

Steven Dornfeld

The Minnesota



Angry taxpayers from 66 Minnesota counties converged on the state capitol before attending a joint hearing of the Senate and House tax committees at the St. Paul Armory, April 1, 1971.

Miracle

A Roundtable Discussion

In April 1971 a raucous crowd of more than 1,400 people packed the main floor of the St. Paul Armory. No, they hadn't flocked to St. Paul for a rock concert, a pro wrestling match or an anti-war rally. This throng of angry homeowners, farmers, and small business owners had come to attend a joint hearing of the Minnesota Senate and House tax committees. Their message: "Cut property taxes now."

Months earlier, Wendell Anderson had heard this message loud and clear. The 37-year-old Democratic-Farmer-Labor (DFL) state senator from St. Paul's East Side had been elected governor after pledging to boost state support for schools and reduce their dependence on locally collected property taxes.

Anderson ultimately won passage of the Omnibus Tax Bill, which increased state taxes by \$580 million. The measure raised just about every state tax in sight—including individual and corporate income taxes, the sales tax, and liquor, beer, and cigarette taxes. It used the additional revenue to boost state support for K-12 (kindergarten through twelfth grade) education from 43 percent of operating costs to 65 percent and reduce school property-tax rates by more than 18 percent.

The legislation won national acclaim as the "Minnesota Miracle" and helped land Anderson on the cover of *Time* magazine in 1973. But his legislative victory did not come easily. In 1971, both houses of the legislature were controlled by the Republican-oriented Conservatives. (State lawmakers were elected on a nonpartisan basis

Steven Dornfeld spent his 37-year newspaper career writing about and supervising coverage of state government, including 10 years as a state capitol reporter for the Minneapolis Tribune.

until 1974, though most members of the "Conservative" caucus regarded themselves as Republicans, and most members of the "Liberal" caucus were DFLers.) Anderson vetoed the Conservatives' first school-funding bill and hung tough through a 157-day special session, the longest in state history.

In January 1971, as part of his budget message, the new governor unveiled his Fair School Financing Plan. Anderson proposed a massive increase in state taxes to boost state school aid from 43 percent of operating costs to 70 percent by the second year of the biennium. The cost—\$762 million—represented a whopping 37 percent increase in the state budget from the previous biennium.

Anderson said his plan not only would reduce local property taxes in 96 percent of the state's 434 school districts but also narrow the enormous disparities in per-pupil spending between wealthy and less affluent school districts. He argued that the plan was required to meet the state's constitutional obligation to provide "a general and uniform system of public schools."

The proposal was a tough sell. Minnesota's property-tax and school-finance system is so arcane that most legislators don't understand it, let alone the citizens they represent. In December 1970, a month after Anderson's

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election as governor, Minnesotans opposed full state funding of school operating costs by a 60-to-25-percent margin, according to the Minnesota Poll.

However, public anger over property taxes had been building since the passage of the state's first sales tax in 1967. That law created the homestead credit, which paid 35 percent of the property taxes on owner-occupied homes. It also provided new aid to local governments intended to hold down local property taxes. However, this relief quickly evaporated as property taxes shot up by an average of 17 percent a year from 1969 to 1971.

Anderson pressed forward with his plan, barnstorming across the state and touting its merits with the help of several of his commissioners. During one appearance in Duluth, the governor challenged lawmakers to adopt his plan or come up with one of their own. "So far, I haven't seen anything from them," he said.

The chief opposition came from House Conservatives, headed by Majority Leader Ernest Lindstrom of Richfield. Lindstrom trailed Anderson around the state, warning that the huge state tax increases advocated by the governor were "reckless" and would devastate the state's economy.

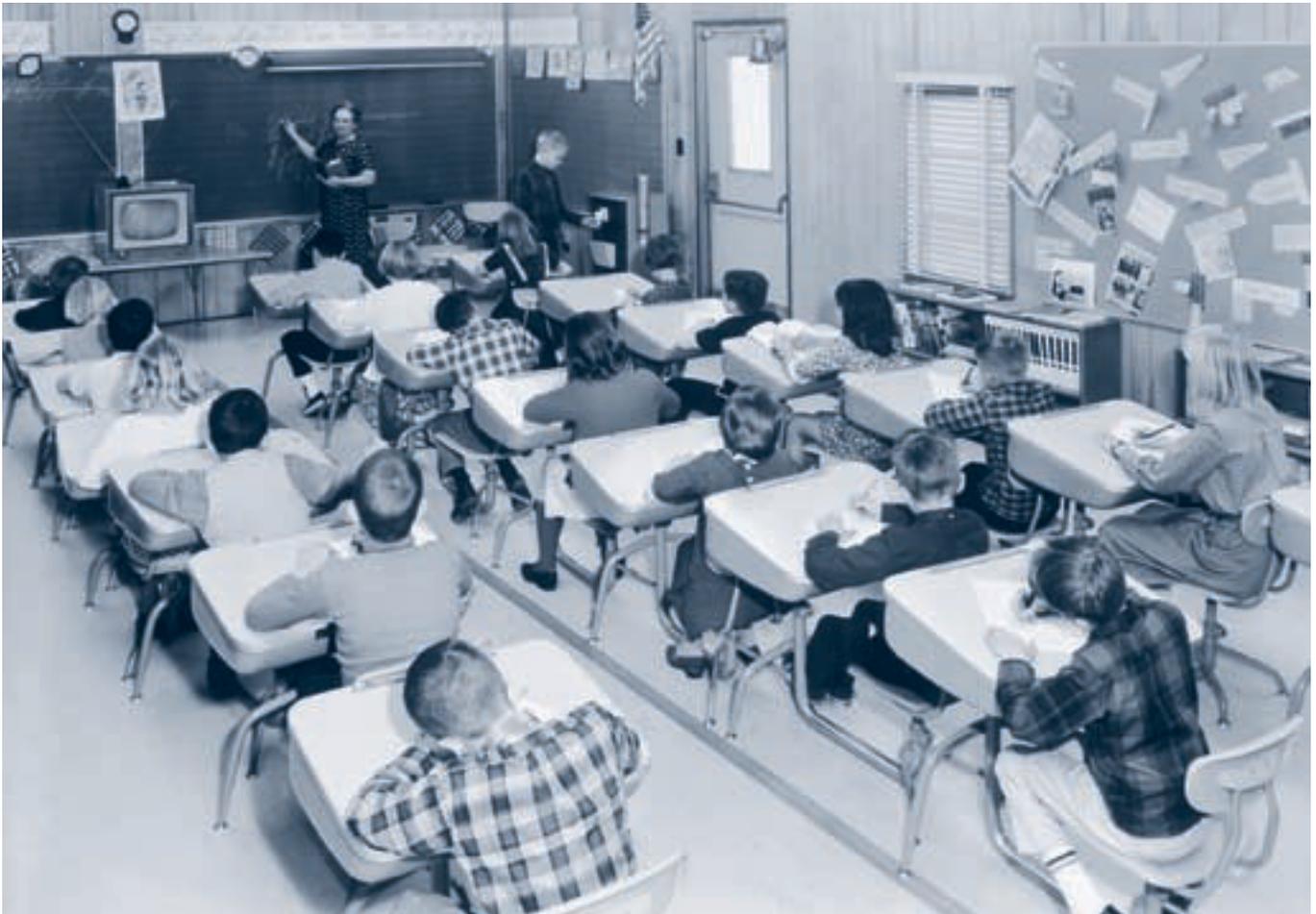
So how did the new governor succeed not only in winning approval of such a massive increase in taxes, but also escaping any political backlash? In January 2007 the Minnesota Historical Society assembled some of the key players in the 1971 debate for a three-hour roundtable discussion. The participants, identified by their role at that time, were: Governor Wendell Anderson, DFL; House Minority Leader Martin Sabo, Minneapolis, DFL; Senator Wayne Popham, Minneapolis, Republican; John Haynes, Anderson's fiscal policy advisor; Arthur Roemer, Anderson's state revenue commissioner; Eileen Baumgartner, State Planning Agency research analyst; and Paul Gilje, research director of the Citizens League, a nonpartisan policy research organization.

The discussion was moderated by Steven Dornfeld, who covered the 1971 legislative session for the *Minneapolis Tribune*. The following excerpts have been edited for length and clarity; ellipses have been omitted to facilitate reading.



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Elementary schoolchildren, 1967



DORNFELD: Prior to 1971, what helped put this issue on the public agenda?

ANDERSON: To refresh everybody's memory, you might remember there were property tax protesters throughout the state, and there were thousands of them. Many people felt—and I think it was a fact—they were basically going to lose their farm, their business, or their home. The property taxes were confiscatory in certain areas and were tremendously unfair.

In Edina, the property taxes were low and generated a lot of money for public schools. In Anoka, property taxes were out of sight, and very little money was raised for schools. So you had the teachers who were desperate to get more funding from the state, the property tax protesters, and—these are the things that I think pushed the legislation.

SABO: I would add one area to what we did in '71. We dealt very fundamentally with municipal aid [boosting state aid to cities to reduce their dependence on local property taxes] and that was key to making school financing work. So there were two components.

But I think part of what made the compromise possible with Republicans was the history going to the sales tax in '67. It dealt primarily with business taxes, but also provided some additional money to schools and local communities. However, property taxes still kept escalating. That bill also gave out more benefits than it had revenues. So going into '71 there was a need for revenue even if we had done nothing. I think all of those dynamics helped.

ANDERSON: I also remember back in



Scowling protesters, April 1971, unconvinced that the governor and state legislature had no impact on property taxes

about '69 or '70, a good friend, [Senate majority leader] Stanley Holmquist, was speaking to a group of property tax protesters someplace at the state capitol and Stanley, whom we all loved and respected, said the legislature and the state have nothing to do with property taxes.

They hissed and booed and yelled and shouted. I just remember that vividly. That's 36, 37 years ago. But the folks were not going to be fooled. They knew that the state and the legislature and the governor did have impact on property taxes.

DORNFELD: Martin mentions the '67 sales tax act—the formal name of it was the Property Tax Reform and Relief Act—and I think it did provide about \$150 million in aid to local governments. It did a number of things that were designed to reduce property taxes. But there was a quick run-up then in taxes and that relief quickly evaporated.

ROEMER: Well, yes. The 3 percent sales tax that was enacted in 1967

provided most of the funding for the tax reform, but in 1971 the state aid to education was 43 percent [of school operating costs] and the remainder had to be raised by the local districts. This resulted in mill rates ranging all the way from 100 mills to 325 mills in the poorer areas, and this is what caused the demonstrations that Governor Anderson referred to.

The folks were not going to be fooled. They knew that the state and the legislature and the governor did have impact on property taxes.

GILJE: I might add to Art's comments that this difference in taxes was demonstrated dramatically when the annual survey of the taxes on an \$18,000 house came up. I think the highest taxes in the metro area were on a home up in Circle Pines and the lowest down in Eagan. The difference

in taxes between the two was more than 2 to 1, and that was beginning to be felt.

But the other thing I wanted to add is on the levy limits. The big problem was that there wasn't a strong levy limit in '67, and the local units were free to increase taxes despite the increases in state aid.

The majority of the resources were coming from locally collected property taxes.

DORNFELD: As Commissioner Roemer indicated, the state was funding 43 percent of school operating costs. The majority of the resources were coming from locally collected property taxes. The Domian Report ["Education, 1967: A Statewide Survey"] issued in 1967 [by the University of Minnesota College of Education] set out this goal of trying to achieve 50 percent state funding.

ANDERSON: And both political parties in their platforms had planks that said that we should go to 50 percent. And also, remember James Conant, the former president of Harvard? Remember he headed that group in Denver—the Education Commission of the States? They were pushing hard for the kind of thing that took place eventually in Minnesota.

HAYNES: But I think we make a mistake if we simply focus on whether it's 43, 50, or 60 percent, because the key question was how you did it rather than simply the percentage [of funds coming from the state].

Fundamentally, school financing is about two issues: one is a tax issue,

but it's also an education issue and it blends the two. The question is how you distribute that 50 percent or that 60 percent state aid. What we did in '71 under the governor's leadership was to try to find a system for balancing the resources going to particular districts.

GILJE: Another key event leading up to the '71 session was the Citizens League task force that brought out a report on school-finance reform, which became an issue in the gubernatorial campaign and was a basis for some of the legislation in the '71 session. That was a key event. [The 62-page report advocated using state-collected taxes rather than local property taxes to fund most school operating costs, reducing the disparities in per-pupil spending among school districts and providing additional aid to districts based on the number of disadvantaged students they served.]

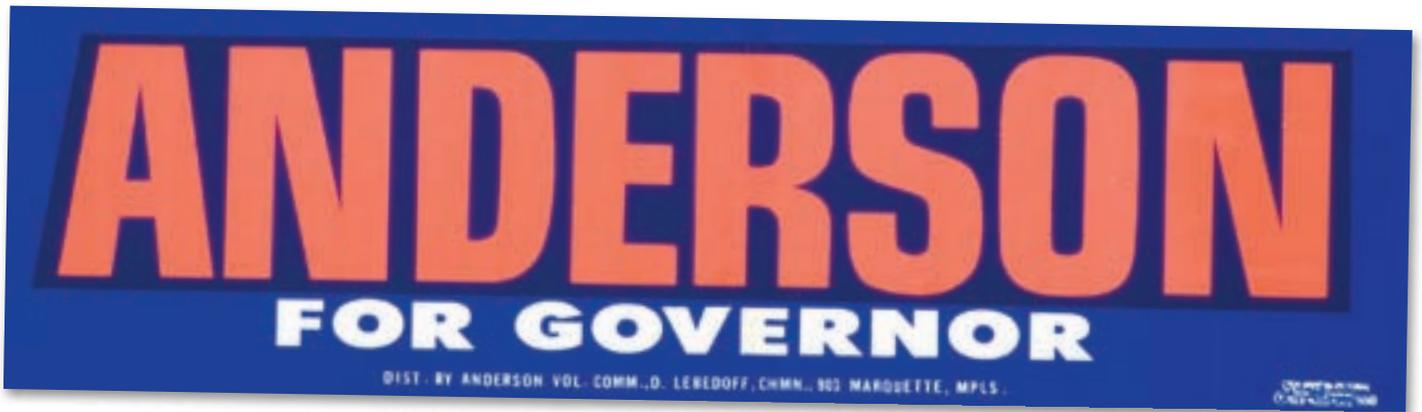
ANDERSON: With respect to that, my opponent, [Attorney General] Doug Head and I had a joint campaign appearance before the Citizens League. Prior to the joint appearance, John Haynes met with Karl Grittner, the former Senate minority leader, who we looked upon as our leader on education. My recollection is we decided that we should support the Citizens League report, and Karl was a strong supporter of it. At that same meeting, my opponent came out against it and that became the critical issue during the campaign.

DORNFELD: The Citizens League report came out on September 1 and the Citizens League debate or joint appearance of the gubernatorial candidates was October 1. Paul, could you talk a little bit from the Citizens League perspective about the report?

GILJE: I think, first, the bipartisan dimension of that report was really key.



Attorney General Douglas Head (right), several years before his gubernatorial candidacy



There were people on both sides of the aisle in on that committee. Martin mentioned the key aspect of municipal finance. The report dealt with both schools and municipal aid. Had we not done that, it never would have been successful because Minneapolis and St. Paul were what you call “off-the-formula” in those years [they only received a minimum amount of state school aid because of their relatively high tax base per student].

DORNFELD: How do you think the issue played out in the campaign, Governor? And then Wayne, do you have a perspective from the Republican side as to what was going on there?

ANDERSON: You might remember that the '67 tax relief for business was permanent and the tax relief for the homeowners was not permanent. So every place I'd go [I would talk about that difference], and I thought it was a real powerful issue.

HAYNES: I think that information was an extremely powerful tool that we used early in the campaign, and it had a lot of traction. And I think that's one reason why Attorney General Head reacted the way he did at the Citizens League meeting. I think our use of those figures on the

amount of property-tax relief that went to business personal property [certain tools and equipment] was hurting [the Republicans] a great deal, and he felt that reacting to our position on the Citizens League report would be a way to take the issue of taxation back.

The Head campaign went into a massive attack on the plan [warning that it would lead to a major increase in state taxes and would erode “local control” over schools]. I remember in the days that followed, there were some people in the campaign who wanted to drop the Anderson tax plan, others who wanted to nail the flag to the pole—and I agreed with the last one I talked to every time.

But your [Anderson's] decision was that no one's going to believe our campaign actually is proposing a new statewide property tax on top of existing taxes, and you didn't think that the Head attack would work. And in the end it didn't. But I think one of the consequences was that we ended up with a mandate to do something.

DORNFELD: Wayne, do you have any thoughts on how that issue was perceived from the Republican side and why the Head campaign responded as it did?

POPHAM: I don't think I was at the

debate, but my assumption is that Head's position reflected this tax-protest sentiment that we had in the state. I assume his sense was that this plan, insofar as it was characterized as a tax measure, would be viewed negatively. I don't recall how it played out for what would have apparently been about the last five weeks of the campaign, but obviously it was a negative.

DORNFELD: Well, let's move on to the '71 session. Before we discuss the school-finance legislation, let's talk a little bit about the political and legislative atmosphere. You had this youthful new DFL governor. You had



Senator Wayne Popham, about 1968

a closely divided Senate from which a number of powerful members had been ousted. You had a House that I think was probably a little more partisan than the Senate.

SABO: Our division in the House was 70–65 [with the Republican-oriented Conservatives still in the majority]. We picked up 15 seats in the '70 election. We went from 50 members to 65.

about the mood, the chief justice, [Oscar] Knutson, had appeared before the state Senate and something happened there and he was embarrassed by it, so he decided he would not swear me in. And, frankly, I didn't bring anybody along to swear me in, since for a hundred years the chief justice had done that. At the last minute federal Judge [Miles] Lord swore me in. The atmosphere was poisonous, as I recall.

DORNFELD: Well, it was a chaotic start to the Senate session. Dick Palmer had been elected as [an independent] senator in Duluth, promising he would caucus with the majority, and it turned out he was the majority because the even split made him the deciding vote. The legislature in those days was still elected nominally on a nonpartisan basis. When the Democrats brought their election challenge against Palmer [on somewhat flimsy grounds], Lt. Gov. Rudy Perpich, the presiding officer of the Senate, refused to allow Palmer to be seated, and everything erupted in chaos. And it continued in

chaos for a week until the Supreme Court ruled that Palmer had to be seated. Looking back, that battle could have created such a poisonous atmosphere that nothing would have been accomplished in '71.

ANDERSON: I think a key was I had served in the Senate for eight years, so I knew members on both sides. And [Senate majority leader] Stan Holmquist was a former teacher, school principal, and superintendent. He philosophically was with us and made a great difference. Don't you agree, Martin?

SABO: Very much so. He was very key to making what happened in 1971. I don't think there's any way you would achieve the bipartisan support without Stan Holmquist's involvement.

POPHAM: There were two keys to the bill. One was Wendy's tenacity as governor in insisting on what eventually became law. But Stan was the other.

DORNFELD: Let's talk a little bit about the governor's proposal then. It was laid out as part of the budget message on January 27. A sure-fire way to probably win re-election is to propose to raise taxes by \$762 million, which translated into something like a 37 percent increase in state taxes!

ANDERSON: That's right. I think the state budget was about \$3 billion. You look back today and it would seem unthinkable for someone to introduce a bill where you talk about raising taxes like that. That's why the environment was so positive. I mentioned at the beginning the property-tax business and the need for local governments to get more money, but it was exciting.

A sure-fire way to win re-election is to propose to raise taxes by \$762 million, something like a 37 percent increase!

ANDERSON: It was 33–33 in the Senate with one Independent [Dick Palmer] who caucused with the Conservatives. Let me tell you, when I was sworn in—you do that in front of a joint session, and the chief justice of the Supreme Court administers the oath. Well, I showed up at the Capitol. Just to tell you a little bit

Governor Wendell R. Anderson, about 1971



DORNFELD: John, do you want to talk a little bit about the details of the school-funding part of the legislation?

HAYNES: Once the election was over and we had won, the governor made it very clear that we were going to use this opportunity to enact a major bill. Since the Anderson tax plan was at this point just a concept, not an actual plan, we had to actually try to start designing a bill. It became pretty clear to us quickly that it was going to be a difficult technical task.

There were a couple of early inputs that helped. There was Martin's advice that we could use the school-foundation aid formula if it was structured right. We could make the required local property-tax levy into the equivalent of a state-controlled levy so we did not have to have a new statewide property tax as a component.

We also had to find technical help, and that's where Jerry Christenson and the State Planning Agency came in. They brought in



Well-attended Senate tax committee meeting, 1971

staff, particularly Eileen Baumgartner, and Eileen started tutoring me about what it was we were supposed to be doing. I really kind of learned on the job. It's not something that I picked up ahead of time.

ANDERSON: Jerry Christenson had written his Ph.D. thesis on the disparities in the school formula, and it was his Ph.D. thesis, the only Ph.D. thesis in history ever to be used as a practical matter for anything useful. Jerry's work was absolutely critical.

DORNFELD: Eileen, what are your recollections of that?

BAUMGARTNER: You know, John came down to the Planning Agency. Jerry brought him down and we tried to figure out how to get the numbers together. I remember we had pieces of big, brown paper on the wall, scribbling notes in magic marker to come up with the numbers. And we got done, and John said, "Oh, we can do it." And Jerry said, "Well, let's take this up to the governor right now."

So there we went with these pieces of paper hanging on the wall and a bunch of scribbled notes.

But then every time we made adjustments to the formula, to make sure it would work, we had to calculate the aid and the corresponding taxes for every school district in the state. I had to do 87 counties, 434 school districts, and 800-some municipalities. I did them all on a calculator because we didn't have PCs and spreadsheet technology in those days. So anyway, what happened is every time they had a new idea, before you would expose it to the caucuses, you wanted to make sure it worked right. We had to go back and crunch all these numbers.

DORNFELD: Well, Governor, your original bill was to boost state funding for schools to 64 percent the first year and 70 percent the second year. Another essential feature was to peg state funding to the average school operating cost per pupil, as opposed to what was used previously, which was apparently a number that was



Representative Martin O. Sabo, 1970s

picked out of the air—whatever the legislature could afford. That was a complicated message to try to sell.

ANDERSON: Well, the part that was not so complicated was to talk about the property-tax relief for homes and businesses, and that need was so critical. Obviously, in a campaign you're not going to talk about a complex school-aid formula, and I didn't. But I did talk about property taxes. I talked about the fact that we were going to try to increase aid to schools and so forth. But the property-tax issue was, I think, much more critical.

proposals for a value-added tax and a two-classification property-tax system, and a variant of that actually passed the Senate at one point.

SABO: I think, in the House, of somebody like Salisbury Adams. I recall his initial response to Wendy's proposal was that it was "exploding progressivity." It boggled his mind. But Sals had been involved in the '67 sales tax and had been frustrated over the escalation of property taxes [after its passage]. I think he realized the basic inequity of the school-financing system.

He was concerned primarily about levy limits, and he'd had those separate bills that we fought over. I generally opposed them. But in the end we did work out reasonable levy limits as they applied to both schools and local units of government. And I think that was absolutely the key to getting somebody like Sals to support the program.

DORNFELD: Before we got to that point, however, the regular session really dragged on, and the House Conservatives did not have a proposal on the table until early May. And Governor, you started turning up the heat. You released some data showing how your plan would reduce property taxes in 417 out of 434 school districts, and you asked for an opportunity to address both houses. You were denied that and you delivered that speech in your office.

ANDERSON: In the Governor's Reception Room. And Stanley Holmquist came and sat in the front row. Remember that, Wayne? Where were you?

POPHAM: In the front row, I hope! (Laughter)

DORNFELD: Let's talk about policy again.

GILJE: My recollection is that the Citizens League needed to have a good advocate [for its school-finance bill] and thought because we were going to be dealing with a legislature that was controlled by the Republicans, we ought to have a Republican who would be author of the bill. So we worked with Wayne [Popham] because there was a lot better likelihood you'd get something through the Senate than you would through the House.

HAYNES: My memory of it is that the Citizens League bill, Senator Popham's bill, looked to me as if you took our bill and then tweaked it to come closer to the original Citizens League thing and took out about a hundred million dollars.

POPHAM: Actually, we started like in February—Paul and I—drafting this bill, and we used to meet on Saturday mornings. We'd get a draft back from the Revisor's Office, and I don't know how many drafts we went through with that thing because we did not get it in shape to introduce until, I think it was, in May.

DORNFELD: It passed on May 21 which was, I believe, the last day of the regular session.

HAYNES: And the key there was, you know, in the Education Committee. Stan [Holmquist] spoke for the bill and got enough Republicans to vote for it to get it out of committee onto the floor. Well, certainly my memory is that it was our feeling in the governor's office that the bill was close enough to our proposal that we were all for it and that Nick Coleman [the

A Minnesota Poll in December 1970 said that a majority of Minnesotans opposed the idea of full funding of school-operating costs.

BAUMGARTNER: What's striking, when you read the old newspaper articles through the campaign and through that session, is how much you all talked about policy—regardless of which side of the aisle you were on. What I've seen in Washington in the last five years is all about who can we blame.

POPHAM: Eileen is quite right that the emphasis on policy that year was unusual and the range of possibilities that were considered was quite large. In the end it did not produce anything, but for instance remember Senator Jerry Blatz [chair of the Senate Tax Committee] had some very ambitious proposals. Some of them were not as well-thought-out as they should be. But there was no lack of ambition in Jerry Blatz's



DFL Senate caucus at the Lexington restaurant, St. Paul, November 1970. Wendell Anderson and Rudy Perpich (both seated, facing camera) had just been elected governor and lieutenant governor; Senate minority leader Nicholas Coleman stands behind Perpich.

Senate minority leader] and the DFL caucus were quite supportive.

SABO: Steve, did the media play a much more significant role in '71 than they could play today?

DORNFELD: Well, I think the news media were more issue-focused, more interested in policy. I wrote a lot of really boring stories about taxes and fiscal policy that they put out on the Met front or on the front page. By the time I was working on the editorial page in the '90s, you couldn't get reporters to write those kinds of stories or editors to carry them. And now the editorial pages don't do it, either.

SABO: My guess is that the legislators read those.

BAUMGARTNER: I think everybody read them. That's what I notice when I come back here and pick up your

papers. The articles are shorter and I want to know the details. What are they doing here? And I read the things from '71 and these wonderful articles that spelled out the policy thinking and how it would work. And I think people read them. I think that's why you had such a good session in terms of just public conversation about issues.

DORNFELD: Governor, despite your convincing election victory, you still had a selling job to do on this issue. A Minnesota Poll in December 1970 said that a majority of Minnesotans opposed the idea of full funding of school-operating costs. Early in the '71 session, you went on a barnstorming tour around the state and you did a real selling job. At least for some of those stops, Representative Lindstrom trailed right behind you [warning that the proposal would devastate the state's economy].

ANDERSON: I remember being in Rochester, and the mayor publicly supported our tax proposal and our school-aid formula, and our municipal-aid proposal. We got a tremendous turnout in Mankato. It was the same in Moorhead. The receptions were surprisingly positive and friendly. I don't remember anybody being mean to me.

DORNFELD: The property-tax issue that heated up prior to the '71 session didn't go away. Do any of you remember the joint Senate-House property-tax hearing that was held at the St. Paul Armory on April 1?

SABO: I remember it well. It was packed with people from all over the state and they were mad—I think that is the best description of them.

DORNFELD: The headlines the next day read, "1,400 Demand Tax Relief at Legislative Hearing."

ROEMER: Well, home property taxes had been compounding those last three years at about 15 percent a year, and 15 percent a year is just an unsustainable rate for most people.

DORNFELD: Finally on May 4, the same day the governor gave his speech in the reception room, the House Conservatives put out their plan. Looking back, there are a couple of things that surprise me about it. One is they proposed \$465 million in new taxes. How conservative is that? And the other thing is they proposed state takeover of county welfare costs. In retrospect, that sounds like a great DFL idea.

HAYNES: Their bill had some positive aspects. The welfare takeover had some virtues to it. From our point of



Senator Stanley W. Holmquist, former superintendent of Grove City schools, faces angry taxpayers, April 1971.

view, it looked more like a stopgap measure, and the educational part of it really was a continuation of the old system—a formula without any connection to actual school levies and actual school expenses. So it was an inadequate response, but even the House Republicans realized at that point the state faced a major problem and they needed to take some major action.

Senator Holmquist had a hard time putting together 34 votes for anything.

DORNFELD: A couple weeks later, when the House-passed bill came over, the Senate attached Jerry Blatz's tax bill to it. It included the value-added tax, which we reporters hated because we could never explain it. In hindsight, how much did that value-added tax complicate the discussion about what the real issues were?

ROEMER: As I recall, it was a serious complication, and he persisted in that for a long time.

HAYNES: Jerry was without equal in terms of persistence. But I don't have the sense that, outside of the Tax Committee, it really ever caught on with most members of the Senate.

DORNFELD: My sense, too, is that in the Senate, Senator Holmquist had a hard time putting together 34 votes for anything. Some of the urban Conservatives were pretty sympathetic to the governor's proposal. But a lot of the Conservative caucus was not. And then you had a conservative DFLer, Baldy Hanson, who was siding with some of the rural Conservatives. So putting together 34 was a struggle.

POPHAM: It was a struggle on everything. In those days, the Senate was very loose on partisan issues, other than election bills and tax bills. And with the Senate divided 34–33, any

one person in the majority group could say—as I remember one day one did—“You know, I just lost my bill in committee and if that's the way this caucus is going to operate, I'm going home.” (Laughter) And Stan had to say, “No, no, no. Don't go home. We'll talk to the committee chair. I think we can get you another hearing.” So it was a real hard session for Stanley.

DORNFELD: The regular session concluded without the Senate and House agreeing on a tax bill, so we went into a special session. Governor, you called that session immediately. In hindsight, was it a mistake to bring back the two houses before you had an agreement on a bill, or did you want to keep the pressure on them to produce a bill?

ANDERSON: I don't admit any mistakes. (Laughter) Those are tough calls. The end result worked. So I wouldn't want to change anything.

SABO: Somehow in that whole process, and I don't remember when it occurred, most of the normal appropriation bills did get passed and were in effect by June—by the end of the fiscal year.

ANDERSON: There was no thought of a state government shutdown.

DORNFELD: So finally on August 4, we got a bill. The House and Senate passed a bill to raise taxes by \$599.9 million. I don't know your recollections of that bill, Governor, but this session had dragged on for some time. You finally get a bill—and you vetoed it?

ANDERSON: We didn't get what we wanted. It wasn't enough. I think

the reason that we were successful at the next election—'74 election—is that we raised state taxes enough so we could provide property-tax relief people could feel and touch, and we thought \$500 million wouldn't do the job. So, I think we made the right choice. I remember business people and prominent Democrats like Fritz Mondale telling me, "You're trying to do too much. You should just go for half a loaf." We weren't willing to do that.

HAYNES: It was clearly an inadequate bill from our point of view. The school-reform part was totally unacceptable because it really was a continuation of the old system, and the property-tax-relief portions were simply inadequate. Also, how the revenue was raised was unacceptable.

DORNFELD: At some point in the discussion, Governor, I believe you signaled you would be willing to go along with a sales-tax increase under certain circumstances.

ANDERSON: The compromise from our office was to accept a penny increase in the sales tax, which we [DFLers] traditionally had opposed. So we thought that showed we were interested in compromise and hopefully they would support other parts of our bill.

DORNFELD: After you vetoed the bill, the second time around you did not call the legislature back into immediate special session. You said: Senate and House go home; conferees, work on a deal and we'll call everyone back when we've got an agreement.

ANDERSON: That's right. You know, I don't know who came with the idea of having them meet at the Gover-

nor's Residence. I don't think it was me. I think it was Tom [Kelm, the governor's chief of staff] or Marty [Sabo] or John [Haynes]. But I really think that was a very wise move, and I wish I could take credit for it.

SABO: Yes. It worked very well.

DORNFELD: It took the conferees away from reporters, away from the TV cameras, away from the lobbyists.

ANDERSON: Can I tell you something else that I think helped create a good environment? Did you know that my wife and I invited every single legislator and spouse [not all at once] to the Governor's Residence for a sit-down dinner? We had wine and drinks and so on, and I hope we included the press at some point. Tom Newcome, a Republican, came up to me and he said, "You know, Wendy, I've been in the Governor's Residence lots of times. Just to work. This is the first time I could bring

my wife and sit down and have a good time."

DORNFELD: In the midst of the special session, the California Supreme Court issued a ruling in a school-finance case. How much impact did that have on the debate here?

SABO: You're talking about the Seranno case. The court said that if you didn't have a school-aid formula that treated school districts alike based on where the kids were, rather than where the money [tax base] was, it was unconstitutional. And there was another case in Texas.

And we had a court case of our own—Van Dusartz vs. Hatfield—which, I think, was trying to catch up with the parade. I don't think we passed our bill because of those rulings, but they were very significant.

BAUMGARTNER: It added fuel to the fire. Seranno helped illuminate that fairness was an issue around the

Signing the tax bill: Governor Anderson hands the pen to fiscal advisor John Haynes while (from left) Senator Harold Kalina and Representatives Irvin N. Anderson and Martin Sabo look on.



country and, again, Minnesota was a little ahead of the curve in trying to deal with it.

DORNFELD: Let's conclude by talking about how the final agreement was reached and what were the critical elements. What happened behind those closed doors?

HAYNES: As I remember, there are a couple things. It was at the Governor's Residence and Governor Anderson came in from time to time and would talk a bit, but it was an early decision that he would not personally be part of the group. I was there and Tom Kelm was there. When things got more heated, Tom kept sitting between Martin and me, and I thought that was just a coincidence. He later insisted that it was because he felt we were capable of going berserk, and he wanted to hold us down in case something happened.

DORNFELD: In the bargaining, was the sales-tax increase a big issue in achieving the final agreement? And also how about levy limits, which I think the House Conservatives were quite adamant about?

HAYNES: My memory of it is that, simply as a premise of the compromise, we had already essentially agreed that [a sales-tax increase] would be part of it. The question was: What price were they willing to pay on their side for our compromise? We wanted a high price.

DORNFELD: Politically, it seems to me that one of the critical factors was the unity on the DFL side versus the divisions on the Conservative side. You had House Conservatives not agreeing even with each other. You had Senate Conservatives not agreeing with each other. Meanwhile, it seemed that the House and Senate DFLers were pretty much united with the governor.

SABO: If there were any disagreements, they were very minor. I don't recall any. I think we were on the same page all the time.

HAYNES: Well, certainly by the end of that whole process. My impression was that we were in a period of political transition then, and, by the end of it, the minority caucuses were beginning to act like the governing caucuses. They were beginning to take on the responsibilities of a majority even though they were nominally in the minority.

SABO: I think that's right.

DORNFELD: How did the final bill measure up to your goals for the legislation?

SABO: In my judgment, it met them significantly. It was fundamental reform of school finance in the state. We had significant municipal aid in the bill with a distribution formula

1971 School-Funding Legislation

GOVERNOR'S ORIGINAL PROPOSAL

FINAL LEGISLATIVE COMPROMISE

TAXES

- Increase total state taxes by \$762 million
- Increase income taxes on incomes above \$10,000; eliminate deductibility of federal taxes on state return
- Increase corporate income, bank excise and utility gross earnings taxes
- Increase cigarette tax 9 cents a pack
- Increase liquor tax 25%
- Increase inheritance tax 20%

- Increase total state taxes by \$580 million
- Increase income taxes by an average of 22%; retain federal deductibility
- Increase corporate income, bank excise and taconite taxes
- Increase cigarette tax 5 cents a pack
- Increase liquor and beer taxes 25%
- Increase state sales tax from 3% to 4%

SCHOOL AID

- Increase state aid from 43% of school operating costs to 64% the first year of the biennium and 70% the second year
- Narrow disparities in per-pupil spending between property "rich" and "poor" districts
- Target additional aid to core city districts with large numbers of disadvantaged students
- Establish a uniform local property tax levy for basic school operating costs

- Increase state aid to 65% of school operating costs
- Narrow disparities in per-pupil spending between property "rich" and "poor" districts
- Target additional aid to all districts based on the number of disadvantaged students served
- Establish a uniform local property tax levy for basic school operating costs

that was fair to the central cities. We had reasonable levy limits. The end product was one that I think served the state well.

BAUMGARTNER: When we analyzed it, you know, we followed it for several years in the Planning Agency, and it worked the way we had advertised. Property taxes did go down. They were held at the levels that we had projected. So in that regard, the tax package worked as it was supposed to.

HAYNES: I think it was a genuine compromise in some aspects. I think the greatest part that I regretted losing was deductibility of federal income taxes, which affected the progressivity goals we had on the income-tax area. So, from our point of view, I think the serious compromise was on that part. On the school-aid part, I think Martin is right. We essentially accomplished all of Governor Anderson's goals in the school-finance area. There were details that got changed. But the essence of the original Anderson school proposal remained intact.

DORNFELD: Do any of you remember any concerns or second thoughts among legislators about raising state taxes that much and whether the public would rebel at the idea the way they had rejected the sales tax in '67?

ANDERSON: I don't remember a single legislator talking to me in that tone.

SABO: I expect some of them [did]; you know, we didn't get 100 percent. But we got over 70 percent of our caucus. The Republicans, I think, got 40 percent. And the interesting thing is that virtually everyone who voted for it got re-elected in

'74, regardless of party. Folks who got beaten in '74—there weren't that many who lost—but those who did were generally folks that voted against the package.

DORNFELD: The Advisory Committee on Intergovernmental Relations in 1972 produced a report on state fiscal relationships and in that report hailed both the school-aid and the fiscal-disparities legislation passed by the '71 legislature as the "Minnesota Miracle." I always thought the Minnesota Miracle was that you could propose tax increases like this and get them enacted and get re-elected.

ANDERSON: You know, I've said that myself. But I think it tells you that Minnesota voters are willing to accept some pain if they understand why it's necessary.

DORNFELD: Are there any other lessons we could learn—any other historical significance to the '71 reforms—we ought to talk about that we haven't touched on thus far?

HAYNES: There's one observation I would make. A major reform of the kind that was done in '71 requires two things. One is a legislature that's ready and thinks there's a problem that needs to be dealt with. But executive leadership by a governor is absolutely essential. Without executive leadership, you're simply not going to have a coordinated single package, because only a single executive can insist upon a coordinated package. A



DFL party, having lost the governorship to Al Quie in 1978, invokes the Minnesota Miracle for its 1982 campaign

legislature by itself, because of its collective nature, simply cannot do that kind of reform job. It really requires an aggressive governor along with a cooperative legislature to get it done.

GILJE: John mentioned the critical importance of leadership as something that made this difference. But it seems to me that [in 1971] there was a broader public discussion of all the issues. The discussion was in the legislature, but it wasn't *just* in the legislature. There was a very sophisticated discussion going on in many different quarters. The University of Minnesota had a lot going on in that. The Citizens League, of course, did. But then there were some other business groups too. I just wonder if that kind of an environment didn't make it possible for the legislature to take some very aggressive steps. I'm thinking that was a factor that may have been more present in '71 than it is today. □

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