



From Out Here: Creating a Business-Friendly Minnesota

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A longstanding debate occurring both in the media and at the Capitol has been around the degree to which Minnesota is a “business-friendly” state. Naturally, during times of above average unemployment and fiscal austerity, the arguments on both sides seem to get amplified. From my perspective, there’s little argument that Minnesota has for decades been a high-tax/high-service state. Yet, in spite of consistently being among the top ten states in terms of tax burden, Minnesota’s economic vitality up until quite recently has been nothing short of extraordinary. Some see this as evidence of the quality business climate here, regardless of the tax burden, but others still argue that many Minnesota businesses are quietly migrating to states that are more business-friendly, or choosing to expand elsewhere. Anecdotes supporting both arguments are readily available.

I think we can all agree that being business-friendly is multi-faceted. Yes, it does mean scrapping unneeded and obsolete regulatory requirements and reducing commercial and industrial tax rates. But it also means

nurturing an entrepreneurial climate and having the business support and enterprise facilitation services entrepreneurs need to thrive. This, in fact, is more important today than ever before. For as you see, when economic times are good, large businesses typically expand and create new jobs in our economy. But it is the entrepreneurs and their start-up companies that create new jobs all the time – good economy or bad. As one DTED official noted last year in the St. Paul Legal Ledger, “These small entrepreneurial start-ups are the seedbed of our economic future.”

However, in addition to a favorable tax rate and a nurturing environment, I believe that what businesses should minimally expect from government is stability and predictability. Even in a high-tax state, businesses can and do thrive if government taxes, regulations and business programs are stable. This allows businesses to accurately predict what’s coming and build it into their operational models. And it is with that in mind that I want to briefly discuss what I believe is a dangerous signal being sent by the Pawlenty

administration in its recent proposal to reduce production payments to ethanol producers.

In 1986, in an effort to launch an ethanol industry in Minnesota, the legislature agreed to assist these start-up energy companies with a 20-cent per gallon production payment, for 10 years. Like any business, these production payments were figured into their financing plans as these entrepreneurs sought both equity investors and debt capital from local and regional banks. Needless to say it worked; and as the Governor noted in announcing his decision to modify these payments, today most of these plants are profitable and are no longer as dependent on these subsidies. But is that really the salient point?

I’m glad that many of Minnesota’s ethanol plants are profitable; it’s great for our farmers, the rural economy and our environment. But I am deeply concerned that in the short-term effort to reduce the state’s deficit, we just took a step backwards in our long-term efforts to be more business-friendly. After all, isn’t the message that we are really sending

prospective businesses is that the State has become a less reliable business partner? That in fact, as experienced by ethanol producers, maybe you really can't take the word of the State to the bank?

There's little doubt that for better or worse, economic development today is often played out as a public-private partnership. Don't you think that the decision to site the new Best Buy corporate headquarters in Richfield had a little more to do with government incentives than its easy access to I-494?

Currently in the legislature there are a wide variety of economic development proposals that all require some level of government participation, or as some might call it "a government promise." These include a biotechnology/genomics partnership between the

University of Minnesota, the Mayo Clinic and the State; a biotechnology and health science tax-free zone in the Twin Cities and Rochester; a Center for Nanotechnology Research in Rushford; a tax-free energy development zone on the Iron Range; and a variety of tax-free business development zones for rural Minnesota. In fact, some of these proposals are being championed by the Governor himself. But simply put, the likelihood of any of these proposals to eventually make a positive contribution to Minnesota's economy will depend in part on a State commitment that business, investors and financiers believe to be credible and stable.

Unfortunately, I fear that the Governor's backtracking on the State's commitment to the ethanol industry not only sends a disappointing signal to the agricultural

industry, but it simultaneously sends a disturbing message to every other business sector. And that message is that the reliability and stability of its participation as a partner in economic development is not what it used to be. Apparently, if the State can give, the State can take away.

So my question is simply, in this difficult economic environment where every job counts, is that the message we really want to send prospective businesses and investors to convince them that that we are a business-friendly state? I don't think so.

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