
Taxes: Are Minnesotans Getting Enough of 'Em Back?

All three Minnesota political parties successfully navigated uncharted waters during the 1999 legislative session. With a Republican House of Representatives, a Democratic Senate, and a Reform Party administration, many pundits had predicted political Armageddon, but when the session ended in May all three political stakeholders were able to declare victory.

One could argue that it would be hard not to conduct a successful legislative session with the cards Minnesota lawmakers were dealt: robust state and national economies, combined with an unprecedented windfall for Minnesota coffers in the form of an enormous settlement won in a lawsuit against tobacco companies. What to do with budget surpluses that tally in the billions and debate over whether to spend or invest the tobacco settlement billions occupied much of the legislature's time and energy.

Tax issues dominated the first half of the biennial session. The prolonged and often heated debate produced the largest tax cut in Minnesota history, signed into law by Governor Jesse Ventura. With a \$4 billion surplus, Minnesotans received permanent tax relief to the tune of \$2.9 billion—the third straight year of permanent and significant tax relief. This permanent component of the tax bill affects nearly every citizen of the state.

Minnesotans also got a one-time \$1.25 billion sales tax rebate. House Republicans initially proposed a rebate mechanism—grounded in the belief that the budget surplus was the direct result of high income taxes—that would have resulted in refunds based on actual taxes paid. The Senate supported a sales tax refund plan that was purported to more fairly distribute the excess tax revenues. A sales tax rebate was also pitched by the administration as the one plan likely be exempt from additional

federal taxation, which potentially would save Minnesotans in excess of \$200 million. A compromise—approved by the Senate in the final moments of the legislative session—combined the Senate's sales tax rebate with some of the permanent income tax relief proposed by the House.

The tobacco settlement debate was more delicate and often more contentious. In January 1999, the state received its first installment: \$461 million. When the final payment is made to the state by the tobacco companies, the total should exceed \$1.3 billion. Add to this the agreement that the state will receive annual payments of \$204 million forever, and the significance of the issue is obvious.

When it comes to taxing and spending, almost everyone has an opinion. And when tax and spending decisions involve literally billions of dollars, they deserve utmost consideration by lawmakers. The jury of public opinion is still out. Were these good decisions or lost opportunities? Should legislators have spent more time addressing what many say are structural problems in the Minnesota tax code, or did they do the right thing by promptly returning the money to taxpayers? And what about the projected budget surpluses of the future?

To explore these and other questions that remain, Center of the American Experiment assembled, in June 1999, a panel led by its distinguished senior fellows, Vin Weber and Tim Penny, both former members of Congress. Weber, a Republican and former House Budget Committee member, acted as moderator. Penny, a Democrat who has spent much of his political career effecting change in the way governments tax and spend, and now an adviser to Governor Ventura, set the stage for the discussion.

The panelists were:

- Pam Wheelock, co-chair of the Ventura transition effort to develop a \$33 billion budget for the state in less than two months, and now Minnesota commissioner of finance.
- Jason Lewis, host of a popular Twin Cities afternoon drive-time talk radio show, co-host of Face to Face on Minnesota Public Television, and an outspoken conservative opinion leader.

- Representative Ron Abrams, a Minnetonka Republican who chaired the 1999 House Tax Committee.
- Senator John Hottinger, a Mankato Democrat who is Senate majority whip and a member of the Senate Committee on Taxes.
- Senator Ember Reichgott Junge, a suburban Minneapolis Democrat who is assistant Senate majority leader and a member of the State Government Finance Committee.

Tim Penny: This year's Minnesota legislative session—a successful experiment in tripartisan government—was made easier by the economy. The state was building an unprecedented surplus, and it was easy to accommodate the preeminent interests of each of the dominant political parties.

In a nutshell, Democrats believe in the good that government can do. Within party ranks, some of us hold the view that perhaps our party believes too much in the good that government can do. Conversely, Republicans are known for their belief in the virtue of tax cuts, both as a way of empowering individuals and the economy, and as a way of limiting the government.

In this legislative session, given the growth in the economy and the unprecedented growth in state revenue, we were able to achieve a tripartisan agreement that provided roughly a 10 percent increase in the size of our state government over the next two years and at the same time offered the largest tax cut in Minnesota history. Compromise was easy because both sides could

essentially get what they wanted.

Policy would have played out differently had either Norm Coleman [the Republican mayor of St. Paul] or Skip Humphrey [the Democratic outgoing state attorney general] been elected governor. Three distinct directions were offered to us, and Minnesota voters chose a new direction: the Reform Party. It is a safe bet that neither Coleman nor Humphrey would have proposed a sales tax rebate. We would have been talking about a rebate, but on different terms.

Neither Coleman nor Humphrey would likely have set aside as much of the tobacco money, if any, in endowments as was proposed by Governor Ventura. And I think both Humphrey and Coleman would have been very much inclined toward a special legislative session, given the fact that the House is in Republican hands and the Senate in Democratic hands; a special session probably would have slanted policy in the direction of the party that controlled the governorship. But with an independent governor, the special session held no particular advantage for

either the Democratic Party or the Republican Party. Consequently, both decided it was the better part of valor to fold and cut a deal on schedule.

There is a lot of disappointment in Republican ranks about the way all of this panned out. Most Republican legislators thought that Governor Ventura's rhetoric about giving the money back would put him solidly on their side of the debate, and they were unpleasantly surprised when his tax package didn't turn out to be exactly what they expected it to be and they found themselves in the unfortunate position of differing with him. Their differences boiled down to these key points: whether we should expand the tax breaks to the highest bracket, and whether we should give the tobacco money back as part of our tax cut package. I think this disoriented the Republican legislators for much of the session—to such a degree that it allowed the Democrats to look as if they were partnered with the governor from the get-go.

Truth be told, the Democrats weren't thrilled with the governor's package either, but they played their cards more adroitly than the Republican House. In a tougher economic environment, the Democrats probably would have been sorely disappointed with this governor: he is not inclined toward larger government, and he was very much determined to give back a large percentage of this surplus and also to set down the ground rule for future sessions that surpluses will automatically be rebated. In other words, when you set a two-year budget, you stick to it,

and you don't spend any surplus that accumulates in the meantime. Governor Ventura has often said that one of his governing principles is that it is the people's money. The Democrats may find themselves surprised and disappointed in the future as the governor takes a harder line on spending than he did during this session.

The debate isn't over; it will certainly carry forward to future legislative sessions. Let's hear from some of the key participants, both inside and outside of government, in this year's debate.

Vin Weber: I think Tim is correct. Generally speaking, Democrats believe in spending money to achieve public good, and Republicans believe in minimizing the size and cost of government through permanent tax cuts to invigorate the private sector.

Let me direct a question about tax rebates as a public policy tool initially to Pam Wheelock and then ask others to comment, too.

My question is this: Are not rebates really a lowest-common-denominator decision? Since we don't want to give either party what they really want, we simply refund money in a way that nobody will argue is going to produce any long-term, lasting benefit as defined by either people to the left of center in terms of improving our public institutions, or people to the right of center in terms of strengthening the private sector. Isn't that really what a rebate policy is?

Pam Wheelock: From the governor's perspective, the rebate was a fiscal

discipline issue. This is reiterated in many places in his proposed budget and the budget the legislature adopted. The governor believes that you should exhibit discipline by studying your priorities as part of a biennial budget process; making tough decisions about the appropriate state role, the appropriate expenditure level, and the appropriate taxation; and then sticking to them. You don't spend more money because the economy performed better than you thought it would.

When the February forecasts revealed a surplus, he recommended that it go back as additional tax relief. When additional revenues are available as a result of the economy's outperforming expectations, you exhibit financial discipline and send that money back. It's a contract with the taxpayers: you collected more than you needed to pay for the services that you pledged to provide, so you give that money back.

The mechanism was an interesting one. It appeared to me that the House Republicans wanted to come out early and have everyone react to their proposals. With the good work of Commissioner of Revenue Matt Smith, some suggestions were brought forward for the governor's consideration that delivered tax relief more broadly and more completely with less risk of federal taxation issues than what had been proposed. I thought it was a more thoughtful method by which to deliver the rebate, but it was less an ideological debate between parties than it was an emphasis on gaining discipline and sticking with the methods and deci-

sions made as part of the biennial budget process.

Vin Weber: At the end of the Ventura administration, we potentially will have rebated an awful lot of money to the people of Minnesota—money that could have gone into permanent tax reductions of one type or another, if Republicans had their way; or into substantially improving public-sector commitments, if Democrats had their way. I'd like to hear what the rest of our panelists think about a policy like that. Carried on for years, biennial rebates will prevent those things from happening.

John Hottinger: When the governor announced his tax plan, he emphasized three things: any tax changes should be simple, they should be fair, and they should be prudent. We spent a lot of time in the legislature arguing about what was fair and who should benefit. The prudent theme comes through in the question you asked. The Senate's report talks about how the surplus is a temporary phenomenon. We had an influx of money with the change in federal capital gains taxes, the tobacco settlement, and the unprecedented economic expansion. Many of us looked at "prudent" as making sure we didn't have long-term spending increases or long-term tax reductions beyond the ones we incorporated into the budget. Given the unique circumstances we were facing this time, prudence is valuable. We can always go back to the Brandl report about the long-range need for reform and the long-range recognition that good times are not likely to continue

on a steady basis.

[The Brandl report (“An Agenda for Reform: Competition, Community, Concentration” by John Brandl and Vin Weber, 1995), commissioned by Governor Arne Carlson, proposes “fundamental restructuring of Minnesota government to avoid a potential \$8 billion financial crisis.”]

Ron Abrams: The Department of Finance and the state economic consulting firm, DRI, consistently, maybe prudently, but certainly with malice aforethought, lowball economic growth. They’ve done it for about twelve cycles now. They do it so that it makes their boss, the governor, look good. It is always good news when the governor is able to stand up and say, “Because of my prudent fiscal management, we have another surplus.”

As a longtime observer of this, I think we have to take a look at our forecasting yet again, so we work with better numbers. It is not government that produces surpluses—it is people who are creating economic wealth and paying their taxes.

From a Republican perspective, I always viewed the rebate as a side show. I can make the argument ad nauseam why an income tax rebate was more fair than a sales tax rebate. I was the one in tax committee who pointed out that under the governor’s original proposal, 300,000 fewer Minnesota taxpayers would have gotten rebates than in the original House proposal for an income tax rebate. When 70 percent of the surplus is generated by income tax collections above forecast,

I personally believe that the rebate ought to have been based on the income tax.

The prize was permanent and significant across-the-board income tax cuts aimed at bringing Minnesota gently, over time, out of the top ten states in per capita income tax. We brought it down from second to sixth. That’s a good start. If the price for significant across-the-board income tax cuts was going along with the governor’s scheme on the rebate, that was a price that the House Republicans were willing to pay.

Finally, let me take you back to February. The original Ventura-proposed income tax cut was one-fourth of 1 percent off the lowest bracket phased in over two years. Between February and May, we brought him clear to half a percent off the lowest and highest brackets, and three-fourths of a percent off the middle bracket.

Senator Roger Moe’s original proposal back in February was no income tax cuts, but a smorgasbord of means-tested, conduct-based tax cuts: if you spend it the way the government wants you to, you will get money back.

So, Vin, the answer to your question, from our perspective, is, we had in mind the prize of significant across-the-board income tax cuts. We were for it for the right reasons—to bring economic growth and vitality to Minnesota’s future—and at the end of the day, we paid a price. The sales tax rebate was part of the price.

As we go forward, I hope the Department of Finance and the executive branch won’t lowball economic

growth and activity, so we will have better numbers to work with, so that tax cuts we might enact better reflect the state's revenue needs, rather than the revenues politicians want.

Pam Wheelock: Ron, you probably would be surprised to learn that Governor Quie was not quite as impressed with our forecasting abilities during the early 1980s as you seem to think Governor Carlson might have been over the past eight years. And if you can find one forecaster who would have predicted an unprecedented ninth year of economic expansion, we'll talk to him about contracts.

You're absolutely right, though, that the real issue this year was not what to do with the rebate, even though it took the legislature through the end of the session to reach agreement on that evidently insignificant issue. The frustrating aspect for us was that we couldn't resolve the issue of this biennium quickly and then get on to planning for the next biennium.

The real issue was permanent tax cuts. One thing that became evident to us is the communication, public information issue. The governor had absolutely no bang from the buck on two elements in the debate about income taxes: the benefit that accrues to all taxpayers from cuts in the lowest income tax rate, and the benefit that accrues to all taxpayers when that rate is applied to a greater percent of your income. The notion of expanding brackets was lost. The notion that that provided significant tax relief was absolutely lost on the broad public.

And then there were significant additional revenues beyond the forecast. When the governor applied that to the next step, the reduction of the middle bracket, in a way that I thought was a move toward the House Republicans' interest in income taxes, that was absolutely lost to the public and to the legislature as well. Communicating to the public what we think are significant policy issues is something that we are going to do better in the future.

Vin Weber: Senator Junge, is this all about rebates versus cutting taxes permanently? No more liberals in Minnesota? Nothing to spend the money on?

Ember Reichgott Junge: I think we could find something. Transportation funding is one area that we ignored this year and need to look at again. I might come back to that.

First, though, I have to challenge the idea that the economy made tripartisan government easy. This was one of our most grueling and difficult sessions, and it was only with the benefit of technology that we were able to close on time.

With regard to your question, when we started this session, there was tripartisan agreement that there would be both a rebate and significant permanent tax relief. Voters across the board had spoken, and we were all listening.

The question, therefore, was what kind of tax relief: income tax? property tax? sales tax? motor vehicle tabs? All of those were in the mix early on, until it became clear that income tax relief was going to be the focus of this session. Then the next question became

who should benefit and at what levels. That's the issue of fairness. The last question is this: At what cost?

Transportation funding, both highway and transit, was lost this year. Other than light-rail transit, this is something that we have got to bite the bullet on, and I applaud Governor Ventura's efforts on it. Higher education was not treated as well as it might have been. Education and training give us the skilled workers for businesses in the future.

A couple of other significant things in this session that tie into discussion of finances: we are starting new workforce development programs, and we worked on affordable housing, particularly tied to economic development.

Vin Weber: Jason Lewis, we've heard from the three parties of Minnesota's triparty government. How does this all look to you from outside the Capitol?

Jason Lewis: A little reality might be in order here. The back-slapping on the part of my friends in the Republican Party is encouraging. Democrats are still in denial.

We had a huge fight throughout a four-and-a-half-month legislative session over dropping the top income tax rate from 8.5 percent to 8 percent. Wow. The largest tax cut in Minnesota history. Massachusetts, look out—we're coming after you next.

Rebates are just a bad idea. They are a bad idea from a macroeconomic point of view in that they don't cut taxes at the margin. Good government encourages growth and productivity

and the wealth in goods and services, and rebates don't do that. They don't encourage people to work harder. They don't encourage investment. They simply reward people.

Tim Penny said that Jesse isn't inclined toward bigger government. My goodness gracious—light rail, tobacco endowment, education, double-digit increases! This government in the past decade has been spending like drunken sailors. In 1995, the general fund was \$16 billion. By 2001, the general fund will be \$25.4 billion. We doubled the budget in a decade.

The problem with the argument on rebates is that you will never, ever cut taxes on the margins as long as we confuse ourselves with this quintile analysis that says if you give a flat rate tax cut, the top 20 percent are going to get all of the tax cuts. Obviously, if you do that, that means the top 20 percent are paying the taxes, which is precisely the case with our surplus. Since it was generated by income tax collection, economic justice requires that income tax be cut. I happen to think the reason the rebates were so popular for this populist governor is this: there were a whole lot more people who would get rebates who might go to the voting booth than if you cut tax rates in the top 10 percent of the income earners. That is the political aspect of this, but it doesn't do much for economic growth.

Vin Weber: Let's go to questions from the audience.

John Hinderaker: This is a question for Senator Junge or Senator Hottinger. We see one company after

another leaving Minnesota. Honeywell is just the most recent. Are you concerned that if the Democrats continue to block tax cuts, we are going to be condemning Minnesota to second-rate economic status?

John Hottinger: The Honeywell merger with Allied was driven not by state policy, but by shareholder interests—they thought they could make more profits by merging with Allied—and they decided to move their leadership to New Jersey. The reality is that Minnesota grows more jobs than most states do. If you make a V from Maine down to New Orleans and back up to Washington, Minnesota grows more jobs, Minnesota's per capita and household incomes are growing faster, and Minnesota is creating more manufacturing jobs than any of the other states in the V.

If you compare taxes and disposable income for families and individuals, there is a correlation between the states that get a little more in taxes and invest it in their assets—their education system, their health care system—and growth in personal income. Where you find low taxes, you find low income—Mississippi and Alabama, for example. The per capita income in Phoenix is among the lowest in the country. Lots of companies are moving there.

Most judges of our economic system look at the fact that we grow our jobs primarily with small businesses. Entrepreneurship is where real economic activity and real productivity grow, and Minnesota has a relatively good reputa-

tion in encouraging entrepreneurship.

We need to look at whether our investments are worthwhile, whether we get a return. Look at our incomes, our health care system, our education system. We get what we pay for.

Ember Reichgott Junge: I challenge the assumption that Democrats blocked tax cuts. There was a very significant tax cut this year—the biggest tax cut in Minnesota history. Again, I go back to my question: Which taxes should we cut, and whose? I think the premise of the question is wrong.

Regarding the issue of companies moving, it seems to me that it is based now on the workforce shortage issue. Where are workers available? I graduated from high school and entered the workforce in 1970. Ten times the number of new workers entered the workforce in 1970 than will enter in the year 2010. The questions of the future will be: What state best trains the workers that it has? What state uses technology to train workers? What state invests in education, transportation, all of the things that help the workforce?

Jason Lewis: Let me add one thing on economic growth figures. Those of us who can remember our first undergraduate economics class remember that under a little item called government purchases, there was consumption plus income with a graph of government purchases. It's a Keynesian analysis, and those government purchases are counted as economic growth figures.

So when we go down the path of, say, building light rail, are those the jobs you all are talking about? Is that the economic growth you are talking about? Those are the jobs the government has when we talk about gross domestic product. The largest employer in Minnesota is the state, isn't it? Those jobs are counted in economic growth figures. I'm not disputing what you are saying—we do have a good economy, and supply-siders need to answer for that—but I would be a little careful on GDP figures because of those government investments.

John Hottinger: That's why I used personal income rather than GDP figures. And that's why Minnesota is forty-second in the country in terms of state and local government employees per capita. After-tax income is what I was talking about. We are seventeenth; we moved up from twentieth.

Bob Clemens: Is the panel satisfied with a 10 percent increase in the state budget over the next two years? Sounds kind of high to me.

Ron Abrams: It depends upon what you use as the base; I don't think that base includes the budget surplus. If you use the budget surplus, I think the number is within the 7 percent range. Am I satisfied with that? No, but let me say that I give Governor Ventura a lot of credit for setting a fiscal agenda for the state different from the previous administration's.

The governor in our state has a lot to say about the size of government, and it is particularly difficult for a tran-

sition team to put together a budget. A lot of self-congratulatory statements were made when the budget came out in February, but basically that was the Carlson base budget with a few bells and whistles attached—a few things taken out and saying no to agencies. Governor Ventura deserves a lot of praise there. However, he campaigned on rooting out unnecessary government spending. Next year is not a budget year; the real test for the Ventura administration is not the 2000–2001 budget but the 2002–2003 budget, because his staff and commissioners will have been in place for over two years. I hope that the budget in 2002–2003 will reflect greater spending restraint than the current budget.

One other point: We—House Republicans—had to put together a staff of seventy literally from nothing in less than sixty days. Most of them had no prior government experience. What we did as a caucus is embrace at least the overall spending objectives of Governor Ventura. We cut them somewhat—\$200 million to \$300 million, in that range, roughly 1.5 percent. We ended up approximately where he came up. The proof for our caucus is going to be what we come forward with in the 2000 session and the 2002–2003 budget as far as government programs that ought to be reinvented or cut, and do we apply those savings in further tax cuts as we go forward? That will be the real test of whether Governor Ventura keeps his campaign promises and, just as important, whether House Republicans keep promises we made when we ran in 1998.

Vin Weber: Tim Penny built his reputation in Congress as a budget cutter. I'd like to hear what he has to say about that.

Tim Penny: Tripartisanship, as I said, is easier when the economy is doing all the work for us. An economy that grows less rapidly will require tougher choices. Senator Junge has given us at least one example of an area—transportation—in which she thinks the government could have done more. Conversely, what relatively large items might the Republicans be willing to cut back?

Ron Abrams: Governor Ventura ought to declare that he was wrong on light-rail transit. It is nothing but a money hog. It is the worst public policy decision made by this government in twenty-five years. That's a biggie.

A second item that has gotten absolutely no attention is this: we have more college campuses per capita than any other state. It is about time that the MinnSCU [Minnesota State Colleges and Universities] board and Chancellor Anderson determine how these services could be delivered more efficiently at fewer locations. The University of Minnesota made a tough choice when it closed its Waseca campus a few years ago, but the MinnSCU system has had to make very few tough choices.

Pam Wheelock: I want to respond specifically to Tim's question and Ron's comment, but there are a couple of things we should emphasize here first. One is that this was the largest tax cut in state history. Two is the question

about biennial growth, which is actually 9.6 percent; this is only the third time in the past thirty years that the growth biennium to biennium has been less than 10 percent. Eighty percent of the state budget goes out as either aid to individuals or aid to local units of government. Seventy percent of the governor's recommended spending was for education. The size of the state government bill is less than the growth in the human services budget, biennium to biennium. Where we really need to manage growth and budget is human services—particularly with an aging population. Making sure that we have people to work in nursing homes is going to continue to be a huge challenge for the state. Much of the governor's recommended increase in new services was for provider increases for inflationary adjustments, to make sure that there were still people working in these institutions.

Jason Lewis: Instead of suing the tobacco companies, maybe we should have thanked them for saving us all those nursing home expenses.

You are undoubtedly correct: if we really want to address spending, we're going to have to talk about education—which nobody wants to talk about except how much more money they can throw at it—and health and human services.

But let me just question these figures a little bit. You say 9.6 percent. Let's get back to reality here. That doesn't include a tobacco endowment. That accounts for a budget reserve; adding on a big budget reserve from

biennium to biennium reduces the percentage increase in total spending growth. If you take the tobacco endowment and you don't account for the budget reserve, we went up 13.8 percent in this biennial budget on top of the 1996–97 to 1998–99 increase of 18.1 percent.

We do not have a problem with not providing services in Minnesota. We're spending a whole lot of money. The premise of this whole debate, whether it be rebates or whether the economic miracle will continue, is that we can't suffer any government cuts. We can't have too large a rebate, we can't cut taxes too much, we don't know if the economy is going to continue to expand, and if it doesn't, we may have to look at the budget. The fundamental choice taken in those public policy directives is that we're going to achieve government budgets over family budgets. Tim Penny is absolutely correct. The Stockmanesque approach proved to be the best way to shrink government and cut taxes. The fundamental failure of the Minnesota experiment, so far, is that balanced-budget politics fails to shrink government. If all you want is a balanced budget, forget about shrinking government. You'll get a balanced budget and bigger government.

Jim Gibson: The absolute increase in the state government dollar amount is interesting but not really relevant, nor is the percentage increase all that meaningful. What I'd like to know is what's happening with state government as a percentage of our state domestic product.

Pam Wheelock: If you compare the average annual increase over the next two years to the estimated increase in personal income, the increase in state spending is still below the estimated increase in personal income. I think the average annual increase is 3 percent the first year and 1.1 percent the second year, compared to, I think, about 4.4 percent each year for personal income.

John Hottinger: One of the tools we've gotten recently is called the price of government. It's probably more accurately called the price of government services. While there is a debate over how quickly and to what level it should go down, in the last couple of years it has gone down. That is, the price of government services on a per capita income basis has gone down. All taxes and jurisdictions.

Jason Lewis: I challenge the premise that the current level is acceptable. It isn't. It has to go down further. If we just keep pace with economic growth, the government—in my view, anyway—is still too large.

Jim Van Houten: Senator Hottinger, I want to address the issue that seems to be paramount in this debate, and that is the relationship between the economy and taxes. The Kennedy School of Government at Harvard did a study several years ago about the correlation and causality of government size. And the two variables that best explained the size of government were the size of the economy and personal income. In other words, people who

made more money paid more taxes and had bigger government. The second largest number was not at all related to any of the things you mentioned.

I'm a statistician by background, and I don't know of a single study that shows that creating a bigger government creates a booming economy. It seems to be that governments are big where the economy is already booming. Could you tell us more about the source of your data? It would imply that because we paid more taxes, we could expect the economy to boom, as compared to paying less taxes focused on things like infrastructure. But that's very different from the way Minnesota spends its money, as you know.

John Hottinger: The premise doesn't work either way. There's no empirical evidence that I'm aware of that the level of taxation has a significant effect on a state's economic growth. The information I talked about was from the Minnesota Department of Trade and Economic Development. It's the information they've gathered from federal census dollars.

Jim Van Houten: That's correlation, not causality.

John Hottinger: That's correct.

Jim Van Houten: Which is the Kennedy School's point: wealthy economies have bigger government—not that big government causes wealthy economies.

John Hottinger: No, and it's not big government. What most analysts would agree is helpful is government expenditures on the infrastructure you

talked about, which includes transportation, education.

Vin Weber: I want to conclude by asking each of you to imagine that in five or ten years, somebody says, "Let's look back on what we did with that great big surplus we had in Minnesota in 1999." What is the single most important thing we did in terms of how the state has developed for the better in the intervening years?

Tim Penny: The principles laid down by the governor that a two-year budget is a two-year budget, that we don't spend more money just because the economy does well, and that the surplus goes back.

Ember Reichgott Junge: The three parties brought us all to the center this year. In the future, it may be that we will all be working toward a centrist result in tax policy and spending practices.

Ron Abrams: There was a lot of good policy in this tax bill that sets the stage for more economic growth and vitality. There are provisions that have had difficulty making it through the process in the past that are going to have more effect on us ten years from now than the income tax cuts.

John Hottinger: I agree with Ron. The tax conference committee found some common ground on those policy changes. We set up the debate—and Center of the American Experiment can be proud of its participation with its Minnesota Policy Blueprint—on what level of government service we're willing to pay for. It was easy this time and

will become more difficult. On a practical note, I think our best budget decision was providing small increases for people who take care of people in nursing homes. I think that's going to have the best long-term effects.

Pam Wheelock: I would say the responsible reaction to the unprecedented and unpredicted surpluses. We didn't go on a spending spree, and we didn't cut taxes so drastically as to create a crisis in the future when the economy turns. A reasoned and healthy debate during the session ended responsibly in a way that doesn't create burdens that we can't deal with in the future.

Jason Lewis: Minnesotans shouldn't have to work for a surplus before they

get a tax cut. The idea that we have to have a surplus before tax cuts are even debated is a little odd to me. I hope that, ten years from now, we look back at this year as the starting point of some courageous politician having the gall to advocate, say, a flat tax of 5 percent—and the courage to cut a whopping \$1.2 billion off a \$25 billion budget to effect that plan.

Vin Weber: To summarize: There are a lot of reasons why this was a successful legislative session, though we're not sure we agree on what they were. And we're looking forward to the future. Right? Thank you all very much. n