FISCAL FOCUS

MINNESOTA CENTER for Fiscal Excellence

Sound tax policy. Efficient spending. Accountable government.

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In This Issue:

State Budget Process Reform: New Rules Can't Help What Also Troubles Minnesota

"Wagner's Law" combined with a broken competitive structure in politics underlies and complicates the major challenge of successful state budget process reform.

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The idea is compelling and – based on recent history – sorely needed: "a series of reforms that will allow us to uphold our constitutional responsibility to end a Minnesota legislative session on time with a balanced budget." That's the stated goal of the House Subcommittee on Legislative Process Reform as communicated by Chair Gene Pelowski. The first of several interim meetings was held recently in order to identify potential changes to House rules, Senate rules, and joint rules; legislation; and even the possibility of a constitutional amendment to address the end-of-session process issues that have plagued recent legislative sessions.

The initial table-setting testimony by House Research staff on the state's budgeting process focused on four public budgeting objectives – accuracy, transparency, efficiency and acceptability. Their presentation brought into sharp relief not only how these objectives are often in tension with each other, but also how they present different demands and challenges in different areas of the general fund budget. Assembling an acceptable package of process and rules reform to deliver this outcome is clearly not a simple task. However, Minnesota's recent budget history also shows that process problems are symptomatic of more fundamental challenges that will be even more difficult to address – especially during a period of divided government.

"The Law of Increased Government Spending"

Perhaps the biggest challenge facing this effort is the simple fact that state government budgets continue to get bigger and more complicated. In the 19th century German economist Adolph Wagner observed that the development and growth of industrial economies was accompanied by an increased share of public expenditure in gross national product. "Wagner's Law" (otherwise known as "the law of increased government spending") is based on the idea that as incomes grow so will government budgets; for three primary reasons.

- Economic growth and technological advancement introduce societal complexity requiring the introduction and modification of laws and the development of legal, regulatory, and administrative structures to accommodate the increasing complexity.
- Industrialization and urbanization increase negative externalities such as pollution, congestion and crime, which require a wide variety of public spending and investments.
- Demand for state involvement in social welfare functions rises as income rises.

Given the size and sophistication of the modern Minnesota economy, it shouldn't be surprising that legislators introduced a record number of bills in 2019, taxing the legislature's resources and bandwidth. And as House Research staffers noted, as individual bills attempt to address the growing complexity of government, they themselves become more complex. Omnibus budget bills have become highly detailed and lengthy – now addressing policy matters as well as funding – and are frequently full of interactive effects between government programs. It's not clear to what extent budget process reforms can effectively remedy these and other stresses modern society has injected into government budgeting. For example, limiting the number of bills a legislator may introduce, a strategy referenced in the hearing, might reduce the volume of proposed legislation to a more manageable level but the inherent complexity of what that legislation addresses would remain unchanged.

Ironically, since 2017 there has been a push in the opposite direction – to ***add*** to process demands to better understand the interactive effects and consequences of state budget decisions. In both the 2017 and 2019 sessions, legislators proposed to establish "disparity impact analyses." Among other things, this idea would require each change item in the governor's budget proposal requesting new or increased funding to include, "a succinct analysis of whether the new or increased funding is likely to increase or decrease disparities." The measure goes on to define "disparities" as "differences in economic, employment, health, education, or public safety outcomes between the state population as a whole and subgroups of the population defined by race, gender, and geography." The word "succinct" might be the most incongruous and incompatible adjective imaginable to describe such an undertaking. As well-meaning as this proposal may be, as we have noted in Legislative Spotlight, it would potentially be "one of the most effective ways ever invented to throw sand into the gears of the legislative process."

The Result of Unhealthy Competition

Given ever-increasing complexity, a timely, transparent, and efficient budgeting process is difficult even if everyone is on the same political page. Throw in divided government and you have the recipe for special sessions and all the transparency and accountability complaints marking recent state budgeting efforts. However, an academic analysis we have run across may shed some light on the more fundamental issues lurking behind the scenes. Whether one agrees with this analysis and its conclusions or not, the material deserves to be part of the debate.

Avoiding compromise is an important competitive strategy employed to enhance differentiation. In other words, compromise isn't in the duopoly's competitive interest.

In "Why Competition in the Politics Industry is Failing America" Michael Porter, Director of the Harvard Institute for Strategy and Competitiveness, argues it doesn't have to be this way. Budget and policy decisions reconciling diverse belief systems about government will always be difficult, but Porter argues it's the unhealthy competitive structure of the "political industry" that turns challenges into unproductive impasses and exclusionary, unaccountable decision-making that is often unresponsive to the public interest. Competition normally results in better ways to meet the needs and interests of customers. In politics, the nature of competition in the "industry" keeps that from happening.

Porter takes his approach to analyzing competitive structure, used by business school students everywhere in studying industries ranging from steel manufacturing to software development, and applies it to the world of politics. He argues we should understand politics as an "industry" in which most of the key players are private gain-seeking organizations instead of unique public institutions governed by impartial laws. Like any other industry, participants in the political industry compete to grow and accumulate resources and influence. (It's worth noting that the benefits of competition and the recognition that various stakeholders in government routinely work to advance self-interest – and not necessarily the public interest – were central ideas to the Brandl-Weber "Agenda for Reform" report delivered to Governor Carlson 25 years ago.) But unlike any other industry, the political industry self regulates and controls the rules of competition.

Politics in America, he argues, "is a textbook example of a duopoly" – an industry dominated by two entrenched players. Duopolies tend to "compete" based on differentiation and enhancing the loyalty of their core and most valuable customers, since the limited choices for their less-valuable customers significantly lessens their competitive vulnerability. Applying his "five factors analysis," he observes the political industry suffers from unhealthy competition making legislative stalemates and deadline decisions by a tiny handful of people an expected and logical outcome:

- Buyers – In serving the public interest, the political system's customers should be all citizens. But customer power – the ability to affect outcomes – differs among segments. In the political industry, customer power resides primarily with three of the five customer segments – primary partisan voters, donors, and special interests – and the duopoly prioritizes these segments. Competition for the fourth segment – average voters – centers on being less disliked than, or slightly preferred to, the alternative. The fifth segment, non-voters, have already ceded their customer power to the duopoly.

- Channels – The mechanisms an industry uses to reach customers should help them better understand different products and services. Independent channels can play a powerful role in influencing and informing consumer choices and improving the quality of competition. However, in the political industry, the duopoly co-opts the primary distribution channels – paid advertising, social media, and direct voter contact. The fourth – independent media – increasingly sees a financial benefit from the partisan competition the duopoly's conflict creates.

- Suppliers – By providing inputs, suppliers improve products and efficiency. In the political industry suppliers, which include specialized talent, voter data suppliers, and idea suppliers, are controlled by the duopoly. The primary political industry input, candidates themselves, must rely heavily on this duopoly-controlled supplier infrastructure.

- Threat of New Entrants – Huge barriers to entry exist in the political industry in the form of economies of scale, brand recognition, supplier and channel access, access to funding, and the positioning of third-party competitors as "spoilers" or "wasted votes." Moreover, in the winner take all nature of election competition, a non-plurality share of votes creates no influence or position on which to build.

- Substitutes – Industries often must respond to entirely new forms of competition creating greater service or value for customers. Disrupting or reshaping the political industry is constrained by the fact that there is only one government structure.

It is important to realize, Porter argues, that when competitors in any industry have market power, the nature of competition can and will diverge from customers' interests. In a duopoly rivals understand that while they compete, they both benefit from an attractive industry as defined from their perspective – one that strengthens and reinforces their way of competing (differentiation), while limiting the power of suppliers and customers and preserving high barriers to entry. And according to Porter, avoiding compromise is an important competitive strategy employed to enhance differentiation. In other words, compromise isn't in the duopoly's competitive interest.

Imagine There's No Parties (It's Not Easy if You Try)

"Let me now...warn you in the most solemn manner against the baneful effects of the spirit of party generally." George Washington

All this is a very academic and wonky way of trying to explain recent trends in politics – increasing polarization, greater control of respective parties by their ideological wings, influence of money and special interests, stalemates, etc. One logical conclusion of Porter's argument is that process reform, such as that being pursued by the Minnesota House's reform subcommittee, will have an inherently limited impact without a broader restructuring of the nature of competition itself in the political industry. Rewriting legislative rules and restructuring the governing process is a necessary and essential component of any action plan but needs to be complemented by other reforms. Some of Porter's recommendations in this area are predictable (strategies for reforming money in politics), and some have been tried here and failed (strategies for creating a political centrist infrastructure).

His most provocative recommendation involves restructuring the election process itself by instituting "top four" non-partisan primaries followed by ranked choice general election voting with instant runoffs. Calling the partisan primary system "the single most powerful obstacle to achieving outcomes for the common good," Porter advocates for a single primary ballot for all candidates open to all voters. The top four would advance to the general election employing ranked choice voting, ensuring the winning candidate receives a majority of voter support. He argues this accomplishes several important objectives toward improving the quality of political competition and the beneficial results that flow from it:

- Incentivizes all candidates to present themselves to a general electorate, not just partisan voters from one party
- Lowers barriers to access for both independents and candidates not adhering in full to a party's orthodoxy
- Encourages legislators to build records of "getting things done"
- Eliminates "spoiler" concerns

"The Keys to Minnesota's Competitive Future"

93RD ANNUAL MEETING OF MEMBERS AND POLICY FORUM

WEDNESDAY, OCTOBER 9

ST. PAUL RIVER CENTRE

8:30 AM - 1:30 PM

The MCFE Policy Forum is open to everyone — both members and nonmembers

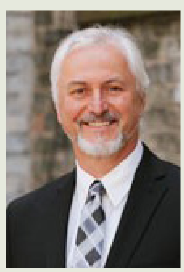
Agenda and registration information at www.fiscalexcellence.org

All Minnesotans share a common vision of a healthy, growing state economy fostering greater prosperity for all its citizens. But as recent history has shown there are some strong policy disagreements on how best to secure that future.

Join us at our Annual Meeting Policy Forum this year as we take a closer look at one key to realizing this future: Minnesota competitiveness – where we stand, how the concept itself is evolving, and most importantly what we need to be doing going forward.

Morning Keynote: Philip Schneider, Schneider Strategy Consulting, LLC

Economic development policy debates in Minnesota revolve around both old and new questions. How important are state tax design and levels relative to other issues like government services, regulatory matters, government financial health, and general quality of life? Has the TCJA affected location decision-making? How is the nature and influence of tax credits and incentives changing? What policy or non-policy factor(s) have more decision-making influence than people think? And what's needed for a traditionally high tax/high service model state like Minnesota to remain attractive and competitive?



Philip Schneider

To examine these and other questions we are pleased to have one of the nation's preeminent location strategy authorities join us to examine how business decision-making with respect to locating and expanding operations has changed and is changing.

Philip Schneider has over 30 years of management consulting experience in the fields of corporate global location strategy, site selection, incentives negotiation, and economic development strategy. He has conducted nearly 400 location engagements around the world, across industries and corporate functions, including heavy manufacturing, processing, high technology, headquarters, R&D, call centers, data centers, and shared services. He has also provided a wide variety of consulting services to countries, states/provinces, cities, chambers of commerce, and utilities regarding economic development and investment promotion.

Prior to establishing his own firm, Philip led the Location Strategy and Global Expansion Optimization practice for Deloitte Consulting's Strategy & Operations group. He is also a current board member and past Chairman of the Board of the Site Selectors Guild, the professional association of the world's leading site selection consultants.

State Competitiveness and Performance Benchmarking Studies: What Do They Communicate About Minnesota?

MCFE's 2013 report, *Finding Our Balance: Taxes, Spending and Minnesota Competitiveness*, examined a wide variety of different state competitive benchmarking investigations focusing on quantifiable indicators of both "foundational competitiveness" (workforce, infrastructure, quality of life, etc.) and business cost competitiveness. We will present an updated and expanded look at these measures, their trends, how Minnesota is positioned relative to other states (supplemented with some in-state regional information) and what all this communicates about Minnesota.

Competitiveness Discussion Panel

Moderated by Star Tribune business columnist **Lee Schafer**, a distinguished group of panelists representing different disciplines and perspectives will discuss these table-setting presentations, their policy implications, and offer their own thoughts on state competitiveness.

Shawntera Hardy, Founder, Policy-Grounds Consulting and Cofounder, Civic Eagle

(continued on next page)

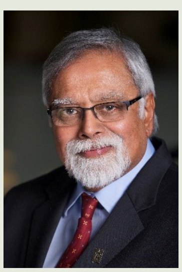
Patrick Meenan, Partner, Arthur Ventures

Tim Penny, President and CEO, Southern Minnesota Initiative Foundation

Dr. Myles Shaver, University of Minnesota Carlson School of Management, and author of *Headquarters Economy: Managers, Mobility, and Migration*.

LUNCHEON SPEAKER: Dr. Devinder Malhotra, Chancellor, Minnesota State Colleges and Universities

Minnesota's higher education system is an essential player and partner in growing the state economy and in ensuring Minnesota's traditional high-quality workforce remains a source of competitive advantage for the state. But in an environment of rapid and accelerating change, important questions exist about what it means to be a public higher education system, how the system can contribute to the demands and realities of the coming decades, and how to do it in a way that remains focused on the success of all students and communities in Minnesota while ensuring a strong value proposition to the State. We are honored to have Chancellor Devinder Malhotra join us to discuss these important issues.


Dr. Malhotra

Dr. Malhotra was named Minnesota State chancellor in 2018 after first serving as interim chancellor in 2017. He leads Minnesota's system of seven state universities and 30 state community and technical colleges that serve nearly 400,000 students in 47 communities across the state. Before serving as chancellor, Dr. Malhotra was interim president of Metropolitan State University and provost and vice president of academic affairs at St. Cloud State University. Prior to that he was dean of the College of Arts and Sciences at the University of Southern Maine. At the University of Akron, he served as chair of the Faculty Senate, chair of the Department of Economics, and associate dean of the Buchtel College of Arts and Sciences.

- Encourages a focus on issues and reduces incentives for negative campaigning

Perhaps nothing so radical like this is necessary. Perhaps Minnesota's good government ethic, combined with a package of thoughtful process reforms, will prove sufficient to address the increasing complexity state government throws at lawmakers each year, while addressing the problematic features of recent session endings.

Regardless, the latter is probably what we should be banking on because competitive reforms represent an earthquake and would be very unpopular for the current political industry. For example, last year bills were introduced in both the House and Senate to prohibit using ranked choice voting anywhere in the state – notably with bipartisan sponsorship.

With regards to this particular process reform, agreement across party lines appears to be much less of a problem. ■

"Fix It or Junk It"

Editor's note: As long-time MCFE research director Aaron Twait leaves to embark on his new career, I asked him if there is was one parting recommendation he wanted to leave to the world of state government. The answer: some frank advice regarding the Minnesota Price of Government.

It has been described as "the state's main transparency method and tool for communicating the total cost of state and local government to citizens."[1] And as a regular feature of state government press releases, editorial page commentary, Twitter fights, and legislative budget debates, for over a quarter century the Minnesota Price of Government (POG) report has lived up to the billing.

Created with broad-based political support, including the endorsement of Minnesota's business community, this measure of state and local government's claim on Minnesotans' income has served as a major evidence point in debates over budgets and acceptable levels of government taxation. However, design and maintenance problems with the report call into question whether it deserves the attention it receives. "Fixing it" involves two relatively simple repairs. Failure to do so likely does more harm than good by rendering long-term comparisons and trends analysis that is distorting at best and misleading at worst.

Fix #1: Change the definition of income

"It answers the question: How much do Minnesotans pay to state and local governments in total?"

—Minnesota Management and Budget,
Price of Government Report

One of the most valuable and useful features of the POG report is perhaps its least discussed feature – the breakdown of own source revenue collections by state and local governments. The POG offers important insights into growth rates and comparative trends in state and local revenue collections over time showing how public finance in the state is evolving. But this detail plays second fiddle to the POG's headline measure – total state and local own source revenue divided by state personal income – which provides perspective on how big a claim state and local revenue collections have relative to one measure of Minnesotans' income.[2]

As our readers know, the use of personal income in the denominator as the basis for the POG, as mandated by state law, has troubled us for a long time. Over the years we have reiterated our concerns with the current practice in special reports, blog posts and many editorial page responses/rebuttals. Rather than rehash this whole topic once again, the following is a reprise of our main points:

- Contrary to widely held belief, the federal government's "personal income" figure isn't a simple measure of what people earn. In fact, it includes over $70 billion of Minnesota non-money income[3] that cannot be used to pay government taxes and fees. Only slightly more than 75% of state personal income is money income that can be used to finance government spending (see accompanying table).

[1] Minnesota Management and Budget staff testimony before the Legislative Commission on Fiscal Policy, February 22, 2013 meeting.

[2] According to the federal Bureau of Economic Analysis, "personal income" includes the income Minnesotans' receive from paychecks, employer-provided supplements such as insurance, business ownership, rental property, Social Security and other government benefits, interest, and dividends.

[3] This and other instances of the use of "money income" are not references to the Census Bureau's "money income" measure.

- Conversely, “personal income” excludes capital gains and retirement plan withdrawals which are largely subject to the state income tax regime. According to the IRS, this totaled $25.7 billion for Minnesotans in calendar year 2016. In other words, taxes paid for with capital gains and pensions are included in the POG, while that income itself generally isn’t.

- The government transfers component of Minnesota personal income has been by far its fastest growing piece over the last 30 years. Put that together with the fact that large government transfer programs provide considerable non-money “income” (e.g. the value of Medicaid and Medicare benefits paid to Minnesotans), and this creates a problematic and disturbing circularity in interpreting and employing the POG in budget debates. Relatively faster growth in government transfer payments boosts personal income growth which creates the appearance of government getting “cheaper” – and becomes state-sanctioned evidence used to ask more from taxpayers to spend on, among other things, bigger and more generous government transfer programs.

For these reasons, a modified personal income base that excludes non-money income that can’t be remitted to government, and which also includes those income streams excluded from personal income that can be used to pay taxes and fees, should be the denominator in price of government calculations.

Methodological inconsistencies introduced into the Price of Government report over time explain somewhat more than half of the decline in the POG since the metric was first reported for FY 1991.

Fix #2: Take greater methodological care in maintaining the POG

What we have not previously discussed are the research faux pas embedded in existing POG reporting. These invisible, highly technical matters can have significant impacts on how POG trends appear. In fact, we find methodological inconsistencies introduced into the Price of Government report over time explain somewhat more than half of the decline in the POG since the metric was first reported for FY 1991.

The first irregularity concerns a decision to switch the personal income denominator from a calendar year to a fiscal year basis several years ago. Through FY 2011 the POG calculations were based on personal income data running on a calendar year basis. Beginning with FY 2012 the POG calculations have been based on personal income running on a fiscal year basis.

Changing from a calendar year to a fiscal year basis is not in and of itself problematic, and there may be good reasons for doing so, (although we don’t know what the rationale was since the POG reports do not disclose methodological changes). However, we now have one set of POG calculations (through FY 2011) that are calculated using income from January 1 through December 31, and a second set of calculations (beginning FY 2012) that are calculated using income from July 1 through June 30. Because the annual personal income starting point is now six months later, this change has created a discontinuity in the personal income time series data that is distorting long-term trends in the measure. To maintain comparability across the entire time series, the new methodology should have been retrofitted to the entire POG series, but MMB to date has not done this.[4] As a result, personal income is artificially increased by about 2% for the post-FY 2011 POG calculations – thereby artificially lowering those POG results relative to the earlier period.

The second concern relates to the federal Bureau of Economic Analysis’ (BEA) processes for ensuring the reliability of its data. The Bureau regularly revises the statistics it publishes on items including gross domestic product, personal consumption expenditures, and – notably for purposes of the POG – personal income. These revisions are generally made because the Bureau’s initial figures are based on incomplete or preliminary data, and therefore are subject to change as final data becomes available.

However, every five years the Bureau issues “comprehensive” updates to these statistical measures. According to the BEA, “[the] comprehensive updates and, to a lesser extent, annual updates provide the opportunity to introduce data revisions, changes in definitions, and updated statistical methods from the comprehensive update of the National Income and Product Accounts (NIPAs) and the Industry Economic Accounts; to incorporate newly available and revised regional source data; and to introduce improvements in regional statistical

Table 1: Five Major Non-Money Components of BEA Personal Income for Minnesota, CY 2017

Component	Amount	
	$ billions	% of Total
Employers’ Pension and Insurance Contributions	25.1	8.3%
Value of government sponsored medical benefits	21.9	7.2%
Imputed interest	15.2	5.0%
Imputed rent	8.3	2.7%
Transfers to nonprofit institutions	0.7	0.2%
Total	**71.2**	**23.5%**

Source: Bureau of Economic Analysis *Annual State Personal Income and Employment; Tables SAINC 04, SAINC 35, and SAINC 40, September 2018 Revision*

[4] When MCFE switched several years ago from “personal income” to a modified personal income basis as advocated here in assembling our own *How Does Minnesota Compare* report, we created a similar discontinuity in trend reporting. Resources and time prevent us from going back 50 years to adjust the entire series. However, in *HDMC*, we highlight the rationale for the change, specifically do not provide a historical trend analysis dating before the change, and the tables themselves indicate to anyone attempting to compare current and historical reporting that the metrics have changed.

methods."[5] Importantly, the Bureau applies changes in definitions, classifications, and data sources that comprehensive revisions initiate retroactively, often to the entire time series data set (which for personal income, dates back to 1929). Therefore, these revisions can make noticeable changes even to decades-old personal income amounts.

To maintain comparability in the time series Price of Government results, which date back to FY 1991, it is important to apply any changes BEA's revisions – comprehensive or otherwise – make to the personal income data for all years. MMB does not appear to do this. In the February 2019 POG report, for example, the personal income data being used for the FY 2012 through FY 2016 calculations matches the BEA quarterly data published in September 2018. For years prior to 2012, however, the data used in the POG does not match what the BEA has published, and is likely data from some earlier revision(s).

At one time MMB's practice was to retrofit revisions to the historical data to the entire Price of Government results to maintain comparability across the time series.[6] It is unclear when MMB abandoned this practice, but based on a then-Department of Finance memo in our files, we know it was sometime after 1997.

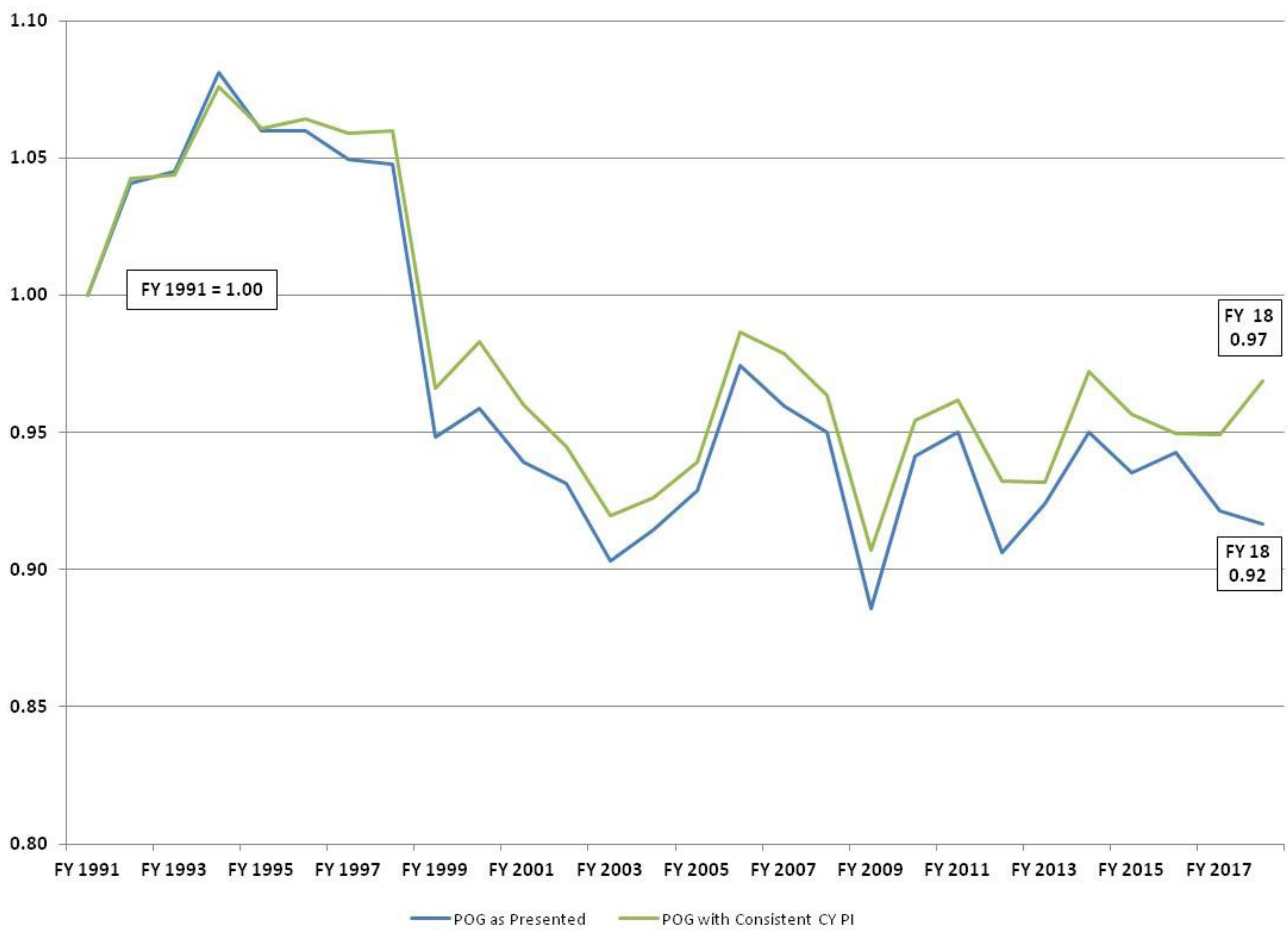
Figure 1 compares how the Price of Government, as of the February 2019 edition of the report, has changed relative to the base year of FY 1991 as published by MMB, and how it would look if the personal income denominator had consistent definitions all the way through the time series. Using published personal income data the Price of Government for FY 2018 is 92% of its FY 1991 level (15.2% compared to 16.6%). Using consistent time series personal income data, the Price of Government for FY 2018 is 97% of its FY 1991 level (15.9% compared to 16.4%).

For something that has so much influence on public perception about government, it seems to us more care and attention to detail is warranted in constructing the POG than it has received. We also strongly encourage MMB to return to its prior practice of using calendar year personal income data when calculating the Price of Government report as part of this fix. The calendar year (annual) data BEA produces provides much more underlying detail on the makeup of personal income than does the quarterly data currently used to establish fiscal year personal income. This detail allows for a

[5] "Preview of the 2018 Comprehensive Update of the Regional Economic Accounts", Survey of Current Business, U.S. Bureau of Economic Analysis, August 2018.

[6] In this case, we use calendar year data from the September 2018 revision, since that is the revision in effect as of the February 2019 economic forecast date.

Figure 1: February 2019 Indexed Price of Government as Presented and as Calculated Using Consistent Revision Calendar Year Personal Income**



** Since the FY 1991 starting point is different under the two different scenarios (16.6% as published, 16.4% using consistent time series income data), we set FY 1991 as a baseline of 1.0 in both cases to better show how the two methodologies yield different results.

more thorough analysis of income components which, as we noted earlier, also affect the interpretation of the measure. If the Price of Government calculations cannot be dissected to throw additional light onto ***why*** they are changing, the usefulness of the report becomes seriously limited.

And for Consumers: Recognize its Limitations

Several years ago, following a presentation by MMB on the latest Price of Government report, a senior senator paused and asked, "What exactly are we supposed to do with this information?" It's an excellent question. Like any measure, the Price of Government is simply a number. It's up to policymakers, advocates, and the general public to interpret and understand what the number, and its changes over the long-term, mean.

Offering interpretations of the report's findings and its policy implications has never been a problem. It may be intended as a transparency tool but it functions as weapons-grade political ammunition in debates over state tax and spending policies. Recently it's been used as *prima facie* evidence for underinvestment in public goods and services, the affordability of higher taxes, the lack of harm imposed on the state economy for raising taxes, and for questioning the justification for reducing taxes. The problem is at any point in time the POG is not just about government revenues, it has just as much to do with macroeconomic conditions and the role the federal government is playing.

To illustrate this problem, consider another possible "standalone measure" that might be used to interpret and evaluate state and local own source revenues in a different context: the change in spending capacity created, rather than the claim on income. If we control state and local governments' ability to spend for two significant cost drivers – population growth and inflation[7] – inflation-adjusted per capita spending grew by 19% between FY 1991 and FY 2018. In other words, after accounting for a 27% jump in population and a 122% increase in government inflation, Minnesota state and local governments have 19% more money to spend on initiatives implemented since that base year. (This does not include federal government transfers and grants which, if added to this analysis results in a 26% increase in state and local real per capita spending capacity.) State and local government representatives would undoubtedly object to this being the singular and definitive measure to perceive and evaluate fiscal policy, and rightly so, because the nature of spending capacity and government spending has changed dramatically over time due to changing demographics and many other issues.

As enticing and tempting as it is to make big policy conclusions based on a single benchmark measure like the POG, it is no substitute for careful and thoughtful vetting of the policy merits of state tax and spending proposals. The POG may inform debate but it is in no way a replacement for it. And without a fix, these informed debates will be based on a foundation communicating a fiscal illusion. ■

[7] Using the implicit price deflator for state and local governments, which averaged 3.9% annual growth during this period.

From The Research Director: Goodbye, Farewell, and Amen


Aaron Twait

I've worked on a lot of topics over 15 years with this organization: from income support programs to state special funds and from business property taxes to public pensions. All of which have been complex topics demanding lots of detailed research and careful explanations. But this article is by far the most challenging thing I've written to date, because Mark is graciously allowing me to use this space to wish you all a fond farewell. My last day as MCFE's Research Director will be August 31.

This edition of *Fiscal Focus* is one of my favorites – it highlights a lot of what I like best about this organization. The articles are timely and solidly researched. They challenge the conventional wisdom on topics that are central to debates around taxes and spending and invite policymakers to consider a different point of view. I know that the research and opinion pieces MCFE publishes are taken seriously by people on both sides of the aisle, and it's especially rewarding to know that our work is read by people who may not like or agree with everything we have to say. It's important to have credible, quality organizations like this one active in Minnesota; and I hope that, if you aren't a member of MCFE, you will join me in becoming one today.

The hardest thing about writing this column has been finding a way to adequately thank my colleagues for all that they have been to me. I often joke that I am (or have been until lately) the least-tenured person in the office – but I think that speaks volumes about the sort of place MCFE is to work. Thanks first to our former Executive Director Lynn Reed, who gave a raw Humphrey School graduate a desperately-needed opening into the field of policy research. Lynn also described me as a "badger" when it comes to research and writing, which is by far the best description I've ever heard. My deepest thanks also go to my current colleagues Mark Haveman – who hired me back as Research Director at the beginning of 2008 after a year of working at the Department of Revenue – and Linda Edstrom. I have produced far better research and analysis working with them then I could ever possibly have hoped for on my own. They have made this a dream job for me. Both of them are great friends, and no longer having them as colleagues is by far the most difficult part of my transition. Finally, I've been so pleased to make the acquaintance of my successor in this position, Bob DeBoer, over the last few months. He is an excellent addition to the organization and I wish him great success.

Mark loves to include popular culture references in the work we do, so I've picked this title out with him in mind. As he mentioned in the last edition of *Fiscal Focus*, I'm on the cusp of a career change. After 16 years in the policy research business I am going into the brave new world of ministry work. I've discerned a calling toward chaplaincy work, and with that in mind I start a Masters of Divinity program next month at Luther Seminary in St. Paul while I also pursue ordination within my denomination.

I wish all of you the very best as you continue your work to make Minnesota a great place be.

— A. T.

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