

On Minnesota's Economy

Evidence for Policy Evaluation and Formation

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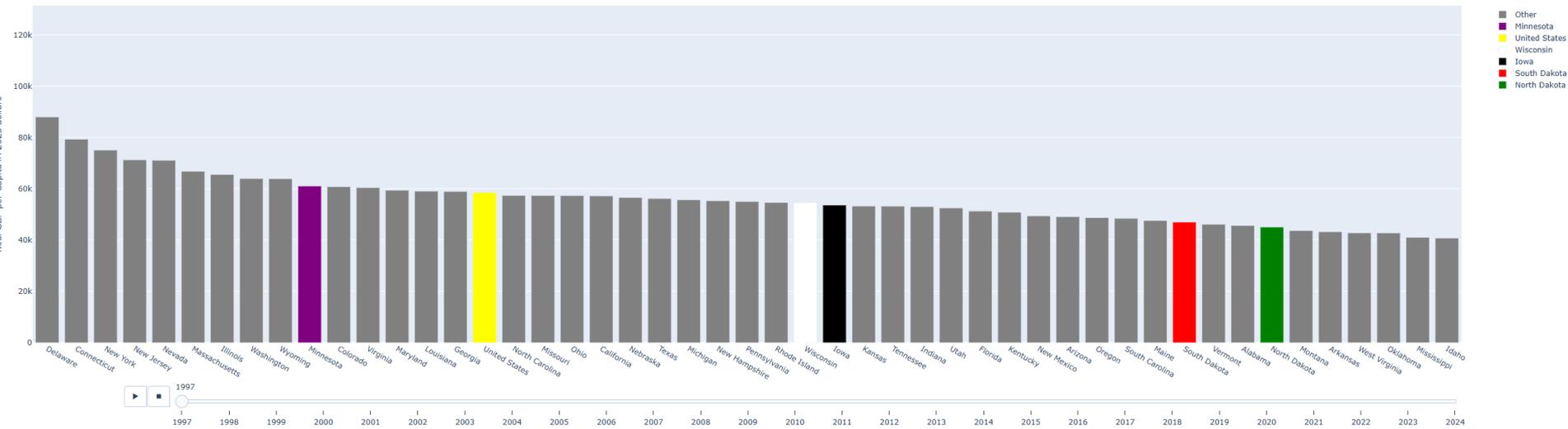
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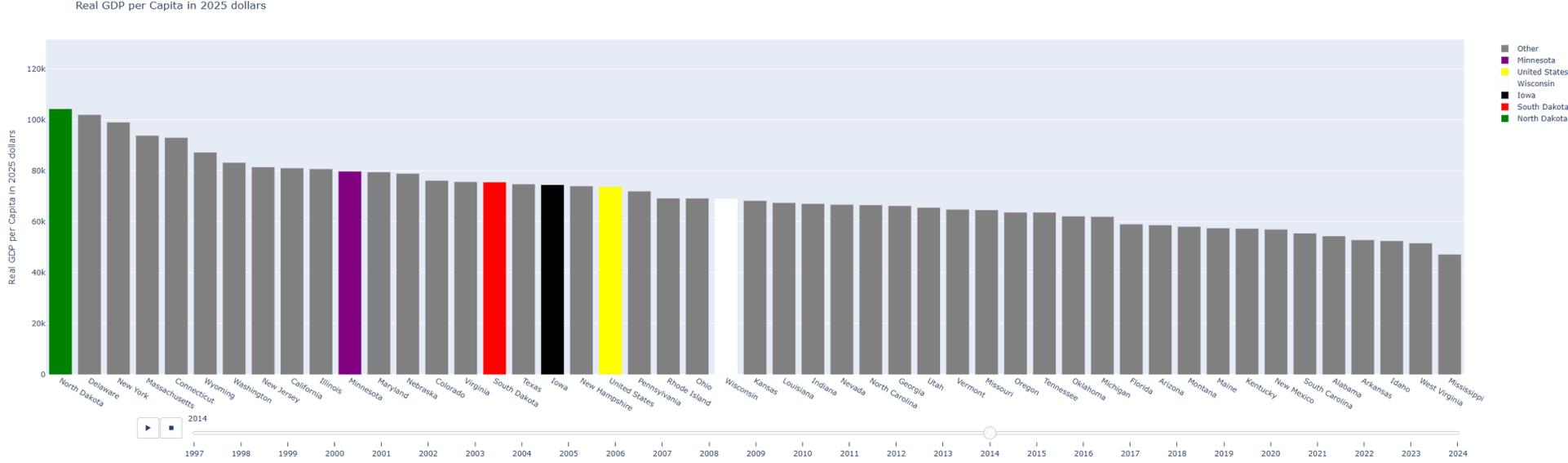
State GDP Per Capita 1997 in 2025 Dollars

Real GDP per Capita in 2025 dollars



Minnesota 10th: \$61,000
United States \$58,500

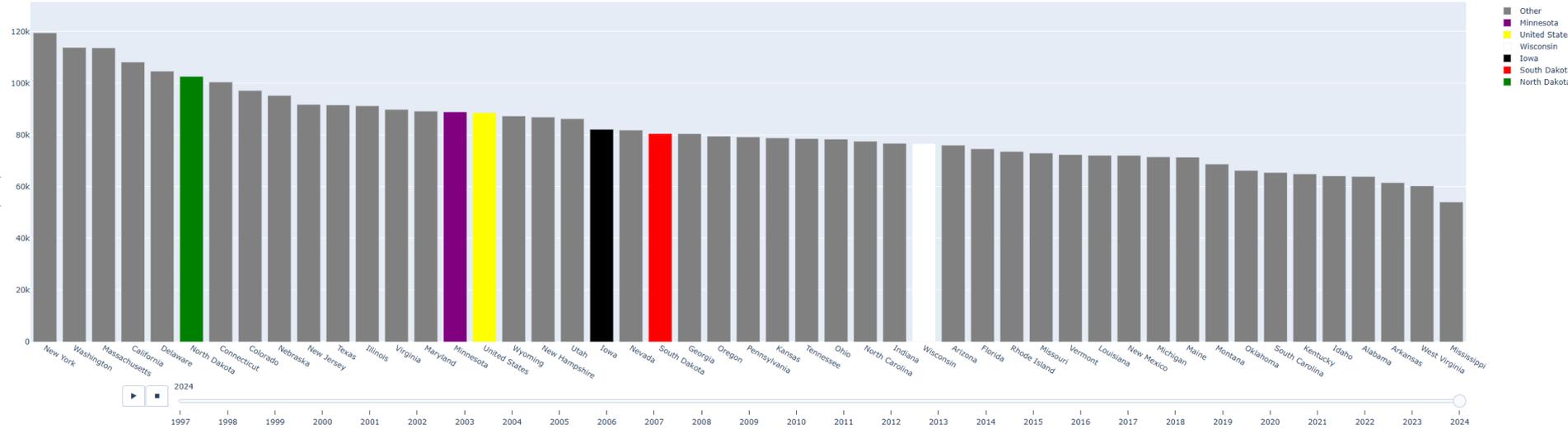
State GDP Per Capita 2014 in 2025 Dollars



Minnesota 11th: \$80,000
United States \$74,000

State GDP Per Capita 2024 in 2025 Dollars

Real GDP per Capita in 2025 dollars



Minnesota 15th: \$89,000
United States \$88,500

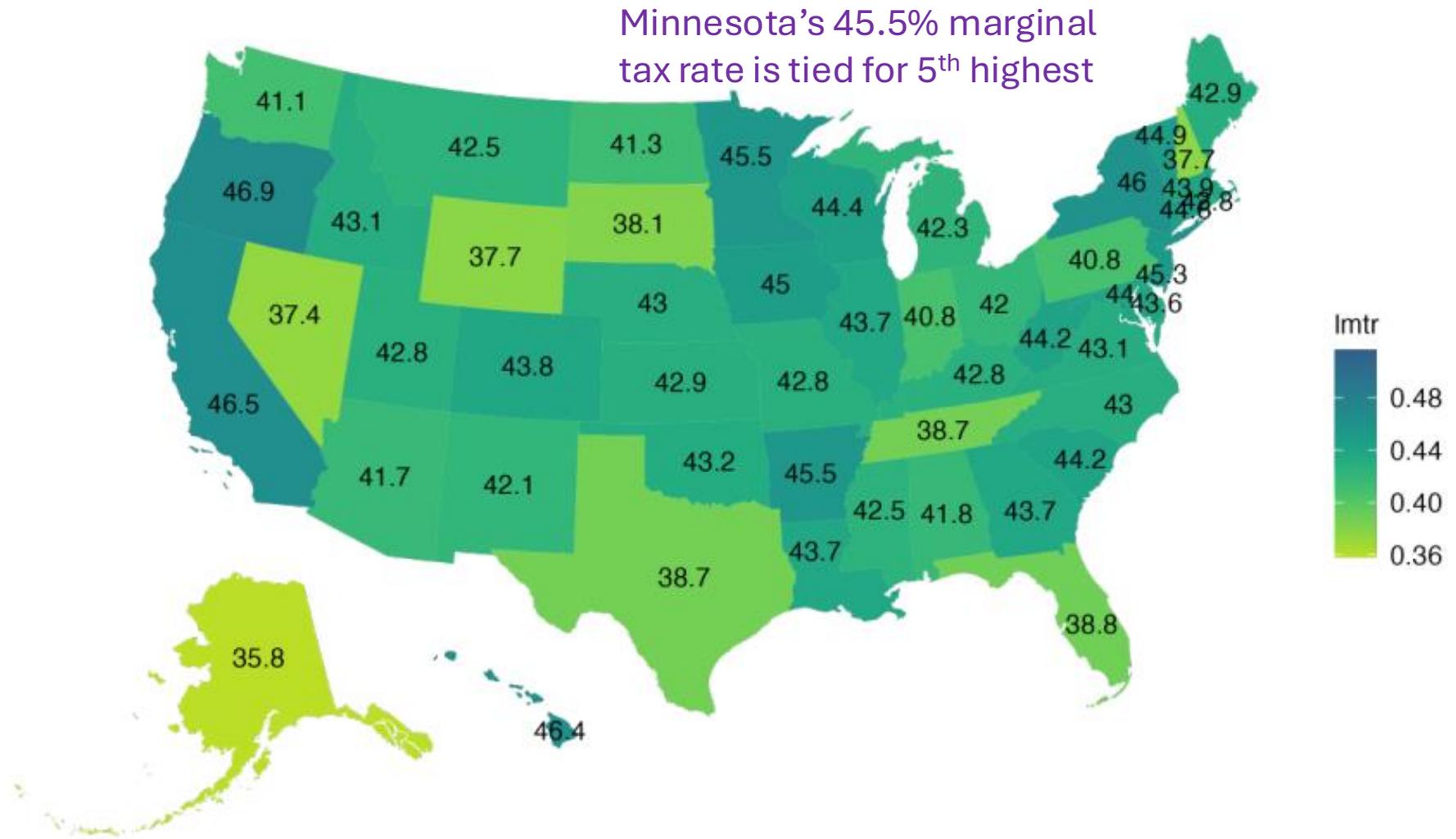
High Effective Net Marginal Tax Rates

- The lifetime effective marginal tax rate is the economic term for the fraction of an additional dollar earned that is lost to taxation over a person's remaining lifetime.
- Many Minnesotans face effective marginal tax rates that approach and even exceed 50 percent because of compounded taxes on top of other taxes and a mish-mash of social service programs with benefit phase-outs.
- Minnesota's median 45.5% lifetime effective marginal tax rate on the lowest 20% of 30-39 year olds is tied for 5th highest in the nation
- *“in addition to the deadweight loss normally associated with the distortion of labor supply by the tax and transfer system, there is considerable additional loss coming from the dispersion of marginal tax rates.” Altig, et. al. (2024)*

Higher Marginal Tax Rates Cause Economic Inefficiency Multiple Ways

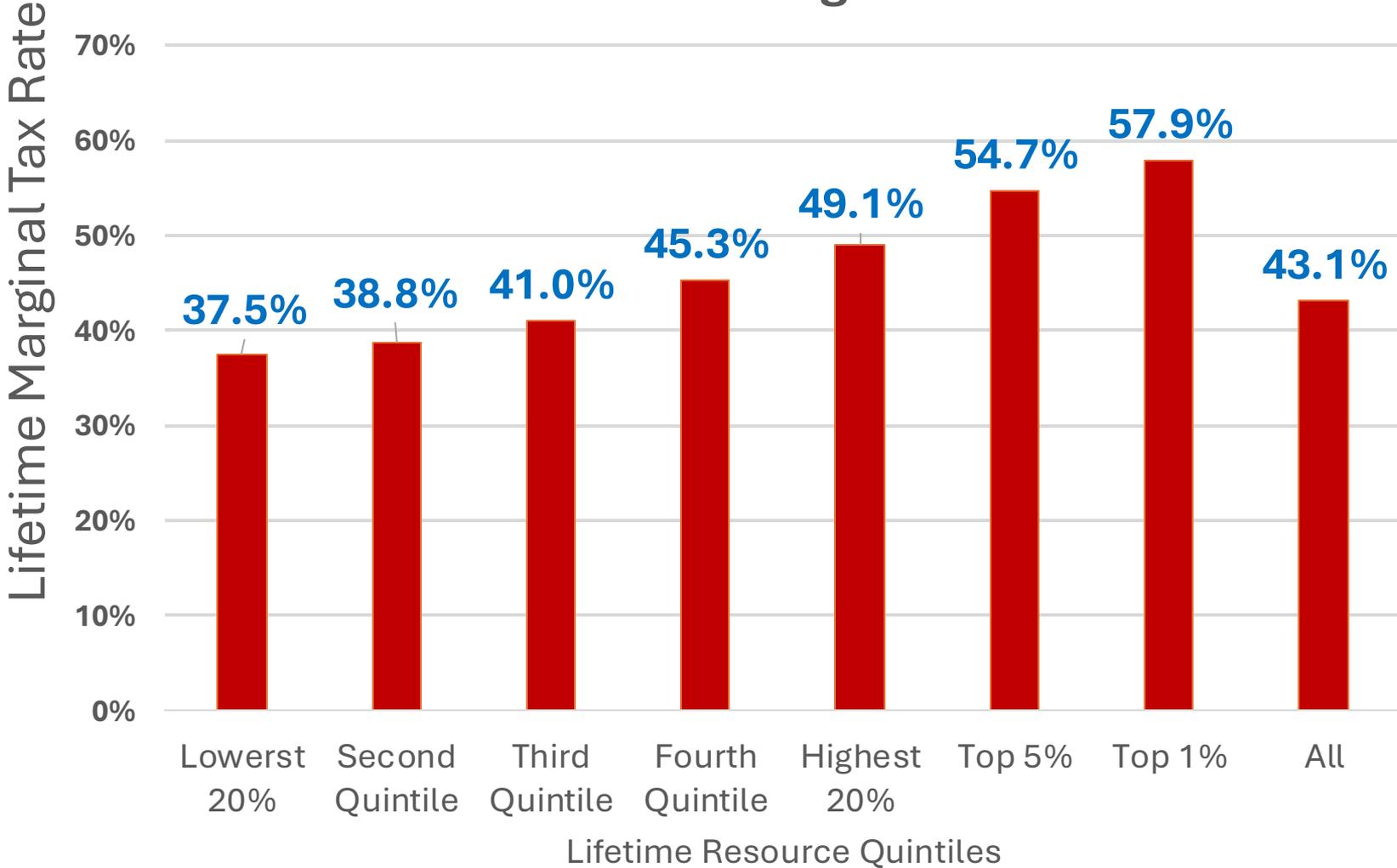
- A strong incentive to time taxable transactions to occur in years with lower tax rates.
- A strong incentive to rearrange financial and accounting transactions to engage in the maximum legal tax avoidance.
- A disincentive to supply additional hours of effort.
 - This affects female workers the most.
- A disincentive to invest in education and on-the-job-training.
- A disincentive to take risky, disagreeable jobs that receive a higher, compensating wage premium for less pleasant working conditions.
- A strong incentive to take compensation in tax preferred forms (perks, exotic business trips, tax-free benefits, ect.)
- A strong incentive to invest in lower-risk, tax free investments (Municipal bonds and Treasuries) instead of taxable equity in high-risk startups.
- A disincentive to marry into tax and benefit penalties

Median Lifetime Marginal Tax Rates in 2018 for Ages 30-39, Lowest Quintile



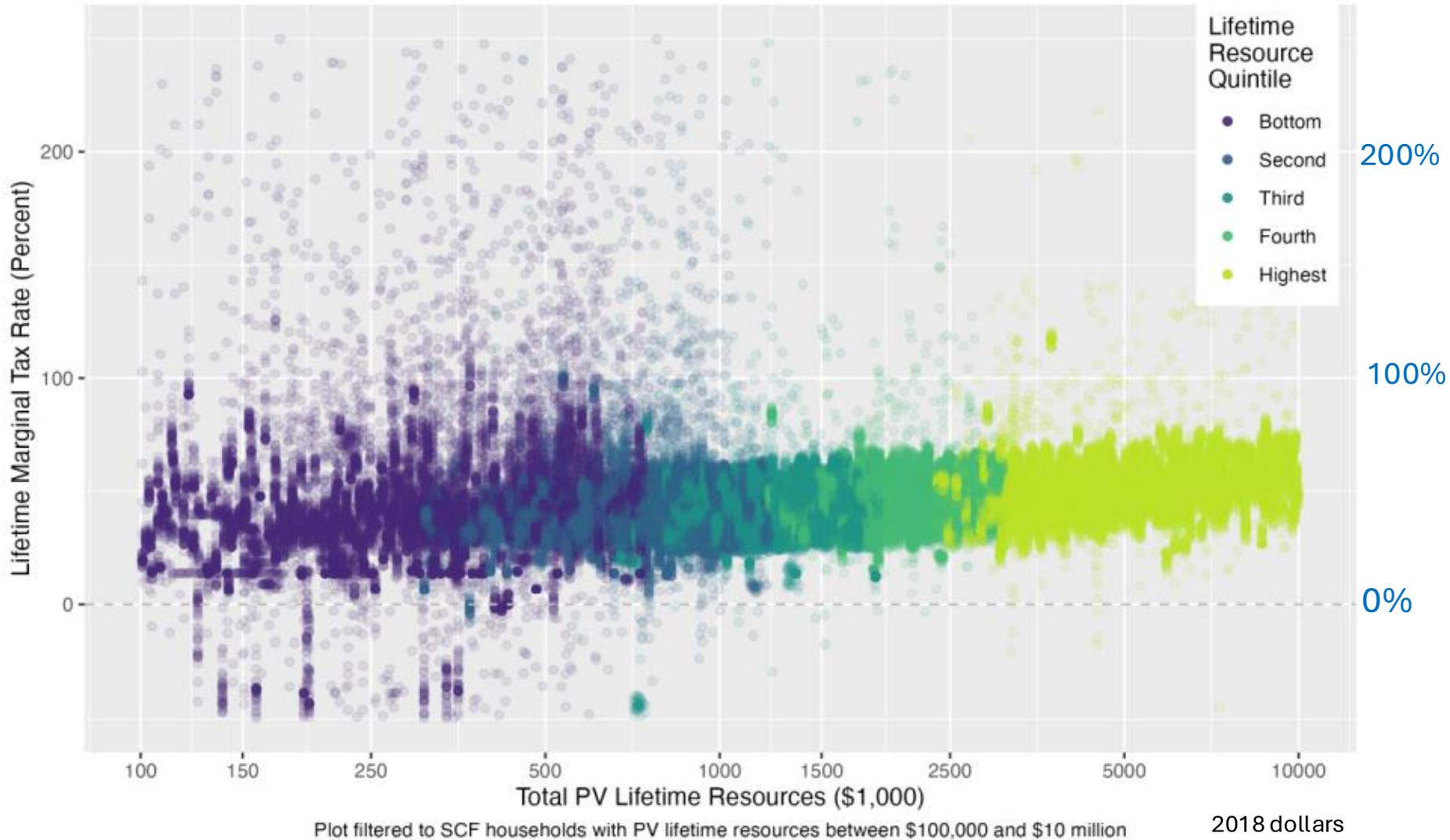
Source: Altig, Auerbach, Ilin, Kotlikoff, and Ye. "The Marginal Net Taxation of Americans' Labor Supply," NBER Working Paper 27164, September 2024 version. Figure 6.

Lifetime Marginal Tax Rates in the United States in 2018 for Ages 20-69



Source: Altig, Auerbach, Ilin, Kotlikoff, and Ye. “The Marginal Net Taxation of Americans’ Labor Supply,” NBER Working Paper 27164, September 2024 version. Figure 1.

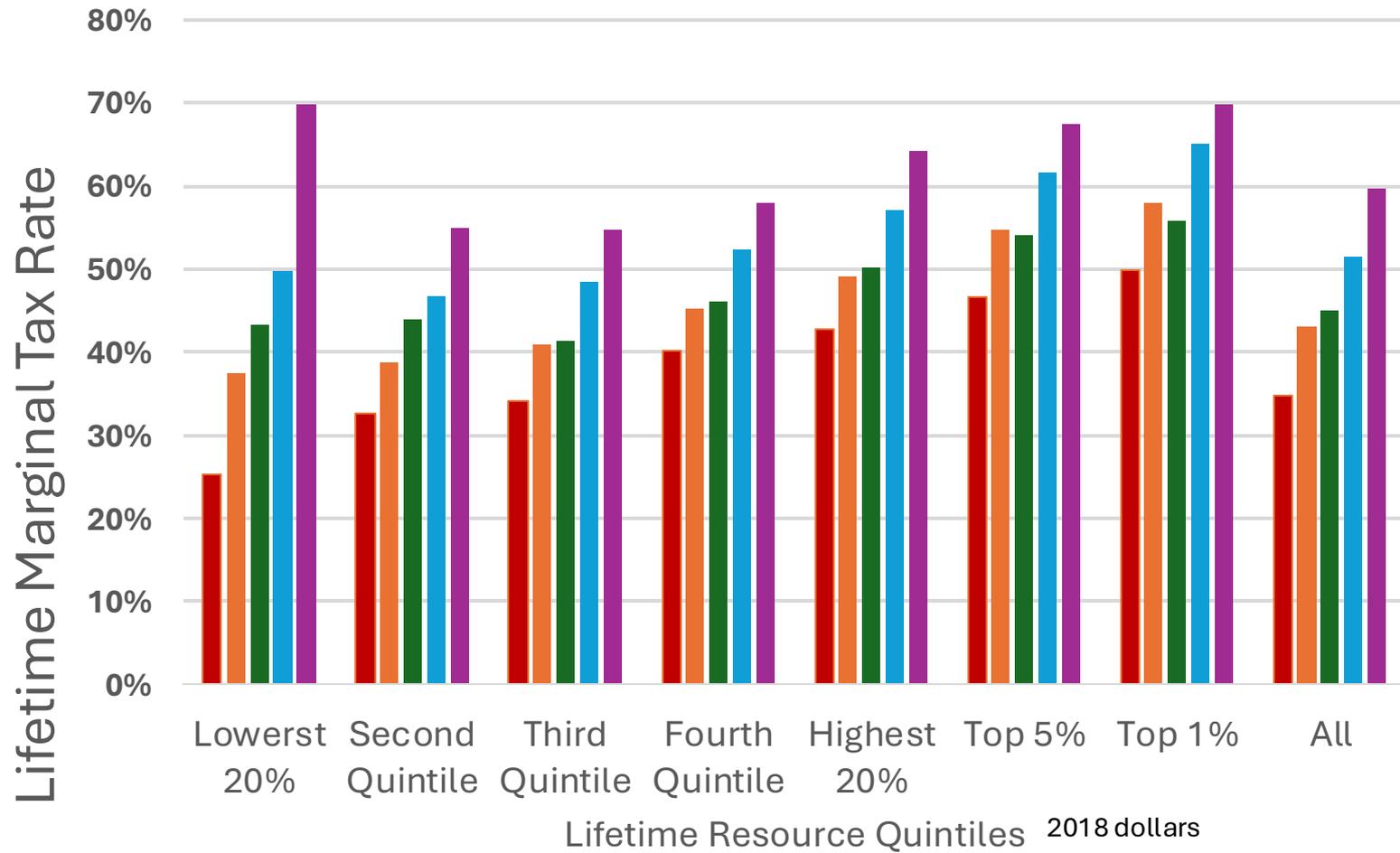
Lifetime Marginal Tax Rates in the **United States** in 2018 for Ages 20-69 from \$1,000 Earnings Increase in Current Year



Source: Altig, Auerbach, Ilin, Kotlikoff, and Ye. “The Marginal Net Taxation of Americans’ Labor Supply,” NBER Working Paper 27164, September 2024 version. Figure 3.

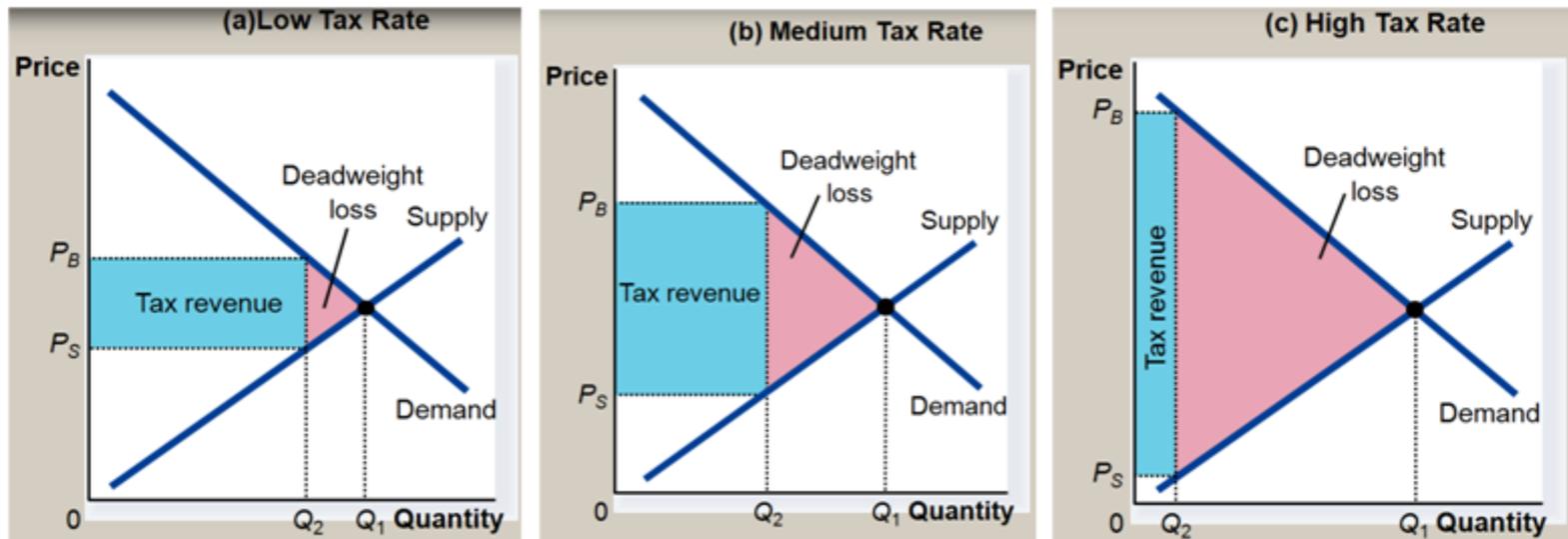
Lifetime Marginal Tax Rates in the **United States** in 2018 for Ages 20-69 from \$1,000 Earnings Increase in Current Year

■ q25 ■ median ■ mean ■ q75 ■ q90



Source: Altig, Auerbach, Ilin, Kotlikoff, and Ye. “The Marginal Net Taxation of Americans’ Labor Supply,” NBER Working Paper 27164, September 2024 version. Table 5.

The Economic Damage of Taxes increase with the Square of the Tax Rate



- **The deadweight loss** or excess burden of a dollar of tax revenue measures the dollar value of all the bad decisions made because of taxation beyond the dollar of revenue collected.
- Higher tax rates both reduce the quantity of economic activity and increase the average value of the lost economic activity.
- This makes the deadweight loss of a tax rate, t , proportional to the tax rate, t^2 .
- Altig, et. Al estimate that national in 2018 that eliminating the deadweight loss on labor income from the dispersion of marginal tax rates for the bottom 20% of people was 9% to 24% of their labor income.