CAUX ROUND TABLE

Moral Capitalism *at Work*

Business and Public Policy Round Table
April 18, 2011
University Club of St. Paul

"Too Tax or Not to Tax?"

Introductory presenters: Mike Vekich, Chair, Governor Tim Pawlenty's 21st Century Tax Reform Commission; Tom Horner, former Independence Party candidate for Governor

Chair: Mike Harris, former CEO, Faribault Woolen Mills

Facilitator and rapporteur: Steve Young, Global Executive Director, Caux Round Table

Participants: George Boyadjis; Eapen Chacko; Elena Imaretska; Jeanette Leehr; Bob MacGregor; Dick Primuth; Mark Sellner; Alan Shilepsky; Asad Zaman; Al Zdrazil

Conclusions:

Governor Pawlenty's 21st Century Tax Reform Commission made its report and recommendations in February, 2009. To date, no significant action has been taken to implement the recommendations.

There was a consensus among participants that Minnesota is in a fiscal impasse that is both caused by and exacerbated by a crisis of political will. The leadership is missing to put in place forms of taxation that will promote wealth, economic growth, increase general prosperity and so bring about moral social justice.

-A fundamental purpose of taxation is to foster and facilitate wealth creation. This goal should be uppermost in the minds of political leaders of all parties. Tax can drag down economic growth.

Business taxation deserves attention and concern. Business is the goose that lays our golden eggs. Capital is a slipper as quicksilver, sliding from one hand to the next with little advance notice, seeking lower risks and higher returns. We can easily be priced out of capital markets. In the 1980's, Minnesota was the 4th largest center of venture capital in the U.S. Now, it's closer to 40th among American states.

Business taxes are regressive: Most are passed on to customers; they don't come out of the bottom line of the business. When business pays 55% of all property taxes in Minnesota and 41% of all taxes, those costs get passed on to customers.

The Tax Reform Commission recommended:

1. Repeal the corporate income/franchise tax; exempt 20% of business income that just "passes through" to owners from taxation; upfront exemption for sales tax on capital equipment; no sales tax on capital equipment for service companies.

2. Improve transparence with fewer classes for property tax (51 down to 4), conversion of "tax capacity rates" to "millage rates," and offer public benefits for taxes received (Minnesota gives fewer benefits for every dollar of business taxes received).

3. Promote investment with R&D tax credit, loans to small businesses.

To ensure no loss of revenue to the state with reductions in business taxes, consumption taxes should be raised.

The politics of tax reform must stop being trivial: It is not a two-sided fight between taxing the wealthy or cutting spending. Tax reform, first and foremost, must grow revenues for the state.

Separately, the state needs a venture capital fund to make business growth more accessible.

Cutting spending on the poor – health and education – with the left hand causes increased costs for the right hand in the days to come. Cutting home asthma treatments for poor children adds to their rate of educational failure and to their future ability to burden the health care system.

If Governor Dayton gets his way with new taxes or if the Republicans in the House and Senate get their way with budget cuts, either way, Minnesota will still face a huge deficit again in 2014.

We often forget about the positive impacts of economic growth. For example, if the national economy grows at a cumulative rate of 3.9% a year for the next decade, instead of a projected 2.8% of government debt as a percentage of GDP, the debt would drop from 76% to a much more sustainable 55%.

Our choices are framed by the status quo. Why should that be? What keeps us from thinking differently? We should not ask whether taxes are too high or too low, but whether we are taxing the right things and providing the right incentives for constructive behaviors.

Tax fairness should take into account not only amounts paid into the government, but benefits received from the government. The benefits received by the poor from government offset the income kept by the rich and their unpaid taxes to make the system as a whole less regressive.

Our goals should be to promote the middle class, attract business and provide a safety net. This requires a careful analysis of the tax elasticity of job creation. Do we know enough about what will actually create more jobs? What will kill jobs? Why are so many companies sitting on cash and not investing?

To move politics from polarization to effective problem solving, vision is needed. This will get the currently apathetic and cynical involved in politics.

Redistricting is an opportunity to undermine ideology in politics and reward those committed to the common good.

And where are the business leaders? Their voices are not heard regarding what their companies are doing to promote wealth. It often seems that they blow in, blow up and blow out. Commitments to community that came so easily to older generations of home grown business leaders seem to have vanished. Now, it seems to be "serve me" more than "serve community." The right values will lead to more investment and more growth.

The culture has leaned more and more to mistrust. Those in politics are not trusted. They are given low pay and exposed to scrutiny of their private circumstances. Is it any wonder we have more and more who are motivated by ideology or are comfortable with mediocre performance?

Those who fan the flame of polarization have more to gain by igniting and amplifying the extreme passions and emotions of their own bases.

With diversification and segmentation in the media, we have lost a critical mass of common knowledge. Partisanship wins out over citizenship.