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## **Bloomberg: Dayton's Minnesota Thrives as Land of 10,000 Levies.**

Almost two dozen states cut taxes last year, most in the belief that lower levies stimulate the economy. Not Minnesota, which raised them on high-wage earners, business sales taxes and cigarettes by \$2.1 billion.

"We've never been a low-tax state," said Governor Mark Dayton, great grandson of the founder the company that became Target Corp. (TGT), the second-largest U.S. discount retailer, behind Wal-Mart Stores Inc. "We're a high-value state."

Not least for companies. Dayton and the legislature, controlled by the Democratic-Farmer-Labor Party, have lavished hundreds of millions of dollars of incentives on employers such as electronics maker 3M Co. (MMM) and the Mayo Clinic. Last week the state sold \$468 million in taxpayer-backed bonds to build a stadium for the Vikings of the National Football League.

As U.S. states including New York, California and Florida debate what to do with projected surpluses — cut taxes, bolster education spending — Dayton defies the stereotype of a Democratic governor who scrimps on assistance to corporations. Still, he doesn't want Minnesota to emulate low-tax Texas or embrace the formula that government should put private-sector interests first.

"That's the stuff of fairy tales," Dayton said in an interview in his office in St. Paul, the capital.

Washington's nonprofit Tax Foundation, which studies policy, in a July 2013 analysis said Minnesota had the seventh-highest tax burden among U.S. states, which would "discourage productive behavior." It parodied the Land of 10,000 Lakes as "The Land of 10,000 Taxes." But if the increases and spending have hurt, it's not evident.

### **Moody's Assessment**

Minnesota has the nation's seventh-lowest unemployment rate, a figure that has dropped steadily to 4.6 percent in December, compared with 6.7 percent nationwide. Moody's Investors Service cited "strong financial management" in an October report, and said the state's diverse and stable economy is "expected to out-perform the nation over the long-term."

Minnesota now projects a \$1.1 billion surplus, prompting Dayton to propose the repeal of three sales taxes on business when the legislature returns this month. That has provoked charges that the increases were overkill.

"Rather than raising taxes and cutting sweetheart deals with businesses, how about we just create a more welcoming environment so we don't have to do special favors for business?" said Senator Dave Thompson, who is seeking the Republican nomination to challenge Dayton in November.

"I'm convinced that if you tax more and spend more, you depress the economy," Thompson said.

## Economic Driver

While few make the case that higher taxes stimulate economic activity, the effect of lowering them can be overstated, said Art Rolnick, former senior vice president and director of research at the Federal Reserve Bank of Minneapolis.

"This is not what drives the economy — you can't just look at taxes," Rolnick said. "There's no such thing as a good tax, but you've got to look at both sides of the ledger."

"You got very low taxes in Mississippi, but what does the economy look like?" Rolnick said.

Mississippi's median household income from 2008 through 2012 was \$38,800 and its poverty rate was 22 percent, according to the Census Bureau. Over the same period, Minnesota's median income was \$59,100 and its poverty rate 11 percent.

Minnesota is a northern outpost of prosperity, a land where residents have higher levels of education, and per capita income is 8 percent above the national average, according to Standard & Poor's.

## Governor Ventura

With a population of 5.4 million, the state is home to 19 Fortune 500 companies, including UnitedHealth Group (UNH), Best Buy Co., U.S. Bancorp, Medtronic Inc. and General Mills Inc., as well as 3M and Target. Those companies have given the state stability despite its recent history of political swings and government gridlock, Rolnick said.

In the past 15 years, the governor's office has been led by independent Jesse Ventura, Republican Tim Pawlenty and now Dayton. Legislative control has changed hands, and budget gridlock paralyzed the government twice since 2005, with a shutdown lasting 20 days in 2011.

"The economy is fundamentally very strong and it can take some bad political hits," Rolnick said.

The Minnesota Chamber of Commerce argued against Dayton's tax increases. Bill Blazar, the chamber's senior vice president of public affairs and business development, said the state's progress is a reflection of Pawlenty's holding the line against a higher burden.

## New Path

"We should have stuck with the austerity, but they chose the other way, to go back to where Minnesota was in the 1970s and '80s, when we put a gazillion dollars into the public sector," Blazar said of Dayton and his legislative allies. "It remains to be seen if the path we're on will work."

Dayton, a former one-term U.S. senator elected governor in 2010, said he is convinced of the wisdom of what he calls "the Minnesota model."

Tax breaks for expansions of the Mayo Clinic in Rochester and the Mall of America in Bloomington are investments that will deliver, he said. As for public money for the Vikings stadium — committed after the team threatened to leave — Dayton said he understands the resentment.

"The economics of professional sports are so skewed that any deal looks ridiculous to any normal person whose applying normal laws of economics, but in this case we'll get enormous returns," he said.

"We're not dummies. If they were negative investments or had a negative effect on cities, there wouldn't be this clamor for them," he said. "It's part of the fabric of life."

By Tim Jones Feb 6, 2014 9:00 PM PT

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