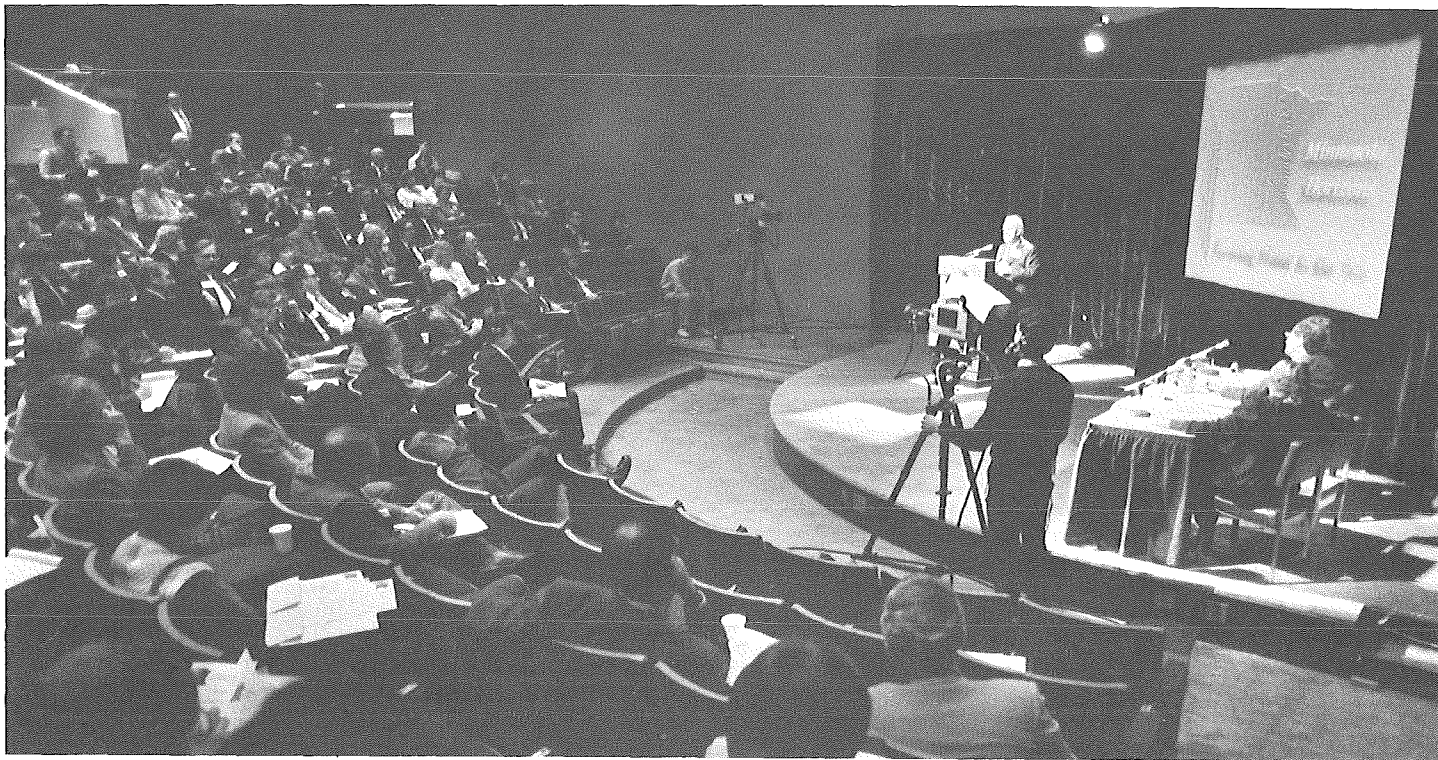
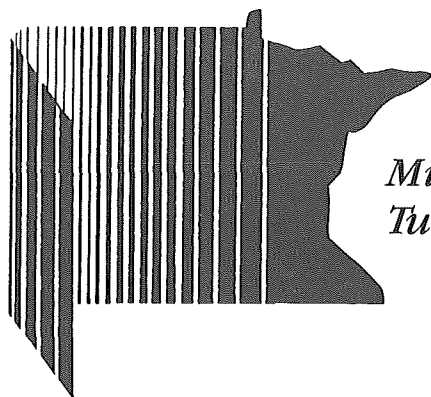


Perspectives

A Publication about the Minnesota State Senate Vol. 13, No. 2



Minnesota Horizons—Turning Point to the '90s



Minnesota Horizons— Turning Point to the '90s

Minnesota Horizons—Turning Point to the '90s, a three day informational program for legislators, builds upon a strong tradition of past Horizons programs to provide vital information about Minnesota and its people. This year's Horizons program, held in mid-January, focused on Minnesota's two-tiered economy, human services, and the state's taxation and financial structure. In his welcoming remarks, Senate Majority Leader Roger Moe said that the Horizons programs provide legislators with the kind of background material necessary for informed decision making. In addition, Moe said, "I think that it is important periodically to assess where we have been and where we are today...and to allow some time for reflection about what the future holds." To that end, staff from the state demographers office prepared a series of papers outlining important demographic trends. Legislators were then able to place information in the context of a broader portrait of Minnesota.

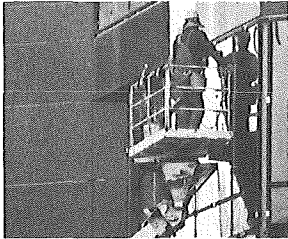
The program was held mornings at the St. Paul TVI. The first day was devoted to a discussion of the international, national and local economic forces that have shaped Minnesota's urban and rural economy. The second day focused on the human service needs brought about by changes in society at large and in Minnesota. The third morning concentrated on a discussion of Minnesota's financial relationship with the federal government, local governments and resultant revenue policy questions.

"The reason for Horizons is to give us a chance to get together with recognized

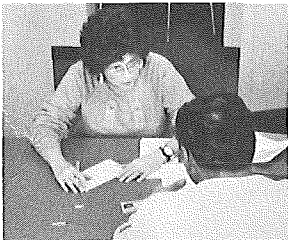
Minnesota experts who have followed recent history and set the benchmark in today's setting of where we are so that we can investigate, through the options we have before us, the solutions to problems facing Minnesota," Moe said. Featured speakers included Dr. Philip Raup, Dr. James P. Houck and Kathryn S. Keeley on "Minnesota's Economic Situation in Perspective." Moderator Linda McDonnell, an economics reporter for the St. Paul Pioneer Press-Dispatch, directed questions from the audience to the panel of speakers. The topic of "Human Services/Human Needs in Perspective" was handled by Prof. Esther Wattenburg with panelists Jan Smaby, Dr. Richard Green and Dr. Michael D. Resnick. "Minnesota's Tax and Financing System in Perspective" was covered by Stanley E. Collender, Dr. Julia M. Friedman and John F. Schannon, with Stephen Alnes acting as moderator. The concluding speaker, Alan Rosenthal, director of the Eagleton Institute of Politics, outlined changes in state legislatures and what those changes represent for the institution.

Although the legislators are the ones who must make the final decisions in the areas covered by the program, Moe said, the hope is, with a program like Horizons, that we can make better, informed decisions. "This is the fourth Horizons program since 1975. The issues we discussed then are different than the issues talked about today. Issues change, and that highlights the dynamic nature of those public policy decisions we must face today," he said.

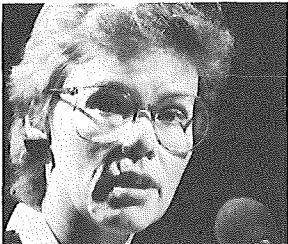
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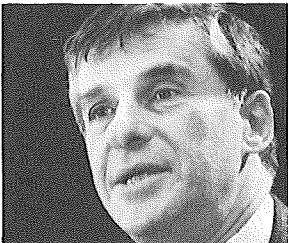
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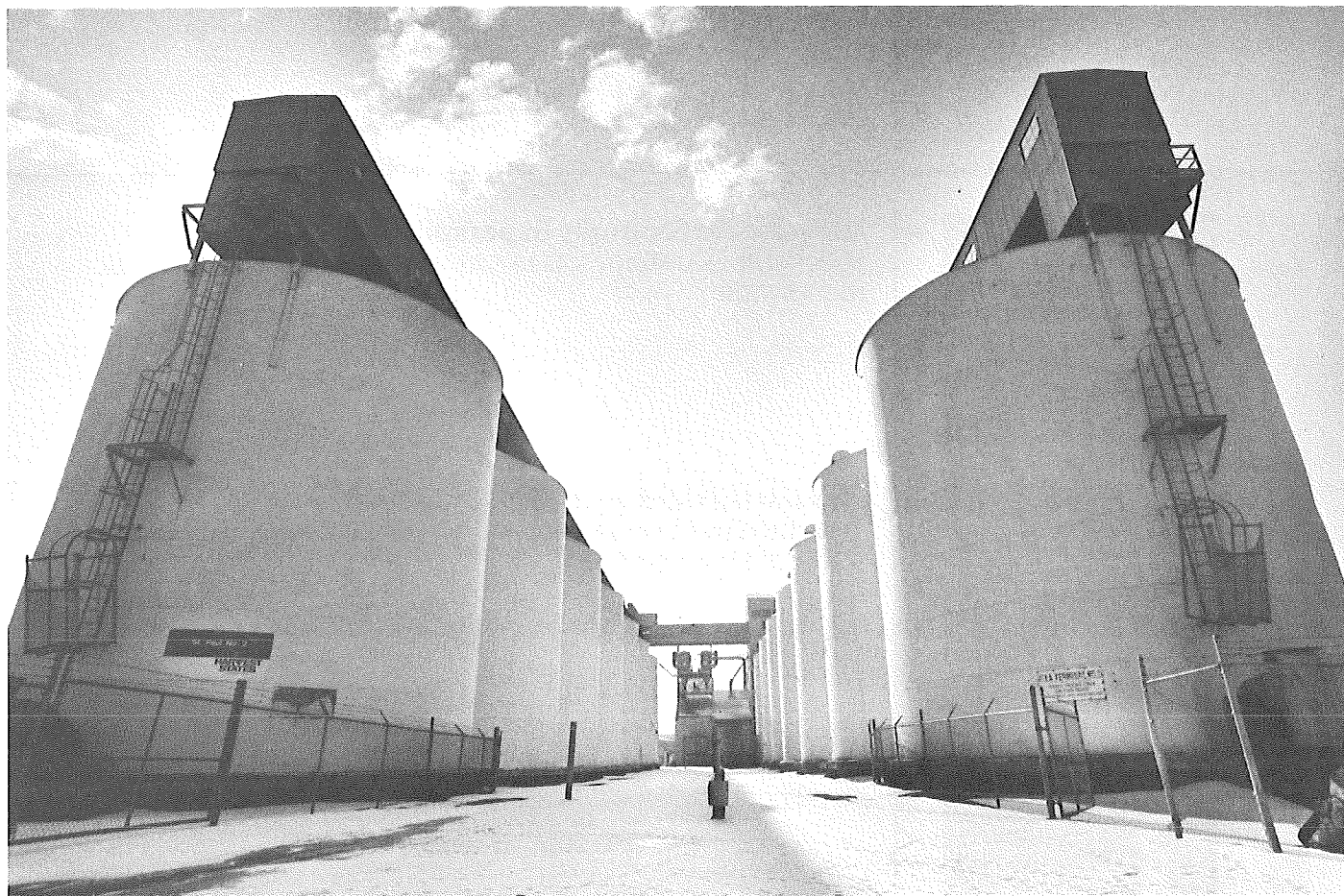
Photos: David J. Oakes

On the cover:

Top photo: Dr. Philip Raup was among the several guest speakers invited to address state legislators during the Minnesota Horizons program, which was held at the St. Paul AVTI. Lower left: Jan Smaby. Lower right: Majority Leader Roger Moe.

Audio and video tapes of "Minnesota Horizons – Turning Point to the '90s" are available from Senate Media Services, Room 95, State Office Building, St. Paul, MN 55155. (612) 296-0264.

Minnesota's dual economy—rural and urban—is symbolized by the grain elevators below and, at right, the new World Trade Center Building.



Minnesota's economy in perspective

by Kathy J. Kainz

"A tapestry of events" has caused Minnesota's economy, and that of the nation as a whole, to shift from a dependence on manufacturing and agriculture to an information and service based economy, said Dr. James Houck at the opening session of "Minnesota Horizons—Turning Point to the '90s." The extent and effects of the change, along with whether the emphasis on services will ever actually dismantle our system of goods production was the subject of the first seminar focusing on "Minnesota's Economic Situation in Perspective."

A University of Minnesota Agriculture and Economics professor, Houck spoke about Minnesota's connection to the international economy, the current trade situation and policy maneuvers for dealing with foreign trade. Although imports contribute to the quality and diversity of goods, imports provide competition and tend to create lower prices, Houck said.

The impact of international trade is sometimes hard to pinpoint because its

effects are often diffuse; they flow across state and regional lines. Or, the effects may be acutely obvious as is the case with Minnesota's agricultural, mining and timber production areas.

Senator Jim Gustafson, commenting on the issues raised at the seminar, said the decline in the demand for our taconite and food goods has been drastic enough to reverse the history of a traditionally successful two-tier economy. He summed up the current economic elements as "One that is still prosperous and viable and one that is not."

"If all of the farms in Minnesota closed down it probably wouldn't have an effect on the world-wide glut. There's such a surplus of farm products. The same thing has occurred with our taconite and our timber," Gustafson said. But the downturn in the goods economy has been coming for a long time, he added.

"Historically Minnesota has been a very fertile state in terms of growth in industry and education," he said. "The economy of Minnesota developed into a two-tier sort of

economy and for a while that was really okay. The non-metro area having very prosperous farm areas, very prosperous lucrative mining areas, timber areas, just generally good natural resources. Also sprinkled in the non-metro area was a secondary economy of small businesses and small manufacturing firms. Really, that was the strength of Minnesota. Much of the wealth flowed into the Twin Cities area," he explained.

Gustafson said part of the reason for the downturn was the feeling that Minnesota was immune from inflation. Rather than concentrating on improving the business climate and encouraging job growth, commercial and industrial taxes were raised, he said, and whereas there used to be a dependence on outstate mining taxes, "Now, with high-tech industries and so on we're not that dependant anymore either for services or for taxes coming in from outstate. They're still important but not like it was in the 20's and 30's when the metro area lived off rural Minnesota."

But even today, Gustafson said, "There's

tremendous amounts of money from taconite, as depressed as they are, still flowing into the metro area."

Senator Donald Storm's opinion was that "a need exists for goods and services but we need fewer people to produce them." He said our country is in a period of transition and that there is a need to help people who can no longer make a living in mining, manufacturing or agriculture to adjust to the new situation. He said people should be made aware of the positive attributes of the change and that they can fit into emerging job markets.

Storm said past attempts to assist failing industries were not very successful because the causes were of an international nature, mainly that of foreign competition for markets. He said the state can help rural areas by encouraging business to relocate or expand into outstate Minnesota. The business climate in those areas could be made better by revamping property, income, corporate and equipment taxes, he said. An able and educated work force certainly exists in the rural areas, he added.

The trade deficit owes much of its existence to federal policies, according to Senator John Brandl. Federal taxing policies have driven up interest and exchange rates, he said. This has taken place after small businesses had attempted to expand under lower interest rates and liberal loan opportunities. The federal government appears to be "backing away from farmers" and other small business owners, Brandl said. He added that the state can, and does, help out with interest rates and farmer-lender mediations. But, "I don't think the state is able to guarantee a higher price for crops because the state, on its own, cannot affect the international economy," he said.

Brandl, too, said that the manufacturing and mining decline is parallel to what happened with agriculture. He said the existing situation calls for more education and training so that high wage jobs may be attained. He pointed out that many professionals in service jobs do earn high wages and that not all are low-wage situations as has been charged.

According to Brandl, the state should not heavily rely on taconite as a source of income in the future but should encourage making taconite more competitive so that it may continue to contribute to the economy, although it will continue to do so on a much smaller scale.

Even given our declines in taconite production and manufacturing, the United States' industrial output since 1979 has grown faster than any other country, except Japan. Yet, jobs in industry have declined 10 percent since 1979, Houck said. In



comparison, service employment is up 15 percent since 1979, equalling one million new jobs. In Minnesota, strengths in service jobs are in retailing, finance, communications, education and insurance, according to Houck.

But many argue that the new service jobs are extremely low-paying and offer few benefits. And, as Senator Pat Piper pointed out, many of those jobs are held by women who are trying to improve the quality of their lives.

"If you live on a minimum wage job your salary is about \$6,000 a year. With no medical benefits, \$6,000 a year can hardly support one person. It surely cannot

support children," Piper said.

In modern society we want to do more to assist those in need, she said. Piper listed medical programs for the aged, programs for the mentally ill and expanded nursing home facilities as just a few of the areas taking our focus, and money, away from our economic concerns. "As a society desires more you need more income to satisfy those desires," she said. As individuals, we demand a much higher standard of living than our parents and grandparents.

Minnesota's dual economy—one in decline and one stable and buoyant—was the focus of Dr. Philip Raup's message. Raup, Professor Emeritus, Agriculture and Applied



Sen. Jim Gustafson

Economics at the University of Minnesota, said the consumer debt and a glut economy have contributed to the decline of prosperity in certain areas of the state over the past four years.

Pinpointing agricultural areas, Raup said some farmers will have experienced high earnings in 1986 but that farmers who bought land and attempted to expand by purchasing new equipment a few years ago are currently facing severe hardships. Farmers affected the most are those who had taken advantage of low interest rates and readily available financing from banking and lending institutions.

Because of the gradual shift from goods production toward information and services jobs "the reasons for the existence of cities are crumbling beneath our feet," Raup said. We no longer need to gather in cities to work, he added.

Whereas our state once depended on our abundant natural resources for our wealth, we have turned instead to manipulating the raw materials. The amount of crops currently harvested matches that of the volume of crops harvested after World War II, yet only half the crop land acreage is in use. We have become so efficient and productive that we need less space, fewer people and fewer other resources to accomplish the same outcome, Raup explained.

For that reason we should, according to Senator Charles Davis, "work at developing alternative job opportunities as income sources and at the same time foster the spread of information and education on alternative farm enterprises with new and different markets."

Davis noted that it is evidently true that we are moving away from a goods based

economy to a service economy but stated, "We cannot divorce ourselves from a basic reliance on the natural resources of soil, water and people for economic development or redevelopment."

The value of crop land acreage has plummeted 23 percent since 1981, mostly in the southeast section of the state, Raup said, and added that the decline is partially a result of not understanding inflation and a general belief that our natural resources would not be depleted.

Raup's recommendation to the legislators, in dealing with the rural economy, was to adjust property taxes so that they better reflect current land values, encourage credit agencies to "clean up" their credit balances, and encourage rural areas to take advantage of the computer age and the growing demand for information services. Unlike manufacturing, marketing can be done in any location, he said.

Focusing research and technology on developing new markets and new products to increase the potential for profitability in rural areas is one way in which the state could offset the downturn, according to Davis.

The final portion of the seminar was devoted to remarks by Kathryn Keeley, President of the Women's Economic Development Corporation. She spoke to the legislators about the importance of entrepreneurship in the state. She supported not only the "true entrepreneur" as she called those with venture capital to invest, but also women at home who start their own cottage industries. Kelley said individual efforts to manufacture and market a product, no matter how small the scale, should be encouraged by the state. Families need the added income, she said.

"It's no longer possible to be a single wage earner for a family," said Keeley. She said that if it is taken into account that half of the new service jobs in our state pay under \$7,000 per year, it's not realistic to assume that workers can remain self-sufficient, and thus she supported the minimum wage bill. The proposed bill would raise the minimum wage from \$3.35 an hour to approximately \$4.10 an hour.

Senator Don Frank, a co-author of the minimum wage bill, said that if the minimum wage cannot be raised, "You're asking people to live in perpetual poverty. \$4.10 or \$4.20 an hour is hardly gold dust. That only brings yearly wages up to \$8,000 or \$8,200." In answer to those who do not agree that raising the minimum wage would be good for all sections of the state, Dr. Raup among them, Frank said, "I don't care if you live in a small town or not, you still need to have a basic minimum. For a family of four poverty is defined at \$11,000, not

Below: Panelists Dr. James P. Houck, Dr. Philip M. Raup and Kathryn S. Keely answer questions from the audience. Lower right: Sen. Don Frank.

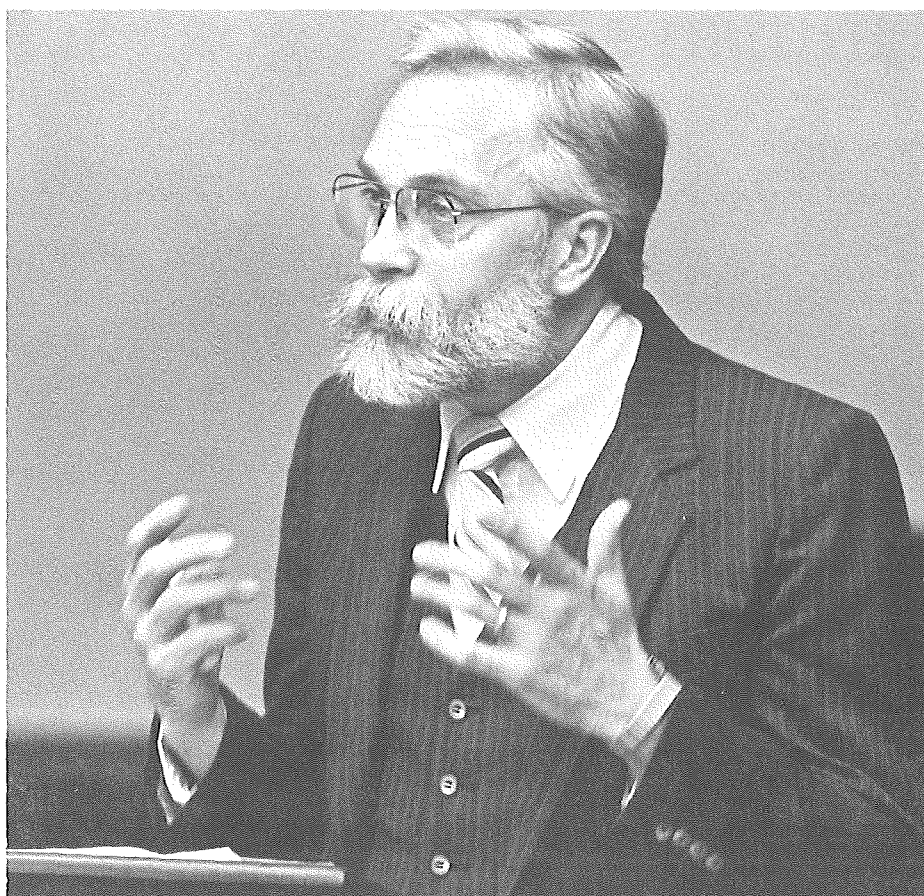
photos by David J. Oakes



\$7,000 or \$8,000. In this economy, the minimum wage salary is often what a woman or man earns to supplement the family income." He said in the case of many farmers, the supplemental income is what is carrying them through the farm crisis.

Keeley, in her presentation, expressed concern about people who experience "the hassle and the hug factor" of barriers to starting a business. She said the role of government should be to create an environment conducive to business and individual workers. That would involve restructuring workers' compensation, dismantling AFDC, expanding job training and child care programs, raising the minimum wage and providing challenge money for business endeavors, according to Keeley.

Frank explained that, although the entire array of factors affecting our economy were touched on during the seminar, some would argue that improving the structure of our economy, not only statewide but nationwide, is dependant on the way we address social programs, business development and trade policies. The decisions which are made affecting those areas may benefit some but they always extract a cost from others. As he pointed out, "Taxpayers, if you want the program, you've got to pay for it."



The new human services mission is to provide transition aid to help individuals attain self-sufficiency.



Human services goal: self-sufficiency

by Cate Murphy

At a time of enormous economic uncertainty, a slim budget, and increased demands on the state and national level for improved and continued welfare programs, legislators are being urged to assess the structure of the current welfare system. The ultimate concern, according to legislators and human service officials, is not only how to provide welfare recipients with support, but also to help them become self-sufficient and independent.

In 1935 the federal government created the Social Security Act, closing the door on three centuries of ignoring the conditions of the poor. It was the first role the federal government was to play in assisting the economically disadvantaged. And while it closed one door, it opened another, noted Professor Esther Wattenberg of the University of Minnesota School of Social Work, who introduced guest speakers at the "Human Services/Human Needs in Perspectives" seminar on Wednesday, January 14.

Wattenberg also discussed current human

service trends in the United States, noting that the poverty rate in the country is high and persistent; there is a growing population of persons without health care; there is an increasing homeless population; there are not enough jobs that pay sufficient wages; there are more at-risk students; and there are more children born into welfare dependency today than ever before.

After fifty years, local, state and federal governments are still trying to assess how to most effectively and efficiently shape the welfare system. In many ways it has become one large ambiguous system. Today there are over 36 million social service recipients in the country. They are the unemployed, the sick, the illiterate, the elderly, the blind and the chemically dependent. The programs run the gamut. Yet, as human service officials have noted, with so many millions on one or more of the available programs, the system is in trouble; more than ever, Americans are turning to the government for financial assistance. Most important however, is the fear of a permanent underclass. As Wattenberg explained, if a person has not worked by the age of 26, chances are he, or she, never will.

Jan Smaby, President of the Spring Hill Conference Center and former Director of the Hennepin County Department of Economic Assistance, spoke to legislators to ask for their full support in reassessing the structure of the current welfare system. With a national welfare bill of \$132 billion annually and of \$2 billion in the state of Minnesota, almost one-half of every household in the United States receives some assistance from the government. The problem with the system, and the Aid to Families with Dependent Children (AFDC) program specifically, is that while time and money are spent filling out forms and shuffling paperwork, as part of the bureaucratic process, the basic root of the problem is not recognized: recipients need to learn how to become self-sufficient. Unfortunately, said Smaby, "the obscene weight of these regulations is brought about by our concern in this society that we have to distinguish between the deserving poor and the undeserving poor, and I think it is impossible to distinguish between the truly needy, the truest, and the neediest."

There are 180 federal transfer payment programs in the country, said Smaby. Almost



Jan Smaby

one-half of all federal expenditures are spent on social service programs. Thirty million Americans receive medicare and only 10 million receive AFDC. "But when we speak of the poor, we think of AFDC recipients. The overwhelming majority of welfare recipients are homegrown," Smaby said. They are women who have been out of the work force or have lost a major wage earner in the family. Fifty percent of the mothers have a high school degree, but they do not know how to adequately provide for themselves or their children. The majority of the women do not have subsidized housing and without the aid of AFDC, they cannot take jobs because the jobs they qualify for don't provide medical insurance or benefits, and don't pay enough to support transportation and day care costs, said Smaby.

For many AFDC mothers and children, the program is short-term. Fifty-six percent receive AFDC for two years or less. However, forty percent of the women will go off the program because they remarry. Smaby said this "transfer of dependence is a negative. If we have not successfully educated or trained women before they get off AFDC, then they transfer their dependence from one welfare system to another." As a result, noted Smaby, many of the women who return, return because of another failed marriage.

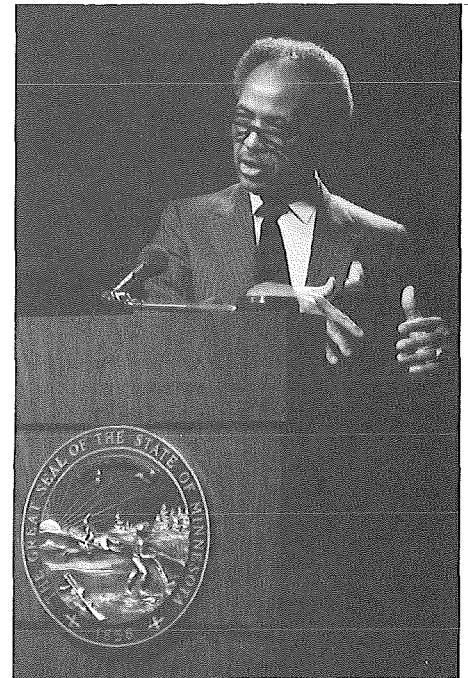
Unfortunately, the trends are increasing, not reversing. An affordable alternative, said Smaby, is to provide recipients with the opportunity to get their high school diplomas, in addition to providing job training assistance programs, while gradually working their way off the system.

Looking ahead into the 1990s, state senators recognize the need for fundamental welfare reforms. "We have to help people who are having difficulty supporting their families to make the transition into becoming self-sufficient," said Senator Linda Berglin, chair of the Health and Human Services Committee. "Unfortunately, I think the federal government has taken a lot of that flexibility away and we, as a state, are struggling to find ways to put the programs together," she continued.

"There are a lot of things we need to realize," said Senator Howard Knutson, who plans to propose a transition assistance program this session. Knutson noted that while recipients can find jobs, they often turn them down because they find that the salaries offered will not cover the expenses they require. "We would be prepared, to say to the recipient, 'we'll cover these costs while you make this transition move,'" said Knutson.

According to Senator Don Samuelson,

photos by David J. Oakes



Dr. Richard Green

proposals being prepared for introduction this session include a program designed to help teenage mothers get their high school diploma, additional child care programs, and a residency requirement program. Samuelson also hopes to help develop a work incentive program. This program would allow AFDC mothers to continue receiving some of their grant money while working. "The program will probably have some cost," said Samuelson, "but it provides an incentive for mothers to get off the program." Additionally, legislators will try to encourage counties to enforce child care support, he said.

While the idea of welfare reform has switched from monetary subsidy to monetary subsidy and training, Senator Gene Waldorf believes that "it is going to take some aggressive programming to get training that helps AFDC mothers carry financial burdens." "I don't know exactly what is going to take shape," he continued, "but being eligible for a minimum wage job is not a solution. We can do better than that."

The purpose of the welfare system is to provide basic necessities for a short period of time. What has happened, however, as Senate Minority Leader Duane Benson noted, is that cultural and economic conditions have changed over the years. There was a time when a family took care of

its elderly, its sick, and its poor. In a mobile society, the family can no longer provide that support and those in need turn to the government for help. "From an historical perspective, the growing dependence on social service programs occurred in the 1930s and 1940s. At that time there was a need that no one else could fulfill and we have come to build on that. Now, the costs and the demands of the system have become greater and greater," said Benson.

One institution looked at more and more for providing support to curb the demands of social service agencies and for providing adequate training is the educational system.

Minneapolis Public Schools Superintendent Dr. Richard Green stressed the need for early childhood education programs, saying that the most important investment is the personal development of the zero to five year old child. Green also asked legislators to consider legislation that would provide parent training programs focusing on issues such as child care, sex education, and AIDS education. Parent training can improve a child's school performance, stated Green.

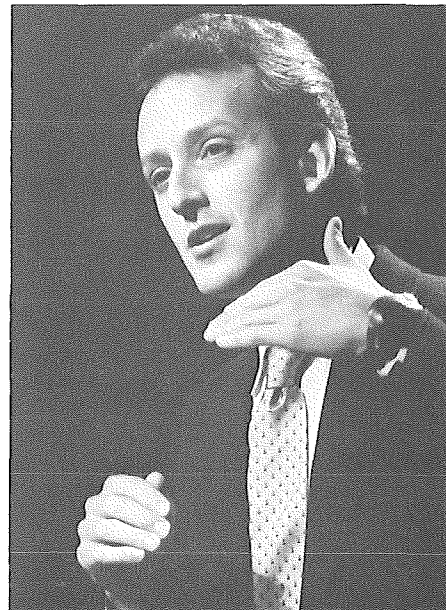
These programs need to be established, urged Green, citing recent studies that

indicate there will be an increase in the number of at-risk students in the 1990s. Typical at-risk students, said Green, would be children from single parent homes, children from low-income homes, children who don't link up with the value system, children with a poor academic success record, or children who are emotionally unprepared. "We must make certain we do not have a poverty of spirit in the schools," said Green, stressing the idea that every student ought to be provided with education and training opportunities that will foster the development of individual potential and a commitment to responsibility.

Green believes that by developing early childhood programs, ideas and creativities will be nurtured throughout the child's developmental years, thereby increasing his or her chances for future academic success. "Children don't suddenly become disconnected. Technology is important, but there has to be a fourth dimension involved, and that's the caring capacity," he said.

The value and role of the school is changing, said Green. More and more training is required for programs such as pregnancy prevention, drug abuse, and public health. Where it was once assumed that the school

prepared its students for the purpose of career development, it now has added responsibilities. Green believes that by working in partnership with the city, with health care centers, and with day care centers, "we can restructure our services correctly."



Above: Day care assistance is a vital element in the formula for self-sufficiency. Top right: Dr. Michael Resnick.

"We need cooperation right away," said Senator Donna Peterson. "Cooperation from schools and social service agencies to provide kids with the programs they need," she added.

Others however, may question this action. Senator Gene Waldorf believes that schools should provide students with necessary training, but is concerned that the school will reach a point where it will educate people from "cradle to completion." That, he believes, is "not the objective of education."

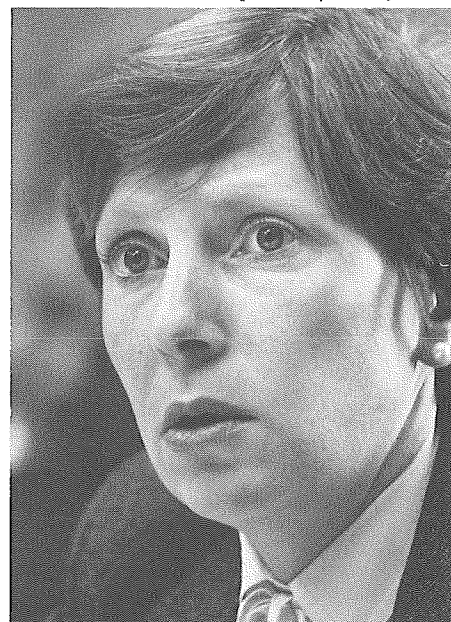
According to Senator Linda Berglin, the reason schools are being asked to take on these added responsibilities is because that's where the kids are. The role of the school, she said, is to provide students with a good education, and to help them conceptualize and plan for the future. "But the schools need more money and more diversified personnel," she said. "We need to give the schools the resources they need to tackle the problems, otherwise we need to make sure the schools interact with other agencies that are able to provide these services to kids."

Senator Gen Olson believes that schools need to provide the students with an environment that will nurture the desire of

learning and working. This, she said, "is often lost along the way. When you lose the desire to learn, your motivation and excitement for learning, school becomes a place where peer dependence can become a negative. We've got to learn to use our resources in restructuring the education environment."

Prevention of disease and promotion of health are also major concerns of the 1990s said Professor Michael Resnick from the Adolescent Health Program at the University of Minnesota. In his presentation to the legislators, Resnick stressed the need to coordinate health and human support services with the schools.

"There are limits to our resources," said Resnick, "but through education, we can strive to create a climate of motivation to prevent diseases, and specifically to delay the on-set of sexual activity among youths." Health problems, said Resnick, come not only from biological causes, but social behaviors. According to Resnick, there is a direct correlation between poverty and health. The destructiveness of poverty, said Resnick, leads to a destructive behavior toward the human body and spirit. As a result, he continued, the poor are at a higher health risk than the middle class and the wealthy.

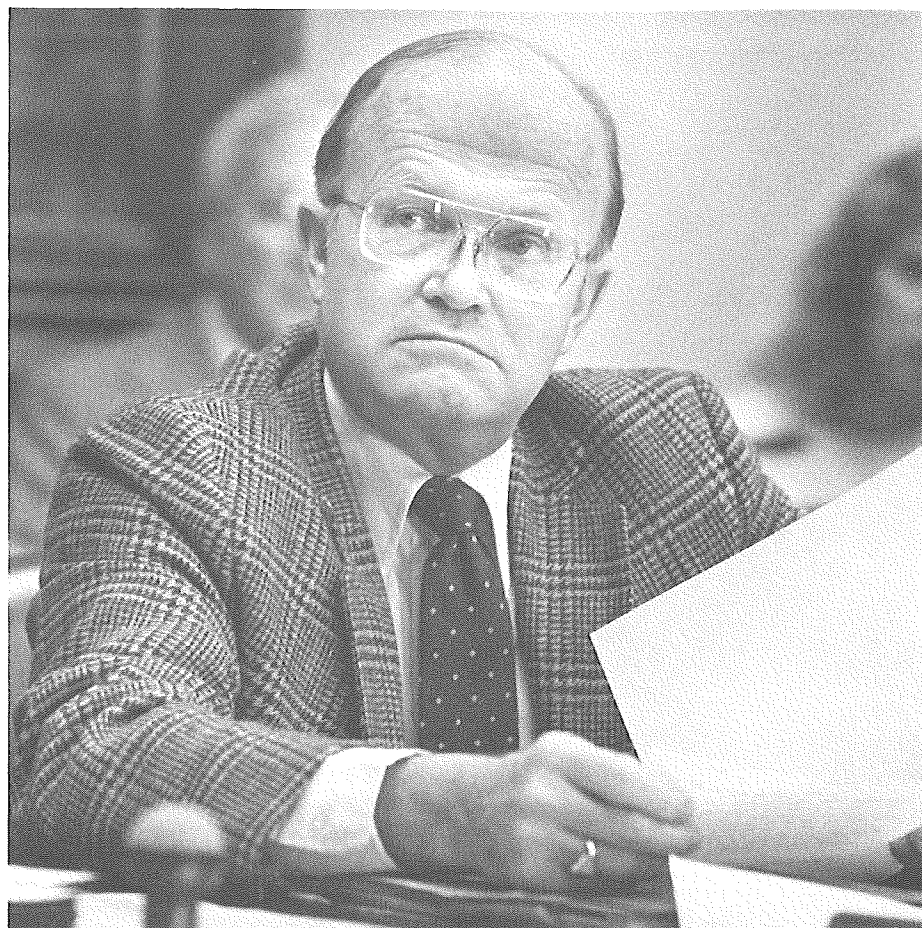


Sen. Donna Peterson

The critical questions concerning health issues in the 1990s, noted Resnick, are who should have access to what services, what level of quality should be given and who should pay for these services. Those in most need in the next decade will be children, young women, middle-aged women, the elderly, and those needing long term health care. Considering that the United States is the only industrialized nation in the world without a national health insurance policy, Resnick suggests that the way to deal with this is to build partnerships among health agencies and the schools.

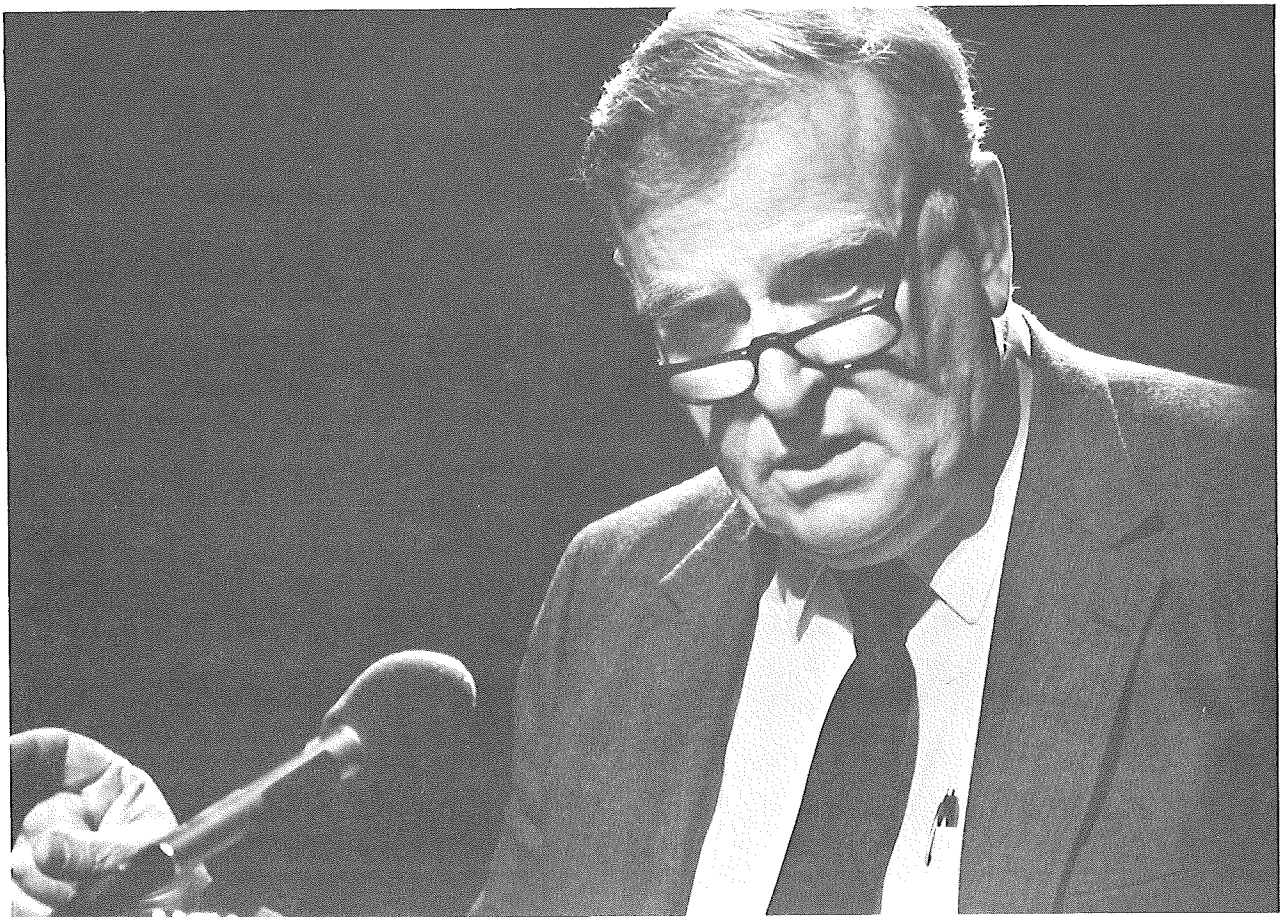
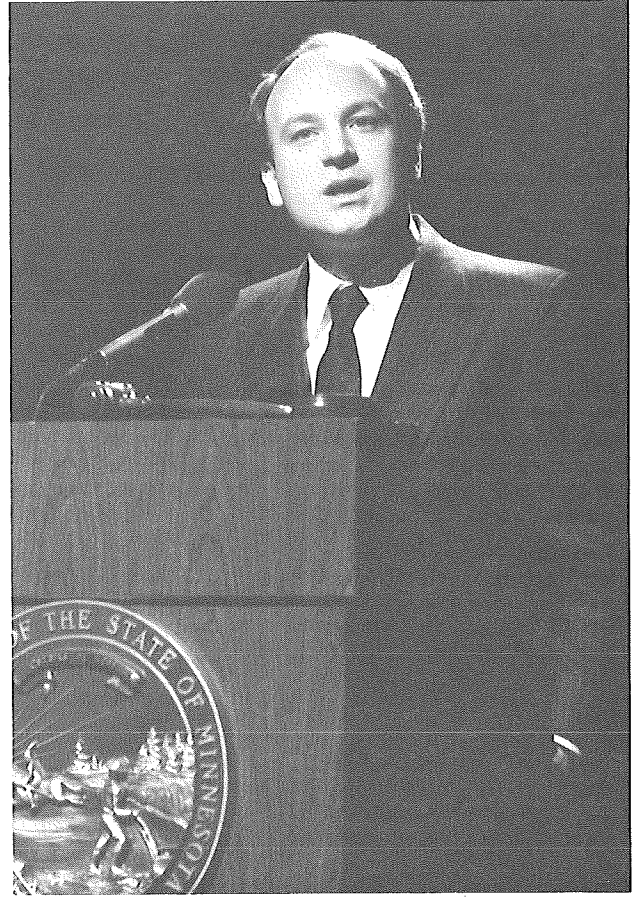
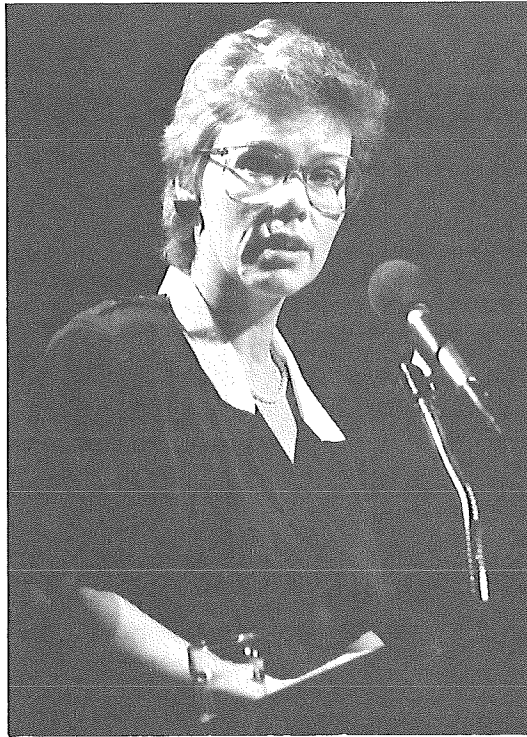
"It is important for people to learn about wellness, how to prevent illness and the spreading of diseases," said Berglin. "Going to school isn't just learning to read and write, it is also becoming prepared to live a full life in the world, learning to keep yourself healthy."

As Jan Smaby, Dr. Richard Green, and Dr. Michael Resnick noted, the government, the social service agencies, and the schools need to work together to improve living conditions in the present and the future. Human service issues will change from concentrating on income maintenance to the development of people. According to the legislators, efforts during the 1987 session will not be to reduce or to increase the welfare benefit structure but to create programs that will encourage welfare recipients to become independent and self-sufficient. Furthermore, the education systems will begin focusing on establishing programs that will foster personal development and growth. "This is a real breakthrough," said Senator Nancy Brataas, "I think the most encouraging aspect of welfare reform this session is the emphasis on redefining the mission of AFDC, focusing on a transition assistance program and education."



Sen. Howard Knutson

Top left: Dr. Julia M. Friedman. Top right: Stanley E. Collender. Bottom: John F. Shannon.



Taxation, budgeting are lawmakers greatest challenges

by Steve Senyk

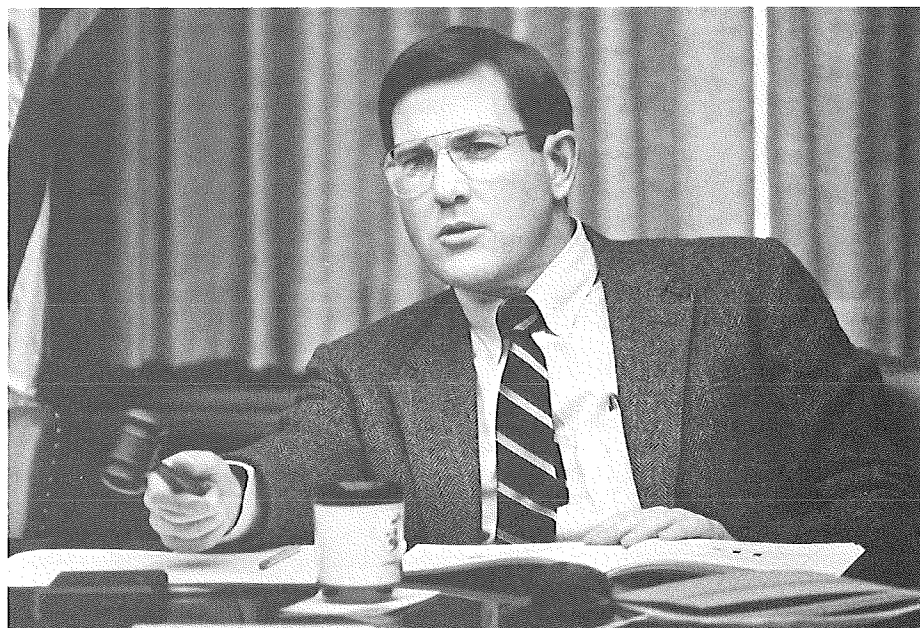
Chief among the legislative issues this session is Minnesota's taxation and finance system. Governor Rudy Perpich proposed sweeping changes in these areas, and legislators are forming their own proposals to make Minnesota financially stable and efficient. To help lawmakers prepare for the decisions ahead, the Minnesota Horizons program examined the effects of national, state and local policies on Minnesota's revenue and budget processes.

Providing a national perspective, Stanley E. Collender, Director of National Policy Issues and Federal Budget Policy for Touche Ross and Company, discussed the impact of the federal budget and the deficit. John F. Shannon, Executive Director of the Advisory Commission on Intergovernmental Relations, offered a state viewpoint on his topic, "Structuring a state/local revenue system to achieve multiple objectives." The third speaker, Dr. Julia M. Friedman, presented a local perspective with her speech, "Paying for local government services in the 1990's."

"News from Washington is not good and will not be good for some time," Collender said in his opening remarks. The amount of federal aid to states will not increase during the next five years and may be reduced, he explained. "Plan for it," Collender advised state lawmakers. "Expect very little in [additional] dollars than what you are getting now," he added.

What that means, Collender said, is that Minnesota, as well as other states, will not be able to depend on the federal government for financial help in resolving new or growing problems. Congress will still be pressured to reduce the federal deficit, and aid to state and local governments is a vulnerable area for cuts.

While states can expect little help from Congress, they can enact policies to promote economic development and stabilize revenues, emphasized Shannon. Minnesota could greatly improve its economic competitiveness among other states by changing its tax structure, he said.



Sen. Gene Merriam

Shannon suggested that the state scale back its tax rates, broaden its tax base and moderate its spending on goods and public services to make itself more competitive. To build in equity, the state should shield more low income residents from taxation.

Because of the fierce interstate competition for jobs, "Most state must avoid the reputation of [having] a bad business climate," Shannon said. That would include an above average local tax burden; a highly progressive income tax structure; no capital gains exemption; and above average tax rates for unemployment and workers compensation," he explained.

Shannon said the least objectionable state tax systems are those that balance and moderate their income, sales and property taxes and user fees. According to Shannon, Minnesota's tax revenues exceed its taxation capacity in all areas except general sales. Compared to other states, Minnesota's income tax "sticks out like a sore thumb," he said. Minnesota's other taxes are near the average of other states.

Friedman suggested Minnesota would do better if it replaced its system of local aids

and credits and instead targeted assistance to jurisdictions with low income residents. Under the current system, Minnesota provides property tax relief to all Minnesota's residents, but not necessarily to the needy taxpayers. If property tax credit programs are to be revised, consider targeting relief to the needy; preserve a progressive relief system and preserve scarce revenues, she suggested. Friedman further indicated that Minnesota should simplify its property tax system.

Collender, Shannon and Friedman provided state lawmakers with an important message: states must review their tax and spending policies when addressing policies to assure revenue stability and economic growth. To gauge how the Minnesota Legislature may respond to its spending and taxing priorities, "Perspectives" interviewed four state lawmakers.

One person who will play a key role in shaping Minnesota's funding policies is Senator Gene Merriam, chairman of the Finance Committee. Merriam said the state should not accept "carte blanche" Shannon's contention that Minnesota should reduce its

progressive tax rate and trim public goods and services.

"Highly progressive tax rates, I believe, are imminently defensible," Merriam said. "It seems just to me that ability to pay is related to what your income is. That's the notion of a progressive tax system. But, at the same time, you've got to be mindful of what that does in term of other states and the public perception. I understand the mood to reduce the top rates, but I hope we can keep [the tax system] fairly progressive," he added. Merriam said that he's not convinced the state is now providing unnecessary goods and services.

Tinkering with Minnesota's progressive income tax system also was of concern to Senator Steven Novak. Novak said the present system has contributed to Minnesota's fine educational system. "I think a progressive tax base is essential [for providing] a diversified and complete education in Minnesota, which I think is a driving force in economic development," he said. "In Minnesota, we historically have had a progressive tax base and we have been historically recognized as having a sound educational system. We have to be careful in altering that relationship," he added.

While Merriam and Novak expressed caution about altering Minnesota's progressive tax system, Senator Gary Laidig said the degree of the state's income tax progressivity is important when considering Minnesota's economic competitiveness with other states. "The number one goal for us in setting tax policies is establishing fairness. Along with that, you have to say you're not an island. And what you do in terms of tax policy has to make us competitive," he said.

Scaling back Minnesota's progressive tax system and moderating the state's taste for public goods and service, was sound advice according to Senator William Belanger. "I've always felt that if we're going to stabilize our tax system and avoid these constant special sessions, we're going to have to take some of the progressivity out of the income tax. On the sales tax side, we have to broaden the base by expanding the sales tax to at least clothing and services," he said.

"As for our appetite for government services, I think that in a state like Minnesota that has a long history of providing a lot of government services, I'm just not sure you can wean people from that," Belanger continued. "Some of these [services] are reasons people came to Minnesota...some prefer to pay the higher tax and get the service," he added.

Belanger said that the cost of government will continue to rise even if the levels of spending remain constant. In order to control state spending, he suggested

looking at the cost-effectiveness of each program. "If it isn't cost effective, then I think we have to modify it, or we have to get rid of it," he said.

Merriam said that studies show Minnesota's volatile revenue system is not necessarily a result of its narrow tax base. What the state loses by expanding its tax base is progressivity in its tax system, he said. "While I agree that in some areas the tax base ought to be broadened, I'm not so sure it should be a goal unto itself," he added.

An area in which Merriam contends the tax base could be expanded is the corporate income tax. "Ostensibly, we have the highest corporate tax rate in the country. But, what never gets mentioned is that we have the most favorable allocation system for multi-state corporations. We provide a tax benefit to companies who sell a lot in Minnesota and locate very little in the way of plant or employment. I've always thought that was wrong. We ought to eliminate tax breaks for those companies who are very dependent upon us for sales, but have no investment plans," he said.

Laidig agreed with Shannon that the state's highly progressive tax rates are affecting Minnesota's economic competitiveness. He explained that Minnesota's high income tax hurts its recruitment of corporate executives. "We rely too heavily on the income tax," he said. "Diversification of the tax would help, but we must consider how much revenue would be gained [by diversification]. I would be reluctant to diversify into areas where people would get hurt by it—taxes on food and clothing—if it doesn't raise that much [revenue]," he added.

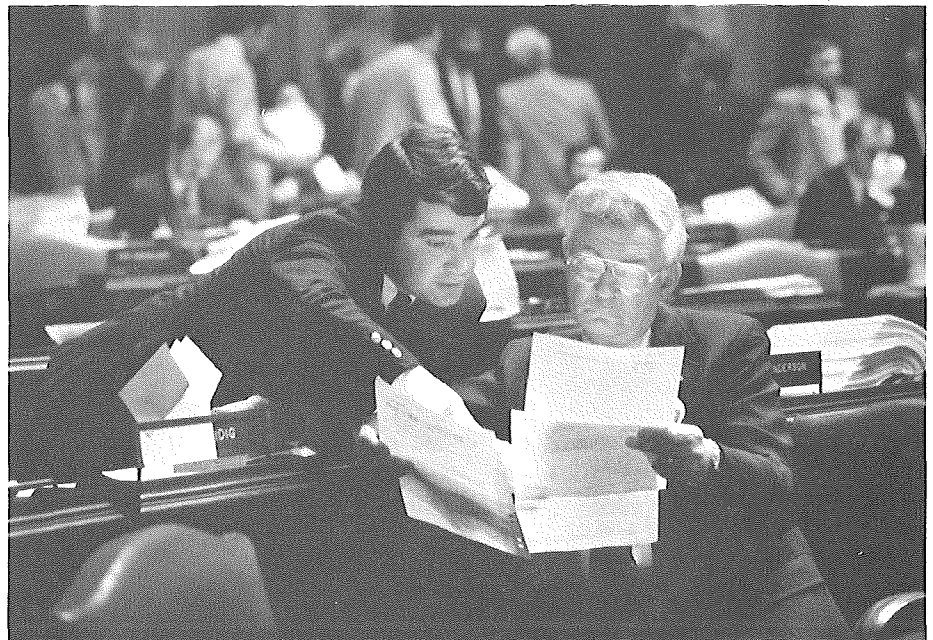
To help stabilize state revenues, Friedman suggested revamping the state's property tax program. Belanger said that is an issue that the state cannot afford to ignore; in fact, he supported reducing state aid to local governments. "Property taxes are going to go up in communities," he said. "But, I think if we do that, we cut back on our services and we force city governments out there to justify every dollar they spend."

However, Belanger said targeting property tax relief could cause problems. "In the metro area, I think we've [targeted relief] through fiscal disparities. I would hope we wouldn't do that state wide, because then the metro area would be the big contributor to the whole state. But if we could come up with some other system for rural Minnesota, comparable to what we've done with fiscal disparities in the metropolitan area, that might work."

All senators agreed that the state can begin stabilizing revenues by getting better control of its budgeting and forecast processes. According to Laidig, "We have to get a pretty good lock on what those revenue projections are. I would like to know where those shortfalls occurred. We must examine the shortfalls and see if there are trends there. I would hate to talk about reducing income tax or extending the sales tax if the problems are in the ag economy."

Merriam said that the Legislature has created much of the volatility in the revenue system because it has not looked beyond the coming biennium when making budget decisions. Legislators, Merriam said, should be "thinking not only how [the budget] will affect us until June 30, 1989, but how it will affect us in 1990 and beyond."

photo by Joey McLeister



Sen. Gary Laidig (left) and Sen. William Belanger confer in the Senate Chamber.

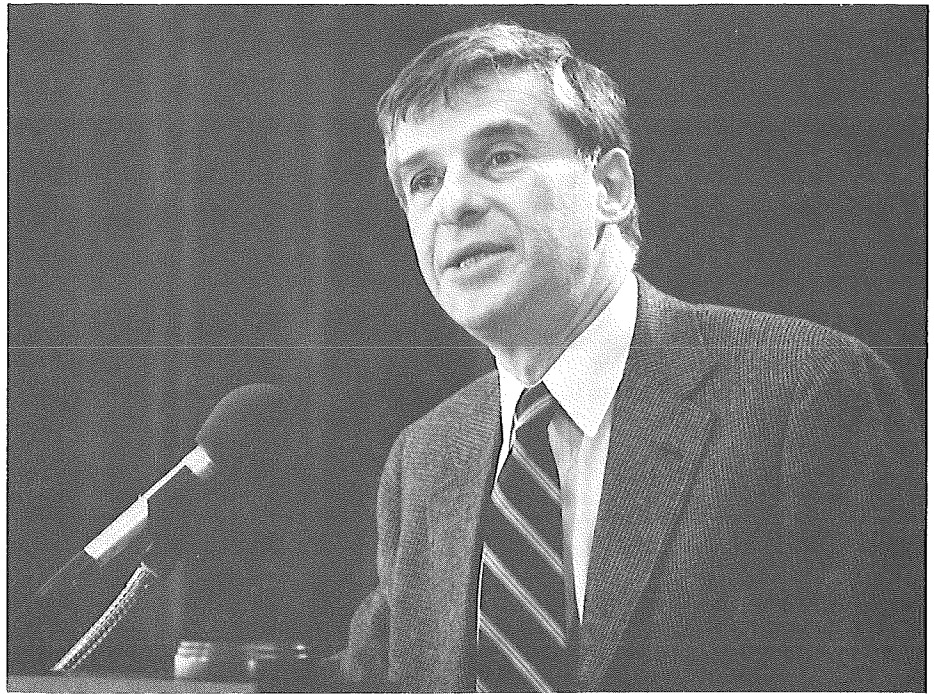
The “new” legislature profiled

by Karen L. Clark

The final speaker at Minnesota Horizons—Turning Point to the 90's sounded a pleasantly surprising note for the assembled legislators at the conclusion of the program. “I am here today to praise the Legislature,” said Alan Rosenthal, Director of the Eagleton Institute of Politics at Rutgers University. Rosenthal compounded the surprise by adding, “I come to praise Legislatures in general and Minnesota's in particular. It is a resilient institution that has evolved, changed and adapted.”

It is easy to lampoon state legislatures, Rosenthal said, citing the familiar adage comparing the sausage making and law making processes. Yet, he went on, “the surprising thing is that it works—perhaps not as well as we like but better than could be expected.”

Each legislature is unique, Rosenthal explained, and the biggest differences came in comparing those states with full time legislatures and those with part-time legislatures. Rosenthal said that he has been observing legislatures since the mid-1960's, and that he has noticed in many states, a “new” legislature. And, the new legislature that has taken shape is one that has undergone a metamorphosis. According to Rosenthal, the new legislature is one with an enhanced capacity because of computerization and the high quality professionalization of staff. In addition, Rosenthal cited the democratization of the legislative process as an important factor in the maturation of the “new” legislature. No longer are legislatures controlled by just a few powerful leaders, he said. Now every member can participate in the decision



Alan Rosenthal

making process because legislative resources are more equally distributed. Other factors leading to the metamorphosis of the “new” legislature are the revolution in representation stemming from the one-man one-vote decision of the Supreme Court. This revolution in representation has, said Rosenthal, led to more constituent services, with legislators paying more attention to their districts. In addition, legislative bodies are more representative, with more women and more minorities being elected. Public participation is on the rise, Rosenthal said, because the “new” legislature is more open. This public participation has led to the formation of citizen lobbies to express divergent viewpoints.

A final element in the rise of the “new” legislature, Rosenthal said, is that legislative power has increased. Legislatures are now co-equal partners in state government—no longer functioning as either a rubber stamp or obstruction to the executive branch of state government, he said.

According to Rosenthal, these six factors leading to the development of the “new” legislature have all had the effect of enhancing the quality of public policy development. It was the state legislatures that met the recession of the early 1980's head on and took the responsible actions necessary, he said. It was the state legislatures that met the challenge of education, and he remarked that Minnesota is a leader in the area of education. In fact, he said, state legislatures met the challenges head on in liability insurance, in environment, in transportation and in economic development, and created sound public policy.

However, the legislature is under stress, Rosenthal cautioned. Legislatures, as institutions, need nurturing, he said, and they are not getting it. Legislatures as institutions, he continued, are the sum total of the experiences, traditions, customs and principles developed over a long period of time and placed under the guardianship of the legislative leadership. In today's climate, though, leadership often has more pressing concerns, such as partisan strategy and intergovernment negotiations, than the stewardship of the institution. Thus, the professional staff has been delegated the responsibility for the institution, Rosenthal said. He warned though, that for resources to be properly managed, the staff needs the involvement of legislators. “We need to have legislators minding the store,” he said.

In addition, the legislative process itself needs to be reviewed, he said. The role of conference committees and the development of the state budget are two areas that need scrutiny, according to Rosenthal. In addition, he said, there needs to be media education in order to reduce negative stereotypes and provide an accurate picture of the legislature. Leadership needs power, he said, to carry out its proper legislative function.

In concluding his address, Rosenthal reminded legislators that “the legislature is not only a means to an end, but an end in itself.” The people of Minnesota are extremely fortunate to have one of the nation's finest legislatures. Rosenthal then challenged his audience with the request that legislators leave the institution better than they found it, “that is what we expect of you and what you should expect of yourselves.”

MINNESOTA STATE SENATE

Senate Members — 1987 Session

PARTY	PHONE	SENATOR	ROOM*	DIST.	PARTY	PHONE	SENATOR	ROOM*	DIST.
DFL	296-5981	Adkins, Betty A.	235 Cap.	22	DFL	296-4136	Lessard, Bob	328 Cap.	3
IR	6455	Anderson, Don	153 SOB	12	DFL	8869	Luther, William P.	205 Cap.	47
DFL	5713	Beckman, Tracy L.	G-10 Cap.	29	DFL	5645	Marty, John J.	235 Cap.	63
IR	5975	Belanger, William V., Jr.	107 SOB	41	IR	1279	McQuaid, Phyllis W.	135 SOB	44
IR	3903	Benson, Duane D.	147 SOB	32	IR	8075	Mehrkens, Lyle G.	127 SOB	26
DFL	5094	Berg, Charles A.	328 Cap.	11	DFL	4154	Merriam, Gene	122 Cap.	49
DFL	4261	Berglin, Linda	G-29 Cap.	60	DFL	4370	Metzen, James	303 Cap.	39
IR	4131	Bernhagen, John	113 SOB	21	DFL	4264	Moe, Donald M.	309 Cap.	65
DFL	2084	Bertram, Joe, Sr.	323 Cap.	16	DFL	2577	Moe, Roger D.	208 Cap.	2
DFL	4837	Brandl, John E.	306 Cap.	62	DFL	5649	Morse, Steven	G-24 Cap.	34
IR	4848	Brataas, Nancy	139 SOB	33	DFL	4334	Novak, Steven G.	301 Cap.	52
DFL	4182	Chmielewski, Florian	325 Cap.	14	IR	1282	Olson, Gen	133 SOB	43
DFL	5931	Cohen, Richard J.	G-27 Cap.	64	DFL	4241	Pehler, James C.	G-9 Cap.	17
DFL	5003	Dahl, Gregory L.	111 Cap.	50	DFL	4274	Peterson, Donna C.	G-24 Cap.	61
DFL	2302	Davis, Charles R.	G-24 Cap.	18	DFL	8018	Peterson, Randolph W.	G-9 Cap.	19
DFL	6820	DeCramer, Gary M.	303 Cap.	27	DFL	9248	Piper, Pat	325 Cap.	31
DFL	2859	Dicklich, Ronald R.	235 Cap.	5	DFL	7809	Pogemiller, Lawrence J.	306 Cap.	58
DFL	8298	Diessner, A. W. "Bill"	323 Cap.	56	DFL	4167	Purfeerst, Clarence M.	303 Cap.	25
DFL	2877	Frank, Don	G-10 Cap.	51	IR	9251	Ramstad, Jim	123 SOB	45
IR	4123	Frederick, Mel	119 SOB	30	DFL	2889	Reichgott, Ember D.	G-9 Cap.	46
DFL	5640	Frederickson, David J.	G-24 Cap.	20	IR	4125	Renneke, Earl W.	117 SOB	35
IR	8138	Frederickson, Dennis R.	143 SOB	23	DFL	4875	Samuelson, Don	124 Cap.	13
DFL	9307	Freeman, Michael O.	122 Cap.	40	DFL	7157	Schmitz, Robert J.	235 Cap.	36
IR	4314	Gustafson, Jim	115 SOB	8	DFL	4188	Solon, Sam G.	303 Cap.	7
DFL	4183	Hughes, Jerome M.	328 Cap.	54	DFL	4191	Spear, Allan H.	G-27 Cap.	59
IR	3826	Johnson, Dean E.	105 SOB	15	IR	6238	Storm, Donald A.	125 SOB	42
DFL	8881	Johnson, Douglas J.	205 Cap.	6	DFL	8660	Stumpf, LeRoy A.	306 Cap.	1
DFL	4248	Jude, Tad	326 Cap.	48	IR	9457	Taylor, Glen	103 SOB	24
IR	1253	Knaak, Fritz	149 SOB	53	DFL	5650	Vickerman, Jim M.	G-29 Cap.	28
IR	4120	Knutson, Howard A.	121 SOB	38	DFL	3809	Waldorf, Gene	124 Cap.	66
DFL	4302	Kroening, Carl W.	124 Cap.	57	DFL	8091	Wegscheid, Darril	309 Cap.	37
IR	4351	Laidig, Gary W.	141 SOB	55	DFL	4147	Willet, Gerald L.	111 Cap.	4
DFL	3205	Langseth, Keith	G-24 Cap.	9					
DFL	8017	Lantry, Marilyn M.	G-28 Cap.	67					
IR	5655	Larson, Cal	145 SOB	10					

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