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Minnesota's prosperous economy linked to tax, investment and talent-attraction policies, new Michigan Future report shows

Minnesota has the best economy in the Great Lakes. It has a 2012 per capita income of \$46,227, \$8,730 more than Michigan, and a 2013 unemployment rate of 5.1 percent, well under Michigan's rate of 9.1.

Michigan Future, Inc. asked top state business reporter Rick Haglund to investigate the policies Minnesota has pursued to grow its economy. The results are the topic of his new report: "State Policies Matter: How Minnesota's tax, spending and social policies help it achieve the best economy among Great Lake States."

The report examines policies of two states that looked much alike in 1990, when Minnesota's per capita income was just \$555 more than Michigan. The report shows how Minnesota has made major investments in education and urban communities, embraced regional government, and supported policies that make the state more welcome and open to all.

"For decades, Minnesota, under Democratic, Republican and Independent Governors, has rejected the idea that low taxes are the key to a prosperous economy," said Michigan Future President Lou Glazer. "Its alternative has been to focus on making investments needed to educate citizens and create a welcoming and great place to live and work.

"Michigan Future has long argued that our state should want a high income, low unemployment economy that looks like Minnesota. Now we know how policymakers steered the state into that position."

To make its investments, Minnesota has far higher tax rates than Michigan, allowing it to spend substantially more on education. Some key differences:

- Income taxes: Minnesota's lowest income tax rate is 5.35 percent; its top rate is 9.85 percent for those making more than \$250,000 per year. Michigan's flat rate is 4.25 percent.
- Business taxes: Minnesota's corporate income tax is 9.8 percent; Michigan's rate is 6 percent.
- Sales taxes: Minnesota's sales tax rate is 6.875 percent, and local communities can add up to an additional 1 percent; Michigan's sales tax rate is 6 percent.
- Gasoline taxes: Minnesota's gasoline tax is 28.6 cents per gallon; Michigan's is 19 cents per gallon.

As a result, per capita state and local taxes in Minnesota are \$5,016 – \$1,361 higher than in Michigan. State and local taxes take 11.9 percent of personal income in Minnesota; 10.6 percent in Michigan

Those higher taxes buy more government investment in key services on a per-resident basis:

- Higher education: \$232/person in Minnesota, \$172/person in Michigan.
- K-12 education: \$2,067/person in Minnesota; \$1,447/person in Michigan.
- Transportation: \$502/person in Minnesota, \$223/person in Michigan
- Local government aid: \$465/person in Minnesota; \$119/person in Michigan.
- Health and human services: \$1,134/person in Minnesota; \$617 in Michigan.

Along with these major investments, Minnesota has policies that make it more welcoming to all including allowing same-sex marriages, a “Dream Act” that allows undocumented residents who graduated from state high schools to obtain in-state tuition and no affirmative action ban on college admissions.

Minnesota also has put in place strong regional government policies, including tax base sharing that spreads property taxes to cities throughout a region, and services sharing that allows the seven-county greater Minneapolis region to have a common planning council, bus and rail transit operation and wastewater treatment system.

These policies help the state achieve the nation’s 10th high college attainment rate, a metric Michigan Future has found in its research to be the single best predictor of state per capita income. (Minnesota ranks 11th in per-capita income. Michigan is 36th in education attainment, and 35th in per-capita income).

“It was very interesting for me, as a long-time observer of Michigan’s economy and economic development effort, to spend time talking with policymakers and thinking about how our state might look if it had taken a different approach over the last 20 years or so,” said Haglund. “It’s clear that if Michigan is to regain the prosperity it enjoyed decades ago, it should aspire to be more like Minnesota.”

The report was paid for by the Hudson-Webber Foundation and the W.K. Kellogg Foundation. It is available online at <http://www.michiganfuture.org/06/2014/minnesota-report-2014/>.

Michigan Future, Inc. is a non-partisan, non-profit organization. Its mission is to be a source of new ideas on how Michigan can succeed as a world class community in a knowledge-driven economy. Its work is funded by Michigan foundations.