Underfunded Minnesota:

Collective Investment for a Brighter Future.

NorthStar
POLICY ACTION

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ABOUT NORTH STAR POLICY ACTION:

North Star Policy Action is an independent research and communications institute that is dedicated to improving the lives of everyday Minnesotans by advancing bold ideas that change the conversation and bring communities together. We develop and promote data-driven solutions to persistent problems that allow working people to thrive, no matter who they are or where they live

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Executive Summary

The current budget surplus represents an important opportunity to improve the quality and affordability of life for Minnesotans. The current budget surplus represents an important opportunity to improve the quality and affordability of life for Minnesotans. For decades, wages have largely stagnated, while the price of basic needs like childcare, health care, housing, and post-secondary education have risen. Difficulty in accessing life's necessities is a problem not just for those struggling to make ends meet, it is a challenge to Minnesota's collective prosperity. This is especially true in Minnesota's communities of color, which experience some of the country's worst racial disparities in health, wealth and education. **Guaranteeing the foundation of broad social and economic inclusion is the inherent responsibility of government, and the challenges facing Minnesotans today result from the neglect of essential duty.**

Amidst this unsatisfactory status quo, policymakers, researchers, and commentators are increasingly concerned about long-term population decline. Experts do not fully understand all of the reasons Americans are having fewer children, but there is broad bipartisan consensus that it reflects a grim reality. An aging, shrinking workforce will weaken the economy and impede the state's ability to maintain a functional society; even with a substantial increase in immigration, America will no longer be able to fall back on an endless labor supply to make up for its lack of investment in individual workers. Left unchecked, economists predict that these conditions will slow economic growth and concentrate more wealth in the hands of the few, limiting economic mobility and further depressing fertility.

Both long-felt economic precarity and looming demographic threats are rooted in barriers to living, working, and raising a family in Minnesota. In confronting these challenges, there is no substitute for the direct provision of public goods and services. Investments in collective well-being will bolster the workforce, remove obstacles to parenthood, and attract new residents. On the other hand, the use of tax cuts and small-scale investment has failed in the past, failed in other countries, and will continue to fail here.

THIS REPORT DEMONSTRATES:

Inadequate support for basic public needs is resulting in barriers to living, working, and raising a family in Minnesota.

- Home prices in Minnesota rose over 400% between 1984 and 2021, while median household income increased by only 32%.
- Since 1970, 4-year public college tuition rose nearly twice as fast as per capita income, while inflation-adjusted funding has fallen by 33% since 1999.
- Minnesotans face substantial barriers to economic participation, including unaffordable housing and inadequate transit options, which limit labor market access.
- Two earner households were never compensated for the added cost of childcare.
- By failing to adequately resource public schools or provide affordable childcare and college, Minnesota is failing to maximize the productivity of its workforce.
- Research has found that financial concerns, as well as generalized social pessimism over issues like climate change, are contributing to declining fertility.

Despite common conceptions, Minnesota is not an especially high spending state.

- Measured as a share of the economy, Minnesota now spends less on public goods and services than it did 30 years ago—a shortfall equal to $13 billion in the current biennium.

- Public sector workers have suffered the majority of this decline; state and local payroll dropped 28% relative to personal income since 1993 and the state now employs 9% fewer public sector workers per 1,000 residents than it did 30 years ago.
- In total, Minnesota state and local governments spend just 6% more than the national average, down from 20% in the 1990s. As a share of its total economy, Minnesota's expenditures rank 23rd nationally, and 3rd out of 5 neighboring states.
- While every other country's ratio of public spending to total consumption increases with wealth, U.S. expenditures remain on par with the poorest nations in the world.

The direct provision of public services is the best way to reduce costs for Minnesotans and lower barriers to living, working, and raising a family in Minnesota.

- Tax cuts cannot make up for the lack of basic services—for example, the total tax liability of a median earner equals less than two-thirds the cost of one year of childcare.
- Similarly, economic growth will not compensate Minnesotans for the cost of programs they are going without: On average, $4 billion of additional statewide income would give each household in the bottom 80% about $750, while households in the top 1% would get nearly $24,000.
- Among countries experiencing negative birth rates, more robust public investment in families, children, and a generally high quality of life have successfully stabilized birth rates around replacement level, while those pursuing limited interventions have seen birth rates fall more steeply.
- Supplying insufficient or indirect support for public goods often results in waste and higher costs elsewhere, such as police costs associated with criminalizing the homeless or fraud resulting from privatized systems with limited oversight.

Arguments that Minnesota's taxes and government spending are hurting economic growth or causing residents to leave are flawed and unsupported.

- Data shows that Minnesota has long had the strongest economy in the region and has experienced more population growth than most regional neighbors.
- Arguments about tax flight center on cherry-picked data points covering convenient timelines or comparing Minnesota to states in different, incomparable regions.
- Minnesota gains residents from most states in the region, while notable exceptions cannot be readily explained by differing tax policies.
- States that have cut taxes in hopes of mimicking the economic success of Texas and Florida have failed to improve growth and have created budget challenges.

THE REPORT CONCLUDES:

Policymakers should use all available resources to directly improve quality of life for Minnesotans.

With a comparatively robust public sector, Minnesota is well-positioned to provide a wide range of public services that will ease barriers to living, working, and raising a family in Minnesota. Where possible, these investments should break with decades of privatized and means-tested policymaking, and embrace a universal approach where everyone pays and everyone benefits. Public investment must center not just on household finances, but on building a more hopeful collective future.

Introduction

In December 2022, the Star Tribune ran a startling headline: "Minnesota's population growth sees 'concerning' stall for a second year."

The article described new Census estimates, which found that from 2021 to 2022, Minnesota's population had grown by just 0.1 percent, or 5,700 individuals. That was over 30,000 fewer new Minnesotans than had been projected two years earlier, and a growth rate less than one-sixth of the state's average from 2010 to 2019. And this is by no means a local phenomenon: Many East Asian and Northern European countries are already experiencing birth rates below replacement level, and now this trend is finding its way to the eastern and midwestern United States. The U.S. as a whole is expected to drop below replacement birth rates by 2050.

Declining population growth threatens major socioeconomic disruption. In the coming decades, the shortage of labor, rather than the shortage of investment capital or wages, will become the defining feature of America's economic and social order. The shrinking workforce and growing senior population will slow economic growth and strain governments' ability to provide the basic public services that sustain a functioning society. This threatens a troubling cycle: Demographers hypothesize that the social disruption and stagnating quality of life that can result from low population growth may further depress the birth rates of successive generations, leading to even steeper decline.

Experts offer a range of explanations for what is causing birth rates to drop, but many of the answers—from economic uncertainty to environmental anxiety—center on dim expectations of society's future. And while researchers differ over what, if any, public policies could stabilize population growth rates, they broadly agree on one thing: The compounding nature of demographic change means that the longer current trends persist, the more severe they will become, and the harder they will be to reverse.

In the midst of this economic transformation, Minnesotans are struggling to afford and access their basic needs. Relative to national wealth, the United States is one of the lowest-taxing and lowest-spending countries in the world. Unlike residents of the vast majority of other developed nations, Americans struggle to access basic healthcare, childcare, and quality education. Americans also receive far less social assistance when they fall on hard times. The result is worse health and educational outcomes, higher levels of poverty, and a wide range of downstream social challenges like higher crime and homelessness, all of which result in lost economic potential and costly, inefficient interventions by police and other services of last resort.

These social failures are vastly amplified among BIPOC communities, which now represent the fastest-growing portion of Minnesota's population, and thus the state's best hope of a bright and stable future. Minnesotans of color experience some of the worst racial disparities in America, stemming from deep historical injustices; they face higher rates of housing instability, unemployment, poverty, and incarceration; and BIPOC Minnesotans have lower educational attainment and worse health outcomes, including shorter lifespans. The result is a massive loss of human potential that Minnesota should never have tolerated and now, with the looming threat of population decline, can no longer afford.

Too often, the primary response to these challenges center on the need for more, or more equitable, economic growth. This misunderstands the problem: No amount of private sector activity will create the basic social infrastructure necessary to care for the sick and the young, educate the masses, and lift up the less fortunate. These are inherently public tasks, carried out for the collective good of a functioning, self-sustaining society.

In the face of widespread economic dissatisfaction and grim demographic projections, Minnesota must stand up to offer a brighter collective future. Ensuring that all Minnesotans can access their basic needs—from housing to transit to E-12 and higher education—will ease the burden of living, working, and raising a family in Minnesota. Meanwhile, investments in a sustainable climate future will guard against environmental degradation and disruption. These steps will improve the quality and stability of life in Minnesota, and will ameliorate population challenges by making it an easier, more hopeful, and more appealing place to raise a family.

From a purely economic angle, ensuring that all Minnesotans have access to quality care, housing, and education is also the best way to maximize labor force participation and worker productivity, which will be the primary engines of economic dynamism in an era of low population growth. This is essentially the same imperative identified by the Chamber of Commerce in its 2021 report, Minnesota 2030: Strategies for Growth. But instead of calling for the direct provision of programs that could meet this goal, the Chamber proposes more of the same targeted tax cuts and regulatory changes that have resulted in the current predicament. These strategies have failed for decades and will prove increasingly insufficient in the face of the looming demographic transition.

Underfunded Minnesota presents evidence that Minnesota is under-investing in a wide range of public goods and services needed to navigate the challenges of the coming decades.

- **Section 1** discusses the looming demographic transition and its potential impact on Minnesota's economy and society.
- **Section 2** describes the essential role that public goods must play in weathering this crisis and enhancing quality of life more generally.
- **Section 3** presents an empirical case that Minnesota is underfunding public goods and services.
- **Section 4** discusses the social costs and lost opportunities of underfunding with regard to a range of specific issue areas.
- **Section 5** demonstrates the flaws and misconceptions common in anti–public investment narratives and Section 6 concludes.

1.0 Challenges of the Demographic Transition

Demographic transition will be the defining social and economic challenge of the middle of the 21st century. As baby boomers age into retirement and birth rates continue to slow, there will be comparatively fewer working-age people. And while the news media has focused on annual and state-to-state variation in population growth, it is important to understand the looming demographic transition as both a regional and global trend.[1] Leading demographers now predict that the global population will decline over the coming century.[2] Declining growth rates may be stabilized, but they will not likely be reversed.[3] This is the beginning of a new era in global economic history, and in America it will be felt in the Northeast and Midwest first.

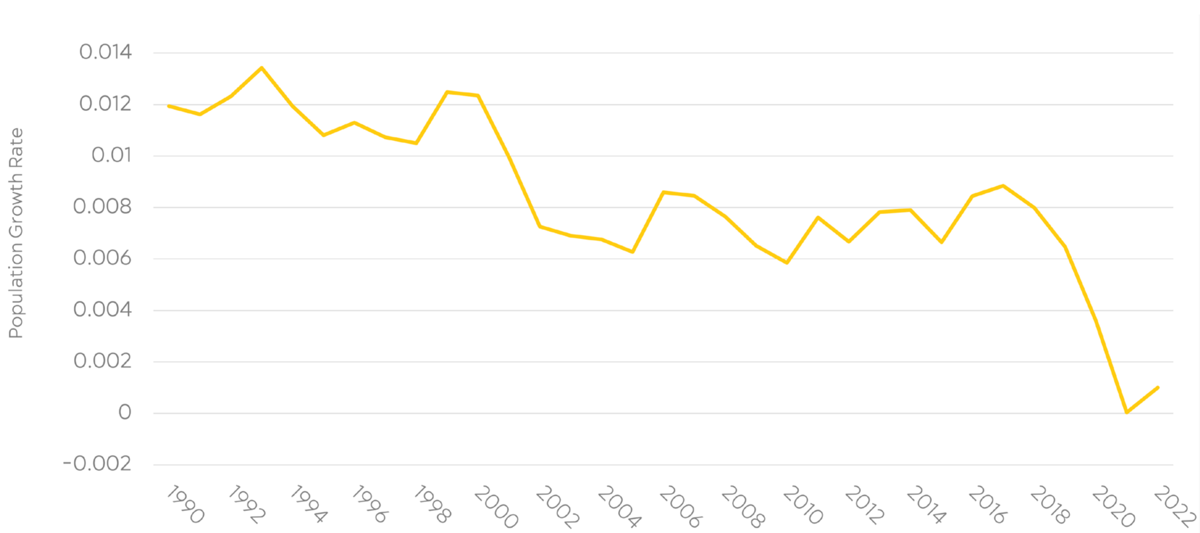
This looming demographic transition will present substantial disruptions to the dominant socioeconomic paradigm. In the coming decades, the scarcity of labor, rather than the scarcity of jobs and wages, will become the predominant threat to broad social and economic prosperity.[4] The lack of workers will strain businesses, supply chains, and public sector service providers; it will limit U.S. capacity for economic growth, and it will imperil

1 Webster, M. 2022.
2 Bricker, D and Ibbitson, J. 2019.
3 Kearney, M and Levine, P. 2022.
4 Nelson, T. 2022.

CHART 1.1A

Minnesota's Population Growth Rate Has Slowed Rapidly in Recent Decades

Minnesota Population Growth, 1990-2021

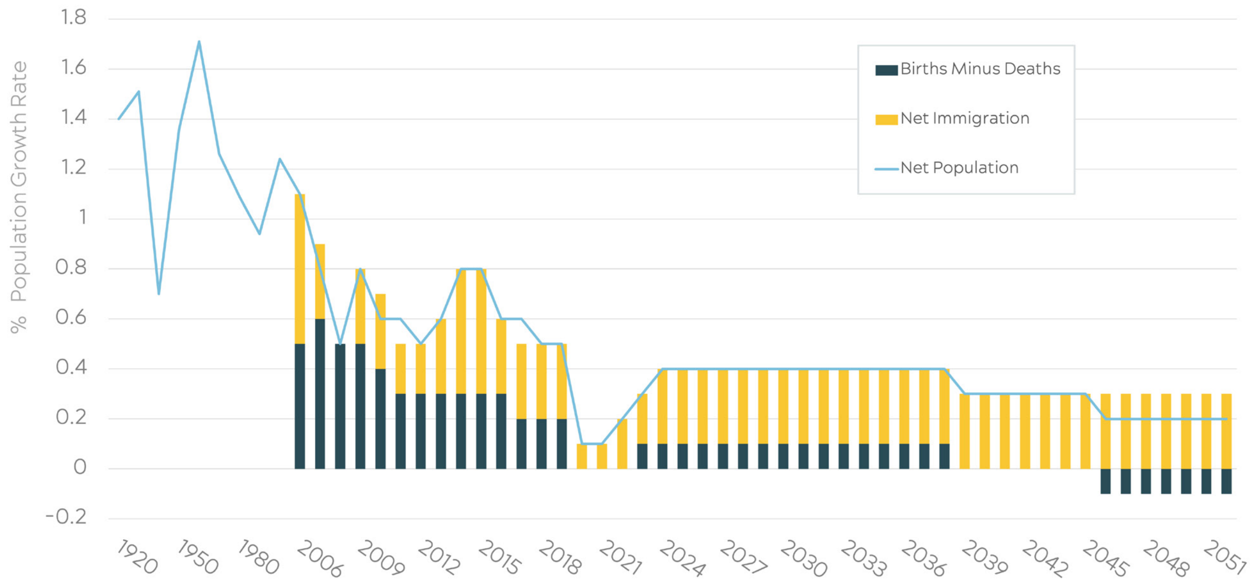


U.S. Census midyear population estimates. 2020-2022 figures from U.S. Census Bureau, Annual Estimates of the Resident Population for the United States, Regions, States, District of Columbia and Puerto Rico: April 1, 2020 to July 1, 2022.

CHART 1.1B

U.S. Population Growth is Projected to Decline Over The Coming Decades

Total population growth and components of change, 1920-2052

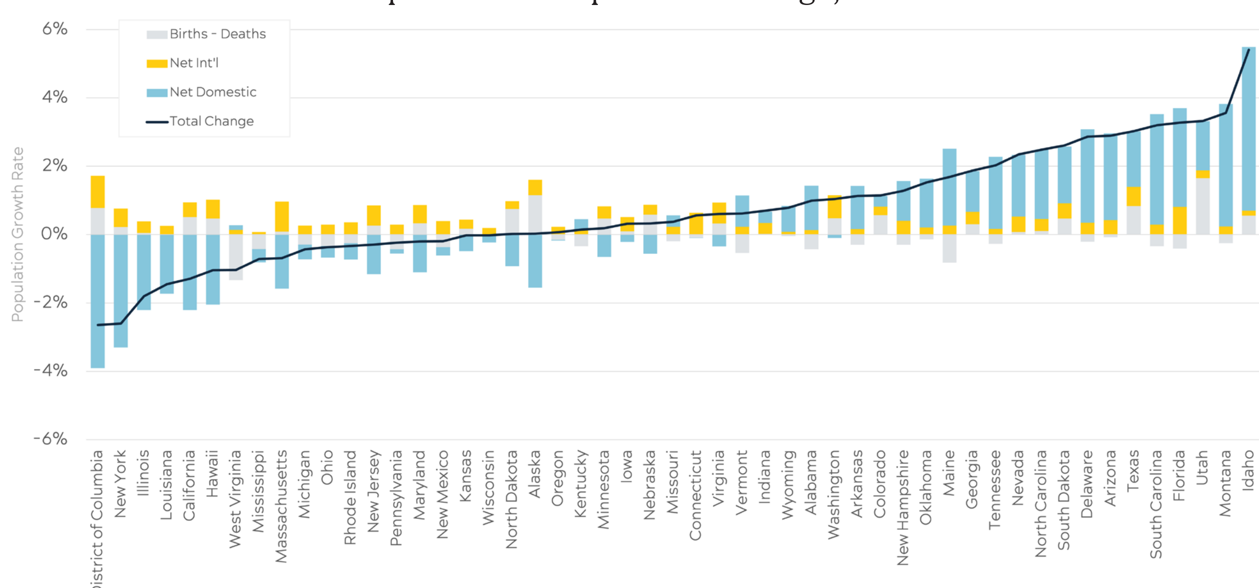


Congressional Budget Office. The Demographic Outlook, 2022 to 2052. July 2022.

CHART 1.2

Numerous Factors Contribute to Changing Population Growth Rates

Total Components of Population Change, 2020-2022



U.S. Census Bureau. December 2022. Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2022 (NST-EST2022-COMP).

the government's ability to perform the basic tasks necessary to sustain a functional society.

The significance of these disruptions, and the public policy response they require, must not be underestimated or ignored. Navigating an uncertain demographic future will require commitment to collective problem-solving from which both the U.S. and Minnesota have substantially divested. This includes measures to stabilize population growth by easing the barriers to starting a family, encouraging domestic and international migration, and improving the participation and productivity of Minnesota's current workers. This report argues that the best way to accomplish this is through the establishment of universal and directly-administered programs as opposed to the privatized and means-tested approach that has resulted in the unsatisfactory status quo.

1.1 MINNESOTA'S POPULATION OUTLOOK

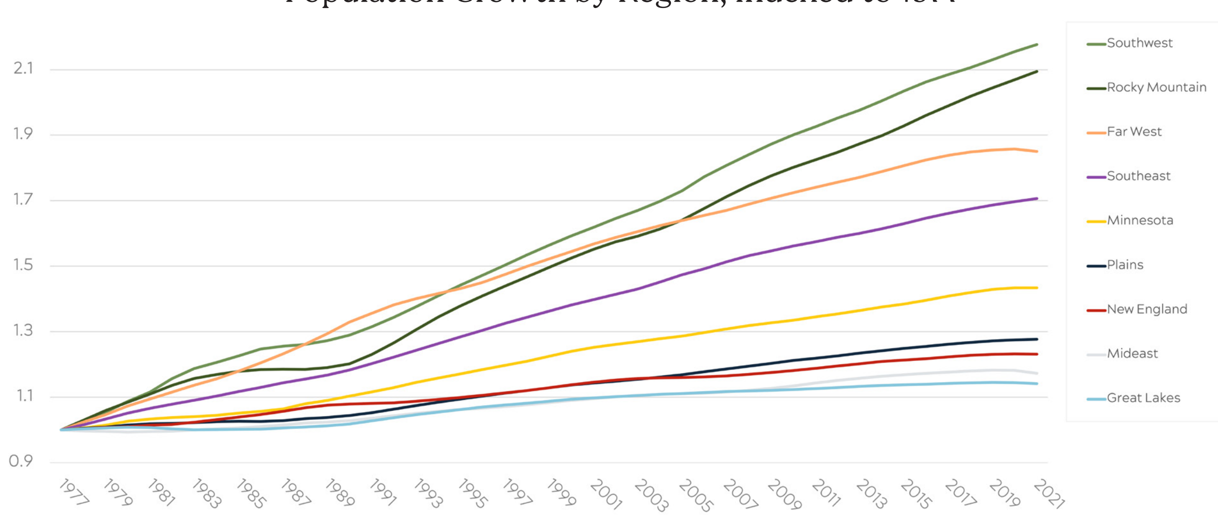
Census demographers predict that U.S. population growth will plateau around 0.4 percent later this decade, and will decline slowly after that. By 2043, natural population growth is expected to turn negative, meaning deaths will outnumber births each year, and for the first time in history the only source of population growth in the United States will be international immigration. Minnesota will likely be among the first states to grapple with declining population growth. Chart 1.1A shows Minnesota's rate of population growth slowing considerably over the last 30 years. And although COVID-19 represented a significant shock from which rates will likely rebound, long-term national trends suggest Minnesota's growth will remain low, with a considerable risk of net population loss in the near future.

Chart 1.1B shows that total birth rate consists of three components: natural population growth (births minus deaths), domestic migration, and international immigration. Each of these factors carry considerable political, social, and economic significance and are each essential for a socially and demographically stable state economy. This report devotes considerable attention to the question of how Minnesota policymakers might stabilize or increase these factors, with greater attention paid to domestic migration and natural population growth because international immigration falls under federal jurisdiction.

CHART 1.3A

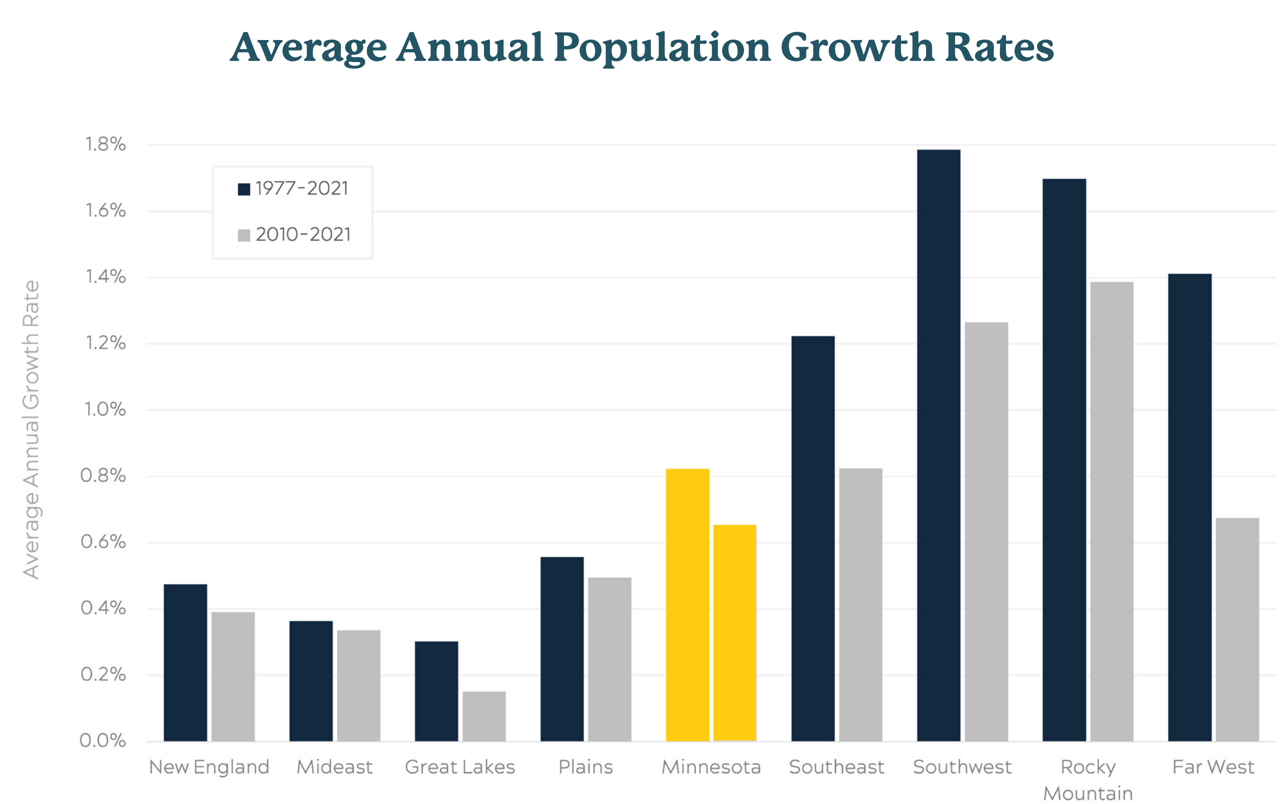
Population Growth Rates Vary Substantially by Region

Population Growth by Region, Indexed to 1977



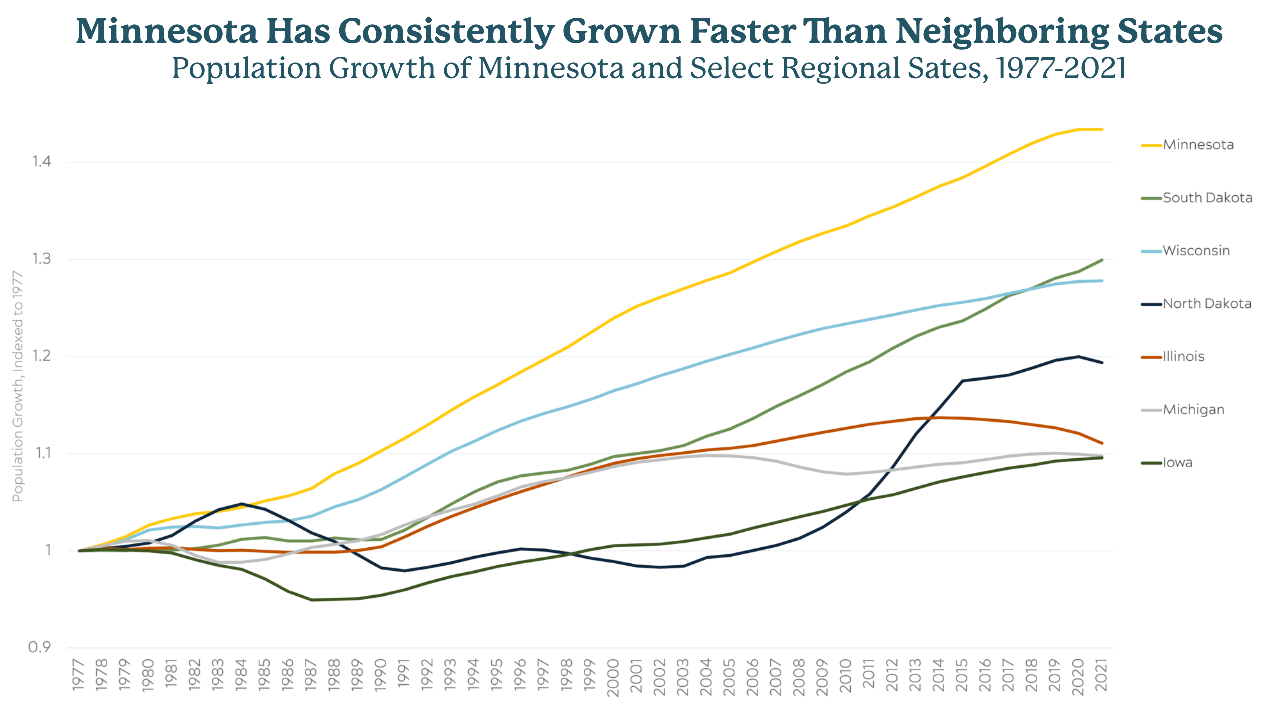
Author's Analysis of U.S. Census Bureau midyear population estimates, compiled by the Bureau of Economic Analysis.

CHART 1.3B



Author's Analysis of U.S. Census Bureau midyear population estimates

CHART 1.4



Source: Census Bureau midyear population estimates

Chart 1.2 shows that population growth rates vary widely by state, but it is important to note that much of this variation can be described as regional. Some states are indeed growing much faster than Minnesota, but almost none of them are in the Midwest, Plains, or Great Lakes regions, which are the most relevant benchmarks for Minnesota.

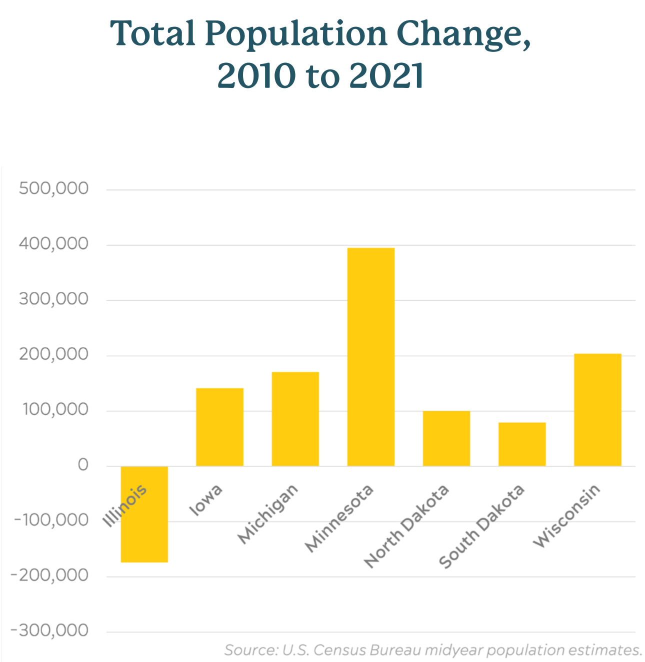
Chart 1.3A shows the differing population growth of all Census Bureau regions as well as Minnesota, while 1.3B highlights the stability of these regional growth trends over time. Minnesota's population growth has outpaced regional averages both in the last half-century and in the most recent decade. Nonetheless, Minnesota is among states in the regions that have long experienced slower population growth rates and will be among the first to approach negative rates.5

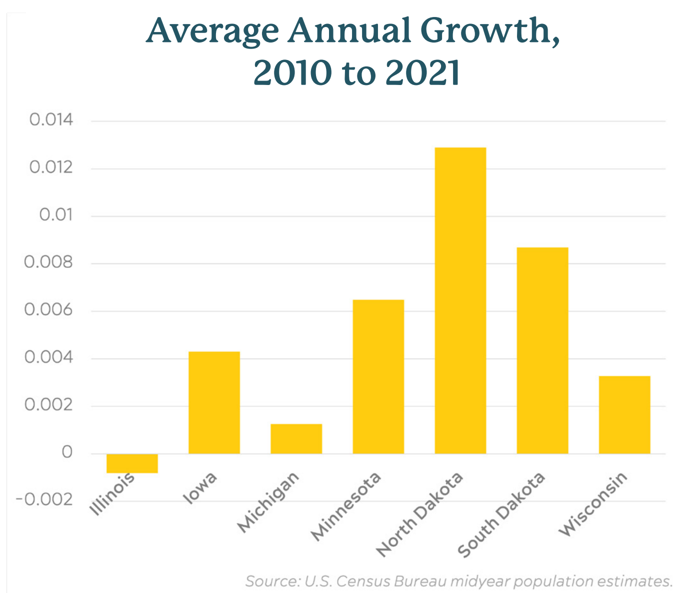
Looking back, Chart 1.2B also shows that domestic migration has dominated population trends for many states over the past two years. This is another regional pattern: On net, Minnesota and most of its neighbors have lost residents to other states while gaining from natural population growth and international migration. Domestic migration trends are the source of much political and economic debate, and are undeniably relevant in an era of declining natural population growth. These trends are discussed in more depth in section 5.3.

The regional nature of demographic patterns is an important perspective for policymakers to keep in mind as population growth becomes an increasingly salient variable in Minnesota's socioeconomic development. Conservatives looking to blame the state's slowing population growth on state-specific policy choices often present national rankings and reference fast growing states like Texas and Florida as evidence of a relative failure. This is not a valid critique, not only because we do not always know what is driving population changes, but also because

5 Chapman, J. 2022.

CHART 1.5





Author's Analysis of U.S. Census Bureau midyear population estimates, compiled by the Bureau of Economic Analysis.

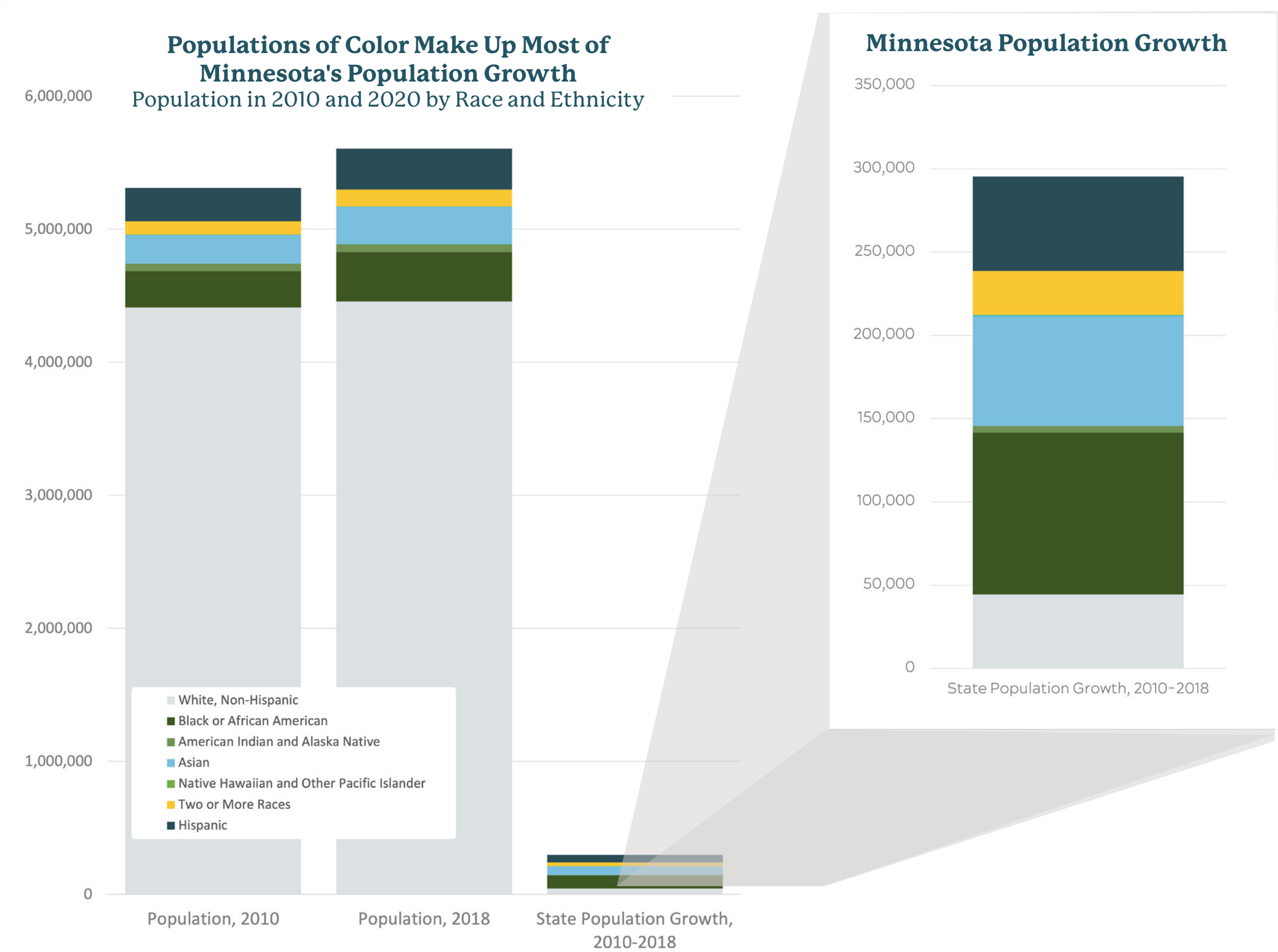
it ignores the regional nature of population trends.

Many ill-conceived perspectives on Minnesota's demographic outlook are based on inappropriate comparisons and brief windows in which data can appear to confirm a given pattern. Chart 1.4 shows that Minnesota has consistently grown quicker than regional peers, while Chart 1.5 shows this has continued to do so even as population growth rates slowed across the region. Higher recent growth in North and South Dakota is notable, but it is important to place that growth in proper context: Both states are significantly smaller than Minnesota, and so the recent influx appears as an exceedingly large increase when expressed in percentage terms. This is clear from the comparison of growth rates and total population in Chart 5. The same can be said for Montana and Idaho, which both experienced outsized population growth from domestic migration during the COVID-19 pandemic.

Furthermore, despite low growth compared to the past, there are portions of Minnesota's population that are growing rapidly

Immigrants and people of color make up the vast majority of Minnesota's population growth over the last decade. Beginning in 2010, Hispanic people and people of color made up just 17 percent of Minnesota's population, but accounted for 85 percent

CHART 1.6



Source: U.S. Census Bureau. 2020. Annual Estimates of the Resident Population by Sex, Race, and Hispanic Origin for Minnesota: April 1, 2020 to July 1, 2019.

of population growth between 2010 and 2018.6 Additionally, in 2021, Minnesota's net international immigration of roughly 14,000 was nearly three times as large as the loss from domestic migration, making the difference between a net gain and loss for that year.7

The degree to which negative growth rates can be forestalled or avoided in the short- and medium-term remains unclear. Current patterns may persist, or regional population trends could reverse as rapid growth in western states contributes to rising home prices and stretches natural resources thin. In either case, Minnesota's slowed population growth and increasing racial diversity create both policy challenges and opportunities. The groups that have been historically marginalized are now those the state's economy will depend on most. Policymakers must act to bolster Minnesota's workforce, with special regard to the changing face of Minnesota's workers and families.

1.2 THE CHALLENGES OF A SHRINKING POPULATION

The reason that population decline poses such grave economic challenges may not be immediately obvious, since fewer people implies that there may be more resources for each person. But while the relationship between population and economic growth depends on the context, a growing population is generally considered necessary for positive economic development in a wealthy country like the United States; slowing or negative population growth creates myriad problems.[8] Fewer consumers means less demand, while a shrinking workforce lowers output. Economists also stress the loss of innovation that results from fewer brains coming up with useful ideas. The result is lower growth and less economic dynamism, which are imperfect but important drivers of upward mobility, especially in contrast to stagnation.

In his seminal book Capital in the 21st Century, economist Thomas Piketty discusses the socioeconomic challenges posed by the long-term trend of falling economic growth and rising returns to capital and wealth.[9] Piketty estimates that population increases account for roughly half of all economic growth since the 1700s, which suggests that an era of stagnating population will depress growth and increase inequality. And indeed, inequality has grown in Japan, where the population peaked around 2008 and has declined since.[10] Absent intervention, these effect may be especially pronounced in the U.S., where population growth has contributed relatively more to overall economic growth than productivity gains.11 This portends a potentially dark future for America's overall socioeconomic health, since higher levels of inequality are associated with lower growth and greater social unrest.[12]

A declining population also poses many practical challenges: A smaller workforce will struggle to provide adequate care for the elderly or to finance intergenerational social insurance programs.[13] In Japan, the shrinking working-age population has necessitated substantial increases in public debt and lowered economic growth.[14] More concerningly, it poses an existential threat to smaller rural communities as schools, grocery stores, and other basic services shutter for lack of population and workers.[15] Recently, the Japanese government went so far as to offer cash for families relocating to declining villages and towns.[16] This is reminiscent

6 U.S. Census Bureau. 2020. Annual Estimates of the Resident Population...

7 Webster, M. 2022.

8 Peterson. 2017.

9 Piketty. 2014.

10 Komiya and Kihara. 2021.

11 Op. Cit. Peterson. 2017.

12 Cingano. 2014. Stiglitz. 2016.

13 Baker, DeLong, and Krugman. 2005.

14 Takeo and Dormido. 2019. Colacelli & Corugedo. 2018.

15 Takeo, Y. and Dormido, H. 2019.

16 McCurry. 2023.

of a pattern seen already in many parts of Greater Minnesota.[17]

But while Japan is in some sense a cautionary tale, it has also remained committed to the provision of basic public goods and services, using substantial government debt to support public pensions and other core services. This has helped maintain a highly functioning society and a strong standard of living despite the noted demographic challenges. The result is the fourth-highest labor force participation rate in the world, and a quality of life that is holding steady despite considerable demographic headwinds.[18]

The United States, Minnesota included, faces a potentially darker scenario: U.S. life expectancy is lower than that in many developed nations, and Americans face generally higher poverty and worse health outcomes than their counterparts in other developed countries.[19] Minnesota, like the United States as a whole, has long depended on a large and growing population to make up for its lacking investments in the welfare and productivity of individual workers. But in the age of global population decline, this will no longer be tenable.[20]

Perhaps most disturbingly, experts describe fertility patterns as strongly path-dependent, which means slow growth now results in even slower growth later on.[21] Some experts have gone so far as to describe a downward spiral, in which a combination of sociological and economic factors contribute to declining birth rates across successive generations with foreboding nicknames like "the low fertility trap" or the "empty planet hypothesis."[22] These are grim predictions that warrant careful consideration by policymakers with the power to act.

And although academics remain characteristically cautious about suggesting strategies to remediate slowing population growth, there is one element of the necessary response on which they do agree: The compounding effects of slowing growth mean it is incumbent upon policymakers to do what they can as quickly as possible.[23]

Minnesota has long depended on a large and growing population to make up for its lacking investments in the welfare and productivity of individual workers.

1.3 DECLINING FERTILITY AND THE NEED FOR A MORE HOPEFUL MINNESOTA

Avoiding the worst potential pitfalls of this new demographic transition will require thoughtful public leadership. And indeed, policymakers have already begun to position investments in families and children in relation to declining fertility rates. But the question of how to influence birth rates is a fraught question in the U.S. context, where a woman's reproductive rights are subject to constant attack. The United States is simultaneously one of the only countries in the OECD with severe abortion restrictions, and one of the only countries without basic support for maternal and child health. As an objective matter, this contradiction in public rights and services is one of the more damning facts of American life. If both parties are concerned about falling birth rates, then the need for much greater investment in mothers and children should be a matter of political consensus.

17 Asche and Werner. 2023.

18 OECD Labor Force Participation. 2022.

19 Gunja et al. 2023. OECD. 2023. Poverty Rate Indicator.

20 Baker et. al. 2005.

21 Op. Cit. Testa et al. 2006

22 Jones, C. 2020. Testa, et. al. 2006.

23 Testa et al. 2016.

Despite fraught political dynamics, falling birth rates are an undeniably relevant indicator of society's development, and one with considerable bipartisan agreement: Although political parties and policymakers may have a wide range of views on issues related to birth, death, and public health, this report assumes a broad consensus that a dying society would be a bad one. And, most importantly, there is substantial evidence that women, on average, are having fewer children than they would like to.[24] Going back as far as 1970, Gallup Research has consistently found a substantial difference between actual and desired fertility.[25] Conservative researchers at the Institute for Family Studies have dubbed this the "fertility gap" and amassed additional evidence of the shortfall.[26] The fact that social and economic circumstances are interfering with family formation suggests that policy reform, while maintaining Minnesota's strong support for abortion rights, could increase natural population growth by helping families achieve the material means to reach their preferred size.

Many factors undoubtedly contribute to the fertility gap, but one important underlying economic reality is the rise of two-earner households. Employment rates within the working-age population have risen steadily since the 1950s and 1960s, primarily as a result of women entering the workforce. This did not result in a commensurate increase in household incomes on a per worker basis, but did create a new cost for childcare outside the home.[27] As with lacking reproductive rights and childcare, the recruitment of women into the workforce without the basic social infrastructure to support families is an objective policy failure.

Although researchers cannot render a clear answer on what is causing birth rates to decline, numerous data points share a common theme of pessimism about the future. In addition to the rise of dual earner households, researchers have cited factors including gaps between earning expectations and realities and emerging considerations like environmental anxiety. In a 2021 study by the Pew Research Center, for example, respondents who offered a reason as to why they did not want to have children listed economic and environmental concerns, as well as simply "the state of the world."[28] The connection between attitudes about the world and family planning decisions is further supported by a recent study on birth rates in Sweden, which found that subjective experiences, rather than factual realities, were playing an increasing role in the decision to become a parent.[29]

Whether for financial, environmental, or other social reasons, Americans of parenting age, as well as their counterparts in other developed countries, are increasingly uncertain that they will be able to provide a good life to their potential children. Minnesota's policy response, therefore, cannot be a narrow focus on family economic well-being within an increasingly dismal world, but the promise of a more stable and hopeful future for all. This would, of course, include programs aimed specifically at supporting parents and young children. But it must also include measures to build a sustainable future in the face of climate change, to reconnect communities through inclusive public infrastructure, and to create a generally more harmonious society.

The problem with the more narrow approach is reflected by the contrast in policy responses between Japan and Europe. Although they have not been immune to fertility challenges, France and Northern European countries that spend the most on broad, universal family supports have maintained the highest fertility rates in Europe, now stabilizing

24 Kearney et al. 2022.

25 Stone. 2018.

26 Stone. 2018.

27 Sawhill and Guyot. 2020.

28 Brown, A. 2021.

29 Gerda et. al. 2022.

Americans of parenting age are increasingly uncertain that they will be able to provide a good life to their potential children.

just shy of replacement level.30 Meanwhile, Japan's "Abenomics" focused on employer-based leave policies and targeted tax credits for parents, and failed to revive fertility, leaving Japan with some of the lowest birth rates in the OECD.[31]

The failure of narrow incremental policy change to improve birth rates is an important finding echoed by economists Melissa Kearney and Phillip Levine. Kearney and Levine surveyed existing academic literature and concluded that incremental policies, such as child tax credits and childcare subsidies, were less likely to improve U.S. birth rates than broader structural reforms.[32] In the United States and Minnesota, where public policies to support families are not only rare and underfunded, but complex and narrowly targeted, this is an important reflection. To address the demographic transition head-on, Minnesota must engage in bold policymaking that has largely fallen out of favor in recent decades.

There is no guarantee that even a bolder approach will appreciably improve birth rates. But investing in the welfare of Minnesota's workers, families, and children is the correct response to declining population growth even if birth rates cannot be meaningfully altered. As the next section discusses, these policies will increase the quality of life, labor force participation, and productivity of the current population. By making Minnesota a more appealing place to live, they may also improve the state's demographic outlook by increasing migration.

30 Pison, G. 2021.

31 McCurry. 2023. Japan PM's. OECD Fertility Indicator.

32 Kearney and Levine. 2021.

2.0 The Purpose and Promise of Public Goods

The job of the government is to provide the foundations of healthy, peaceful, and prosperous society. As with safe roads to commute on or schools to educate younger generations, public investment pays for things individuals not only need for themselves, but rely on others having as well, so that everyone can live in a functional and harmonious society.

The value of public goods rests in the fact that everyone can access them freely and use them to achieve greater happiness and prosperity. This makes them unprofitable in a business sense, but extremely profitable to society at large. For this reason, it is society's agent – the government – that is their only viable provider.

Education illustrates this point: The cost of private education is well outside the means of most families, so relying on private provision rather than supplying it publicly would result in a less educated population that would earn less, pay less taxes, and rely more on public services. But when made available to all, education enables a level of economic and social productivity that more than pays for itself. These sorts of investments play an essential role in structuring a strong economy. From roads and rail that transport goods, to care systems that allow the sick to recover public investments help ensure an able workforce and minimize barriers to commerce and employment.

Despite the enormous importance of public services, the U.S. does less at the federal, state, and local level to secure the basic needs of its residents than any other developed country. The United States is one of the only developed countries without a system of national health care or free college, and generally one of the lowest-taxing and lowest-spending developed countries in the world. The U.S. also has uniquely low life expectancy, high poverty, and low labor force participation.[33]

These social failures have long plagued communities and individuals across the U.S. and slowed economic growth relative to potential.[34] But they have been concealed at an aggregate level by comparatively strong population growth; a large supply of workers meant private employers and governments could generally find the people they needed to keep things running. However, demographic transition means this will no longer be the case. Whether trying to maintain a stable population or increase productivity of current residents in the face of population decline, greater investment in the basic needs of Minnesotans is the most important step Minnesota's state and local governments can take to brace for the future.

This report argues that Minnesota, like the United States at large, is suffering from a lack of basic public goods and services, and that this will prove increasingly socially and economically problematic in the face of demographic transition. It stresses the importance of effective, universal, and directly-administered programs as preferable to privatized provision, which results in additional extraction of public resources, or means-tested programs, which are both less effective and contribute less to the

33 Op. Cit. Sawhill and Guyot. 2020. Op. Cit. OECD Poverty and Life Expectancy Indicators.

34 Op. Cit. Baker et. al.

sense of collective betterment.

Thankfully, as shown in table 2.1, Minnesota may be somewhat well-prepared for this task. Although section 3 shows that Minnesota's levels of public spending are not especially high, they are better than many very low-spending states, which maintain minimal public services. Although deficient in many ways and weakened from its former state, Minnesota's relatively robust public sector could prove a strong starting point for more active government leadership in improving general social and economic welfare. This is discussed with regard to several specific issue areas in Section 4.

2.1 POPULATION CHANGE AND PUBLIC GOODS

As the population ages, the quality, accessibility, and affordability of basic public goods and services will be more important than ever. Economists posit that steadily improving living standards are an important factor in avoiding demographic spirals.[35] So, in addition to policies aimed at encouraging healthy fertility rates more directly, the demographic transition also demands a wide range of public investments aimed at improving the quality of life for all Minnesotans. Universal programs guaranteeing first-rate healthcare, housing, and transit, as well as early childhood, K-12, and higher education will not only make life more affordable for the working class, but will add great value for higher-income families as well. Investments in park, libraries, and other community spaces that make life more pleasant are important as well.

Minnesota, like the United States at large, is suffering from a lack of basic public goods and services, and that this will prove increasingly socially and economically problematic in the face of demographic transition.

From a business standpoint, a shrinking workforce emphasizes the need to maximize the productivity and participation of the workers we do have. This is the same challenge identified by the Minnesota Chamber of Commerce in its 2021 report, Minnesota 2030: A Framework for Growth.[36] Like this report, Minnesota 2030 highlights the need to address housing and childcare shortages, and to reduce racial disparities that result in the loss of human potential. Although they do not call explicitly for higher levels of public investment, the Chamber of Commerce has also identified the precise problem that results from the inadequate supply of public goods: Too many people lack access to the building blocks of a stable and productive life.

Thankfully, greater investment in universal public necessities will attack the challenges of demographic transition from multiple angles. In addition to improving workforce participation and productivity, making Minnesota a more affordable place to live can help increase natural population growth by easing barriers to starting a family. Lower costs and a higher quality of life may also help attract more in-state migration, relieving population pressures in the near-term.

In addition to investing in programs to improve quality of life for working families currently struggling to make ends meet, Minnesota should invest in programs that benefit middle-class and even upper-income households who face higher income tax rates in Minnesota than in some

35 Op. Cit. Testa et. al. 2006.

36 Minnesota Chamber of Commerce. 2020.

CHART 2.1A

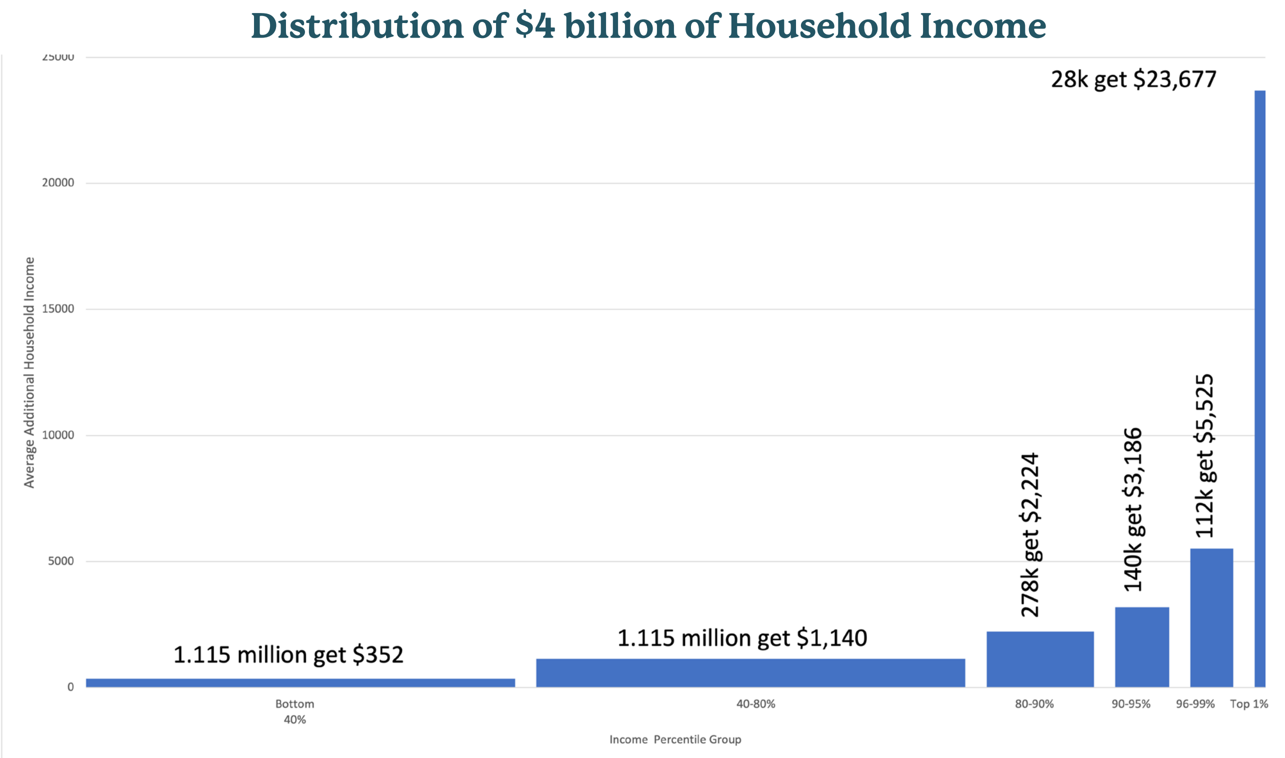
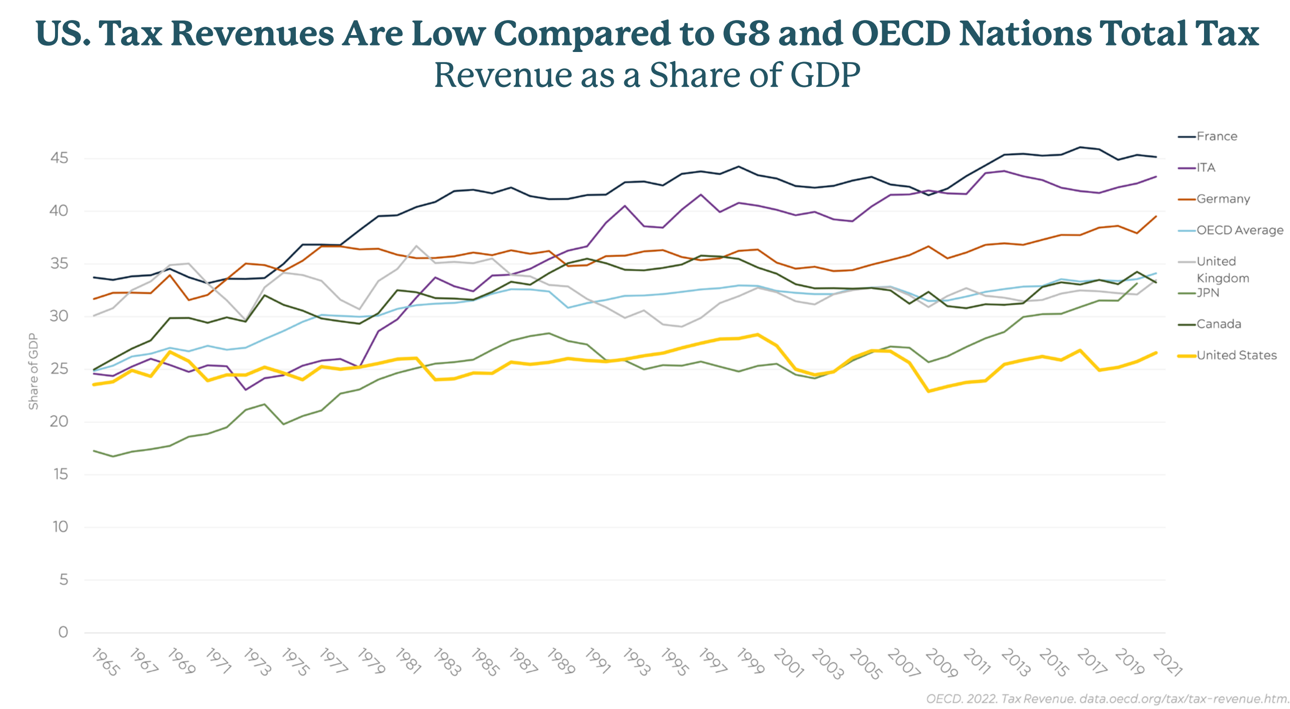


CHART 2.1B



neighboring states. The easiest way to do this is through the direct provision of universal services. This avoids the politically problematic division of payers and beneficiaries. Social Security and Medicare, for example, are regarded as the country's most popular programs, and this is widely attributed to the certainty that everyone pays in and everyone benefits. Breaking from the national habit of means-testing and privatization will be a difficult and long-term project for Minnesota, but it is a necessary response to impending demographic change.

In Section 5, this report discusses tax flight—the theory, championed by business interests and conservative commentators, that tax rates are the key determinant of state-to-state migration decisions. There is little evidence for this claim; in reality, population growth and migration trends are mostly regional, and Minnesota performs comparatively well within its region. But it would be foolish to ignore the rising relevance of migration levels to overall state well-being. Increasingly mobile, Americans are looking at their states and cities and questioning what value they receive for living there. Policymakers must work to make Minnesota stand out.

Minnesota can attract more residents, retain those we have, and encourage natural population growth by building on the state's reputation as a welcoming, affordable, and charming place to live. But doing so requires tangibly delivering on these ideals for all residents. This means broad programs to meet universal needs, but by no means excludes additional investments aimed at rectifying historic disparities and injustices.

> Although they do not call explicitly for higher levels of public investment, the Chamber of Commerce has also identified the precise problem that results from the inadequate supply of public goods: **Too many people lack access to the building blocks of a stable and productive life.**

2.2 INVESTING IN AN INCLUSIVE MINNESOTA

Demographic data shows that foreign immigration and communities of color are central to Minnesota's hope for a bright future. And yet, Minnesota is home to some of the largest racial disparities in America. This, combined with high-profile police killings of George Floyd, Daunte Wright, Amir Locke, and others, paints a bleak picture of Minnesota's ability to create a peaceful and prosperous multiracial society. Overcoming this challenge is both an ethical duty and a pragmatic necessity, but the degree of current disparities suggest it will not come easily.

Black Minnesotans experience unemployment at more than twice the rate of white Minnesotans, while the Black-White homeownership gap in the Twin Cities was recently identified as the worst in the country.[37]

Hispanic Minnesotans graduate from college at half the rate of white Minnesotans, while indigenous Minnesotans graduate at just one-third the rate.[38] Gaps in median household income and poverty are even more striking. In 2018, the median Black household earned just $36,849—less than half that of white Minnesotans—and experienced poverty at nearly four times the rate of White Minnesotans.[39]

The combination of high living standards for white Minnesotans and large racial disparities is referred

37 Buchta, J. & Webster, M. 2022.

38 DEED Labor Market Information Office. 2020.

39 Ibid.

TABLE 2.2

Minnesota Has Large Racial Disparities in Health and Wealth					
				Maternal Health Disparities	
	Unemployment, 2018	Median Household Income, 2018	Poverty	Share of Births	Share of Maternal Mortality
White	2.90%	$73,027	7.40%	70.00%	60.40%
Black	4.20%	$36,849	27.20%	13.00%	22.90%
Asian or Pacifical Islander	3.90%	$80,943	12.90%	8.00%	4.20%
Indigenous	8.80%	$35,148	33.80%	2.00%	8.30%
Hispanic or Latino	5.70%	$50,240	20.00%	7.00%	4.20%
Source: Op. Cit. MN DEED. Minnesota Economic Disparities...Minnesota Department of Health. 2022. Minnesota Maternal Mortaility Report 2017-2018. Minnesota Department of Health.					

to as the "Minnesota paradox," and while it has long been a rallying cry for Minnesota's racial justice advocates, it will soon be a pressing necessity for the solvency of the state's economy. Minnesota's racial inequities are by far the most obvious place to look for the productivity improvements needed to counteract slowed population growth.

Historic, systemic racial injustices suppress the welfare and economic potential of all Minnesotans of color.[40] The state is increasingly reliant on these oppressed groups to maintain a stable workforce, but has not created the basic structures to guarantee their social and economic empowerment. As state policymakers act to ensure that Minnesota can thrive well into the future, they will have to ensure that broad social programs are created with inclusivity and racial and ethnic sensitivity as a guiding principle.

A renewed commitment to racial equity in Minnesota means not just investments in children, families, and general welfare, but also policies to rectify historic harms, such as reform of a historically racially biased criminal justice system and the extension of public benefits to undocumented residents. Section 4 discusses these needs in more depth with regard to specific issue areas.

40 Moore, K. 2020. Minnesota Poverty Report. 2022.

3.0 Underfunded Minnesota

The assertion that Minnesota is not meeting the public investment needs of its residents contradicts a common perception of Minnesota as a high-tax, high-spending state. This section presents historical, national, and international comparisons to refute that notion. In truth, Minnesota now spends less than it has in the past and not considerably more than other states, all within a context of the lowest-spending developed country in the world. Additionally, Minnesota's public expenditures are proving insufficient to maintain an adequate public sector workforce, or to avoid the inefficiencies and poor service delivery that result from underfunding state and local agencies.

The analysis presented here places Minnesota's budgetary circumstances in a new light: In one of the lowest-spending developed countries in the world, Minnesota spends only slightly more on public goods and services than the national average. The result is the increasing fragility of public institutions and the public sector workforce as well as a less dynamic economy.

3.1 MINNESOTA TAXES AND SPENDING IN CONTEXT

Minnesota's effort at maintaining public goods and services has declined considerably over the past 30 years. As a share of the total state economy, Minnesota spent 10.2 percent more throughout the 1990s than it has over the past five years. This difference is substantial. Based on data from Minnesota Management and Budget's most recent Price of Government study, the difference between 1990s and recent spending levels would equate to an extra $13.2 billion in the coming biennium.

The ratio of state and local funding to the size of the state's economy is an important rubric by which to judge the sufficiency of the state budget, since the cost of public services rises along with total output and consumption. The Minnesota Center for Fiscal Excellence (CFE) has posited that personal income is a flawed baseline for this measurement because it includes components, such as Medicaid benefits, that do not actually reflect an increase in household income.[41] This is a valid concern for weighing the cost of government to individuals, but many of the payments that CFE analysts object to do indeed represent economic output and a higher burden of service on the public sector. Furthermore, the cash income metric that CFE has diligently created to resolve this problem does not greatly alter the picture of Minnesota spending when compared to other states.

In addition to declining spending over time, Minnesota's reputation as a high spender by national comparison is overstated. Business interest groups and conservative politicians often cite marginal tax rates as evidence of Minnesota government excess, but Minnesota's somewhat higher taxes are counteracted by lower charges for public services and smaller penalties for legal violations. In 2020, Minnesota's total state and local tax rate ranked 10th nationally, but non-tax revenues were lower, ranking 32nd.[42] Because fines and fees are the most regressive source of government funding, this approach also results in a relatively lighter burden on lower-income households. From a social welfare perspective, this is a good thing; excessive fines and fees are economically disruptive to households and can result in costly and protracted legal proceedings, and even the loss of property.[43]

When considering both tax and non-tax revenue—the total amount Minnesota residents and non-resident

41 Minnesota Center for Fiscal Excellence. 2017.

42 U.S. Census Bureau, compiled by the Urban Institute.

43 Carmona, T. 2021.

taxpayers pay for state and local government—Minnesota ranks 17th nationally, and 3rd out of 5 bordering states.[44] Using the CFE's alternative calculation, Minnesota's national rank is actually lower, at 23rd according to their most recent report.[45] And here too, the decline in state spending over time is visible; Charts 3.2A and 3.2B show that from the 1970s through the late 1990s, Minnesota raised and spent 10-20 percent more than the national average compared to 6 percent above the national average in 2020.

Although current spending levels are modest compared to the past, the fact that Minnesota spends any amount above the national average may seem like an indicator of sufficient spending. But focusing solely on national comparisons belies a very large disparity between the United States and the rest of the world.

44 Op. Cit. U.S. Census Bureau Compiled by the Urban Institute.

45 Minnesota Center for Fiscal Excellence. 2020.

The United States raises and spends a smaller share of total economic output on public goods and services than any other major economic power. The U.S. spends well below the OECD average, but the top-level figures presented here actually understate the full extent of U.S. austerity because they do not factor in the size of the U.S. economy.

Among all other developed nations, greater wealth correlates not only with greater total spending on public goods and services, but with a higher share of total economic output devoted to the public spending. Analysis by Nathaniel Lewis performed for the People's Policy Project shows that, scaled to national wealth, the U.S. is an extreme outlier, with public expenditures roughly equivalent to some of the poorest developed countries in the world.[46]

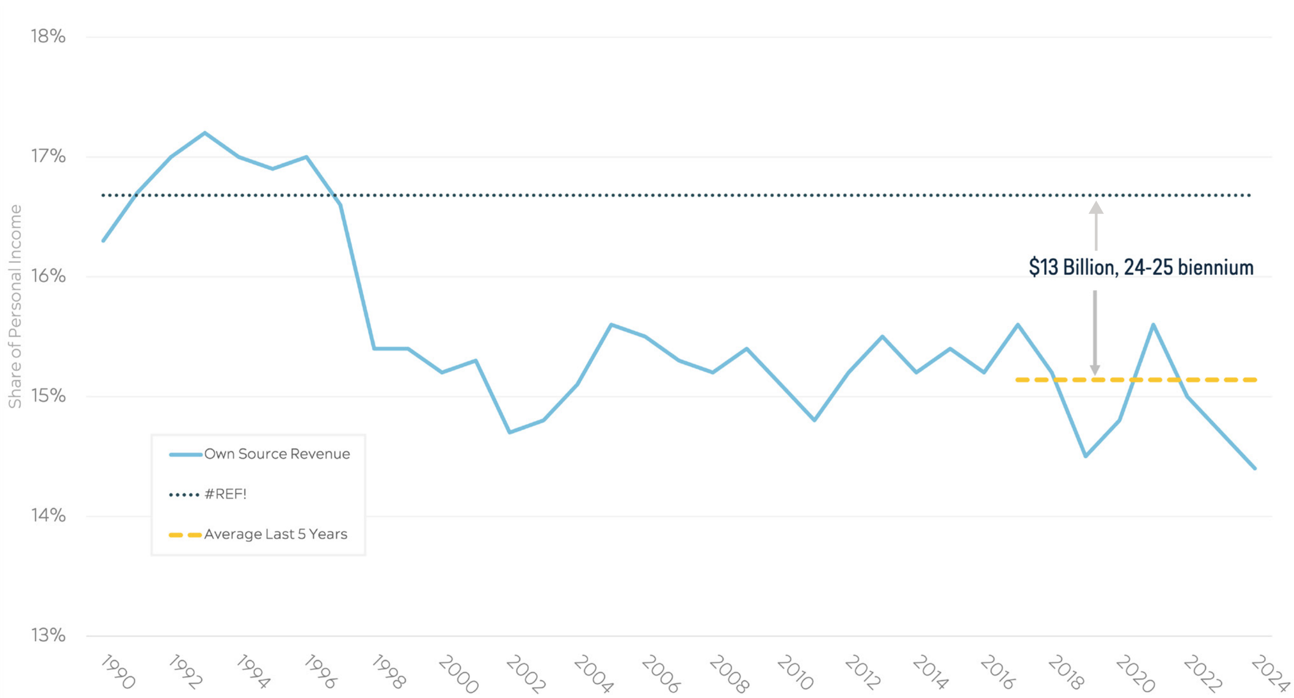
The trend of higher spending by richer countries makes sense if one considers the increased costs of running a more developed society: The average

46 Lewis. 2018.

CHART 3.1

State and Local Funding Has Declined Since the 1990s

State and Local Revenue as a Share of Personal Income, 1990 to 2024



Source: Minnesota Management and Budget. Price of Government, November 2022 resident will need more schooling to find gainful employment; residents will expect a higher quality of services and physical infrastructure; and the public sector will need to pay higher wages in order to attract a workforce capable of delivering the basic services on which society depends.

Higher spending among wealthier countries also makes sense if one believes that an advantage of a wealthier society is to extend a higher baseline quality of life to all residents. As top incomes and wealth rise, there is more excess that can be effectively redistributed through public goods and services that enhance social well-being. This is a benefit not just to those with less, but to all residents, who are able to live in a safer, healthier, and more productive society. And indeed, this is what every other OECD nation has done.

The United States is alone in having made a different choice, allowing greater income and wealth to accrue to the top, while doing less to secure a higher quality of life for everyone else. This is an especially important consideration given demographic pressures described in sections 1 and 2. Demographers and sociologists believe that family planning decisions are influenced substantially by both subjective hope for a brighter future as well as economic expectations of improved quality of life for future generations. Increasing, or at least consistent, support for broad social welfare is an important part of this equation, and yet the United States has neglected public sector services and the workers that provide them.

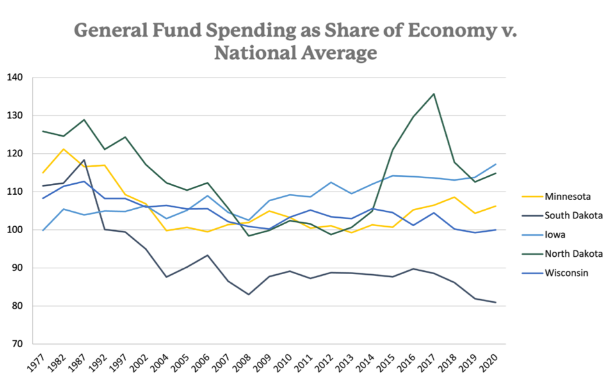
3.2 FAILING THE PUBLIC SECTOR WORKFORCE

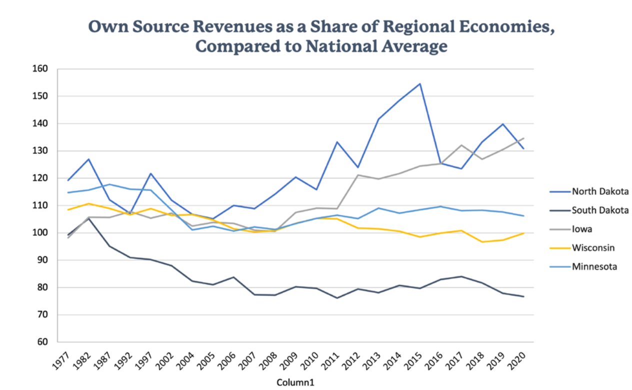
Another metric by which to gauge the sufficiency of Minnesota's investment in public goods and services is the degree to which the state is able to maintain an adequate public sector workforce. From the teachers educating students to construction workers building infrastructure, securing public goods and services depends on the state's ability—directly or indirectly—to hire people to provide them.

After decades of eroded expenditures, Minnesota is struggling to maintain the public sector workforce necessary to carry out the foundational duties of the state. Current difficulties in recruiting and retaining public sector workers could be a sign of bigger

CHART 3.2

Minnesota Revenues and Expenditures Are Close to the National Average, and the Middle of Five Bordering States





challenges to come; as the total workforce declines, state and local government employers will be forced to compete with rising private sector wages.

Rising private sector wages may be a good thing for individual workers, but this dynamic will represent a long-term challenge for Minnesota if state payroll does not keep pace with the economy. The public sector workforce provides a wide range of services that are necessary to sustain the private sector and to support general social well-being, so the loss of these workers threatens serious social and economic disruption. Public sector staffing challenges are also concerning because staffing levels, once in decline, will take time and effort to reconstitute.

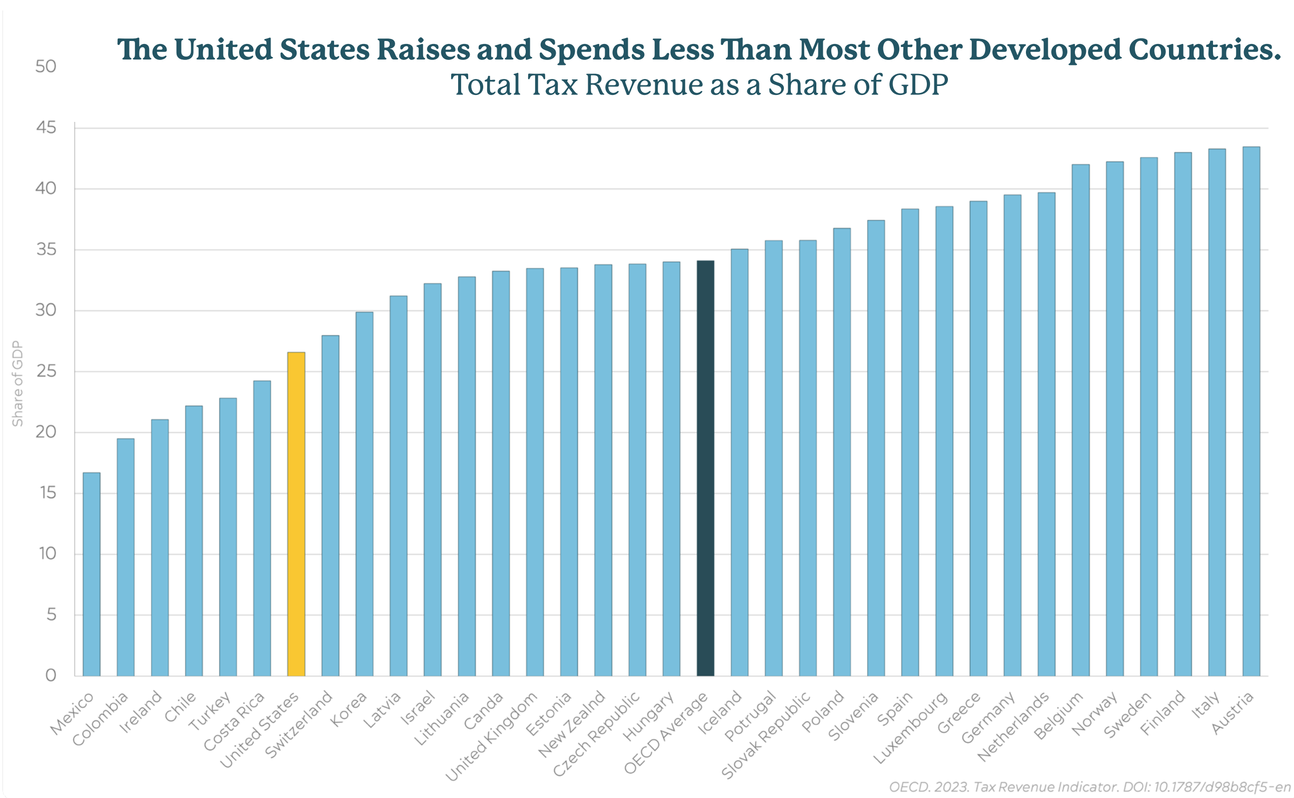
Minnesota's spending on public sector employees has shrunk more than 28 percent over the past three decades when measured as a share of the state's economy. Had state and local payroll held constant at 1993 levels, Minnesota would be spending an additional $10 billion on its public sector workers in 2023 alone, or nearly $27,000 per employee. This underfunding has resulted in both fewer workers and lower wages.

In 1990, Minnesota employed 9 percent more public sector workers per 1,000 residents than it does today. This may not appear as a huge change, but if we consider that Minnesota's schools are more diverse, its population is older, and that collective standards of care, education, and other public services should rise over time, then this is an arrow moving in the wrong direction. The resulting worker shortage has placed greater burdens on those who remain, caused service to deteriorate, and increased the risk of institutional failure.

As of the end of 2021, the Minnesota Department of Employment and Economic Development estimates the state was short roughly 20,000 healthcare support professionals as well as 8,000 educational instructors and librarians.[47] In their 2023 supply and demand report, the Professional Educator Licensing

47 Op. Cit. DEED Job Vacancy Survey.

CHART 3.3A



and Standards Board found that more than 38 percent of Minnesota's licensed teachers were working in another field.[48]

It is easy to see why these roles are proving difficult to fill: The same survey found median hourly wages of $15.86 for healthcare support professionals and $15.39 for educational instructors, which was among the lowest of all occupational categories surveyed. This is emblematic of a broader trend in lower wages for public sector workers. The Economic Policy Institute estimates that local government workers make 14.1 percent less than private sector counterparts with similar qualifications and backgrounds, and the gap is even bigger—23 percent—when comparing only workers with bachelor's degrees.[49]

In many cases, lacking support for public and publicly-funded workers is resulting in outright institutional failure. Staff shortage was the top cause cited in the closure of 15 nursing homes since 2019, while the Minneapolis Federal Reserve found that hiring difficulties were a key contributor to potential closings in more than half of Minnesota's childcare facilities.[50] In addition to care work, these challenges extend to the state's justice system: A 2021 report completed by the Office of the Legislative Auditor found chronic staffing shortages resulted in unsafe conditions for workers and inmates at Minnesota's 11 state-run correctional facilities[51], and resignations among public defenders skyrocketed by more than 150 percent between 2019 and 2020 as a result of low pay and unmanageable caseloads.[52]

Under-investment in public sector workers, and among care workers in particular, is both a cause and an effect of Minnesota's racial and gender disparities.

48 MN PELSD. 2023.

49 Morrissey, M. 2021.

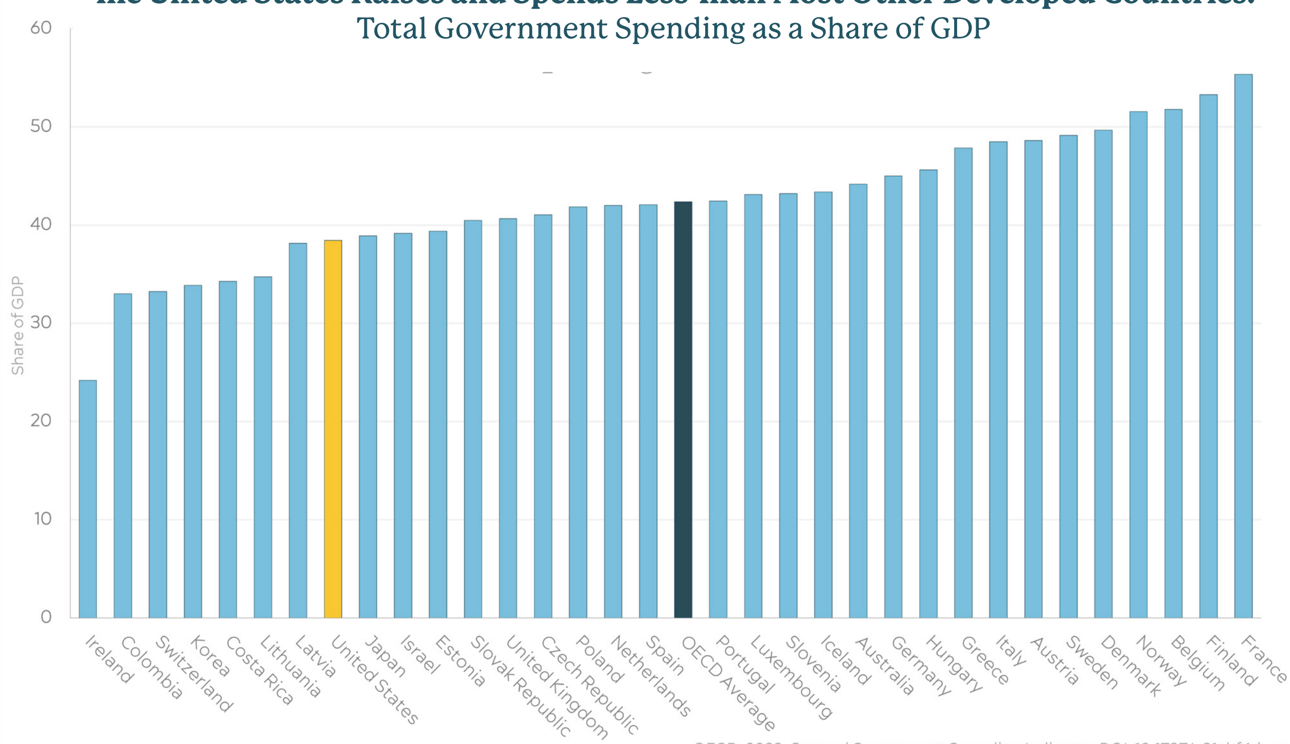
50 The Long-Term Care Imperative. 2022.

51 Office of the Legislative Auditor. 2021.

52 Ferguson, D. 2022.

CHART 3.3B

The United States Raises and Spends Less Than Most Other Developed Countries.
Total Government Spending as a Share of GDP



OECD. 2022. General Government Spending Indicator. DOI: 10.1787/a31cbf4d-en

The public sector workforce is disproportionately composed of women and people of color, who have long performed essential social tasks for inadequate wages. This has always been unjust, but as the importance and scarcity of these workers intensifies, the disparity will become increasingly untenable.

Challenges in recruiting and retaining the workforce to perform basic public services will continue, and worsen, until policymakers provide public funds sufficient to adequately compensate these workers in accordance with their skills and social importance.

3.3 LESS INVESTMENT, HIGHER COSTS

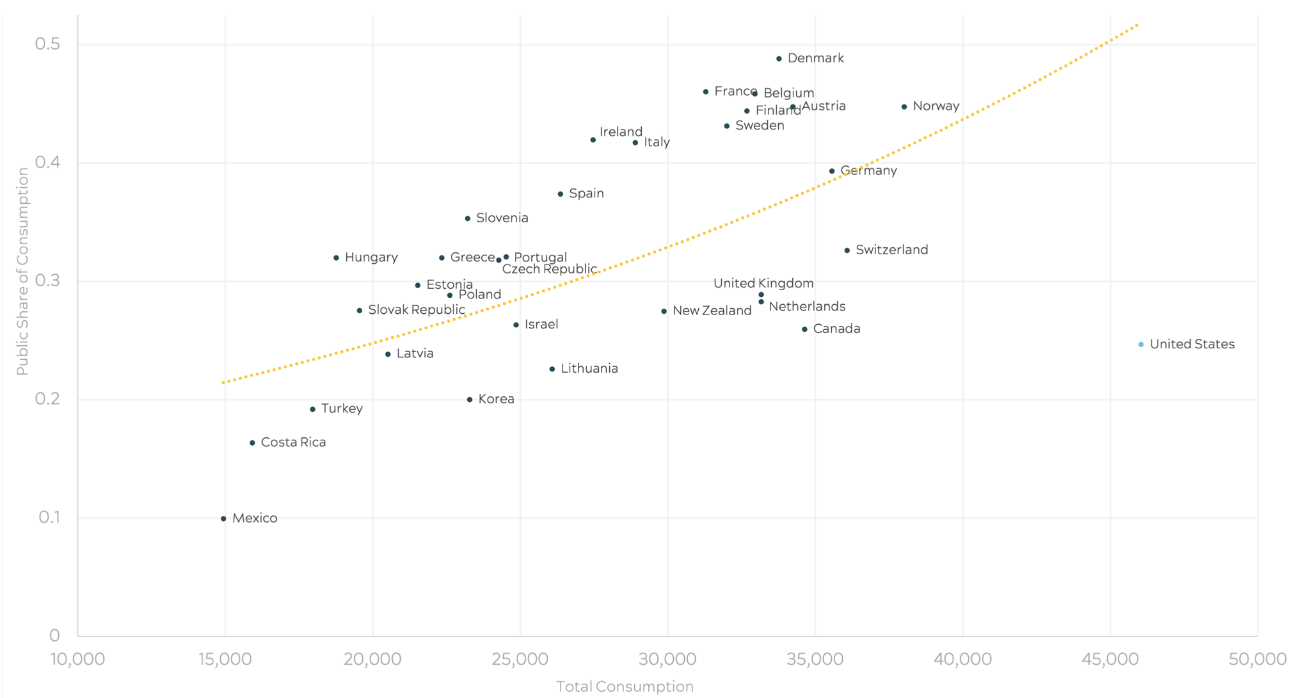
One more important consideration by which to judge public funding is efficiency—are public dollars deployed so as to maximize overall social and economic well-being? In Minnesota, underfunding and delayed investment results in increased costs, lost economic activity, and the burden of public service provision shifted onto downstream systems, like emergency rooms and the police. From this view, suppressed public spending fails on its own merits, as costs are not reduced but simply moved into other areas of the budget.

Examples of inefficient public funding range widely. MNDOT's Transportation Asset Management Plan, for example, shows that more intensive road preservation activities cost as much as 40-times more than simple maintenance. When state funding does not allow for all necessary maintenance to be carried out, heavier repairs are required and costs go up. Furthermore, at an estimated 5 percent per year, the rising cost of construction typically outpaces inflation, meaning that the state loses buying power for every year it delays projects. So, even though MNDOT engages in intensive planning to maximize efficiency, persistent underfunding delays optimal

CHART 3.4

Relative to its Wealth, the U.S. Spends Less on Public Goods and Services than Any Other Country in the World.

Social Spending as a Share of Personal Consumption Relative to Total Consumption.



Source: OECD. 2022. Actual Individual Consumption; Social expenditure, 2018 vintage. Accessed through OECD.stat.

maintenance and increases costs.[53]

Lacking support for affordable housing, low-income supports, and homelessness prevention results in even more substantial unintended costs. Minnesota spends less than 0.25 percent of its total budget on housing investment, but the public cost that results from the state's 10,000 homeless residents are potentially larger: a 2015 study of homeless youth in Minneapolis found that one group of 1,500 at-risk youth cost taxpayers nearly $30 million per year in increased public costs like criminal justice expenses and social welfare benefits.[54] The same study estimated that successfully stabilizing even just a small number of these housing insecure youths could result in net taxpayer savings of $50 million per year. And the uncounted costs of insufficient housing investment do not stop there. Inadequate housing infrastructure has also been widely cited as a damper on economic growth throughout Greater Minnesota.[55]

Finally, recent news stories have highlighted instances of fraud in government programs. Conservatives have seized on these as examples of alleged government dysfunction, but the truth is more the opposite: Revelations of childcare fraud that have emerged over the last several years as well as the more recent Feeding Our Futures scandal represent the risks of granting private entities access to public funds.[56] Similarly, recent examples of Medicare overbilling—not to mention high profits of insurers and care providers that provide public health services—highlight the increased costs of privatization.[57]

Fraud does indeed represent some waste or inefficiency of taxpayer money, but it arises not from excessive government intervention but rather from outsourcing that intervention. Fraud is not the norm within these for-profit and nonprofit service providers, and waste is an unavoidable part of any large institutional endeavor. But it would be unfair and dishonest to characterize these nefarious activities as proof of government inability to efficiently provide services.

From a humanitarian perspective, greater investment in housing and human welfare would be worthwhile regardless of their fiscal impact. But it is worth emphasizing that current funding levels and strategies are not only crueler, but potentially more wasteful and costly than a more direct approach to providing basic public goods and services. Section 4 discusses the human cost of underfunding in specific issue areas in more detail.

53 Op. Cit. MnDOT Transit Asset Management Plan.

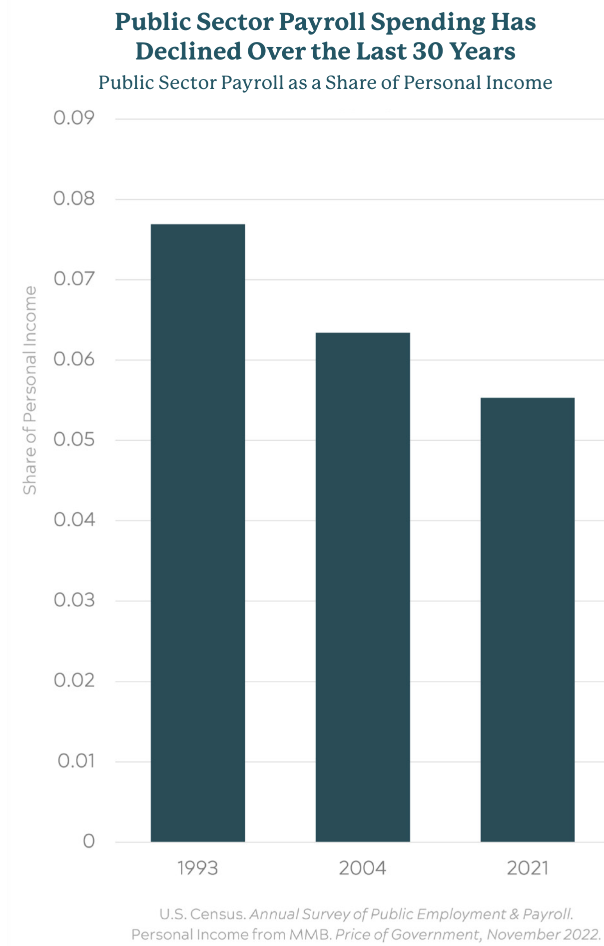
54 Foldes, S and Lubov, A. 2015.

55 Orenstein, W. 2022.

56 U.S. Department of Justice. 2022a.

57 U.S. Department of Justice. 2022b.

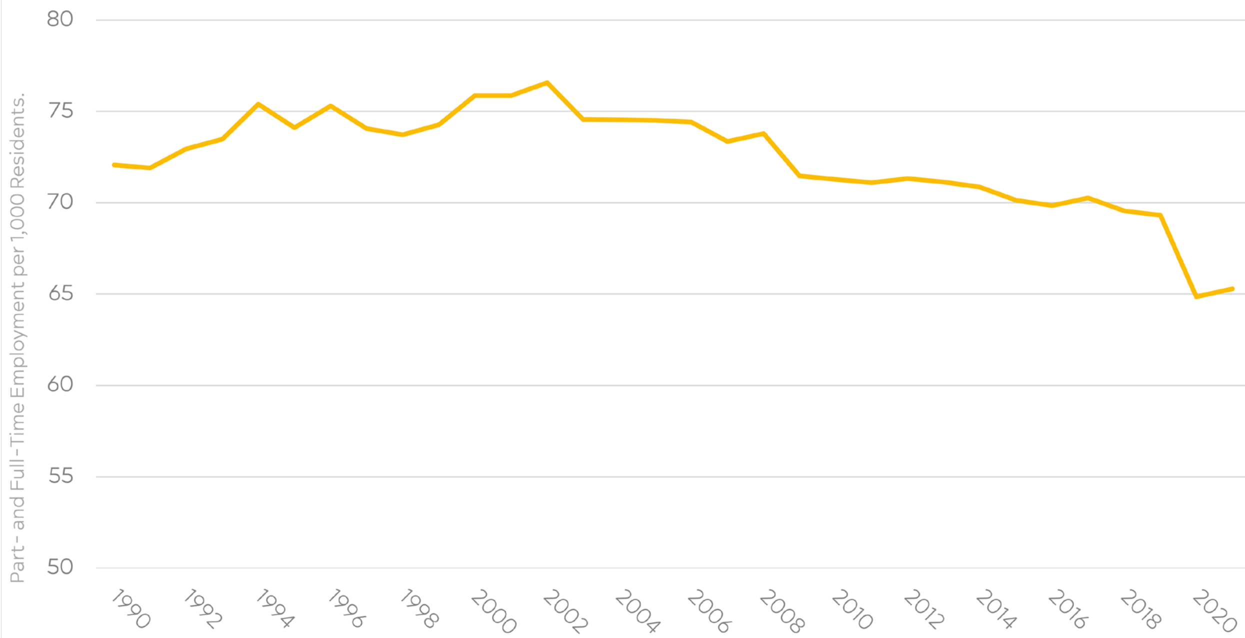
CHART 3.5



U.S. Census. *Annual Survey of Public Employment & Payroll.* Personal Income from MMB. *Price of Government, November 2022.*

CHART 3.6

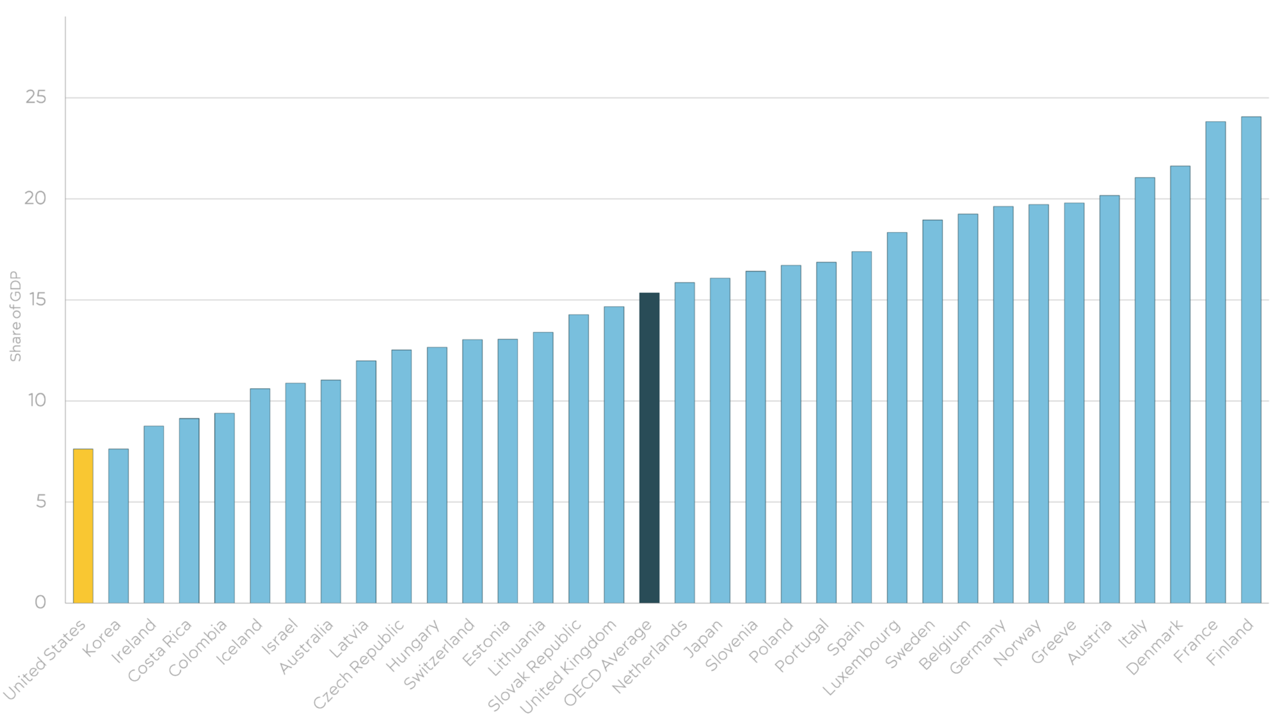
State and Local Government Staffing Has Declined Relative to the Population
Total State and Local Employees per 1,000 Minnesotans



MN Department of Employment and Economic Development. Minnesota Current Employment Statistics. Population is BEA's compilation of midyear Census.

CHART 3.7

U.S. Spending on Direct Assistance is Lowest in the Developed World
Social Protection Spending for OECD Countries, 2019



OECD. 2023. Social Spending Indicator. DOI: 10.1787/7497563b-en.
Note: Social protection indicator is cash and targeted direct in-kind. Does not include healthcare programs like Medicaid.

4.0 Areas of Under-Investment

This report has presented evidence that Minnesota is underfunding the public goods and services that keep the state running. Minnesota is under-investing relative to other countries, its own past, and the needs of the public sector workforce; insufficient funding levels are also resulting in less efficient spending and higher long-term costs, which will worsen in the face of the looming demographic crisis. These are important reflections for policymakers considering new state investments. But in truth, all of these heuristics could be replaced with two simple questions: Do Minnesotans have access to the basic building blocks of a healthy and stable life, and are public investments supporting an inclusive and sustainable society for all?

This section examines specific areas of investment, highlighting the role of state and local spending in making life affordable and creating a more prosperous and sustainable future for all Minnesotans. The discussion bears out an underlying theme of this entire report: Whether it is cheaper childcare, better schools, or more parks, many of the things that Minnesotans need and desire most cannot be bought individually, but must instead be secured collectively.

4.1 MAKING MINNESOTA AFFORDABLE

The difficulty of affording the basic necessities of life and raising a family is a perennial stressor for most Americans, and Minnesotans are no exception. Whether worrying over unemployment and low wages in recessionary times, or rising costs during inflationary booms, there is no economic condition in which household finances are not a major driving force in American social and political dynamics. And although there may ultimately be little to be done about persistent economic anxiety, the most obvious starting point is to invest in universal public programs that ensure every Minnesotan can freely and readily access their basic needs.

From housing to education to transportation, the majority of large household costs lie in areas overwhelmingly influenced by public investment. Easing barriers to these necessities is not just an act of social altruism, but of societal preservation; Minnesotans that cannot access basic goods and services will find it harder to live, work, and raise a family in Minnesota. Given looming demographic challenges, these sorts of barriers pose a threat to the state's long-term prospects for economic growth and demographic stability. The following sections cover many large categories of household expenditures but are not exhaustive of the many ways in which public investment can improve the financial welfare of Minnesota households and the economic dynamism of the state as a whole.

4.1.1 HOUSING

Housing is a fundamental human need, and the one most disruptive to a stable life when it is absent. Housing investments have myriad positive downstream effects, including better health outcomes, higher educational attainment, and lower risk of job loss.[58] But Minnesota, with housing investment of just 0.23 percent of the 2022-23 biennial budget, has not lived up to its potential to secure stable, affordable, quality housing for all

58 Gill, F. 2018. Spletzker, J and Harper, M. 2016. Minnesota Office of Higher Ed. 2018.

residents.[59] Minnesota's housing markets reduce economic opportunity and are a key perpetuator of racial inequity.

As in many areas of public need, the gap in housing access results from a lack of market incentive. Housing that is affordable to low- and middle-income Minnesotans is generally not profitable to provide. The result is high costs for consumers and deepened racial disparities, as well as lost opportunities for working class wealth creation and overall economic development.

The increased burden of housing is especially strong among the lowest-income households, which both spend the largest share of their income on housing, and have been subject to the largest increase in housing prices. Chart 4.1 shows the share of household income spent on rent by income quintile from 1985 to 2019. Rents have risen as a share of income across all quintiles, but the rise has been steepest for those that make the least. In 2019, the lowest-earning 20 percent of households spent an average of 43 percent of their income on rent, up from 34 percent in 1985.

This national pattern is confirmed by Minnesota-specific data. Recent estimates by the Minnesota Housing Partnership found high rates of cost burden among Minnesota renters, and especially people of color.

In 2021, 44 percent of white and 55 percent of Black renting households were cost burdened, meaning they spent more than 30 percent of their income on rent, while 22 percent of white renters and nearly one-third of Black and Indigenous renters were severely cost burdened, spending more than 50 percent of income on rent.[60]

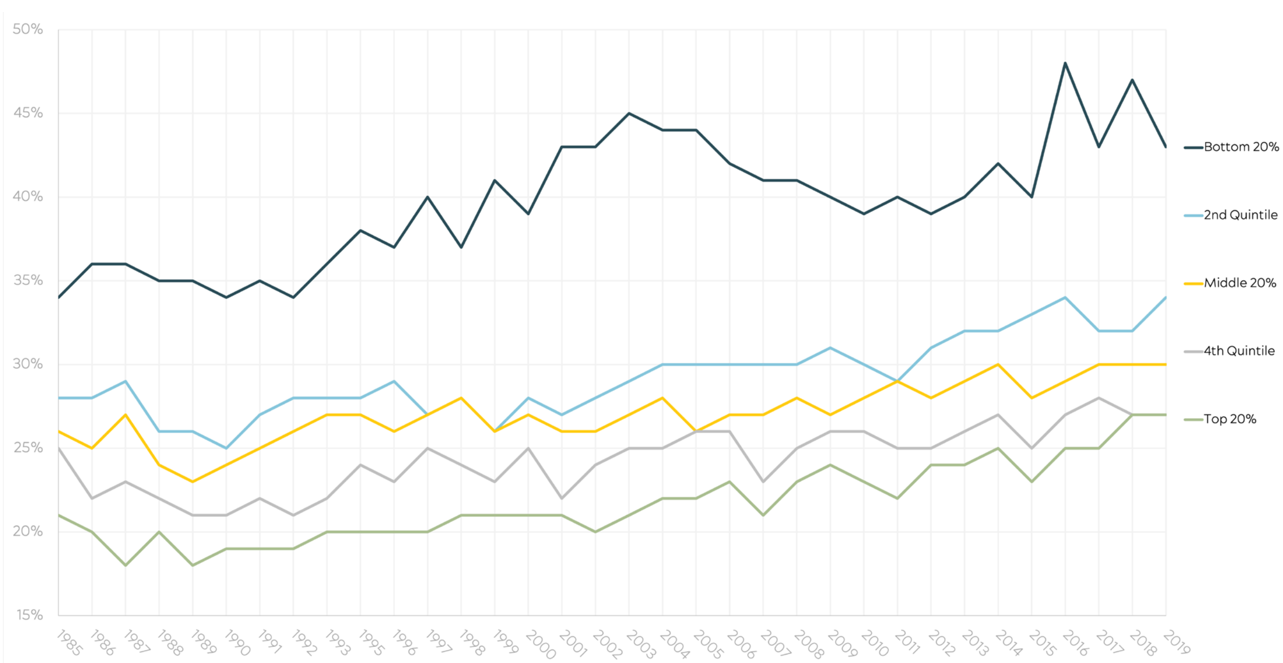
Unaffordable rent leads to housing instability and potentially to prolonged periods of homelessness. This summer, when federal pandemic rental assistance and eviction moratoriums phased out, evictions skyrocketed to 73 percent above the pre-pandemic level, threatening to increase a homeless

59 MMB. 2022.

60 Minnesota Housing Partnership. 2022.

CHART 4.1

Rent Share of Household Expenditures by Income Quintile



Source: Federal Reserve. 2021. "Differences in Rent Growth by Income 1985-2019 and Implications for Real Income Inequality, Accessible Data."

population of nearly 10,000 that is already causing widespread concern and political friction in the

Twin Cities.[61]

With a homeownership rate hovering around 75 percent and typically ranking in the top 10 of U.S. states,and typically ranking in the top 10 among U.S. states, Minnesota could be seen asis a relatively affordable state for buying a home.[62] But this is in reference to a national context in which home prices have vastly increased over time. Figure 4.2 shows the rapid rise of housing prices compared to household incomes over the last several decades. Since 1984, median household income has risen just 32.2 percent, while the Federal Reserve's House Price Index has increased more than 400 percent.

High Minnesota Homeownership rates also obscure enormous disparities by race. In 2019, a study by the Urban Institute identified Minneapolis as having the worst racial homeownership gap of any metropolitan area in the United States, with white residents over 50 percent more likely to own their home than Black residents—a disparity substantially greater than the 30 percent gap that exists nationally.[63] Structural, racialized barriers to homeownership suppress the economic potential of Minnesota's growing communities of color. They also hamper the state's economic potential: Businesses in Greater Minnesota have cited insufficient housing supply as a major drag on growth.[64]

The solution to these challenges is to invest in housing security and opportunity for all Minnesotans. This means funding the maintenance and preservation of the existing affordable housing stock; investing in building more affordable and publicly owned units; providing down payment assistance and accessible loans to first time buyers; deploying targeted rental relief to prevent displacement; and assisting local governments in addressing homelessness.

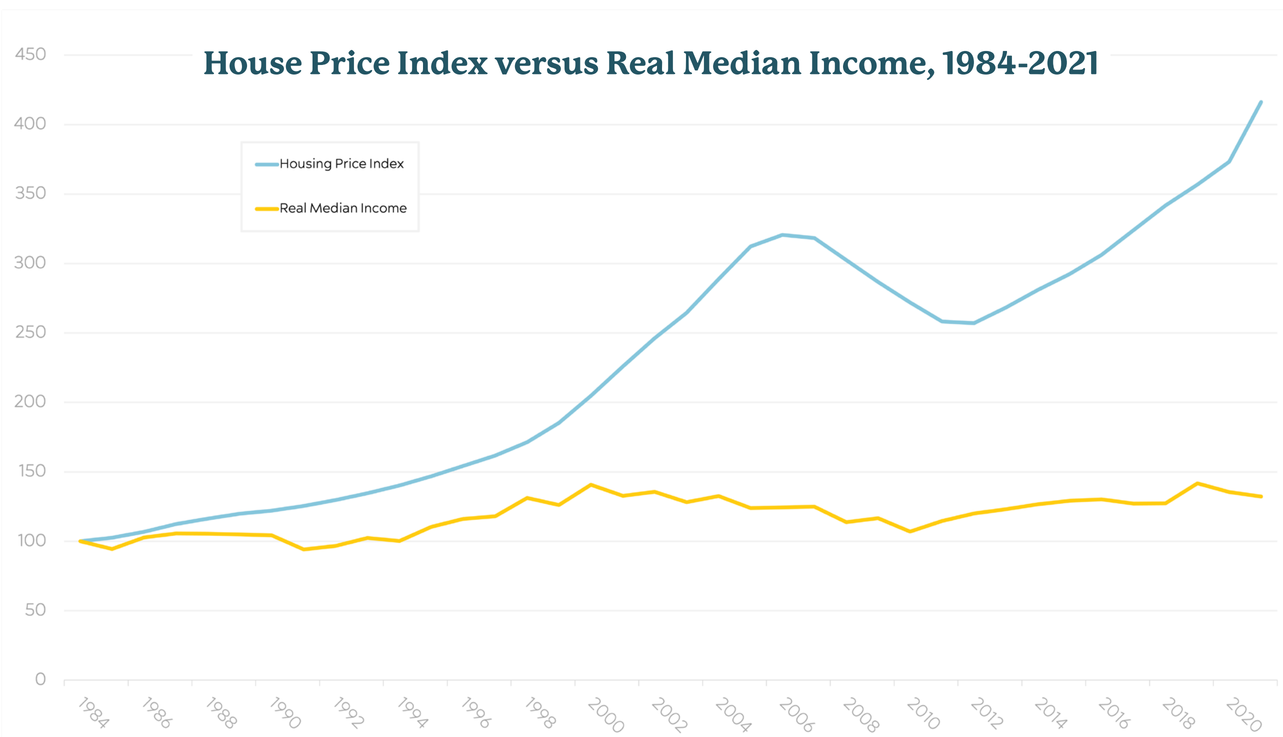
61 Moini, M & Burks, M. 2022. Pruni, A. 2020.

62 U.S. Census Bureau. 2020. Housing Vacancies and Homeownership Survey.

63 Jung et. al. 2019.

64 Orenstein, W. 2021.

CHART 4.2



Author's Analysis, All-Transactions House Price Index for Minnesota (MNSTHPI) and Real Median Household Income in Minnesota (MEHOINUSMNA672N). Compiled by the Federal Reserve Bank of St. Louis.

These sorts of investments would vastly improve the quality of life in Minnesota, increase economic opportunity and upward mobility, and reduce many downstream costs to the taxpayer, as evidenced by multiple studies citing the high cost of homelessness and the large, negative health and economic effects of housing instability. Reducing housing insecurity would free schools from the added difficulty of educating homeless students; it would cut down on costly police and criminal justice activity associated with unhoused people; and it would improve health outcomes, resulting in a larger and more productive workforce.

4.1.2 CHILDCARE

For young families, the cost of childcare can be crippling. Prices range from about $8,000 per year for family care of a four-year-old to more than $17,000 per year for center-based infant care. Analysis by MN DEED found that these costs can range from 9 to 19 percent of Minnesota median household income, but can reach well over 30 percent for Black households and over 50 percent for single parents.[65]

The state provides some assistance through the Minnesota Family Investment Plan (MFIP) and Basic Sliding Fee (BSF) programs, but it is available only to the lowest-income families, while the struggle to afford childcare is universal. A family of four will be deemed ineligible from the BSF program if they earn more than $55,000 and ineligible for MFIP if earnings exceed $39,000.[66]

These families may be most in need, but childcare is a substantial burden even for upper-income households. Considering a family with income in the top 10 percent of all Minnesota households—around

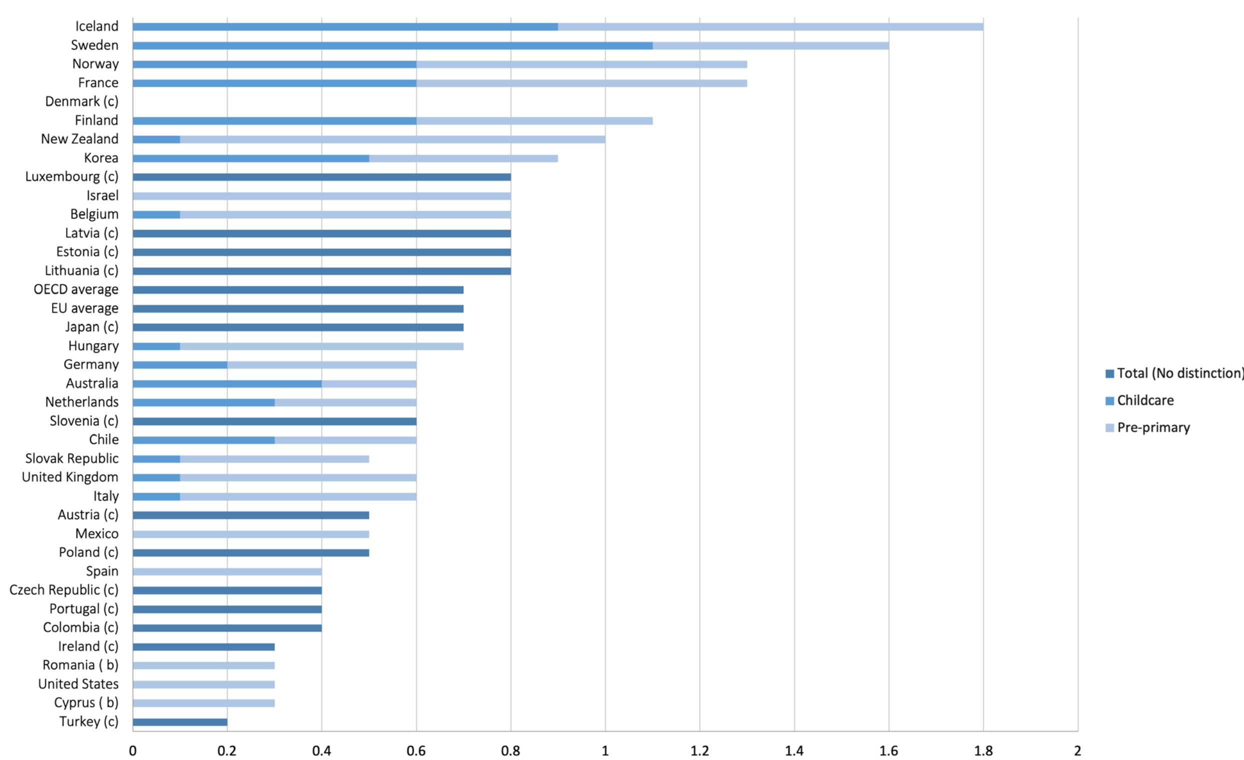
65 Casale et al. 2020.

66 MDHS. 2022a. MDHS. 2022b. Work Will Always Pay.

CHART 4.3

U.S. Spending on Early Childhood is Among the Lowest in the World

0-5 Care and Education $pending Across Major Global Economies



Source: OECD. 2021. PF3.1: Public spending on childcare and early education.

$180,000 per year—and two young children, annual childcare costs would still represent more than 16 percent of gross pay, and around 25 percent of after-tax earnings.[67] And while families with far ranging incomes struggle to afford childcare, the workers and businesses that provide it struggle just as much. Even before the challenges of the COVID-19 pandemic, DEED estimated a statewide shortage of 80,000 childcare slots, driven largely by the scarcity of labor. The unmet needs of the childcare workforce are discussed in section 3, but it is worth noting the same DEED analysis found a median childcare worker wage of just $12.28 per hour—significantly less than the median wage in retail and other low-paying professions.

The result of this failed system is crippling costs for families or the decision to forego working wages in order to save money on childcare. Neither is an optimal outcome for children, families, or society. The importance of childcare is that it is available to everyone: Investments in early child care have such a profound positive impact on childhood development every $1 spent has been estimated to return anywhere from $3 to $17 to society as a whole.[68] Unfortunately, Minnesota, like the United States, severely under-invests in these programs. The U.S. spends on early childhood education at less than half the rate as the average OECD nation.

But this enormous deficit is also a considerable opportunity: Currently, no state in the country has created anything closely resembling a universal system of childcare akin to public schools. Doing so could improve access and massively reduce the costs of early childhood for all families. Minnesota should be the first.

4.1.3 HEALTHCARE

Healthcare is another major cost for Minnesota households, as well as another key contributor to the state's persistent racial disparities. In 2021, Minnesota's overall uninsured rate reached an all-time low of 4 percent, but the uninsured rate increased among Minnesotans of color. Just 2.4 percent of white Minnesotans were without health insurance compared to more than 10 percent of Minnesotans of color.[69] And while relatively more Minnesotans may have health insurance, they cannot necessarily afford to use it. In 2019, 25 percent of Minnesotans reported foregoing needed healthcare and 22 percent reported difficulty paying bills within the same year they were due.[70] But of course, direct costs to individuals are compounded by those felt throughout society. In Minnesota, as in the United States as a whole, the lack of universal, affordable healthcare weakens the workforce and suppresses overall well-being.

The U.S. is both the only OECD nation without a system of universal public healthcare and its highest healthcare spender. This comes not just from the higher direct costs of financing a private system that generates billions in total profits every year, but from insufficient coverage, which results in costlier emergency room treatments, often on the public dime.[71] Ultimately, the U.S. spends more on healthcare than any other country and experiences worse outcomes.[72] As with childcare, there is economic loss here too: The lack of stable, reliable healthcare results in less entrepreneurship[73] because leaving a job to start a business means losing coverage, and also causes the labor force to shrink due to poor health.[74]

Encouragingly, healthcare is one area where Minnesota's public investments excel compared to other states. Minnesota consistently ranks as one of the top healthcare spenders, and there is ample

67 Childcare Aware. 2022.

68 Education Policy Innovation Center. 2021.

69 Minnesota Department of Health. 2022.

70 Minnesota Department of Health. 2021.

71 Boodman, S. 2013.

72 OECD. 2017. "Health at a Glance 2017: OECD Indicators." CMS. 2017.

73 Olds, G. 2016.

74 Stephens, M. 2018.

evidence that we get what we pay for. The Center for Fiscal Excellence has cited Minnesota's substantial health care investments as a reason for its 6th-ranked labor force participation rate.[75] And most importantly, Minnesota consistently ranks as one of the best states in the country across a range of health and welfare metrics; for example, Minnesotans have the third longest life expectancy and the lowest rate of mortality from heart disease, which is the leading cause of death nationally, and one associated with generally poor health from a lifetime of accrued healthcare deficits.[76]

But none of this should be taken as a reason to limit future investment, since any positive state rankings must be qualified by the fact that they are relative to the country with the highest costs and worst health outcomes of any developed nation in the world. The University of Pennsylvania study that marked Minnesota as the most affordable state for healthcare notes that the ratio of premiums to median income is still subjectively high, at nearly 25 percent, and that this figure does not include out-of-pocket costs, where the majority of disruptive costs tend to arise. Improving healthcare access and affordability, especially for marginalized groups including people of color and undocumented residents, should be a top priority as policymakers look to create a more inclusive and prosperous state for all.

4.1.2 K-12

Funding and overseeing the public education system is the state's largest single responsibility and the only one codified in the state constitution. Educational opportunities are a key determinant of employment, earnings, and even health outcomes later on in life, and are necessary to cultivate a competitive state workforce and strong economy.[77] High school graduates earn nearly twice as much money over the course of their lifetimes compared to non-graduates, and college graduates make nearly four times as much.[78] Schools are also centers of community and one of the most visible public institutions of daily life. The pandemic was a powerful reminder of the social disruptions that would arise without a strong system of public education.

Whether it is cheaper childcare, better schools, or more parks, many of the things that Minnesotans need and desire most cannot be bought individually, but must instead be secured collectively.

Unfortunately, despite the enormous social and economic benefits of increased investment in education, Minnesota's public schools have been subject to consistent underfunding. Adjusted for inflation, Minnesota state aid to public schools was $2,669 less per pupil in the 2022 school year than in 2002—a nearly 20 percent decline that was partially offset by local property tax increases. On net, Minnesota schools received 6.2 percent less funding in the most recent fiscal year than they did two decades earlier.[79] Statewide funding loss also obscures large disparities between districts.

The loss of education funding have proved enormously damaging to students and teachers, and particularly those of color. Unaffordable childcare, rising higher education costs, and vast K-12 staffing challenges are important contributors to Minnesota's notable

75 Center for Fiscal Excellence. 2014.

76 U.S. Bureau of Economic Analysis. SARPI Real personal income and real personal Consumption Expenditures (PCE) by state.
CDC. 2022.

77 Messacar, D and Oreopoulos, P. 2012.

78 Ibid.

79 Losing Ground

racial disparities.[80] In 2018, math achievement of Black and Native students was half the statewide average, while reading achievement for these groups sat just under 60 percent of the average.[81]

As a result of underfunding, Minnesota's teacher compensation now falls below the national average and lags that of other college-educated professions by 32.9 percent according to a recent study by the Economic Policy Institute.[82] Schools are also not properly staffed, with a shortage of nurses and counselors recently estimated at 6,000 statewide. And facilities contain a range of deficiencies including deferred maintenance in more than half of schools, insufficient HVAC in 30 percent of schools, and unsafe or problematic outdoor facilities in another 30 percent.[83] Payroll data shows school staff have been some of the primary victims of decreased funding for public sector workers and school districts are currently forced to shoulder the burden of unfunded federal special education requirements, known as the special ed cross-subsidy.

80 Education Law Center. 2021. Minnesota Department of Education. 2022.

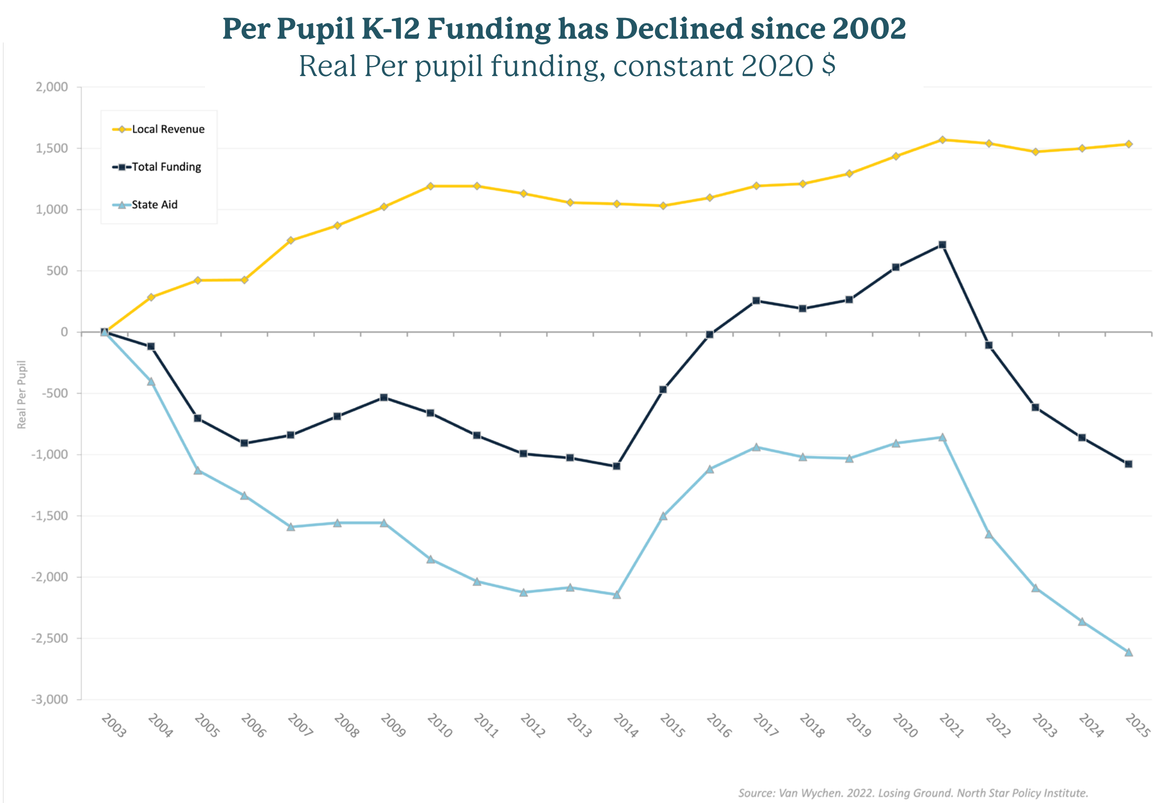
81 Educator Policy Innovation Center. 2019.

82 Allegretto. 2022.

Funding schools so that they can hire needed staff, offer competitive pay and a dignified retirement to teachers and other employees, and create programs to serve the needs of all students is one of the most fundamental responsibilities of state government. Good schools are an essential factor in overall community well-being, workforce productivity, and family location decisions, so ensuring excellent performance among Minnesota's public schools should be a top priority for policymakers who wish

83 Ibid.

CHART 4.4



to make Minnesota an appealing destination.[84]

4.1.5 HIGHER EDUCATION

High levels of college education have historically been one widely cited source of Minnesota's economic strength. Minnesota has the 11th-highest rate of college education in the country, and the highest in the Midwest, according to Census data compiled by the USDA.[85] Maintaining and expanding this competitive edge is important for the health and sufficiency of Minnesota's workforce.

Unfortunately, state support for higher education has declined over the past decade with disastrous consequences for students, families, and the state workforce. Controlling for inflation, Minnesota now spends 33 percent less on higher education than it did at its peak in 1999. As a result, tuition has risen substantially, far outpacing both inflation and per-capita personal income growth over the same time period, according to figures from the Office of Higher Education.

The immediate result of this divestment has been higher levels of student debt. In 2020, Minnesota had the 13th-highest average total debt and the 5th-highest percentage of graduates with some debt.[86] This financial burden greatly curtails the freedom of young Minnesotans, and may even impact the decision to make ends meet or settle down and start a family.[87] And importantly, the financial hardships resulting from student loan debt are not just limited to young Minnesotans: Studies show that many

84 Goldstein and Hastings. 2019.

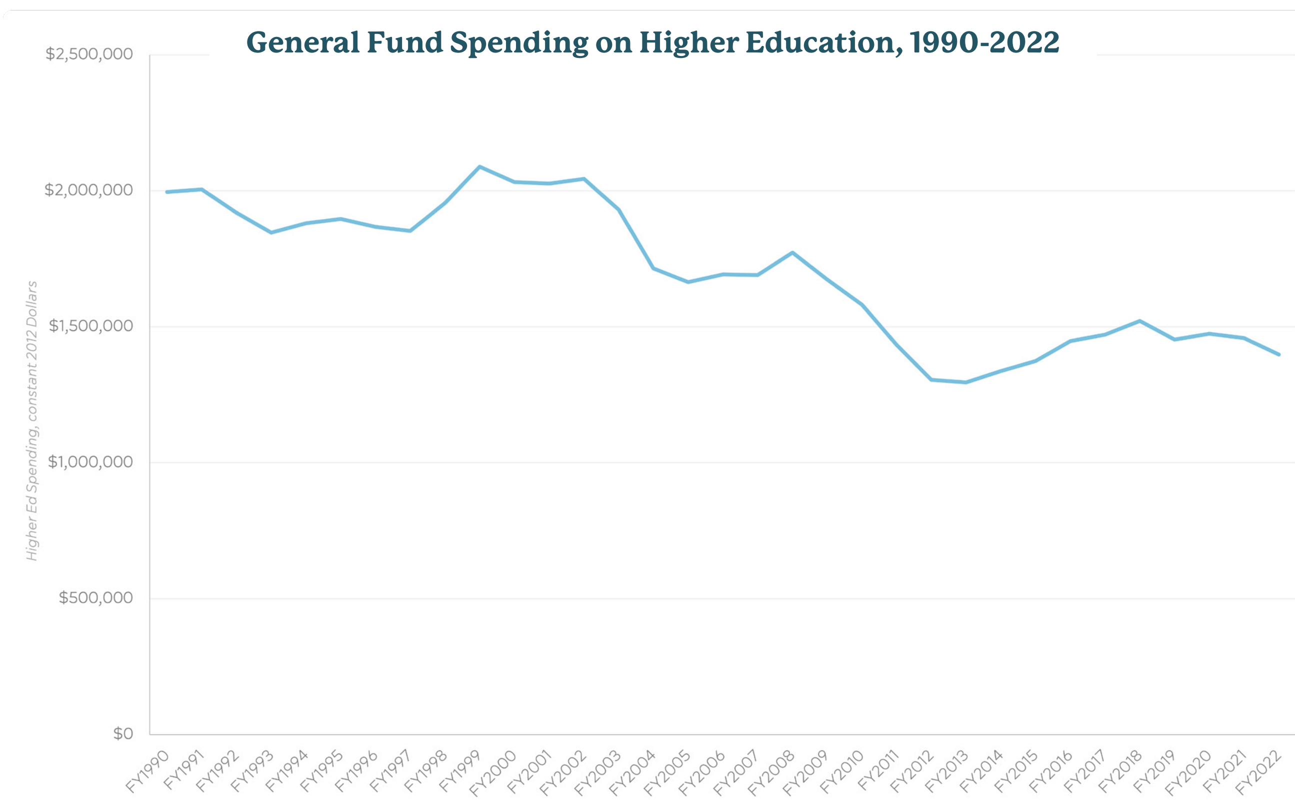
85 USDA. 2022.

86 Institute for College Access & Success. 2021.

87 Brown, P. 2021.

CHART 4.5

Higher Education Funding Has Declined While Tuition Has Risen



Source: MMB. 2022. General Fund Spending by Major Area (FY 1990-27).

seniors are also burdened by student debt.[88] Federal student loan forgiveness may aid some of these individuals, but the problem will persist so long as college remains unaffordable.

The high cost of college and lacking investment in state colleges and universities may also contribute to negative migration. A 2018 study by the Minnesota demographer's office found that Minnesotans aged 18 and 19 were the largest contributors to net population loss from migration, leaving Minnesota at roughly double the rate of those aged 24 or older.[89] And the out-migration of college-aged Minnesotans is just one part of the equation. Minnesota is a net loser of college students to nearby states, especially Wisconsin. This represents a substantial missed opportunity for Minnesota, which retains a higher share of graduating college students than other nearby states.[90] Making Minnesota's public colleges better and more affordable will be key to retaining and attracting more young Minnesotans and staunching these losses.

88 Waggoner, J. 2022.

89 Williams, S. & Brower, S. 2018.

90 Van Oot and Halter. 2022.

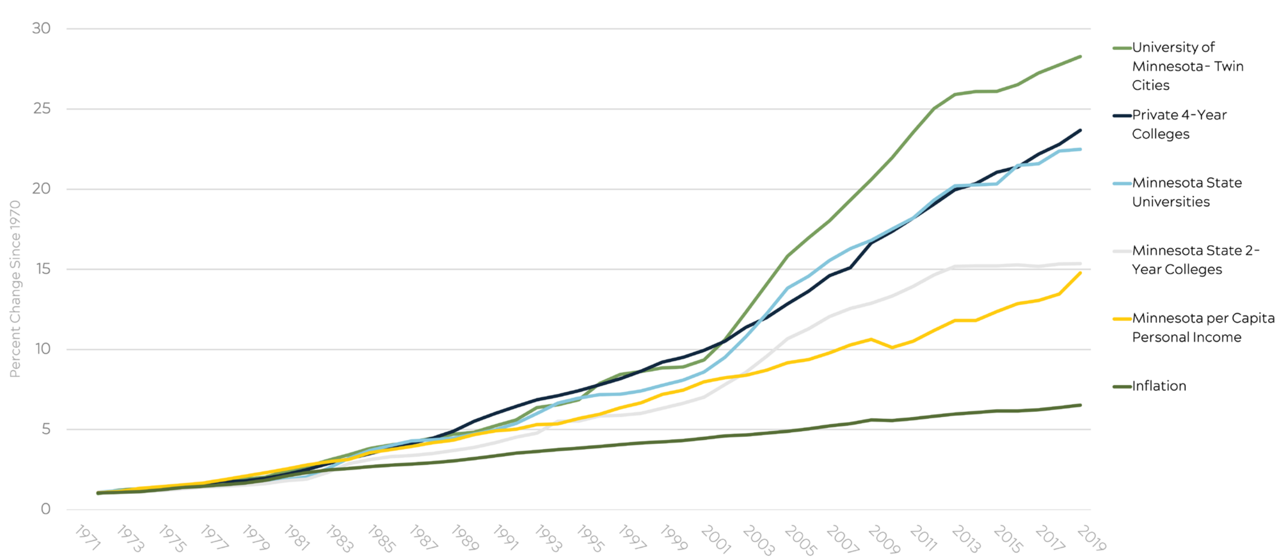
4.1.6 TRANSPORTATION AND PHYSICAL INFRASTRUCTURE

Although often taken for granted, physical infrastructure—from highways and bridges to public utilities like broadband internet—is essential for the creation of an equitable and prosperous society. When properly administered, infrastructure can ensure efficient access to opportunity and help weave diverse populations into a cohesive society. But when neglected or constructed without regard for impacted communities, it can inflict long-lasting harm, as seen in the water crisis in Flint, Michigan or with the destruction of the historic Black neighborhood of Rondo by interstate highways in the 1960s.[91] Building robust, efficient, and equitable infrastructure is key to ensuring a bright social and

91 Walsh, James. 2020.

CHART 4.5B

Tuition Changes Relative to Consumer Prices and per Capita Personal Income



Minnesota Office of Higher Education. Minnesota System-Level Undergraduate Tuition & Fee Trends.

economic future in Minnesota.

Adequate infrastructure investment is essential for both the physical and financial health of Minnesota residents. After housing and food, transportation is the largest category of consumer expenditure, and it is easy to see the connection between funding levels and human well-being. The American Society of Civil Engineers, for example, estimated in 2020 that poor road conditions result in $3,300 per year in added transportation costs due to fuel inefficiency on crowded roadways and the depreciation caused by driving on damaged streets.[92]

Improving roads can reduce the need for vehicular repairs, while providing better and cheaper opportunities for public transit could generate even more substantial savings—the USDOT Bureau of Transportation Statistics estimates the cost of car ownership at $10,000 per year.[93] This would carry important environmental benefits as well; despite technological advancements, transportation remains Minnesota's top contributor greenhouse gas emissions.[94]

Better transit is also a major priority for improving employment opportunities for low-income Minnesotans and Minnesotans of color who are disproportionately dependent on public transit. Metro Transit estimates that 55 percent of their riders are people of color, even though this population makes up only 35 percent of Twin Cities residents.[95] Transit options are also an essential public service for lower-income Minnesotans; 64 percent of Metro Transit's riders earn less than $35,000 per year. And yet, the average Twin Cities transit rider can reach only 1 percent of jobs within 30 minutes.[96] Investing in transit provides more equitable and cost effective access to jobs, services, and community amenities.

92 American Society of Civil Engineers. 2021.

93 Bureau of Transportation Statistics. 2022.

94 Minnesota Pollution Control Agency. n.d.

95 Metro Transit.

96 Owen and Murphy. 2020.

Infrastructure also carries enormous implications for the health of Minnesotans, which carries downstream economic effects of its own. Conservation Minnesota has estimated there are as many 260,000 lead service lines throughout the state and more than 49,000 homes with lead pipes.[97] This is the 10th-highest number of lead pipes per capita, according to the National Research Defense Council, and the health dangers are clear.[98] From stunted development and damaged nervous systems in children to cardiovascular and kidney effects in adults, the EPA has determined that there is no amount of lead that is safe in drinking water.[99] Absent public investment to replace lead pipes, these negative health effects will continue.

Unfortunately, persistent underfunding and missed opportunities have allowed Minnesota's infrastructure investments to fall behind. For the state's transportation system alone, the Minnesota DOT estimates unmet investment needs at $900 million per year over the next 20 years, and the needs are clear[100] Minnesota is currently ranked 44th for interstate highway condition and recently received a 'C-' from the American Society of Civil Engineers for its systems of transit and drinking water.[101] At current spending levels, around 10 percent of Minnesota's highway bridges will be rated in poor condition by 2030.[102] And this sort of deterioration will only exacerbate funding challenges by necessitating costlier, heavier repairs later in the asset lifecycle.[103]

Inadequate investment in physical infrastructure threatens the productivity of Minnesota's workforce and the state's long-term dynamism. Greater investment is needed to ensure Minnesotans can

97 Rivera, O. 2022.

98 National Research Defense Council. 2021.

99 U.S. EPA. 2022.

100 Kelliher testimony

101 American Society of Civil Engineers. 2021.

102 Kelliher testimony

103 Kane and Tomer. 2019.

freely and safely get where they need to go.

4.2 A BRIGHT GREEN FUTURE

In addition to challenges posed by declining population growth, the impact of climate change is the other major variable looming over Minnesota's future. Climate change will affect Minnesota's economy and society in innumerable ways. As has been seen just this year, the rising frequency of disruptive weather events, such as floods and heavy snowfall, threatens physical infrastructure and the flow of daily life.[104] Meanwhile, the gradually changing climate will alter agriculture and air quality, and concern potential parents who worry about the future in which their children might grow up.[105]

And while this report broadly assumes that population growth will remain low into the foreseeable future, there is one important scenario in which this trend may rapidly reverse: As climate change drives average temperatures up and increases drought conditions across the West, cooler, wetter northern states may receive an influx of climate refugees.[106] This, again, emphasizes the importance of forward-thinking investment, both due to potential demographic change, and for the general welfare of Minnesotans.

Policymakers must invest now in systems that will reduce the worst effects of climate change and allow us to adapt to those we can't avoid. This entails massive investment in sustainability and efficiency throughout the state, as well as carbon sequestration tactics including tree planting and sustainable farming techniques. Managing water resources in particular will be of paramount importance; state authorities predict that climate change will alter annual precipitation patterns and water quality.[107]

104 Oosthoek. 2023.

105 U.S. Environmental Protection Agency. 2016.

106 Lustgarten. 2020.

107 Minnesota Pollution Control Agency. n.d.

This will necessitate additional water infrastructure and place a more onerous burden on existing infrastructure.

And of course changes in the physical environment will pervade all aspects of daily life—from the health effects of worsening air quality to the changing HVAC needs of public schools. Climate, like population change, will demand an intentionality in public policy that presents a high hurdle for policymakers, which is simultaneously a significant challenge and an opportunity to make a giant leap. These are challenges that force us to think about the Minnesota we want to see 20 years from now, not just tomorrow.

4.3 PUBLIC SPACES

The majority of this report has focused on government's role in providing the most basic public goods and services, which are essential to the maintenance of a functioning society. This is mostly a pragmatic decision, to present the most immediate needs and inherently defensible public investments. But in truth, a wealthy democracy such as the United States, and a prosperous state like Minnesota should offer public benefits well beyond just what is needed to survive. And indeed, Minnesota is known as a state that values its numerous public lakes, parks, and riverfronts.

Public gathering places are an essential component of a strong, happy, and cohesive society, and should receive due support from the state budget. This is not a frivolous pursuit but a core function of government, and a notable driver of economic growth. Recent research by economists at the Brookings Institution found that quality of life improvements, such as recreation opportunities and public cultural activities, were more important influencers of population and employment growth than measures of the quality of the business environment.[108]

As policymakers look to improve life for residents

108 Austin et al. 2022.

and to compete for regional migrants, they should fund projects aimed at making the state a fun, as well as an affordable, place to live and visit. In Minneapolis, the Mississippi offers iconic views, gathering places, and tourist attractions. Meanwhile, city libraries are a safe refuge for all manner of Minneapolitans in need of shelter or diversion.[109] This is something to be celebrated and built on. As of 2021, the state provided just 7 percent of library operating costs at a relatively nominal $13.6 million.[110] Policymakers looking to improve quality of life should consider some foundational but oft-neglected public amenities.

And cities and counties across Minnesota seem to agree. From ice rinks to public trails and campgrounds, the last decade has seen an explosion of public amenities funded through local option sales taxes (LOST). LOST revenue represented 0.07 percent of Minnesota personal income during the late-1990s, but 0.18 percent in the most recent fiscal year, according to the Department of Revenue's most recent Price of Government spreadsheet.[111] This is an inequitable way to fund local projects since not all municipalities possess the retail tax base to easily generate revenue in this manner.

At the same time, assistance to local governments has declined through the erosion of the state's Local Government Aid (LGA) and County Program Aid (CPA) distributions, which provide state aid to local governments. Total LGA was $586 million in 2003 and just $564 million in 2021.[112] Adjusted by the implicit price deflator for state and local governments, that's a decrease of 55 percent, meaning the state would be distributing over $1.2 billion in LGA alone if 2003 levels had held constant.[113] Bolstering support for local projects and services is an important part of guaranteeing vibrant public life in Minnesota.

109 Harlow. 2022.

110 Kats. 2021.

111 DOR 2022. Price of Government.

112 Dalton. 2020.

113 Ibid. Author's analysis.

5.0 Flawed Economic Narratives

This report has presented evidence that Minnesotans are suffering from lacking access to a wide range of basic public goods and services.

Failure to provide basic necessities like childcare and affordable housing results in higher costs, lower quality of life, and lost economic potential. These challenges will intensify in the face of a looming demographic transition that will shrink the working-age population and complicate the delivery of essential public services. In a worst-case scenario, these effects compound with increasing pessimism about society's collective future and result in a downward spiral of depopulation and economic decline.

To all of these grave concerns, conservatives advance a singular response: Government programs will hurt the economy. Underlying this statement is the belief that unfettered economic growth will raise standards of living and resolve pressing social challenges in the most efficient way possible. This section shows that these rote economic arguments are both wrong in theory—economic growth does not resolve common socioeconomic challenges; and wrong in practice—lower taxes and spending do not lead to a stronger economy.

5.1 WRONG IN PRACTICE

The preponderance of economic data supports neither the notion that states with lower taxes and spending experience better economic performance, nor that tax cuts—which conservatives often put forward as an alternative to proactive public programs—can boost growth. More specifically, economic criticisms of Minnesota's tax and budget policies hold that the state's relatively higher taxes are hampering growth and causing residents to flee. The dynamics of state-to-state migration are discussed in Section 5.3, while the problems with the broader economic arguments are discussed below.

Claims that higher taxes are hurting Minnesota's economy are typically grounded either in comparisons to low-tax southern and western states that have experienced rapid growth in recent years, or to short timeframes in which certain metrics appear to support a specific conclusion. Looking at personal income growth since 1977, we see a clear picture of Minnesota's long-term economic strength

CHART 5.1

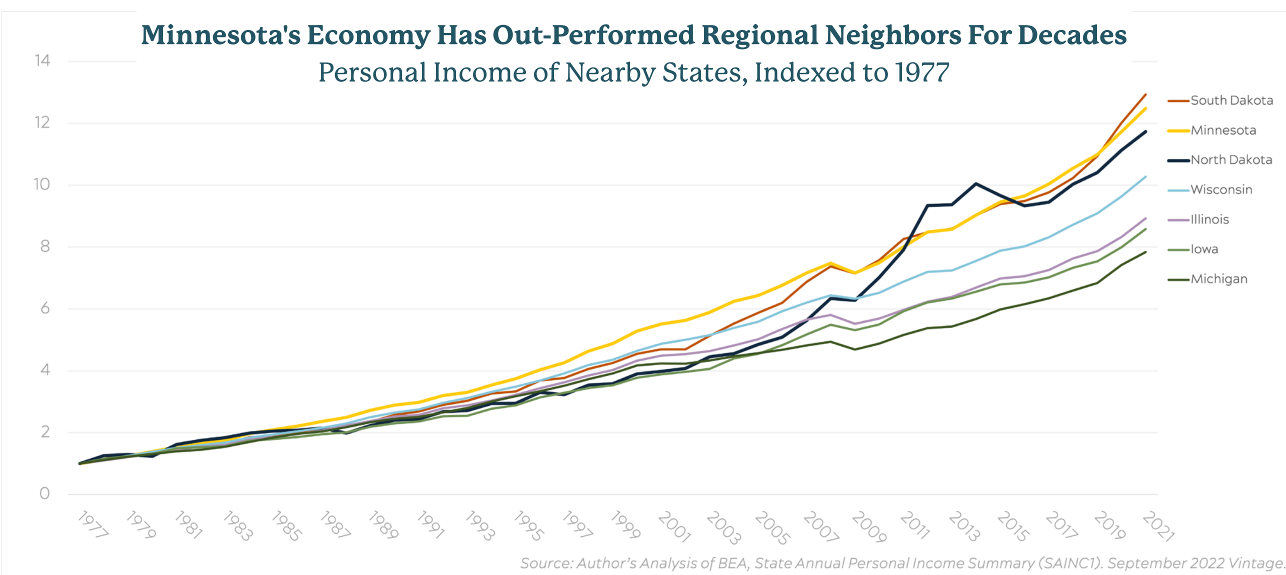
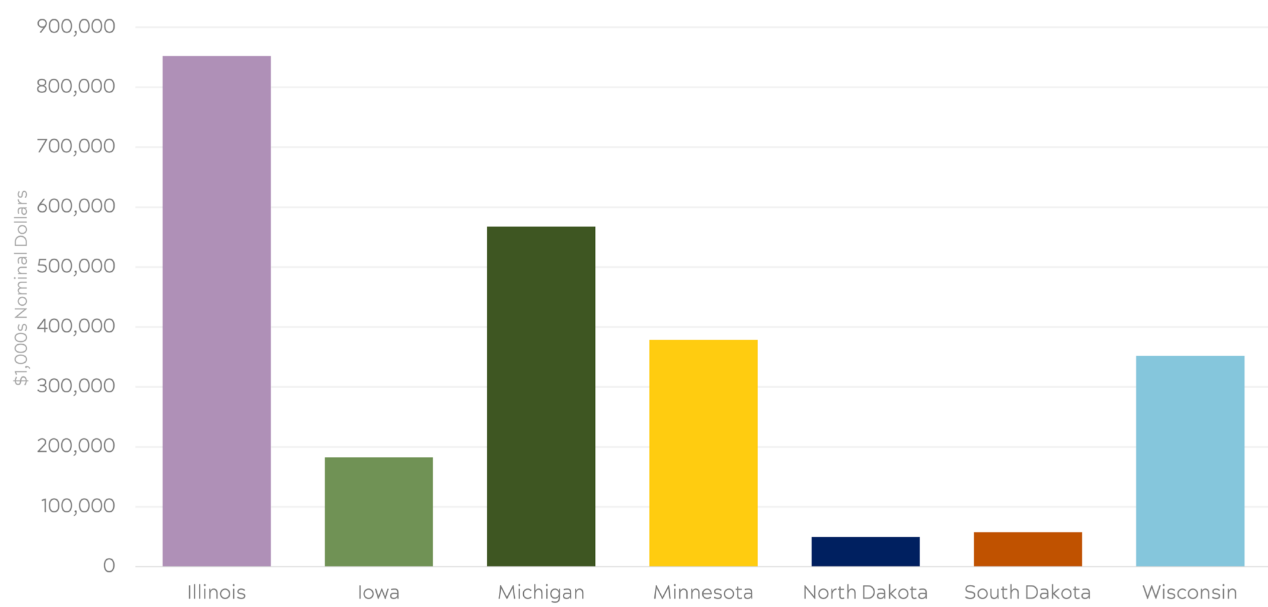


CHART 5.2

Minnesota's Economic Growth is On Par with Regional Norms

Source: Author's Analysis of BEA, State Annual Personal Income Summary (SAINC1). September 2022 Vintage.



Source: Author's Analysis of BEA, State Annual Personal Income Summary (SAINC1). September 2022 Vintage.

compared to other states in the region.

Chart 5.1 shows that Minnesota has consistently experienced higher rates of economic growth than its lower-tax neighbors Michigan, Wisconsin, and Illinois. South Dakota's growth has ticked upward in recent years, but it is important to remember the impact of scale. The two charts below contrast average growth rates over the last five years with the total size of each state's economy as measured by personal income.

A strong regional correlation is visible here, with South Dakota as a notable exception. South Dakota has indeed grown rapidly in recent years, but it is a far smaller state and economy. At just 15 percent the size of Minnesota and less than 7 percent the size of Illinois, even a modest amount of new activity will show up as a considerable increase in South Dakota's rate of growth. With such an enormous disparity in population and without a major metropolitan city, it is essentially meaningless to compare South Dakota's growth rate to any of the larger states in the region. Even more futile would be to draw conclusions about the efficacy or virtue of varying policy decisions based on momentary fluctuations in gross economic output.

As with population growth, slanted arguments about Minnesota's relative economic success sometimes center on particularly unflattering windows of time. The first year of the COVID-19 pandemic was one such time, and indeed Minnesota's economy registered the second slowest growth of nine regional neighbors over this period. But while growth across the country has remained relatively low, Minnesota grew steadily over the following six quarters, while other states lost ground.

5.2 WRONG IN THEORY

The previous subsection showed that Minnesota's economic growth is generally strong relative to comparable states in the region. But more important than arguing over variation in quarterly growth rates is demonstrating why the fixation on gross economic output is misguided. While economic growth is an important factor in overall socioeconomic well-being, it is not and should not be the primary focus of state policymakers.

Economic growth varies for many opaque reasons and does not necessarily result in higher incomes, higher quality of life, or a more prosperous society. Growth can come from extractive industries, like financial speculation, that return little social value or result in minimal real economic activity. Others can be temperamental and prone to boom and bust cycles, as seen with widespread layoffs in the tech industry in early 2023. And growth is often funneled primarily to the wealthiest individuals, with little benefit to everyone else. Simply put: High growth in GDP or other top-level economic metrics do not necessarily indicate higher standards of living or a stronger society. Moreover, growth is fickle and determined by a wide range of factors well beyond the influence of year-to-year policy decisions.

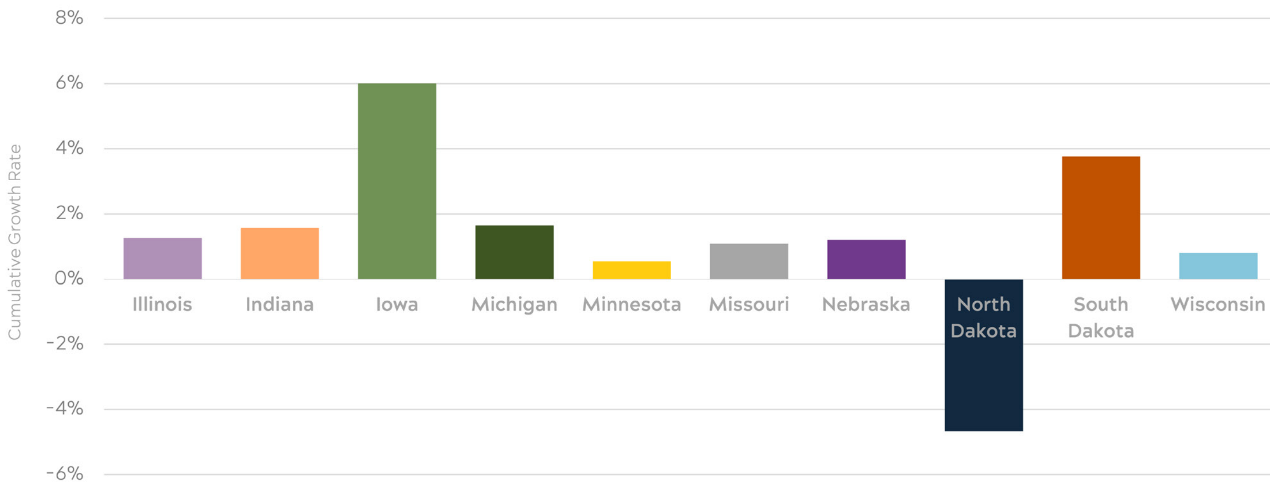
Even in times of strong economic growth, America's high levels of inequality mean that the rich capture a vast majority of the benefits. The Minnesota Department of Revenue estimates that in 2018, the top-earning 1 percent of households captured 16.5 percent of all Minnesota household income, with another 15.4 percent going to the next 4 percent. Altogether, the top 10 percent of earners received 43 percent of total household income. To illustrate what this implies about the financial benefits of economic growth for middle- and lower-income households, the figure below shows the distribution of an additional $4 billion of household income—enough to make Minnesota the fastest-growing economy in the region over the past year.

While the highest earners would receive thousands or even tens of thousands of dollars in this scenario, households in the bottom 80 percent would receive an average of less than $375. Although a very crude approximation, these figures show the uphill battle Minnesotans face in improving their living standards

CHART 5.3

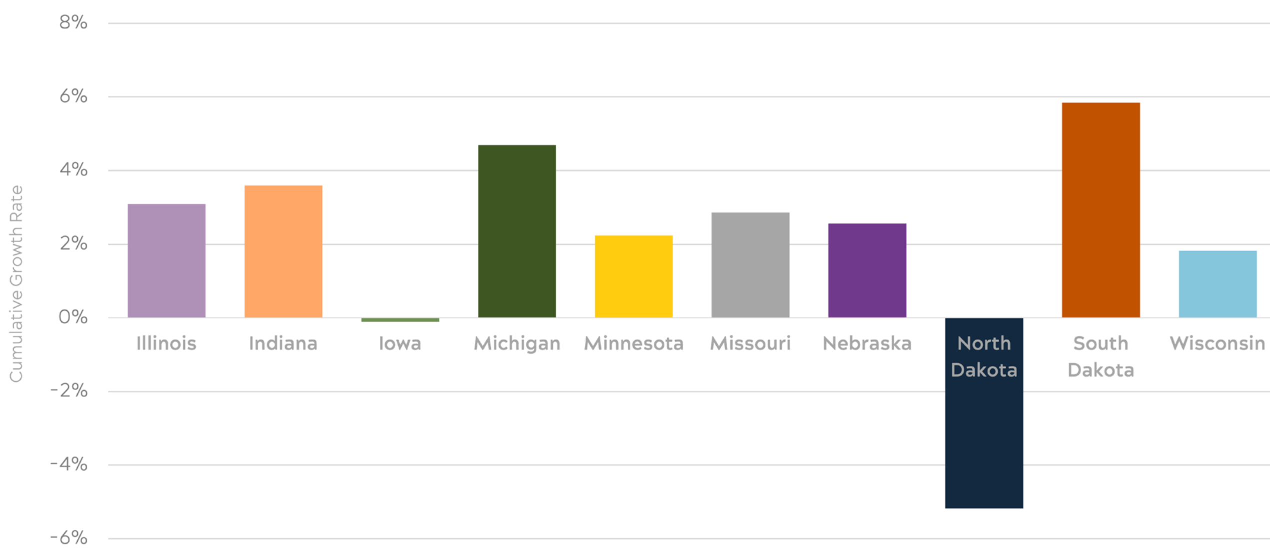
Despite Slow Growth Since COVID, Minnesota Has Outperformed Neighboring States

GDP Growth by state, 2020:Q1 - 2021:Q1



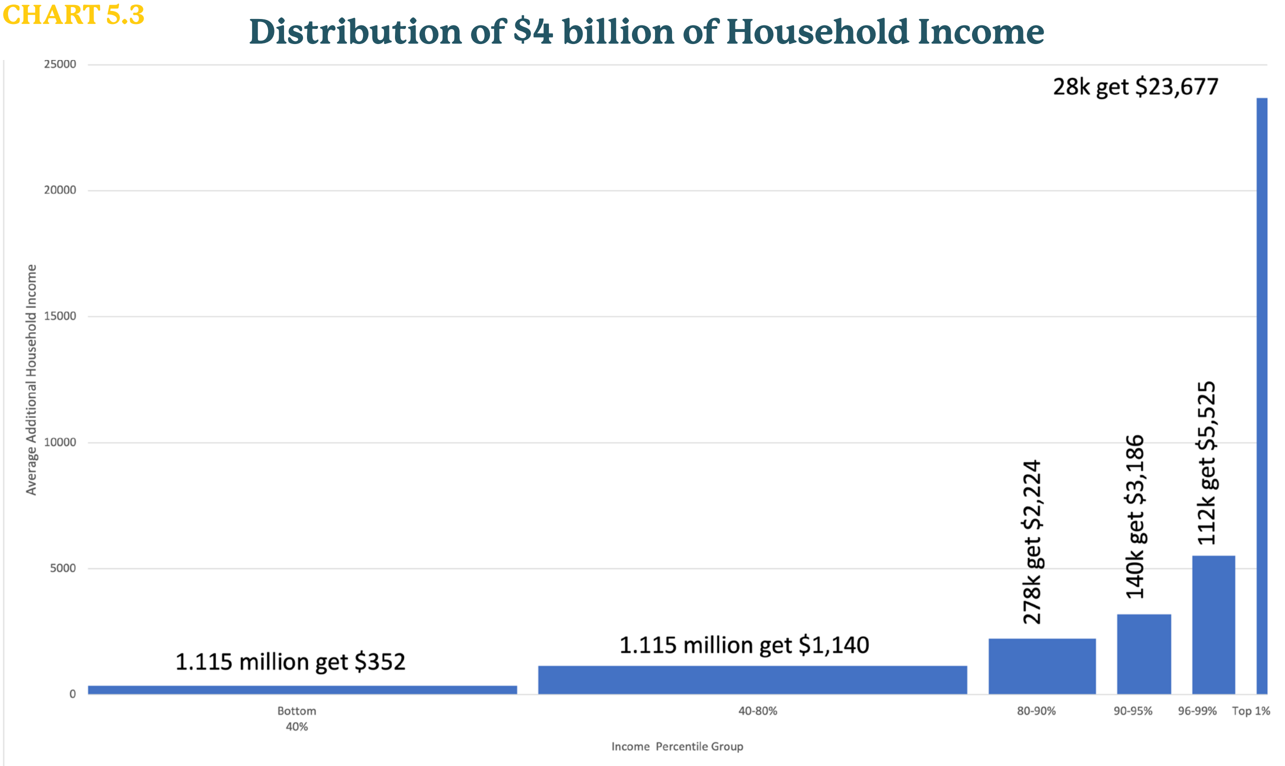
Source: Author's Analysis of BEA, Quarterly Real GDP by State (SQGDP1).

GDP Growth by state, 2019:Q4 - 2022:Q3



Source: Author's Analysis of BEA, Quarterly Real GDP by State (SQGDP1).

CHART 5.3



through market forces alone. This also helps explain why, after a decades-long national experiment in the benefits of low taxes and government spending, Minnesotans, like all Americans, still struggle to access and afford their basic needs.

The unequal economic recovery from the COVID-19 pandemic is one recent reminder of how economic growth can skyrocket, while regular people find themselves facing increasing precarity.[114] Even more recently, widespread concerns about inflation underscored a persistent reality: Whether contending with unemployment and low wages in a recession or rising prices resulting from tight labor markets, there are apparently no economic conditions that grant Americans the economic security they desire. This should be instructive to purveyors of boilerplate economic theory who insist that we Minnesotans are a few tax cuts away from prosperity.

The table below compares a range of economic and social metrics in Minnesota to several notable low-tax states, as well as some comparable regional neighbors. Despite somewhat below-average economic growth in the most recent years, Minnesota has the lowest poverty, highest median income, and highest life expectancy of the group. Minnesota also has the highest economic mobility and produces the most inventors per capita—a representative measure of the sort of genuine innovation that can improve human well-being.

In gauging the overall wellness of a society, there are many possible measures to consider, and many different ways to represent them. But the figures here underscore the broader point: Aggregate measures of economic growth do not consistently reflect overall social or economic welfare. And as it turns out, aggregate growth also does not consistently result from lower taxes.

5.3 TAX FLIGHT

Conservatives and business interests have long repeated the unfounded argument that Minnesota's tax rates are causing residents to move to other states.

114 Weller. 2022.

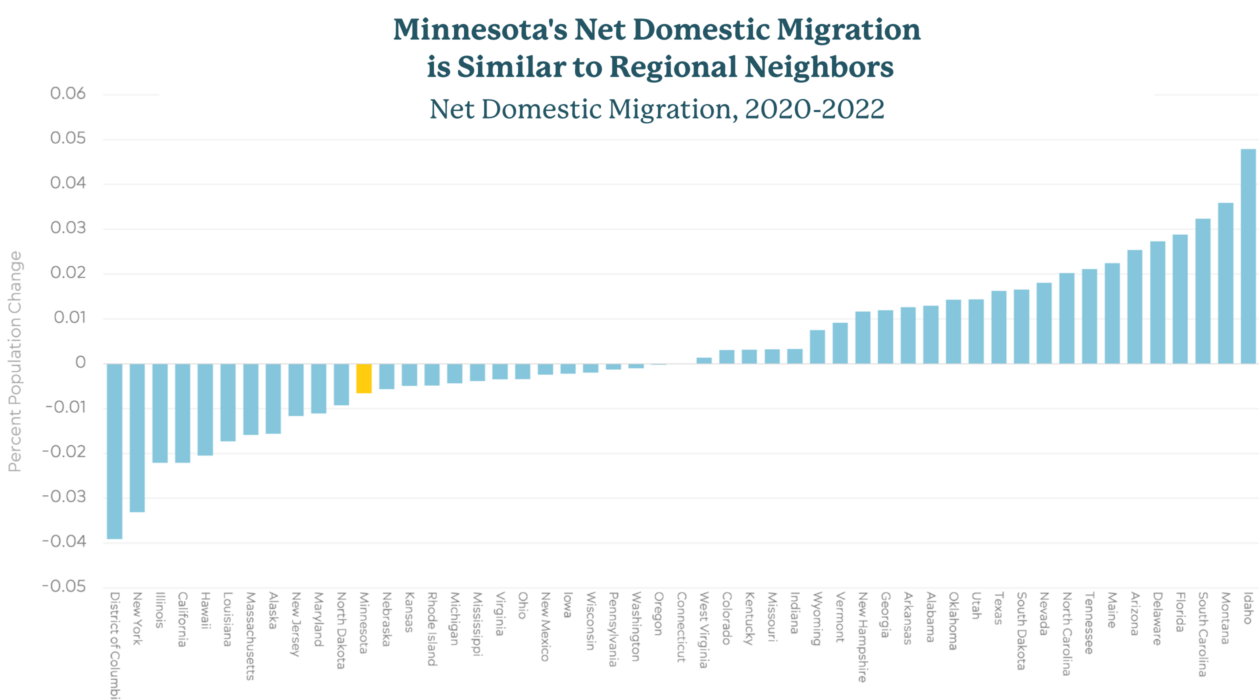
Recently, negative migration out of Minnesota and high net migration into low-tax states like Texas and Florida have emboldened these voices who argue that low taxes are the key to population growth and a strong economy. From both an empirical and logical standpoint, this perspective is deeply flawed.

While the tax flight narrative seeks to compare Minnesota, in isolation, to faster growing states further south, the reality is that migration trends, like overall population trends, are largely regional. The chart above shows net migration of all 50 states and the District of Columbia from 2020 to 2022. Nine out of twelve midwestern states experienced net negative domestic migration, while western and southern states dominated the net positive side of the spectrum. Midwestern states, regardless of whether they are relatively high- or low-tax, are seeing out-migration comparable to Minnesota.

Minnesotans who are leaving for lower tax states are not doing so in general, so much as they are leaving for three specific states: From 2017 to 2020, Minnesota lost 12,295 residents to net domestic migration, but more than 19,600 to Texas, Arizona, and Florida, with the difference made up by net gains from other places. Analysts comparing Minnesota to these larger, warmer states are drawing an unreasonable and somewhat meaningless comparison. Minnesota is not going to be Texas. And many other states that appear as substantial migratory winners are also exceedingly small. Idaho, Montana, and Delaware, for example, each have populations scarcely over 1 million, meaning any net migration effect will appear roughly 5-times larger than Minnesota's when expressed in percentage terms.

Minnesota's population and economy must be judged in relation to its regional peers and with some consideration for its overall size. And within those parameters, Minnesota is performing well both economically and demographically. The chart below shows that Minnesota received considerable net in-migration from most midwestern states over the last three years on record. This is a good sign, but also one that should not be over-interpreted in either direction:

CHART 5.6



Source: U.S. Census Bureau. December 2022. Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2022 (NST-EST2022-COMP).

Examining migration data from 2014 to 2017, the Minnesota Chamber concluded Minnesota's net migration loss to North Dakota was a troubling sign of declining regional competitiveness.[115] But this flow reversed in the period immediately following.

The most notable exception to Minnesota's net migration gains from regional neighbors is a cumulative loss of nearly 3,600 to Wisconsin. Net loss to Wisconsin has been a consistent pattern, but as evidence of tax flight, it bears qualification: Wisconsin is not an especially low-tax state, but it is a noted recipient of Minnesota's outbound college students.[116] Coincidentally, this three-year net migration figure in Chart 5.6 is almost an exact match for the 3,300 Minnesota college students that enrolled as freshman in the University of Wisconsin-Madison in 2020 alone.[117] And while Minnesota is losing residents to states with popular universities, it is gaining residents from Michigan, which is one of the lowest-tax states in the country.

The reality of the migration picture is much more textured than the tax flight narrative allows. People certainly do make decisions about where they will live based on a wide range of factors, taxes included. But taxes are by no means the only, or even the most important, factor. And even accepting the premise that lower taxes are an important influencer of current migration trends, there is no evidence that lowering taxes can lead to the rise in net migration that this simplistic analysis would imply. Indeed, with South Dakota next door, Minnesota would be hard-pressed to compete for the title of leading midwestern tax haven. And of course policymakers would be foolish to do so.

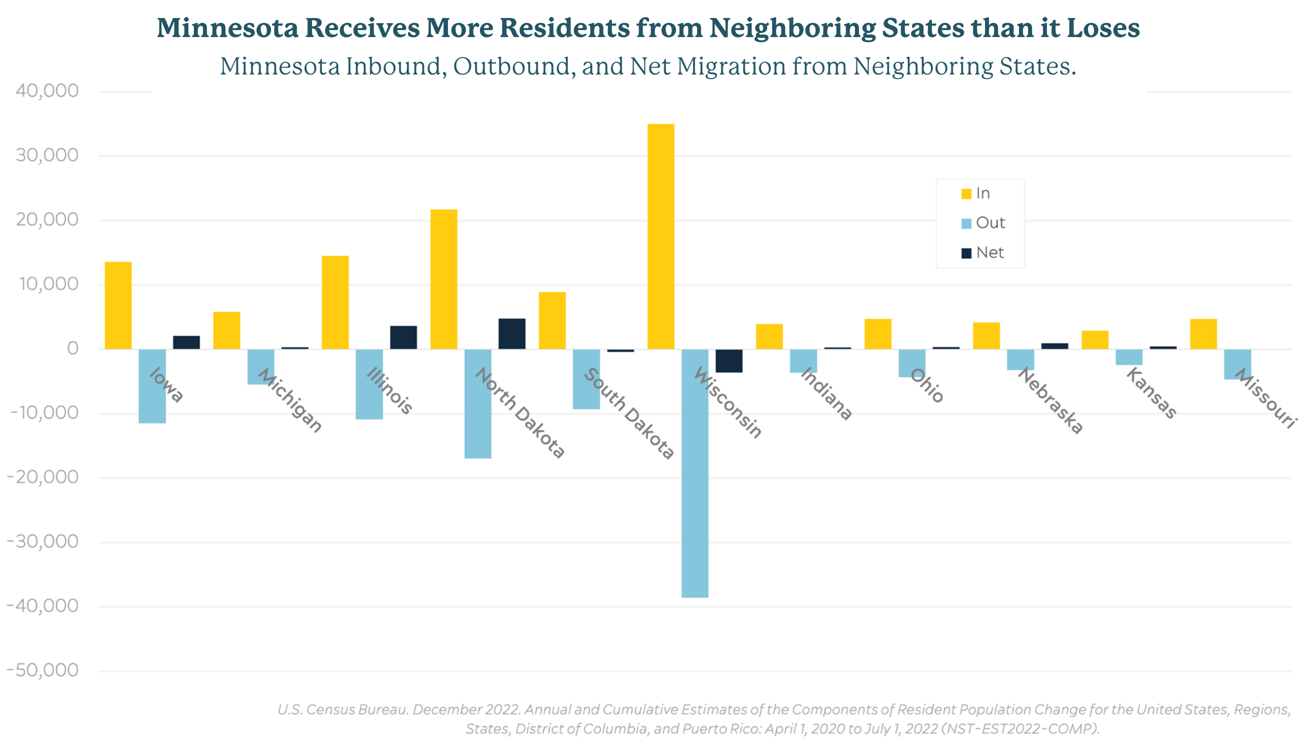
States that have tried to mimic the economic success of low-tax states like Florida and Texas have been roundly disappointed. One 2021 analysis by the Center on Budget and Policy Priorities examined economic performance in five states over the years following major income tax cuts and found

115 Op. Cit. Minnesota 2030.

116 Gray. 2019. Pross. 2018.

117 Faircloth. 2022.

CHART 5.7



U.S. Census Bureau. December 2022. Annual and Cumulative Estimates of the Components of Resident Population Change for the United States, Regions, States, District of Columbia, and Puerto Rico: April 1, 2020 to July 1, 2022 (NST-EST2022-COMP).

that all five underperformed the U.S. economy as a whole.[118] These states included Kansas, which notoriously abolished its state income tax entirely, leading directly to a simultaneous budget crisis and economic slump. Kansas, it seems, also isn't going to be Texas.

And finally, even if lowering taxes would increase net migration, would it make sense to lower the quality of services for current residents in hopes of attracting new ones? Domestic migration is far from the best indicator of a strong society. In addition to various measures of social and economic welfare presented in other parts of this discussion, natural population growth may be seen as a much more telling indicator of the strength and stability of the state's population. And on this front Minnesota fares well, with the 12th highest natural population growth rate in the country and the 3rd highest in the region.

None of this is to imply that Minnesota should not be concerned. With rising demographic challenges, Minnesota's policymakers should pay careful attention to all facets of population change, and should strive to attract new residents. But they cannot equate population growth with lower taxes. As discussed in section 4, services and quality of life are also important factors in migration decisions, and favoring these considerations carries the very considerable added benefit of actively improving life for all those who already live here.

118 Tharpe, W. and Leachman, M. 2021.

Conclusion

Looming demographic pressures will accentuate social failures that are woven densely into the fabric of life in Minnesota and America at large.

Although there is no authoritative consensus on what has caused birth rates to decline so steeply, there is also no interpretation in which it is primarily a happy story. Americans, especially Americans of color, have long struggled to access their basic material needs.

Now, the high financial burden of modern life seems at least partially to blame for an increasing reluctance to start a family. Worse, even some who possess the material means are hesitant because they are pessimistic about society's general direction. Although they differ on most everything, conservatives and progressives can agree that this does not reflect well on the way we have organized society.

Since the end of the New Deal, American policymaking has embraced a market-centric approach to policy that consists of limited government intervention aimed primarily at influencing private sector outcomes. The current circumstances speak to the failure of these policies. Imperfect though the efforts have been, Minnesota has always pushed the envelope on welfare-enhancing investments in the welfare of state residents. Now, the moment demands another substantial break with precedent. Minnesota must lead the nation in pursuing bold, direct solutions to pressing challenges, as well as long-standing injustices.

But this must not be interpreted as a need for more public spending simply for its own sake. The government is certainly capable of wasting public resources, and this report has argued that waste is most likely when programs are privatized or complicated by means-testing and other targeting. Government works best when it provides for basic needs with an emphasis on universality and accessibility. To illustrate this point, civil rights advocate and attorney Angela Glover Blackwell has used the analogy of a curb cut, where a sidewalk slopes gently down to level with the crosswalk.[119] At first consideration, this sort of public infrastructure might seem designed specifically for residents using a wheelchair. But once in place, the curb cut makes crosswalks safer and more useful for everyone—a shopper wheeling a cart, a child pushing a bike, and even the casual passerby who is less likely to trip. The targeted approach might suggest that we should install curb cuts only where residents have requested them. This not only constrains the freedom of the groups in need, but sacrifices the broader benefits. This is no way to construct a society, and in an aging country it is especially unwise.

119 Blackwell. 2017.

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