

## LAND OF 10,000 LAYOFFS

### *The stakes in the Minnesota government shutdown.*

Minnesota prides itself as the land where liberal governance works, but lately the wheels have come off. The state is broke, and as of July 1 most state services are closed amid a budget stalemate between Democratic Governor Mark Dayton and Republicans who run the legislature. The drama may be a forecast of the looming standoff in Washington, so it's worth reporting what the scrap is about.

From his first day in office, Mr. Dayton, the wealthy heir to a department store chain, has sought to plug the budget hole with tax increases. Revenues have climbed this year as the economy has recovered, so if he had simply proposed a 10% growth in spending over the next two years to \$34 billion, there would be no deficit to close. But Mr. Dayton wanted a \$37 billion budget, or a 20% spending increase when many states have cut spending or held it flat. (The previous two-year budget was artificially inflated by some \$2 billion in temporary federal stimulus money that has now ended.)

Mr. Dayton's original tax plan would have raised the income tax rate to 13.95%, higher even than in New York City. That increase over the current 7.85% rate was rightly ridiculed as a jobs killer, so he then proposed a 10.95% rate on income above \$1 million. This would be the third highest state tax rate, behind only 11% in Hawaii and Oregon.

When Republicans said no to the tax hikes and passed a \$34 billion budget, Mr. Dayton vetoed it. "Instead of taxing their friends," he said, "they would prefer very damaging cuts to health care, K-12 and higher education, state and local public safety, mass transit and other essential services." Government union members have been rallying at the state capitol chanting "tax the rich, tax the rich."

But Minnesota already does that more than most states and out of proportion to most of its neighbors. It already has the sixth highest corporate income tax rate (9.8%), one of the highest death tax rates (8% to 16%), and the seventh highest tax burden overall as a share of income, according to the Tax Foundation. That hasn't helped the economy, and over the last decade Minnesota has lagged the national average in job creation, domestic migration and personal income growth, according to a new report by the American Legislative Exchange Council.

Mr. Dayton's gamble is that taxing the richest 8,000 or so Minnesotans won't hurt the economy, but that isn't a smart bet when Iowa, the Dakotas and Wisconsin are reining in pension costs and other spending while cutting business taxes. In the South, where most of the new jobs have been created in this recovery, taxes tend to be even lower.

Meanwhile, California, Hawaii, Maryland and Oregon have tried soaking the rich, and most of their budget problems have persisted. Experience shows that trying to balance a state budget by loading the tax burden on 1% of the richest residents is fairly-dust economics.

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On the other hand, Minnesota voters are getting the gridlock they voted for. Last year they elected a legislature promising to cut taxes and spending and a Governor who promised to raise both. Now voters have to decide which they want, much as voters soon will have to do nationwide. Republicans have done a poor job explaining these economic realities. It isn't enough to say "no new taxes." They haven't educated voters that the greatest unfairness in state finances is an over-generous public pension system that is some \$15 billion underfunded, or how Medicaid costs are gobbling up an ever larger share of the state budget, or how education reforms in the GOP budget, such as pay for performance, can lower school costs.

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