Enrollment (44 th)
Overall	9th	Top ten performers are strongly clustered in New England plus WY, MT and ND

BACKGROUND

According to the Corporation for Enterprise Development, the Assets & Opportunity Scorecard is “a comprehensive look at Americans’ ability to save and build wealth, fend off poverty and create a more prosperous future.” With a focus on human capital and human productivity essentials, the Scorecard evaluates performance and assesses policies in five issue areas: Financial Assets & Income, Businesses & Jobs, Housing & Homeownership, Health Care and Education using 102 outcome and policy measures in these areas.

KEY FINDINGS

Some caution needs to be exercised in interpreting these results because top performance in many of these metrics does not necessarily represent “good” outcomes. For example, Minnesota ranks first in the nation in “liquid asset poverty rate” which is the share of households without sufficient liquid assets to subsist at the poverty level for three months in the absence of income. At 23.6%, Minnesota’s “at risk” percentage is slightly less than half the national average of 43.9% placing us first in the nation. However, no one would argue that having 1 in 4 residents living on the edge is an optimal situation with respect to economic growth.

Minnesota’s lowest rankings are found in “business and jobs,” a finding consistent with the other foundational competitiveness reports we reviewed. Like those other reports, the findings suggest a disconnect between foundational competitiveness advantages (e.g. high rankings on several household financial assets/income measures and education) and the ability to translate those advantages into business and job creation results. However, the CFED’s focus on households adds an important new perspective. Whatever is plaguing entrepreneurship and general business expansion and formation in Minnesota may also extend to microenterprise development and sole proprietorships.

How Minnesota Measures Up: Investment Attractiveness – Tax and Business Cost Rankings

III. How Minnesota Measures Up: Investment Attractiveness – Tax and Business Cost Rankings

The second dimension of competitiveness is the ability of a location to attract investment. All else being equal, capital and investment will migrate to lower cost locations. As Michael Porter notes, states with lower cost factors relative to their levels of foundational competitiveness will be more attractive and should experience more rapid growth.

As with foundational competitiveness, there are several national efforts to evaluate and rank states based on business cost and tax issues. On the succeeding pages we summarize five studies which have a strong emphasis on quantitative measurement and empirical modeling:⁷

- *Total State and Local Business Taxes, Council on State Taxation*
- *Competitiveness of State and Local Business Taxes on New Investment, Council on State Taxation*
- *Location Matters – A Comparative Analysis of State Tax Costs on Business, Tax Foundation*
- *North American Business Cost Review, Moody’s Analytics*
- *Competitive Alternatives, KPMG*

⁷ Notably absent from our review are two commonly-cited, high profile studies, the Small Business & Entrepreneurship Council Business Tax Index and the Tax Foundation’s Business Tax Climate Index. Both of these assessments are essentially qualitative reports evaluating and ranking state tax codes against a “model system” that authors argue supports business growth. Tax principle arguments aside, neither contain insight into actual and comparative tax and cost burdens faced by businesses and are therefore not included in our review.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Total State and Local Business Taxes, COST/Ernst & Young (2012)

Measure	MN Rank (1 = best)	Notes
Total Effective Business Tax Rate	Tied 14 th	4.5% of GSP; 10% below national average

BACKGROUND

As part of their annual report on state and local business tax collections across the nation, the Council on State Taxation includes a comparative assessment of state business tax burdens. Because business tax bases are very diverse, COST uses a very broad measure of overall economic activity to enable cross-state comparisons. The resulting “total effective business tax rate” (TEBTR) is the ratio of state and local business taxes to private sector gross state product (the total value of annual production of goods and services by the state’s private sector).

KEY FINDINGS

As the table shows, Minnesota ranks in the top half of the nation on this metric with an effective business tax rate considerably below the national average. However, there are several critical issues limiting its usefulness as an indicator of state competitiveness.

First, this metric is a measure of the aggregate tax burden on existing businesses in the state, not a comparative measure of the marginal tax borne by new investment in the state.

Second, the mix of taxes comprising the TEBTR is as important as the overall level of taxes. Competitiveness advantages of low TEBTRs can be offset by a very high dependence on origin based taxes on business capital that discourage investment. Conversely, high TEBTR states may reflect large severance tax revenues (North Dakota, for example) on natural resource extraction and belie very competitive business income, sales and property tax systems.

The report provides some perspective on the reliance Minnesota places on certain business taxes compared to the rest of the nation.

- Business property tax share of total Minnesota business taxes paid is 11% less than the national average
- Sales tax on business purchases as a share of total Minnesota business taxes paid is 7% less than the national average

On the other side:

- Corporate income tax share of total Minnesota business taxes paid is 29% greater than the national average
- Unemployment insurance tax share of total Minnesota business taxes paid is 44% greater than the national average
- Share of business taxes from pass through income is 27% greater than the national average

Finally, the use of GSP as the measure of economic activity is likely to overstate Minnesota’s tax rate competitiveness. One of the three components of private sector gross state product is compensation of employees and Minnesota ranks high (11th nationally) in compensation share of private sector GSP. Because of the influence of high wages on the denominator, higher

How Minnesota Measures Up: Investment Attractiveness – Tax and Business Cost Rankings

business tax states where employers pay relatively high wages (like Minnesota) will have the appearance of having lower effective tax rates.

The COST study provides a useful base of understanding but it is not a clear indicator of the competitiveness of the state's business tax system.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Competitiveness of State and Local Business Taxes on New Investment, COST/Ernst & Young (2012)

Measure	MN Rank (1 = best)	Notes
Effective Tax Rate (ETR) on New Investment Weighted by Capital Investment	10th	Minnesota ETR: 6.0% (50-state median: 7.3%)
Effective Tax Rate (ETR) on New Investment Weighted by Jobs	13th	Minnesota ETR: 7.5% (50-state median: 8.7%)

BACKGROUND

As a complement to their tax burden study, in 2011 COST launched a new competitiveness index providing state-by-state comparisons of tax liabilities new investments would incur. The analysis includes estimates of the four major business taxes (income, sales, property, and net worth) for five different types of facility (headquarters, R&D, office and call center, durable manufacturing, and nondurable manufacturing). The effective tax rate (ETR) index combines the results for each type of facility into an overall result for each state.

The index measure itself is created by weighting the state tax burdens for each facility type by their significance in the overall mix of business facility investments which actually occurred in the nation over the past several years. For example, from 2007 to 2009, national data shows office and call center facilities represented 9% of business capital expenditures but created 26% of the jobs during this period. Thus, the overall effective tax burden calculations can be weighted by either capital expenditures or distribution of jobs associated with the investment – as shown above.

In order to focus specifically on the baseline competitiveness of the general state and local business tax structure, the findings exclude discretionary and statutory incentives and tax credits. Importantly, the study only examines schedule C corporations.

The ETR is calculated as the percentage change in the internal rate of return over a thirty-year life of the facility. For example if state and local taxes reduce the before tax rate of return from 15% to 13%, the effective tax rate reported is 13.3% (2 percentage point decrease / 15% pre tax rate of return). The ETR is not an estimation of taxes the new investment pays as a share of some modeled allocation of pre-tax profits.

KEY FINDINGS

Key existing tax system features factors affecting Minnesota's above-average ranking include the following:

- Minnesota's heavily sales weighted apportionment regime offsets the impact of the state's higher statutory corporate income tax rate
- Minnesota's sales tax exemption for business inputs offsets the states relatively high sales tax rate
- Minnesota's commercial and industrial personal property exemption (0% compared to a 1.65% national average) helps offset a real property tax rate substantially higher than national average (3.35% vs. 1.97% national average)
- Minnesota has no net worth tax

Study findings with respect to facility type highlight the role the mix of business taxes can play in attracting or repelling certain types of investment:

How Minnesota Measures Up: Investment Attractiveness – Tax and Business Cost Rankings

- Business support and research facilities pay more sales tax as a share of their total tax burden than other facilities and have the highest total effective tax rates on new investment.
- For manufacturing facilities, sales, corporate income, and property taxes all deserve equal attention.
- Headquarters facilities generate the largest share of their tax liability from corporate income taxes.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Location Matters: A Comparative Analysis of State Tax Costs on Business, Tax Foundation/KPMG (2012)

Total Effective Tax Rate	MN Rank for Mature Firms (1 = best)	TETR Above (Below) U.S. Ave.	MN Rank for New Firms (1 = best)	TETR Above (Below) U.S. Ave.
Headquarters	47 th	42.7%	46 th	61.2%
R & D Facility	14 th	(18.9%)	23 rd	3.7%
Free Standing Retail Store	47 th	47.1%	42 nd	27.5%
Call Center	45 th	32.9%	49 th	56.7%
Distribution Center	46 th	49.7%	44 th	39.0%
Capital Intensive Mfg.	7 th	(50.9%)	6 th	(51.0%)
Labor Intensive Mfg	23 rd	(13.7%)	29 th	2.2%
TOTAL	39th	12.7%	35th	19.6%

BACKGROUND

Like the previous COST report, this study also provides an estimated “total effective tax rate” (TETR) on business and new investment. It also focuses exclusively on schedule C corporations. Methodologically, however, it differs from the COST report in three important ways:

- TETR is defined and calculated as a firm’s total tax bill as a percent of pre-tax profits in each state, subject to facility specifications and modeling assumptions.
- This study includes unemployment insurance taxation among the list of taxes that directly impact a business’s costs and therefore potentially influence location choices.
- It also takes into account various types of statutory business incentives and credits states offer. The result is two sets of rankings for each state; one for mature firms and one for new entrants.

The two effective tax rate studies address different but related issues. The COST study ranks states by how the structural design of the state and local tax system affects the profitability of all types of new business investment over the facility’s lifetime, while the Tax Foundation report models tax bills for different types of facilities and ranks states accordingly. Much like how “per capita” and “per \$1,000 income” rankings can provide very different but related and equally valid perspectives on tax burdens, both types of effective tax rate calculations tell an important story.

KEY FINDINGS

Minnesota’s bipolar results capture important features of business taxation in the state. According to the report Minnesota has the distinction of being one of two states whose corporate income, unemployment insurance and real property tax rates are all among the top ten most burdensome in the nation. The effects can be seen in the low rankings for headquarters and service related facilities. However, heavily weighted sales apportionment, no throwback provision, R&D credits, sales tax exemption of manufacturing business inputs, and personal property tax exemption are big comparative positives for manufacturing and manufacturing support operations.

The report also found that Minnesota is one of the more neutral states nationally with respect to tax treatment of mature versus new firms. Minnesota’s effective tax rates generally demonstrated less variability than most states across facility types.

How Minnesota Measures Up: Investment Attractiveness – Tax and Business Cost Rankings

North American Business Cost Review, Moody's Analytics (2012)

Measure	MN Rank (1 = best)	Index Score
Unit Labor Cost	37 th	103
Energy Cost	22 nd	86
State and Local Tax Burden	39 th	106
Overall Cost of Doing Business	33 rd	98

BACKGROUND

The Moody Analytics cost of doing business index compares a state's average business cost with that of the U.S (U.S. = 100). The indexes are based on a three-year moving average to safeguard against volatility and produce more reliable estimates of business cost.

This review provides a more comprehensive examination of state business costs by including labor and energy costs as well as state and local tax burden.

- Moody's constructs the Unit Labor Cost index by creating a weighted average of unit labor costs in selected three digit NAICS industry codes. Retail, construction, real estate, and many other services are purposely excluded from the analysis because these businesses primarily serve local demand, and industry growth is not influenced by relative costs across states. Weights are equal to the national share of employment in each industry to control for occupational mix of employment and capital structure. Importantly, wages are also adjusted for workforce productivity (gross state product per employee).
- The energy cost index compares average commercial and industrial electricity costs. Like labor costs, energy costs are weighted based on national mix of commercial and industrial consumption to control for biases created by the difference between commercial and industrial rates.
- The effective tax rate index is measured as total tax revenue as a percent of total personal income. Importantly it captures all taxes including individual income taxes.

KEY FINDINGS

These results confirm Minnesota's reputation as an above average cost state for business. However, report trends suggest the industrial Midwest has become more cost competitive in recent years due to rising unit labor costs in the Sun Belt and other areas leveling the playing field and reducing what was once a source of significant comparative advantage for southern states. The report notes one lasting effect of the Great Recession could be further slowing of labor migration from higher cost regions as business efforts to take advantage of desirable business conditions in the South have driven up costs there.

The Moody's Business Cost review also compares metropolitan area business costs nationwide. Notably, the Minneapolis metropolitan area has the 9th highest productivity-adjusted unit labor cost among over 384 metropolitan areas included in the report. All 5 Minnesota metropolitan areas rank in the top 75 in highest state and local tax costs.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Metro Area	Unit Labor Cost		Energy Cost		State & Local Tax		Cost of Doing Business	
	Index	Rank (N=384) 1=Highest	Index	Rank (N=384) 1=Highest	Index	Rank (N=384) 1=Highest	Index	Rank (N=384) 1=Highest
Minneapolis	119	9	86	265	105	53	99	52
Duluth	106	52	80	297	104	63	88	196
St. Cloud	108	35	86	265	104	56	89	172
Rochester	107	45	86	265	103	74	94	99
Mankato	99	200	86	265	104	62	81	321

How Minnesota Measures Up: Investment Attractiveness – Tax and Business Cost Rankings

Competitive Alternatives: Guide to International Business Location Costs, KPMG (2012)

Measure	Minneapolis Rank (1 = best)	Notes
Business Cost Index (100 = Average of four largest U.S. metro areas -- NY, LA, CHI, DFW)	16 th out of 30 North American metropolitan areas over 2 million population 23 rd out of 25 Midwest U.S. and Canada metropolitan areas	Overall cost index: 98.3 Most competitive: International financial services (92.8) Least Competitive: Food processing (100.0)

Competitive Alternatives provides a more global perspective on state competitiveness by examining business costs and competitiveness factors for 19 industries in 14 countries and more than 110 cities. For each industry a representative business operation is defined, modeled and analyzed in detail and evaluated over a 10-year horizon. The resulting cost index captures 26 “location sensitive” cost components covering both internal operations (facility costs, labor, transportation, etc) as well as government statutory costs (such as government pension plans, unemployment insurance, and public medical plans which businesses support with tax dollars).

The relative importance of cost components varies by both operation and location and is based on KPMG’s proprietary cost model. The breakdown provides a useful perspective on the relative significance of various cost factors on siting decisions. Typical major category ranges for the 14 countries are:

- Labor costs: 40%-57% for manufacturing operations; 70%-84% for non-manufacturing
- Lease costs: 2% - 7% for manufacturing operations; 5%-19% for non-manufacturing
- Transportation costs: 6%-22% for manufacturing operations (non-manufacturing n/a)
- Utilities: 2-8% for manufacturing operations; 1% for non-manufacturing
- Cost of capital/financing: 9% - 21% for manufacturing operations; 0%- 6% for non-manufacturing
- Taxes: 10%-18% for manufacturing operations; 3%-14% for non-manufacturing

Minneapolis’s cost index ranks in the middle of the pack among large North American metropolitan areas, near the bottom among regional competitors, but is still 1.7% below the four U.S cities comprising the benchmark for this international study. While the state’s strongest competitive position (international financial services) certainly reflects existing business presence in the region, Minnesota’s least competitive cost structure (food processing) is equally interesting given the strong agri-business presence in the state.

Interestingly, the KPMG cost model output suggests Minneapolis ranks near or at the bottom among Midwest regional competitors with respect to corporate income tax burden in spite of very high rates. Although the proprietary nature of the model prevents us from determining the reason for this, it is likely that the heavily weighted sales apportionment and the refundable R&D credit are major contributing factors.

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Analysis and Discussion

IV. Analysis and Discussion

Our analysis begins with the inescapable conclusion that there is really no such thing as a “best” business climate, and that basing policy arguments on the basis of any individual study is fraught with peril. The tremendous variability on how individual states rank among these different indexes essentially proves this basic point. The fact is different industries – and different companies within industries -- will place different emphases on various competitive issues and factors.

However, these evaluations and performance scores do tell us something about where Minnesota stands, and patterns and themes do emerge from an overarching review and consideration of their results. These findings and conclusions are worth examining in more detail for their potential policy implications.

Although a few cracks are showing, Minnesota’s foundational competitiveness remains fundamentally strong.

Minnesota continues to generate consistently enviable performance rankings across the portfolio of studies on many critical foundational competitiveness issues like human capital, education, physical infrastructure, innovation capacity, technology, and quality of life issues. For those studies with historical data, little if any slippage in relative state performance is detectable even through a very tumultuous decade of recessions and spending cuts. In fact, for one investigation, 2012 marks our highest ranking ever.

None of these findings suggest complacency is in order – in several circumstances the rise in rankings is likely capturing decline in other states rather than improvement in our own performance. And there are some issues of potential concern. Uninspiring rankings in government/academia research and development, higher education affordability, and higher education spending efficiency are clearly potential targets for improvement.

But overall Minnesota’s basic competitive strengths remain intact. If foundational competitiveness can be compared to an agricultural field, Minnesota in many important ways continues to offer a very fertile environment for economic growth and development.

Despite having some beneficial tax features, Minnesota’s investment attractiveness presents some issues of concern.

Minnesota is a solidly above-average business cost state. Thanks to several forward-thinking and advantageous tax policy features, Minnesota still offers important competitive sweet spots and compelling investment cases in areas like high value-added, capital-intensive manufacturing. But our relative position in business cost climate appears to present some headwinds with respect to our future economic performance.

Possibly the greatest concern are labor cost related issues. Minnesota has long enjoyed the benefits of being a high wage state because the productivity justified these premiums. However, our ranks for labor costs adjusted for educational attainment and worker productivity – which captures the “value proposition” of the state workforce from the perspective of employers -- are in the middle or bottom half of the nation. Minnesota’s declining rank and trends in private wage growth is likely capturing this issue. Given the overwhelming significance of labor cost structures to business operations, it’s an issue deserving of more attention.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

The disconnect between foundational strengths and private sector decision-making implies Minnesota’s business tax and cost climate may prevent the state from fully benefitting from the foundational competitiveness advantages we have relative to other states.

One consistent theme in our review is the disconnect between Minnesota’s strong performance on foundational competitiveness measures and substantially weaker performance on outcome metrics such as business incubation and formation, state representation among fast growing firms, and foreign direct investment. Revenue raised through business taxation has undoubtedly helped make Minnesota’s foundational advantages possible. But this disconnect raises a question: can a more challenging business tax and cost climate offset the expected economic growth benefits that foundational competitiveness advantages are expected to provide?

An ambitious national research investigation sheds some light on this issue. It explored the relationship between several types of business climate indexes and state economic performance measures to examine whether various ranking indexes provided useful information about economic growth policies.⁸ The study findings suggest that if it’s indeed possible, as some argue, to overstate the significance of tax burdens and business cost climate on job creation and economic growth, there is a greater danger in dismissing these considerations too readily.

The investigators collected data and detailed information on 11 business climate studies over a 16-year period. Authors noted strong correlation between certain indexes resulting in two distinct clusters – one emphasizing infrastructure, productivity and quality of life issues; the other based on taxes and business cost. Although the study does not reference Michael Porter’s competitiveness framework, the grouping of indexes in this manner is extremely reflective of and consistent with this work.⁹

Using regression modeling techniques, the investigators explored the relationship between state scores and four measures of economic performance: employment growth, wages, gross state product, and employment in new firms. Importantly, the regression analysis controlled for several potentially influential factors affecting economic growth over which policy makers have no control including weather/climate, industry composition, and population density. The investigators also conducted a wide variety of sensitivity tests and additional analyses to assess the validity of the results.

Among the major findings:

- For overall employment growth, all tax and cost indexes were positive and strongly significant. Conversely, none of the foundational competitiveness/quality of life indexes showed a positive, statistically significant relationship with overall employment growth.
- For growth in wages and gross state product, the results were the same although somewhat less strong. None of the foundational competitiveness/quality of life indexes had a positive statistically significant relationship when controlling for factors outside of policymakers’ influence. Conversely, four of the five tax and cost indexes showed positive, statistically significant relationships with gross state product.

⁸ Kolko, Neumark, and Meija, “What do Business Climate Indexes Teach Us about State Policy and Economic Growth? National Bureau of Economic Research Working Paper 16968, April 2011

⁹ For the business tax and cost analysis, the study used five state ranking studies that are based on normative assessments of tax systems and regulatory regimes rather than studies comparing effective tax rate and actual cost structures we include our this report. They are: State Business Climate Index (Tax Foundation); Small Business Survival Index (Small Business and Entrepreneurship Council); Economic Freedom Index (Pacific Research Institute); Economic Freedom Index of North America (National Center for Policy Analysis); and Fiscal Policy Report Card (Cato Institute).

Analysis and Discussion

- The relationship between tax and cost indexes and employment and wage growth was stronger for manufacturing than for overall employment.

None of these findings diminished the importance of foundational competitiveness issues. With respect to employment change specifically due to new firms, policies captured in the foundational competitiveness/quality of life rankings predicted employment growth at least as strong as the tax and cost indexes. This confirms that spending on human capital, physical infrastructure, and public amenities are just as important to the organic growth of new businesses in a state. Moreover, as the authors note, “policies underlying productivity indexes may contribute to other very desirable features of states and state economies (such as equity goals).”

Nevertheless, the investigators concluded, “evidence from tax and cost-related business climate indexes implies that concerns about high taxes and costs of doing business slow state economic growth need to be taken seriously.” While acknowledging that organizations behind the indexes they incorporated into their analysis often have strong political and ideological agendas, the authors noted, “the indexes capturing taxes and other costs of doing business seem to capture something meaningful about state business climates, insofar as the interest is economic growth that productivity indexes fail to capture.”

The opinions and experiences of business siting professionals and consultants appear to support these findings. For over a quarter century *Area Development*, a leading publication covering corporate site selection and relocation, has surveyed businesses on the factors, issues, and motivations behind site selection, facility closings, and business expansion. Following are highlights from their most recent survey.

- 92% of respondents cited a need to lower operating/labor costs as a primary reason for closing facilities
- Among companies with existing plans to relocate physical plant, higher taxes were the most commonly cited reason for relocation (41% of respondents). Proximity to markets and suppliers was the second most cited reason (25% of respondents).
- Looking at full array of site selection factors more broadly, highway accessibility and labor costs rank one and two respectively in terms of importance. Notably, “availability of skilled labor” has undergone a recent rapid rise in the rankings from previous years leapfrogging all tax-related factors.

Top 5 “Foundational Competitiveness” Factors		Top 5 “Investment Attractiveness” Factors	
Factor	Share of respondents identifying factor as “very important” or important”	Factor	Share of respondents identifying factor as “very important” or important”
Highway Accessibility	93.8%	Labor costs	88.4%
Availability of Skilled Labor	88.4%	Corporate tax rate	86.0%
Low Crime Rate	82.0%	Occupancy/ Construction Costs	85.9%
Health Care Facilities	71.0%	State and Local Incentives	85.9%
Ratings of Public Schools	68.8%	Energy Costs	84.8%

Source: *Area Development* 26th Annual Corporate Survey, 2012

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Area Development also surveys business siting consultants to obtain their perspectives on the same issues. According to the publication, about 50% of businesses use such professional services in their relocation and expansion efforts. Among the notable findings:

- Among facilities relocating a foreign facility back to the United States, 46% cited rising labor and other costs as influencing their decision -- second only to product quality concerns (51%).
- High taxes and labor costs were tied for second as primary reasons for clients planning a facility relocation (proximity to suppliers and markets served ranked first).
- Looking at the full array of site selection factors more broadly, firms utilizing consultants for assistance appear to place a stronger emphasis on gaining access to various tax breaks and incentive programs. However, the sets of foundational and investment attractiveness factors and deemed most important appear quite consistent.

Top 5 “Foundational Competitiveness” Factors		Top 5 “Investment Attractiveness” Factors	
Factor	Share of respondents identifying factor as “very important” or important”	Factor	Share of respondents identifying factor as “very important” or important”
Highway Accessibility	98.3%	Labor costs	96.3%
Availability of Skilled Labor	93.6%	Energy Costs	88.4%
Ratings of Public Schools	76.8%	State and Local Incentives	88.3%
Low Crime Rate	76.6%	Occupancy/ Construction Costs	87.1%
Housing Costs	72.1%	Tax Exemptions	86.9%

Source: *Area Development* 8th Annual Consultants Survey, 2012

These findings again confirm the importance of foundational competitiveness considerations to business decision-making. Nevertheless, cost issues collectively receive greater overall importance in business decision-making.

To return to the agricultural metaphor, even the most verdant and productive land will remain fallow if the economic return from planting a seed is greater elsewhere. Both research findings and practitioner experience suggests there are economic risks in subordinating tax and cost climate considerations to improvements in foundational competitiveness factors.

Minnesota may have a lower margin for error in being a significant outlier on business taxes and costs than other “high tax, high service” peer states.

Many have noted that Minnesota’s “high tax, high service” model has served the state well for a long time. Here and elsewhere around the country, there is ample evidence that higher tax states can also be top economic performers.

There are several possible policy and non-policy explanations for this. As noted previously a number of “high tax states” – such as Alaska, Wyoming and North Dakota -- are heavily reliant on severance and natural resource-related taxes. Because they fund significant amounts of public spending primarily by taxing natural endowments rather than through origin-based taxes on business capital, their tax and spending data generates a very distorted and misleading perspective on the tax level/economic performance relationship.

Analysis and Discussion

The more interesting subset are “high tax, high service” states which do not have large natural resource endowments to support their public spending. Even among this subset, non-policy factors can still have substantial influence on state economic performance. The NBER paper discussed previously also found that weather had a stronger relationship to economic growth than even tax and cost factors. In short, mountains and Mediterranean climates can make up for a lot of dubious public policy. One implication for Minnesota is that investments in public amenities should not be ignored because they have to make up for what our climate will never be able to provide.

But according to Michael Porter, traded cluster strength is another especially important competitiveness issue outside of immediate and direct policy influence that can dramatically impact the desirability of a business location. The richness and interconnectedness of skills, knowledge, and relationships across companies and institutions in an area can trump other competitive disadvantages of a state or region. Places like Silicon Valley demonstrate that very strong levels of capital attraction and investment can continue in places in spite of rather unsupportive tax regimes and cost climates.

The table below highlights Minnesota national ranking on traded cluster strength with other commonly identified “high tax, high service” states. Ranked 39th in the nation (and trending 44th) Minnesota does not appear to currently have the depth and richness of interconnected companies and supporting institutions to make the state a place where “a business absolutely needs or wants to be” regardless of the tax and cost climate.

High Tax, High Service State	National Ranking: Traded Cluster Strength
New Jersey	2 nd
New York	6 th
Maryland	8 th
Massachusetts	11 th
Connecticut	16 th
Minnesota	39 th

At a minimum this suggests Minnesota needs to deliver a strong value proposition from its spending on foundational competitiveness and quality of life factors to justify its current business tax levels.

Individual income taxation is an important tax-related competitiveness issue

Although the intersection of competitiveness and business taxation has typically focused on property and corporate income tax issues, the individual income tax also merits attention for two reasons.

First, the individual income tax is now the predominant method of business entity organization. According to the Minnesota Department of Revenue, in 2010 there were 35,578 C corp returns compared to 99,845 S-corp returns and 62,146 partnership returns. In other words, for every business preparing a Minnesota corporate income tax return, over 4 file returns through the Minnesota individual income tax. Trends favor businesses’ use of the individual income tax, too – likely influenced by Minnesota’s high statutory corporate tax rate. From 2000 to 2009, the number of S-corp returns grew 3.8% per year and the number of partnership returns grew by 5.1% annually. Over this same period, counts for C-corps fell at a rate of 2.6% per year.

Second, and likely deserving of more consideration, is the complex relationship between individual income taxes, labor costs, and competitiveness.

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

As the studies reviewed in this report demonstrate, labor costs are a major competitiveness issue – having a much bigger impact on business cost structures than taxes. Labor costs are routinely identified as one of the most, if not *the most*, important factors in expansion and location decisions. But the idea that labor cost competitiveness is nothing more than a euphemism for “cheap labor” is incorrect. Labor competitiveness is a value proposition – finding the necessary skills sets, capabilities, and knowledge bases to compete – at the best prices.

Research has shown that rapid population growth, strong domestic in-migration, and resulting gains in technology, manufacturing and business service jobs don’t always correlate with where the cheapest or the smartest sources of labor are. Often, this economic growth is occurring instead where the value proposition from both the employee and employer’s perspective is strong and where wage income can go the furthest. As the economic demographer Joel Kotkin notes:

“The best prospects for the future lie in places that both experience income and employment gains but remain relatively affordable...Maintaining affordability and a wide range of high-paying jobs many not be as glamorous a metric for success as the number of hip web startups or the concentration of educated people. But over time it is likely to be about as good a guide to future prospects as we have.”

“The Cities Where a Paycheck Stretches the Furthest,” *New Geography*, July 2012

There is evidence that income tax burdens are indeed factored into pre-tax wages and labor cost structures. Research has found that in cases where state personal income tax differentials are large, pre tax wages are adjusted and the tax accounts for between 5 and 40 percent of the wage differential between states. (This is likely one of the reasons why evidence of out-migration effects due to higher income taxes is so weak).¹⁰ Other research has found that younger, more mobile, highly educated workers are the most responsive to distributional tax changes and likely to experience pre-tax wage adjustments.¹¹ These and other cost of living issues are part of the compensation structure equation. According to national compensation consultants Culpepper and Associates, geographic pay differentials are used by over 86% of companies with 10,000 or more employees and 76% of companies with 100 or more employees.

It’s in this context that the impact of the individual income tax on state competitiveness can also be evaluated. To arrive at a cost of living-adjusted average take-home wage, we start by taking the average wage from the largest metropolitan statistical areas of the country. Using the National Bureau of Economic Research’s TAXSIM income tax simulator we calculate the income tax burdens associated with those wages.¹² We then adjust for state-specific cost of living indexes.

¹⁰ “The Effect of State Income Tax Structure on Interstate Migration” Sally Wallace, FPP Report No. 79, Andrew Young School of Policy Studies, December 2002

¹¹ “Costly Migration and the Incidence of State and Local Taxes” Jeffrey Thompson, Working Paper Series No. 251, Political Economy Research Institute, University of Massachusetts, 2011.

¹² To derive itemized deductions for the average MSA wage, we scaled the taxpayer profiles (the underlying date for which are provided by the Minnesota Department of Revenue) that we use for MCFE’s biennial income tax burden comparison study.

Analysis and Discussion

Table 1: Average 2011 Wages for Top 50 Metropolitan Statistical Areas Plus Washington, D.C. – Before and After Adjusting for State Income Taxes and Cost of Living Differentials

Metropolitan Area	Average Wage		After-State Tax, Cost-of-Living-Adjusted Wage	
	Amount	Rank	Amount	Rank
Birmingham, AL	46,381	39	50,593	15
Phoenix, AZ	48,022	33	48,578	20
San Jose, CA	92,556	1	58,464	2
San Francisco, CA	69,041	3	44,429	40
San Diego, CA	54,985	14	40,717	46
Los Angeles, CA	55,191	12	40,188	47
Riverside, CA	41,825	49	36,145	49
Sacramento, CA*	No data	--	No data	--
Denver, CO	54,991	13	50,453	16
Hartford, CT	61,551	6	47,322	32
Washington, DC	71,180	2	49,562	19
Tampa, FL	44,218	46	48,168	21
Jacksonville, FL	44,840	45	47,753	27
Orlando, FL	41,932	48	43,096	41
Miami, FL	45,022	42	41,286	44
Atlanta, GA	50,273	20	49,772	18
Chicago, IL	56,246	10	49,950	17
Indianapolis, IN*	No data	--	No data	--
Louisville, KY	45,832	41	47,556	28
New Orleans, LA	50,046	23	50,944	13
Baltimore, MD	54,980	15	44,548	39
Boston, MA	66,438	5	46,071	35
Detroit, MI	53,424	17	54,708	5
Minneapolis, MN	55,300	11	47,374	30
St. Louis, MO	48,638	29	51,435	12
Kansas City, MO	49,390	28	47,865	25
Rochester, NY	47,228	36	45,542	36
Buffalo, NY	46,210	40	44,579	38
New York, NY	69,029	4	42,312	43
Las Vegas, NV	44,910	43	44,865	37
Charlotte, NC	51,143	18	51,775	11
Raleigh, NC	47,577	35	47,893	23
Cincinnati, OH	49,886	24	53,090	9
Columbus, OH	48,483	30	52,246	10
Cleveland, OH	49,531	26	47,518	29
Oklahoma City, OK	44,852	44	47,027	34
Portland, OR	49,472	27	40,872	45
Pittsburgh, PA	49,717	25	50,834	14
Philadelphia, PA	57,745	9	47,839	26
Providence, RI	47,862	34	37,006	48
Memphis, TN	48,025	32	55,908	3
Nashville, TN	48,343	31	53,595	8
Houston, TX	59,838	8	66,933	1

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Metropolitan Area	Average Wage		After-State Tax, Cost-of-Living-Adjusted Wage	
	Amount	Rank	Amount	Rank
Dallas, TX	53,453	16	55,564	4
Austin, TX	50,422	19	54,393	6
San Antonio, TX	43,920	47	47,175	33
Salt Lake City, UT	47,064	37	47,348	31
Richmond, VA	50,198	21	47,968	22
Virginia Beach, VA	46,934	38	42,616	42
Seattle, WA	60,123	7	53,874	7
Milwaukee, WI	50,183	22	47,888	24

* No average wage data available for Indianapolis or Sacramento.

** Income tax calculated for single filer with no dependents.

Wage and cost of living data from *New Geography*, calculations by MCFE.

Minneapolis starts with the 11th highest average wage amongst this group of large cities, but the combination of income taxes and cost of living adjustments causes its ranking to fall to 30th, – 1.8% less than the unweighted average of all the metropolitan areas. Most of that impact is due to the state’s higher cost of living but the magnitude of the drop due to income taxes is the largest income tax-induced decline in the group.

An employer’s perspective on this issue essentially reverses the analysis. We begin by choosing an identical after-tax, cost of living-adjusted wage for all regions. We then derive the cost of living and income tax adjustments to determine what an equivalent regional wage would have to be to offer the same purchasing power around the country. As the accompanying table shows, with \$116,518 needed to provide \$100,000 in equivalent income, Minnesota (Minneapolis MSA) ranks 13th highest among the 50 largest cities in the nation; approximately 6.6% above the average for all cities studied.

Table 2: 2011 Wages Needed to Yield After-State Tax, Cost-of-Living-Adjusted Wage of \$100,000, Top 50 Metropolitan Statistical Areas and Washington, D.C.

Metropolitan Area	Amount	Rank
Birmingham, AL	91,622	46
Phoenix, AZ	98,489	30
San Jose, CA	157,085	2
San Francisco, CA	156,157	3
San Diego, CA	135,684	7
Los Angeles, CA	138,104	6
Riverside, CA	115,688	14
Sacramento, CA*	No data	--
Denver, CO	108,571	19
Hartford, CT	130,433	8
Washington, DC	145,075	4
Tampa, FL	91,800	45
Jacksonville, FL	93,900	41
Orlando, FL	97,300	34
Miami, FL	109,050	18
Atlanta, GA	100,501	26
Chicago, IL	112,277	15

Analysis and Discussion

Metropolitan Area	Amount	Rank
Indianapolis, IN*	No data	--
Louisville, KY	96,308	36
New Orleans, LA	98,294	31
Baltimore, MD	123,226	10
Boston, MA	143,865	5
Detroit, MI	97,234	35
Minneapolis, MN	116,518	13
St. Louis, MO	94,631	39
Kansas City, MO	103,320	23
Rochester, NY	102,949	24
Buffalo, NY	102,949	24
New York, NY	164,179	1
Las Vegas, NV	100,100	27
Charlotte, NC	98,000	32
Raleigh, NC	98,537	29
Cincinnati, OH	94,362	40
Columbus, OH	93,208	42
Cleveland, OH	104,855	20
Oklahoma City, OK	94,979	38
Portland, OR	121,371	11
Pittsburgh, PA	97,803	33
Philadelphia, PA	120,706	12
Providence, RI	129,840	9
Memphis, TN	85,900	49
Nashville, TN	90,200	47
Houston, TX	89,400	48
Dallas, TX	96,200	37
Austin, TX	92,700	44
San Antonio, TX	93,100	43
Salt Lake City, UT	98,733	28
Richmond, VA	104,580	22
Virginia Beach, VA	110,091	17
Seattle, WA	111,600	16
Milwaukee, WI	104,830	21

* No average wage data available for Indianapolis or Sacramento.

** Income tax calculated for married-joint filers with two dependents.

Cost of living data from *New Geography*, calculations by MCFE.

Since the tables above only include one city from a neighboring state, the table below provides a regional analysis and includes Austin, TX because of its frequent mention in business press.¹³ As the table indicates, Minnesota employers need to provide 21% to 26% higher pretax wages than employers in our regional competitors to provide their employees with a similar level of after-tax purchasing power.

¹³ Austin has been identified as top ten city to do business (Forbes) best place to start a business for the third consecutive year (Business Journal), and 10 best cities for the next decade (Kiplingers)

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

Table 3: 2011 Wages Needed to Yield After-State Tax, Cost-of-Living-Adjusted Wage of \$100,000, Selected Midwestern Cities and Austin, Texas

Metropolitan Area	Amount
Des Moines, IA	95,811
Minneapolis, MN	116,518
Fargo, ND	94,986
Sioux Falls, SD	95,800
Austin, TX	92,700

Cost of living data from Capital District
Regional Planning Commission, calculations
by MCFE.

Minnesota’s historic economic success can be attributed to the fact that for many, the high quality public goods and services government provides are worth the higher levels of individual income taxation. But these analyses do help illuminate the value proposition tradeoffs and calculations that existing for both employees and employers in decision-making regarding employment locations. As the accompanying figure illustrates, there is another dimension to the competitiveness debates surrounding the future of individual income taxation in Minnesota that should be recognized.

The commonly expressed concern	The other (perhaps larger) state competitiveness concern
Effects of individual income taxes on individual out-migration – whether higher taxes cause businesses and wealthy individuals leave the state.	Effect of individual income taxes on individual in-migration -- impact on attracting highly skilled, in-demand, highly mobile talent.
Job creation/loss -- the effects of higher individual income taxes on the business and investment decisions of “pass through” entities.	Labor cost competitiveness – the effects of individual income taxation on pre-tax wages, labor cost structures and site selection.

All else being equal, higher individual income taxes create an incentive for individuals to apply their talents elsewhere. But if employers compensate employees for the higher burden with higher pre-tax wages to level the playing field, their labor costs go up and the case for expanding and growing business within Minnesota becomes that much more challenging.

Recommendations

V. Recommendations

National ranking studies largely confirm what the Federal Reserve Bank of Minneapolis and others have stated: despite recent economic blips and a major recession, the foundation of Minnesota's economy remains strong. So far, we have been fairly successful at navigating Minnesota's Fiscal Catch-22. However, Minnesota will face serious challenges as we move into the 21st century – perhaps most notably those changes associated with the aging of the Baby Boomer generation. The 2009 report from Minnesota's Budget Trends Study Commission highlighted the revenue implications of this retiring demographic and warned that growth in state spending on health care alone has the potential to eat up virtually all new revenues over the next 25 years.

Clearly, changes will have to be made to government spending and revenues. Going forward we offer two recommendations for policymakers to consider as they consider spending and tax reform in the context of state competitiveness.

Recommendation: Prioritize foundational competitiveness spending in government and pursue spending decisions from a “value proposition” perspective.

Minnesota's foundational competitiveness going forward will increasingly be determined by its spending priorities and how it delivers public goods and services. Future state foundational competitiveness is threatened more by demographic spending pressures than by failing to generate sufficient tax revenues.

Much has been made recently about the “three-legged stool” when it comes to state and local government revenues, but government spending can also be evaluated on its three legs:

- Adequacy – ensuring sufficient amounts of resources
- Priority –determining where resources are best allocated
- Productivity – how effectively resources are used

Policy making that focuses on the adequacy leg of the stool while disregarding matters of priority and productivity is unbalanced. The spending programs and systems such unbalanced policies create will not be able to stand up in an increasingly competitive climate.

How we spend is now firmly as important as how much we spend. If there is a danger in taking the quality of existing public services for granted, there is an equivalent danger in assuming firms are immune to their cost impacts. If Minnesota expects businesses to continue to accept higher tax burdens than imposed elsewhere, it is imperative the returns on that spending be greater than elsewhere as well. The value proposition to business must be clear and tangible. The proposed use of significant new tax revenue from business to finance \$1.4 billion in transfer payments to Minnesota homeowners fails this test.

More generally, to improve Minnesota's foundational competitiveness, government must address the value proposition issue by aggressively pursuing redesign and productivity improvements. The state economist has identified productivity improvement as the cornerstone of state economic success – which he has defined as producing better things, newer things and at lower cost. This theme must also apply to the provision of public goods and services to ensure economic success in the future. We can no longer balk at examining

Finding Our Balance: Taxes, Spending and Minnesota Competitiveness

often sensitive issues like public sector cost and delivery structures and must pursue productivity improvements accordingly.

Recommendation: Approach state tax reform as a long-term investment in Minnesota's global competitiveness

Minnesotans are increasingly encouraged to consider government spending on a variety of public goods and services as investment. No one would argue that the worthiness of investments in educational systems and transportation infrastructure should be judged by private sector employment and growth the following year or the year after. There is an implicit understanding that such investments must capture a long-term perspective and the merits should be judged accordingly.

This same long-term perspective should be taken with respect to tax reform. Unfortunately, tax debates typically have a very myopic and nearsighted perspective: endless arguments about whether or not tax relief will create jobs in the immediate future and an abundance of proposed tax code tweaks to incentivize near term business behaviors.

Tax reform – like those spending decisions made decades ago that still pay dividends today – should be approached from the standpoint of long-term competitiveness rather than short-term stimulus. JOBZ, jobs tax credit proposals, and related initiatives are more than just administratively costly and inefficient policies to support private sector economic growth. They are an implicit acknowledgement and recognition that taxes do matter and that Minnesota's tax system has competitiveness problems.

Based on our review, we offer four guidelines for treating state tax reform as an investment in Minnesota's global competitiveness.

- **Embrace a Hippocratic oath – “first do no harm.”**

Tax reform in any circumstance is difficult to enact. Tax reform to secure large amounts of new revenue to fix deficits and increase program funding is not just politically difficult, it also creates a high-risk environment with respect to protecting and improving state competitiveness. Policy makers should recognize it may be better not to do something than to risk causing more harm than good.

- **Whatever reform is enacted should not make Minnesota an outlier.**

Minnesota remains an above average cost and tax state with few inherent non-policy advantages other than our well documented and recognized “quality of life.” To be sure this is a major asset for the state, worthy of continued investment, but banking on Minnesota's irresistibility as a place to live and conduct business regardless of the tax and cost climate is a risky proposition in an era of global competition and highly mobile capital.

Our outlier exposure is greatest in the individual income tax, corporate income taxes, and commercial property taxes. Policymakers must exercise care to avoid turning a relative competitive disadvantage into a major tax outlier problem.

Recommendations

- **Don't dismantle or undercut the smart tax policy "investments" we already have in place with new policies.**

Several longstanding features of Minnesota business taxation provide the state important competitiveness-related benefits: most notably the move to single sales apportionment, exemption of manufacturing inputs from sales taxation, and our commercial and industrial personal property exemption. Preservation of these elements is essential.

It is in this context that proposed expansion of the sales tax on business-to-business services should be considered. Universally, public finance experts recognize that taxing such transactions is bad tax policy. These critics note even the broadest, most ambitious, and widespread form of consumption tax in existence worldwide – the value added tax – is very careful to exclude business-to-business transactions with its resulting tax pyramiding.

But this proposal also entails inherent competitiveness concerns. As the COST study on new investment noted, business support and research facilities -- two areas with strong Minnesota presence -- pay more sales tax as a share of their total tax burden than other types of facilities and also have the highest total effective tax rates on new investment. Moreover, according to the Harvard Institute for Strategy and Competitiveness, business services represented the second largest source of job creation in Minnesota from 1998 to 2009. Such findings suggest the deep concerns expressed by businesses over the competitive impacts of enacting this policy are not hyperbole.

- **Ensure business tax revenues result in a high rate of return on this "investment".**

Becoming a high-tax state is relatively simple; ensuring the value proposition continues to exist for business to support above-average levels of taxation is substantially more difficult. Investments can and do underperform, and simply putting more money into underperforming assets is not a sound strategy. Business will walk away from such investments.

The only way businesses are likely to embrace the "investment" argument is if Minnesota's above-average government spending truly enhances productivity and provides tangible returns on the investment. In this light, health and human services redesign is one of the most important competitiveness improvement initiatives the state can embark on.

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Appendix A: Links to Studies Reviewed

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State New Economy Index, Information Technology and Innovation Foundation
<http://www2.itif.org/2012-state-new-economy-index.pdf>

Enterprising States Report, U.S. Chamber of Commerce
http://forum.uschamber.com/sites/default/files/Enterprising-States-2012-web_59.pdf

State Competitiveness Report, Beacon Hill Institute
<http://www.beaconhill.org/Compete11/Compete2011.pdf>

Minnesota Performance Scorecard, Harvard University Institute for Strategy and Competitiveness
http://www.isc.hbs.edu/pdf/State_Competitiveness--Minnesota_v312.pdf

Assets and Opportunities Scorecard, Corporation for Enterprise Development
<http://assetsandopportunity.org/scorecard/>

Total State and Local Business Taxes, Council on State Taxation
<http://www.cost.org/WorkArea/DownloadAsset.aspx?id=81797>

Competitiveness of State and Local Business Taxes on New Investment, Council on State Taxation
<http://www.cost.org/WorkArea/DownloadAsset.aspx?id=78442>

Location Matters – A Comparative Analysis of State Tax Costs on Business, Tax Foundation
<http://taxfoundation.org/sites/taxfoundation.org/files/docs/location%2520matters.pdf>

North American Business Cost Review, Moody's Analytics
The North American Business Cost Review is proprietary product from Moody's Analytics available for purchase.

Competitive Alternatives, KPMG
<http://www.competitivealternatives.com/download/default.aspx>

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