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Are we still Lake Wobegon? Minnesota's performance in the current recession

by Louis D. Johnston

The American economy officially entered a recession in March 2001, marking the end of the longest economic expansion in American history. The effects of this recession have been manifest in Minnesota for families, firms, and governments at all levels. One question naturally comes to mind: how well are we doing relative to the rest of the nation? Is Minnesota, like Lake Wobegon, "above average" in our performance as we were during the last recession in 1990-91? Or, are we experiencing a deeper hurt?

Despite a rocky period at the beginning of the recession, I find that Minnesota is still above average. I present this argument in three steps. First, I define a recession using the standard concepts employed by economists, rather than those of the news media. Second, I present data on a key recession indicator, total private, non-agricultural employment, and deduce that Minnesota fared better than the nation at large on this measure. Third, I analyze information on employment by industry and show that Minnesota is above average in its performance in this arena as well. I conclude with some directions for further analysis.

What is a recession?

The National Bureau of Economic Research (NBER), a private, nonprofit research organization that has been tracking business cycles since 1920, acts as the official arbiter of business cycles in the United States. They define a recession as "a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale-retail sales." (NBER 2002:1).

This definition differs from the one regularly used in the business sections of newspapers and by financial pundits on television in two important ways: the timing of the data's availability and the type of data utilized.

The media usually characterize a recession as a decline in gross domestic product (GDP) for two consecutive quarters. GDP is available only on a quarterly basis, so this definition does not pin down the beginning or end of a recession very precisely. The NBER, by contrast, uses a variety of monthly data to gauge the state of the economy. These data include disposable personal income, wholesale and retail sales, industrial production indices, and employment statistics.

GDP is a good measure of current economic activity. However, it is subject to much revision over time and is a poor predictor of economic downturns. Employment, according to the NBER, is the most accurate indicator of the state of the economy and these data are available monthly. Further, sustained declines in employment have predicted *every* national recession since World War II and have never falsely predicted a recession. In other words, a continual fall in employment has never occurred while the economy continued to expand; a recession always occurred.

This is significant because, following the media definition, policy makers may fail to recognize the onset of recessions—with negative consequences for citizens, industry and government. Suppose, for example, that the state revenue department constructs a forecast of tax collections. They will be able to prepare a more accurate forecast if they know whether or not the economy is in a recession. Yet, if they use the media's definition they will have to wait until two quarters of GDP data are available

Performance continued on page 6

INSIDE

State investment in higher education benefits individual and society

by Ken Keller

David Laird and I have, in the past, more often than not agreed on such matters as the value of higher education and the need to place heavy emphasis on quality in delivering that education. So it was all the more surprising to me to find myself in such strong disagreement with many of the arguments in his recent piece in the *Minnesota Journal*. Laird argues that not only is low tuition-higher education a thing of the past, but that its demise is a good thing because low tuition inexorably leads to low quality, and inappropriate "subsidies," and "inefficiencies" in higher education spending.

I've put certain terms in quotation marks because those terms are so arbitrary in meaning and so subject to abuse. Laird concludes that, as a policy matter, we need to embrace a new strategy of high tuition in our public institutions coupled with high financial aid based on need. This, he says, will lead to better quality in higher education, increased accessibility, and improved graduation rates.

I don't agree with that conclusion and I think the argument misses the main point. In the face of fairly broad agreement that higher education is *increasingly* important to the state's economy and well-being, the state has been *decreasing* its commitment to higher education. From 1987 to 2002, the percentage of the state budget devoted to higher education dropped from 15.5 percent to less than 10 percent. In contrast, the percentage of the actual cost of education undergraduates pay at the University of Minnesota has increased continuously for several decades, from about 25 percent in the mid-60s to fully 50 percent next fall! High tuition is not a hypothetical plan for the future, but a reality today, a fallback strategy that the University has had to embrace to preserve educational quality in the face of a decreasing state commitment.

Given those facts, it appears to me that Laird is busy rearranging the furniture on the deck of a sinking ship. Unless the overall funding trend is reversed, there will not be enough money to achieve his goals, even if all undergraduates at the University pay the full costs of their education.

Indeed, a significant shift of the small remaining amount of direct educational costs now paid for by the state to need-based financial aid would not only result in supporting fewer students, but it would likely provide that added support primarily to middle class students attending private schools. Depending on the design of the financial aid system, when the much higher tuition charged by most of our private schools is included in the "need" of a student from a middle class family, he or she will often qualify for more aid than they would have received in so-called direct subsidy at one of the state's public institutions.

However, the larger question is, even if there were a greatly increased amount of public money available in the system, would the proposed policy be fairer, more equitable, and more effective? I think not, and to understand why, one has to examine the assumptions and beliefs that formed the basis of the paper by Jenny Wahl, on which Laird depends so heavily.

Investment in education pays

Wahl argues that we should adopt a Milton Friedman approach to decide on how or whether to invest public money in higher education, and that we should look more closely at who pays and who benefits. According to her, society's benefit from higher education "…pale(s) in comparison with (that) associated with K-12 schooling… (Indeed) most of the benefits of higher education go to the individual." Further, she cites, approvingly, the assertion by one writer that "…higher education may function more as a screening mechanism for employers than a way of increasing knowledge."

That might have been true in the 19th century when, as a nation, we first realized that there were social benefits to ensuring an adequate level of education for our citizens by providing free education through high school. Post-secondary education then was more of a personal privilege, available to very few people, even after the Morrill Act. To argue that little has changed in 150 years in the distribution of benefit between the individual and society seems extraordinary, certainly counter to my belief and, I would have thought, to David Laird's. Clearly, the Citizens League has recognized how higher education benefits the state today.

By assuming that the public benefit of higher education is relatively small, Wahl can treat any expenditure on higher education as a "subsidy" rather than an "investment." Moreover, with a narrow view of what higher education is about, the term "efficiency" can be substituted for "cost-effectiveness," because there isn't much to measure with respect to effectiveness. Finally, this approach allows her to think of public policy strategies in terms of a highly simplified market model although, even on its own terms, the model fails to explain what actually happens in higher education.

The subsidy concept is, perhaps, most troubling, and reflects Professor Wahl's total misunderstanding of the budget of a research university. In her paper, she takes the state appropriation to the University of Minnesota (which is less than one-third of its total budget, by the way), divides it by the number of full-time students, and reports the resulting figure as a subsidy of some $11,000 to each University student. In fact, the support to undergraduates is closer to $5,000 per student. Her mistake is in assuming that all of the state's appropriation relates to or supports classroom instruction. Money for the Agricultural Extension Service, or to maintain the research capacity of the University (thereby attracting many times that amount in federal research dollars) or to support the transfer of research outcomes to businesses in the state is all, in her view, merely a subsidy to the University's undergraduates.

It is, of course, more than a mistake. It is a framework for thinking about a public policy issue that focuses not on ways of promoting institutional synergies and cooperation and positive outcomes, but on narrow bookkeeping. If we accept that kind of thinking, we would be led to viewing the free use of the University's libraries provided to Professor Wahl and her colleagues (and her students) as a subsidy to her and to them by the University's students. The various arrangements by which specialized courses at the University are made available at "public" tuition rates to private colleges—who collect tuition for the courses at their regular rates—would be no more than a subsidy from the University to those schools. Seed money

Higher education continued on page 5

Viewpoint
From the Executive Director

The 2002 election: a time to step up to big issues

The 2002 fall state elections are more important than usual for several reasons. First, many long time legislators have decided to retire this year. This leaves many important committee positions—from Senate Majority Leader to tax committee chairman, to name two—open to new leadership. Second, this is the first election in which a majority of the seats will be suburban. Third, according to polling last year, the largest single block of voters—more than 40 percent—are independents that are not affiliated with any of the major political parties. These three elements suggest that state politics may be turning the page on a 50-year era of political alliances put together after World War II. For this to be a change for the better, three areas need immediate attention: education, economic growth and urban growth management.

Education. Most of us by now would agree that Minnesota and the United States are fully involved in the transition to a knowledge economy. Despite Minnesota's very high school graduation rates, there are some very troubling signs on the horizon.

- Barely half of ninth graders in our two largest school districts finish high school on time.
- The graduation rate for African American students in Minnesota, according to the Manhattan Policy Institute, ranks second lowest in the United States.
- The number of Minnesota's low-income students going on to post-secondary education is not very stellar.
- A very large part of the growth in future school enrollment is projected to come from economic and demographic quarters where academic success is spotty at best.

Primary and secondary education and post-secondary education could use a thorough policy review to determine what is working and what "best practices" from around the country are improving performance. We should also consider structural changes. Do we need to restructure state oversight for K-12 schools, which account for some 40 percent of the state budget? Currently, there is no state school board and oversight is located within a department that has many priorities? Do we need a state commissioner of higher education to coordinate post-secondary policy and work with the state colleges and universities and the University of Minnesota?

Economic Growth. Minnesota has been an anomaly in the Midwest region with stronger economic growth and higher incomes than surrounding states. With the fourth highest ratio of college graduates in the United States, we have major assets going forward. But are investing in new knowledge development and commercialization as prudently as other Midwestern states like Wisconsin and Michigan, which both have major initiatives going forward on biotechnology and fuel cell technology? The Citizens League has recommended the creation of the Northstar Research Coalition, a private-public partnership to invest in accelerating knowledge development and utilization. As we consider Minnesota's next steps, it is time to revisit this concept and to look at the results obtained by the Georgia Research Alliance.

Urban Growth Management. We now have a 100-mile diameter, two-state commuting area around the metropolitan center that includes 60 percent of the state's population. One key aspect of our environment stewardship is not to consume excessive land for population growth. The Metropolitan Council has been working on a blueprint for growth that would consume far less land than our current pattern of development. There is a real need to provide comprehensive support for a more conservative strategy of land use development, with incentives and funding to promote transit-supported, mixed-use, mixed-income urban development that is acceptable in the marketplace. Fare box increases that knock out more passengers on the $600 million LRT system make little sense. Transit investments need to be considered an investment in a less car-dependent way of living.

In the 2003 legislative session, there will undoubtedly be a good deal of jockeying as leadership is reconstituted and the body finds its new legs in a new political situation. Yet it will be important to begin to focus on these three areas, along with other important issues, to keep Minnesota moving ahead to meet its challenges. MJ

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OnBalance

Views From Around the State

Newspapers across the state evaluate the 2002 legislative session

At the end of the legislative session, the **Rochester Post Bulletin (5/23)** awarded state lawmakers a collective grade of D-. "We were contemplating an F. But we had a last-minute change of heart and settled on a D-minus when lawmakers, who had vowed to adjourn by Easter, wrapped up business a whole 20 hours before they were constitutionally mandated to call it quits. They deserve extra credit for not waiting until the last minute."

The **Brainerd Daily Dispatch (5/23)** believes the lawmakers aren't the only ones who deserve blame for this year's legislative session. "The governor lets himself off too easy in his evaluation of the 2002 legislative session. He and his advisers came up with a solid plan that called for some tax increases and solved the long-term deficit problem. However, a governor has to do more than just identify worthwhile goals. A true leader will follow through with cajoling, arm-twisting, and coaxing until that plan becomes a reality. It's called politics. And though Ventura prefers to portray himself as nonpolitical, it's a skill that comes in handy when trying to pass legislation."

Noting Ventura's veto of a number of local projects, the **Mesabi Daily News (5/23)** questions the Governor's commitment to outstate Minnesota. The state bonding bill included $5.5 million for needed capital improvements at the Mesabi Community & Technical College's Virginia campus, and $1.5 million for the trailhead for the 132-mile Mesabi Trail. Both were cut from the final bill. "It was an act by a governor out of touch with rural Minnesota; out of touch with the needs of people of northeastern Minnesota; out of touch with the need for a state to better itself for the future through such investments."

The **Free Press (5/25)** argues that Ventura's vetoes on the bonding bill make him unworthy of another term in office. "With the repeated stroke of his almighty veto pen, Ventura blew it. Lawmakers had snubbed his pet project, Northstar commuter rail project between St. Cloud and Minneapolis. And instead of turning the other cheek, Ventura retaliated. Granted, the legislature handed him a pork-ladened bill that lacked the essential funds needed to fix our roads and maintain the state's existing infrastructure. In fact, many of the projects merited the governor's veto. But he cut too deep, slashing projects of statewide significance just to soothe his penchant for one-upmanship…Ventura is expected to announce whether he plans to seek re-election in the next month or so. Given his penchant for one-upmanship, he'd be wise to quit while he's ahead."

Reflecting upon the 2002 legislative session, the **Red Wing Republican Eagle (5/23)** applauded the Republican effort not to increase taxes. "Republicans' insistence to hold the line on spending not only protected Minnesotans from any increases in general taxes, it also avoided direct cuts to local government and schools that were proposed at the session's start by Ventura. The House stance is based on the simplest of economic lessons: If you have less income, you have less to spend—and accordingly make the appropriate cuts."

The continuing transportation debate

The **West Central Tribune (5/16)** believes "it is highly unlikely the narrow-minded House will pass any transportation bill this year. A statewide coalition of 185 groups, including the Minnesota Chamber of Commerce, lobbied a 5-cent gas tax increase. Yet, last week when House Republicans proposed a gas tax rise of 3 cents per gallon, only two of four House Republican members of the conference committee supported their own proposal. Voters will remember the state transportation fiasco this session and hold appropriate legislators accountable."

The **St. Cloud Times (5/12)** thinks that legislators might change their opinions once they realize the broader implications of a transportation-funding shortfall. "First, there is the economy. Jerry Bauerly, president of Bauerly Bros. of Sauk Rapids, said construction-related businesses statewide are suffering because there aren't enough projects. And that means fewer people are working. In fact, Bauerly said his company has yet to call back all of its 750 workers this spring because it doesn't have enough work." The editorial goes on to say, "legislators should be concerned about federal transportation funding. Congress is reauthorizing its aid programs, and members are sending a clear message to Minnesota: If you want federal funds you are going to have to put up more of your own money to get them."

"Doing nothing on transportation issues is costly, shifting costs to the public in other ways—affecting quality of life, business competitiveness and the environment through delays and congestion," argues the **Duluth News Tribune (5/14)**. "A Becker trucking company, for example, has calculated that a half-hour delay between the St. Cloud area and the Twin Cities costs the company more than $600,000 a year. This, of course, is a much higher "tax" than a few-cent increase in the gas tax."

"Adding freeway lanes will only encourage more driving and more traffic," claims the **Star Tribune (5/23)**. "Better, then, to add some roads and offer transit choices that will both lessen traffic *and* enhance reinvestment in older cities and suburbs, creating more walkable neighborhoods in which the car can play a lesser role.

"What's important to remember is that the transportation debate isn't about now, it's about the future. And it isn't only about pavement, but how we'll live and get around in 20 years from now."

Minnesota ranked first for livability

The **Rochester Post-Bulletin (5/22)** thinks Minnesota's high ranking is connected to being a high tax state. "Clearly, Minnesota has to excel in the education, health, income and employment categories to overcome its perceived shortcomings in climate and taxes. Of course, the state's standing in many of those categories is enhanced by a well supported (by taxes) government and social structure." MJ

Higher education *continued from page 2*

research support, the operations and maintenance of research facilities, and the premium paid to attract and retain faculty who can and do draw in millions of dollars of research support, would also, in this narrow view, be a public subsidy rather than an investment.

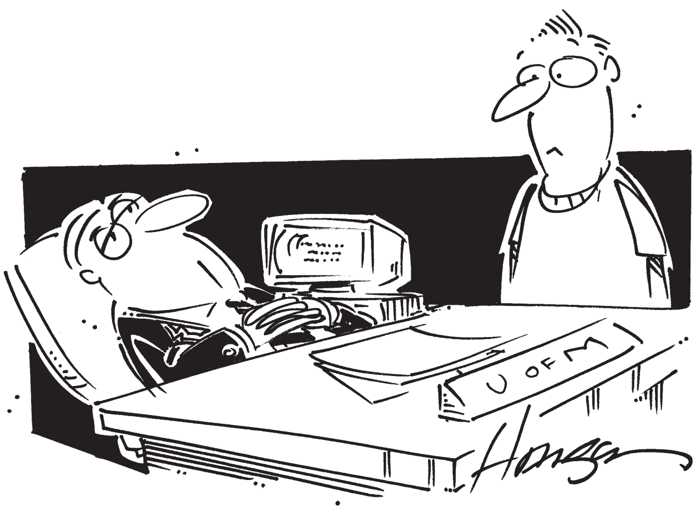
Tuition is not an adequate indicator of quality

Wahl and Laird's endorsement of a market approach to higher education to achieve efficiency and quality is also flawed. Their argument is that low public tuition leads to poor quality because the "consumer" values the bargain and the "subsidy" more than the quality of the education delivered. Therefore, the consumer is willing to accept a low-quality education and the institution delivering the education has no incentive to make it better than mediocre.

There are, of course, no data to support that argument and many observations that contradict it. Few would argue that an education at UC Berkeley, where tuition is low, is inferior to, say, an education at the University of Southern California where tuition is quite high. Or that an education at Oxford, where there is no tuition, is inferior to one at a regional private school in the United States. Or that the quality of education at Minnesota's private colleges is proportional to their tuition, which covers quite a wide range. Tuition and quality are not highly correlated. Tuition depends on what other sources of support a school has, the nature and organization of the curriculum and the particular needs and desires of the students who attend the school. Quality is certainly a factor, but it is not the only one.

Curiously, after asserting that the education consumer will be more influenced by price than quality, Wahl and Laird suggest that the same consumer would be astute enough to choose quality over price in the absence of "subsidization." But quality, per se, is not so self-evident. It may mean one thing to the parents of an applicant, another to the students at an institution, and still something different to the graduates of an institution. Universities struggle to measure it and to assume that the market is better at it calls into question why post-secondary institutions put so much money into advertising and marketing.

The real benefit of the range of institutions in Minnesota is not the differences in quality, but the differences in kind, the characteristics that make one kind of school more suitable to one kind of student than another—size, location, specializations, flexibility, social life, athletics, autonomy, nurture. Some kinds of education are inherently more expensive and require higher tuition; some, often equally good for the right kind of student, can be organized in such a way that cost and tuition can be kept lower. Or, the state may see enough benefit to itself in encouraging students to take up a particular field that it makes investments in keeping the tuition low in that field. Market is much less able to capture such differences, many of which may even be dismissed as "externalities" in economic models.



"…considering your limited finances…
you may want to consider other options…like a private college!"

Market can't accurately assess education's contribution

Which brings me to my last point: the shortcomings in relying on market and some notion of efficiency in serving the needs of the state in higher education. In education, efficiency does not lead to an expansion of opportunity but, in fact, to a contraction. An efficient institution would not offer courses in foreign languages that attract few students—Finnish or Japanese or Sanskrit, for example. But it is important to our state and nation to have people who are capable of speaking them. If we adopted a model that assumed that "most of the benefit of higher education accrues to the individual," the price of those courses would be such that no one could afford them.

Similarly, there are some programs—Veterinary Medicine, for example—where the financial pay-off to the individual following graduation could not come close to justifying tuition payments that approximated the cost of delivering the program, even if he or she could nominally "afford" it. Yet, the state obviously needs veterinarians. Can we or should we assume that there is no state interest in making such education feasible and attractive? The private schools in the state do not offer engineering programs because no market model, even with financial aid, would allow them to recover their costs. Should our public institutions apply the same reasoning and come to the same conclusion?

I think Professor Wahl is simply wrong in denigrating the gain to the state that comes from higher education. Since that is a key premise in the rest of her argument, I think it, too, is wrong. She might be better off paying less attention to Milton Friedman and more to Thomas Jefferson, who expressed it quite well when he said that the purpose of a public university was "…to avail the state of those talents, sown equally among the poor as the rich, which perish without use if not sought for and cultivated." He would not have viewed the public's investment in higher education as merely a "subsidy" and he did not delude himself into thinking that the market alone would meet society's needs. Neither should we. **MJ**

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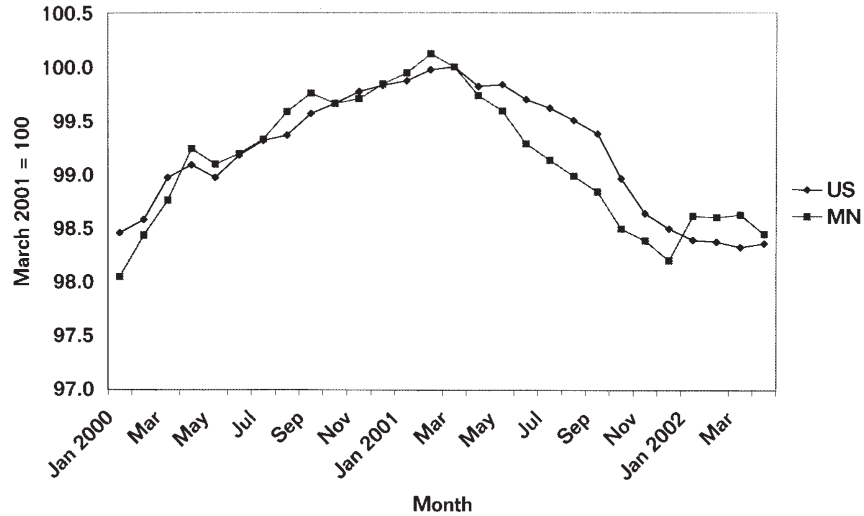
Performance *from page 1*

before they can make a determination, by which time the economy may be climbing out of a recession or perhaps falling in deeper than it was six months ago. If instead they apply the NBER's methodology they will be able to utilize monthly data and adjust their revenue forecast more quickly and perhaps prevent the governor and legislature from making ill-informed budget decisions.

Policy makers will be able to construct more accurate forecasts and have a much better sense of current economic conditions if they follow the NBER definition rather than the media's characterization.

Figure 1: Private non-agricultural employment, January 2000 - April 2002



Applying the NBER methods

What do the data on employment say about Minnesota's economic performance in the current recession in comparison to the nation as a whole? Private, non-agricultural employment in the United States reached a peak in March 2001 and has fallen since that time. In November 2001, this, along with other indicators, led the NBER to declare that a recession had begun in the previous March (NBER 2002). Figure 1 compares private, non-agricultural employment nationally with the same data for Minnesota. (All of the data used in this study was drawn from the Bureau of Economic Analysis web site, www.bls.gov.)

Two points stand out in Figure 1. First, Minnesota followed the broad national pattern of rising employment throughout 2000 and then declining employment beginning in early 2001. Second, Minnesota employment peaked one month earlier than U.S. employment and remained at a lower level relative to its peak than did the U.S. economy through the rest of 2001. Thus, at first glance it seems that Minnesota did worse than the national average. However, when one looks more carefully at the data it becomes clear that the Minnesota economy did worse than average in the first stages of the recession, but since then has performed far better than the national average.

Specifically, consider the performance of the national and Minnesota economies before and after September 2001. Clearly, the September 11 terrorist attacks exacerbated an already weakened national economy. From March 2001 to September 2001, U.S. employment fell by 0.62 percent, while from September 2001 to March 2002 employment fell by 1.67 percent. Minnesota, though, fared better than the national economy: employment in Minnesota fell by 1.16 percent from March 2001 to September 2001, but fell by only 0.21 percent from September 2001 to March 2002. As is clear from Figure 1, employment actually rose in Minnesota from December 2001 to January 2002 and remained at a higher level relative to March 2001 than the economy as a whole.

The Minnesota economy experienced a smaller percentage decline in employment than did the U.S. economy for the entire period March 2001 to March 2002. U.S. employment fell by 1.67 percent while employment in Minnesota fell by 1.37 percent. This is not a large difference but it shows that Minnesota is certainly doing as well as, and probably better than, the national average.

This type of analysis could have aided the legislature and the governor in 2001. It was clear by the beginning of May that employment was falling in Minnesota and that a recession was either underway or imminent. Clearly, tax collections would begin falling in the spring and summer of 2001 and the budget surplus would be not nearly as large as the February revenue forecast had predicted. The 2001 tax rebates could have been trimmed or eliminated and the current budget problems might have been alleviated.

Looking deeper: Employment across sectors

Employment data for the economy as a whole are useful indicators of recessions, but to examine the impact of a recession it is more useful to look at data that are disaggregated by industry.

Economists traditionally divide the economy into five broad sectors: agriculture, mining, construction, manufacturing, and services. Agricultural production tends to be quite stable over time so economists focus on non-agricultural employment when analyzing business cycles. The service sector contains industries such as finance-insurance-real estate, wholesale and retail trade, and transportation-public utilities. Transportation-public utilities is of particular interest because of the devastating impact of the September 11 attacks on the airline industry. (Ideally, we would like to have data on the airline industry itself but these detailed data are not yet available on a state-by-state basis.)

Figures 2 and 3 present data on employment changes in mining, construction, manufacturing, and services (the four non-agricultural categories) along with the transportation and public utilities sub-sector. Figure 2 contains data on changes from March 2001 to September 2001, while Figure 3 provides data for September 2001 to March 2002.

Figure 2, employment changes from March to September 2001, shows that Minnesota fared worse than the national average in mining, construction, services,

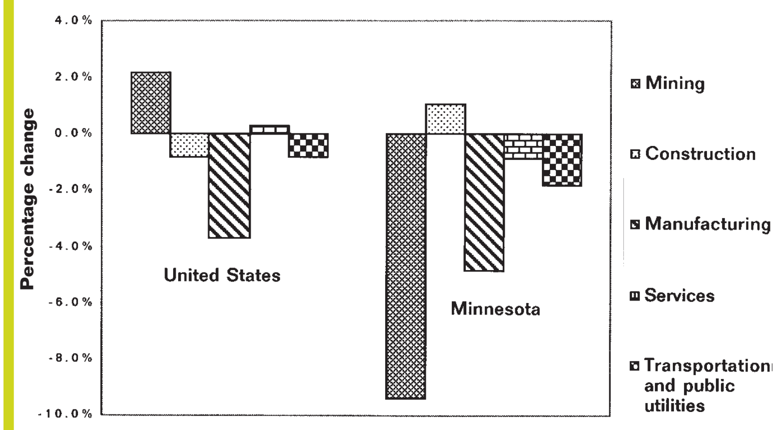
Performance continued on page 7

Performance *continued from page 6*

and transportation-public utilities. Construction employment however bucked the national trend and continued to grow during this period while it fell in the nation as a whole.

Figure 3, employment changes from September 2001 to March 2002, tells a different story. Except for transportation and public utilities, Minnesota fared better than the national average. Employment in construction and manufacturing fell more slowly than the nation overall while total service employment rose in Minnesota during this period. In fact, the rise in service employment was the source of the overall increase in state employment shown in Figure 1.

Figure 2: Employment change, March 2001 - Sept. 2001



This information indicates that Minnesota fared better after September 2001 than before, that is, employment declines slowed in all industries except transportation and public utilities and in fact reversed in the service sector. Since the recession began, the Minnesota economy has done better than the national average in three of the four non-agricultural sectors: construction, manufacturing and services. If these trends hold, Minnesota could be poised to recover from the recession more quickly than the rest of the nation.

Again, using these types of data could have aided policy makers. For example, the data clearly indicate that mining and transportation were suffering before September 2001. The legislature could have enacted policies to aid workers in these industries during the 2001 session rather than waiting until the 2002 session.

Conclusions and directions for further study

Minnesota is still above average: it experienced a loss of total employment that was smaller than the national average and has had lower rates of job loss in construction, manufacturing and services.

The picture is not entirely rosy though. Mining employment and employment in transportation and public utilities both fell more sharply than in the economy as a whole. These industries have been the focus of much public policy discussion over the years and these data point to the need for even more reflection. In particular, citizens and policy makers should consider whether or not public subsidies to these industries are worthwhile not only in terms of their long-run economic benefits (which is the usual criterion) but also whether or not subsidizing these industries exacerbates the business cycle in Minnesota.

The hero of this story is the service sector: total service sector employment grew after September 2001 despite that fact that one of its sub-sectors (transportation and public utilities) fell substantially. This increase was large enough in absolute terms to boost employment in Minnesota from December 2001 through March 2002. Again, we should consider policies that sustain a healthy and diverse service sector in order to promote both long-term growth and short-term stability.

All of these conclusions are drawn on the basis of readily available monthly data. This points to the need for further research that uses other sources of monthly data in order to draw a more complete picture of the business cycle in Minnesota. Specifically, it would be very useful to examine personal income statistics along with the employment data utilized in this study so that we could check if, for example, small employment declines actually result in large income declines. Ultimately, it would be very useful to construct a state-level business cycle chronology based on the NBER's methodology so that forecasters and other policy makers could have a clearer, more accurate picture of Minnesota's economy. MJ

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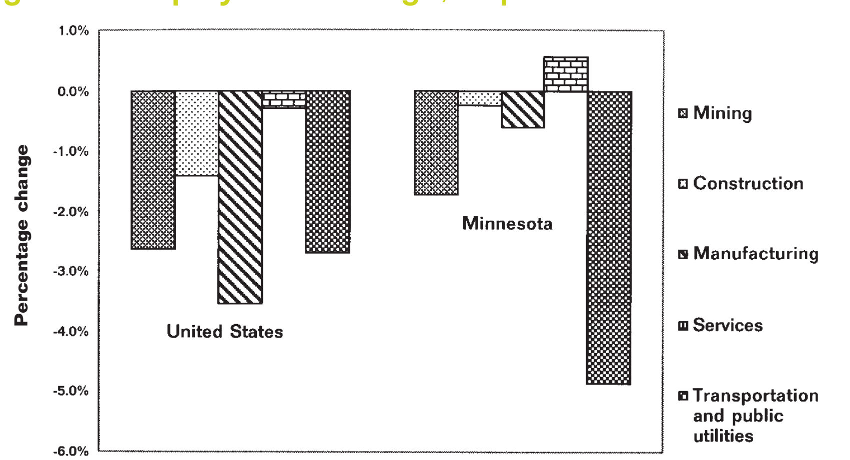
"The NBER's Business Cycle Dating Procedure" can be viewed at www.nber.org/cycles/recessions.html

Figure 3: Employment change, Sept. 2001 - March 2002



TakeNote Policy Tidbits

From transportation to education, policy thoughts for summer evening porch talks

Information technology spending. As reported in the *Economist* (April 13, 2002), spending on information technology is staggering in developed countries. The United States now spends about 9.5 percent of GDP on information technology, including communications technology. Only Britain and Sweden spend more. *~Lyle Wray.*

The state of New York is pushing heavily to increase the use of alternative fuel vehicles (AFV). In 1996, Governor Pataki signed the $1.75 billion Clean Water/Clean Air Bond Act, which included $230 million for air quality improvement projects and incentives for cost reduction for AFVs. In 2001, Pataki signed Executive Order 111, which directed every state agency to increase its annual light-duty AFV acquisitions to 100 percent by 2010. These initiatives are why New York has received the Environmental Leadership Award from the National Conference of State Fleet Administrators (1999), Natural Gas Vehicle Coalitions Ninth Annual Achievement Award (2001), and the Clean Cities National Partner Award (2001). *~Scott McMahon.*

A report from the National Wildlife Federation and the American Bird Conservatory predicts that six official state birds will migrate north out of the states where they are revered due to global warming. The study predicts the movements based on the projected carbon dioxide levels 50 and 100 years from now. With the projected levels, the black-capped chickadee will have flown out of Massachusetts, New Hampshire will lose the purple finch, and California will no longer have its quail. If this pattern continues, Minnesota might be forced to replace the loon with the mosquito.~ *Jim Mulrooney.*

In a recent report by Forbes, Minneapolis/St. Paul ranked 79 on their "Best Places to Build Your Business." Duluth ranked 151. Green Bay, Wisc., nudged out the Twin Cities, coming in at 77, while Madison ranked 80. Five of the top 10 cities are in California. One shining point for the Twin Cities was a fourth place ranking in higher education attainment. Boulder, Colo., Huntsville, Ala., and Washington, D.C., took the top three spots for higher education. For more information, visit www.forbes.com. *~S.M.*

Affirmative action. In 1997, the University of California eliminated affirmative action in its admissions process. The following year, the number of minority students dropped by over 10 percent, but has since returned to previous levels, except at Berkley. Berkeley is the most prestigious of the schools in the UC system and the number of minority students remains well below the 1997 level. However, the figure excludes Asian-American students who make up one-third of the student body. UC Regent Ward Connerly, who wrote the proposition to end the use of affirmative action, plans to write another initiative that would end the use of racial classification in compiling official data.*~J.M.*

If not LRT, then what? Bus Rapid Transit is a cost-effective alternative to light rail that is working in a number of countries. One of the longer standing systems is in Curitiba, Parana State, Brazil. Their system has a number of features including: exclusive bus lanes, signal priority for buses, pre-boarding fare collection, level bus boarding from raised platforms in tube stations, and a readily understandable network of routes. There are also a number of advanced technology buses being launched in the United States. For more on BRT visit www.fta.dot.gov/brt/*~L.W.*

Education Funding. Beginning this year, corporations in Florida will be able to receive a dollar-for-dollar tax credit on donations to private scholarship granting foundations. Children who qualify for free or reduced school lunch programs are eligible to receive scholarships from these foundations of up to $3,500 to use toward tuition at the school of their choice. ~ *J.M.*

The NAACP is inviting states to participate in a project called "Call for Action in Education," according to a report in *Education Week* (May 22, 2002). The NAACP asked states to submit plans that identify strategies, either already implemented or in proposal form, to eradicate racial inequalities in the schools. The NAACP has pledged to assist in the implementation of the states' strategies. Twenty-eight states have signed on, including Iowa and Wisconsin. Minnesota was not on the list. *~S.M.*

In his ninth book, *Wealth and Democracy: A Political History of the American Rich*, Kevin Phillips takes on the issue of wealth disparity in America and how the very wealthy stay that way by bending the rules in their favor. Income disparity is at a peak, says Phillips, and the middle class is working longer hours for stagnating wages and declining health and retirement benefits. Household income was flat in the 1980s and 1990s except for the top 1 percent of households where inflation-adjusted income soared from $250,000 to more than $644,000.*~L.W.*

Correction. *In the May issue Take Note incorrectly reported on a recent study released by the United Nations. It should have stated that there are about 630 million people aged 60 or older worldwide.*

Take Note contributors include Minnesota Journal *and Citizens League staffers.*

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