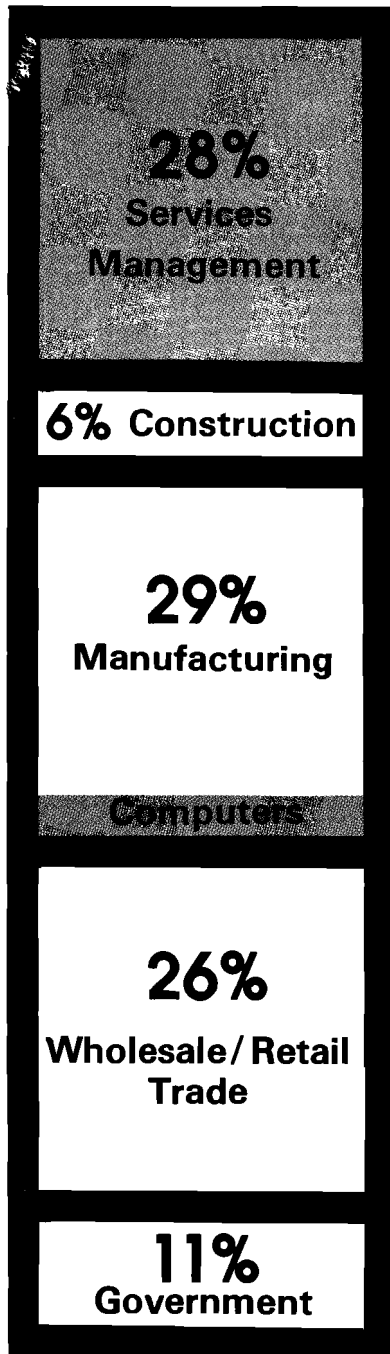
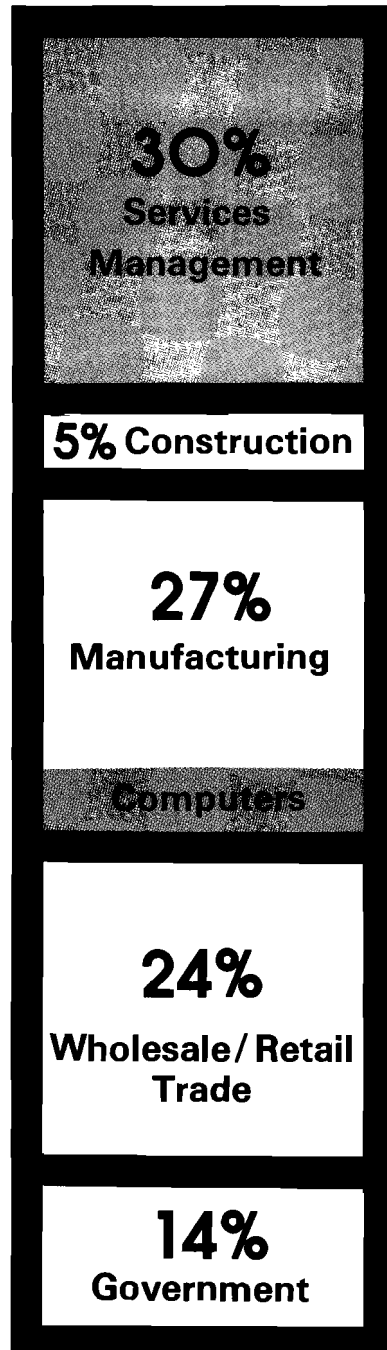


# CITIZENS LEAGUE REPORT

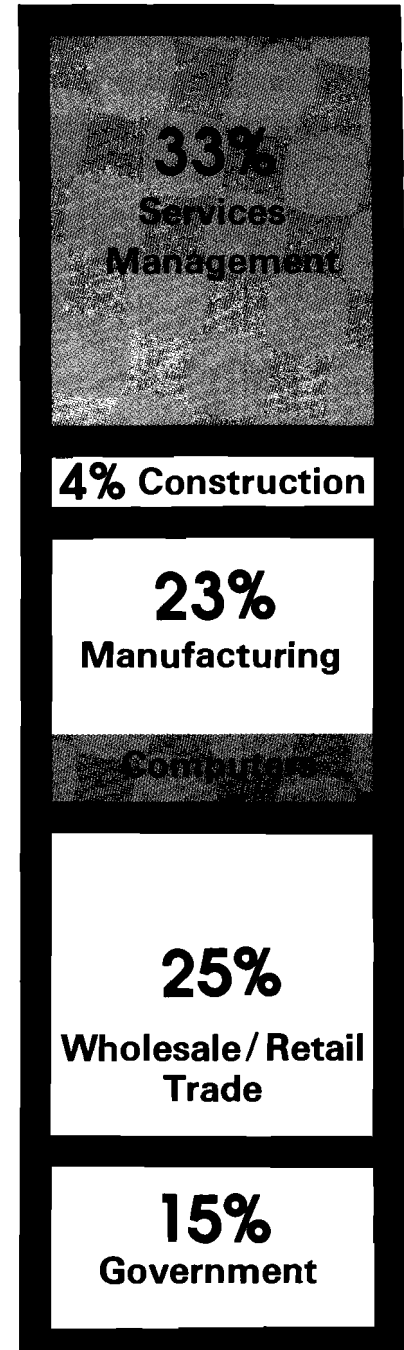
## Helping the Metropolitan Economy Change



**1950**  
Total Employment  
450,000



**1970**  
Total Employment  
790,000



**1976**  
Total Employment  
925,000

# **CITIZENS LEAGUE REPORT**

## **HELPING THE METROPOLITAN ECONOMY CHANGE**

What the Twin Cities can do to take advantage of the economic opportunities coming as the post-industrial age unfolds

Prepared by  
Citizens League Committee on  
Twin Cities' Economy  
Wayne H. Olson, Chairman

Approved by  
Citizens League Board of Directors  
June 29, 1977

Citizens League  
84 South 6th Street  
Minneapolis, Minnesota 55402  
Telephone: 338-0791

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# INTRODUCTION

The charge to our committee from the Citizens League's Board of Directors called for a study of the Twin Cities' economy. This topic is perhaps the broadest and most complex that a League study committee has ever undertaken. The topic was a new one for us, and--unlike other topics--was focused on a system which is largely private. These circumstances had major influence on our report, particularly its recommendations.

The economy's complexity, our support for its private status, and, most important, testimony and data presented to our committee did not suggest the need to create a formal system (public or private) for solving problems related to the region's economy. However, this does not mean that we found no cause for community concern and action.

Our greatest concern is that the region seems to lack understanding of the ways in which its economy is changing and the impact of both public and private actions on these changes. This report will have served its purpose if it stimulates people in the Twin Cities to begin thinking about the metropolitan economy in terms of the way it is changing.

It is appropriate for our report to concentrate on describing the general

direction in which the metropolitan economy is changing rather than on specific and detailed recommendations. Although we can and do suggest some areas where action may be necessary, specific proposals cannot be discussed until there is better understanding of the direction in which the economy is changing.

The report's focus on change rather than simply on growth, and on "the development of the economy" rather than on "economic development" (i.e. providing physical facilities), will be unsettling. We share this feeling. It is comfortable to think about making and selling tangible things. It is unsettling to think about an economy increasingly devoted to selling intangible services. It is comfortable to think about economic success related to location: nearness to raw materials, major markets, or key transportation routes. It is unsettling to contemplate an economic future in which, for these service activities, any place can compete with any place else. But, our study has led us to the conclusion that, increasingly, this is the situation into which the region is moving. At a minimum, it behooves the Twin Cities area to understand the opportunities and dangers associated with change in this direction.



## MAJOR IDEAS . . . . .

- \* This report is about the way the Twin Cities area makes its living, and how this is changing, that is, "the development of the economy." The report is not focused on "economic development" as that term has come to be used in reference to the process of providing the physical facilities necessary for business activity.
- \* From the start, you should know that we have found that the Twin Cities' economy is healthy. Our current health, however, is not a reason for complacency. The economy is changing.
- \* Change is not new to the economy. It has been a constant feature of the region's economic history. The Twin Cities has usually benefited through economic change. That is, the region's economy has become stronger because of it. Other communities have not been as fortunate. They have been hurt by change.
- \* Manufacturing remains an important source of both income and export activity, but it is employing a smaller proportion of our work force.
- \* The region's current economic change is centered on the growth of the services/management businesses. These businesses cover a wide range of activity . . . banking, corporate management, data processing, office work. Contrary to popular belief, these businesses are exporters. In fact, they accounted for 19% of the region's exports in 1971.
- \* Economic change and the growth which has accompanied it comes from three

sources: expansion by existing companies already located here; expansion into this community of firms located or headquartered elsewhere; and start-up of new businesses. Change and growth in the Twin Cities has come largely from the first and the last of these . . . in other words, from businesses and people already located here. Local entrepreneurship has been extremely important.

- \* Twin Cities businesses have been flexible enough to respond quickly both to problems and to opportunities. One major benefit of this responsiveness has been to enlarge the kinds of work done in our region. To a certain extent, our region's economic stability has come from this diversity.

Responsiveness involves more than the actions of individual business firms. Changes in the "support system" for the economy are also central. This support system is made up of both tangibles (roads, airports, office space) and intangibles (tax laws, financial services, an educational system). Some elements are primarily the responsibility of government, some of the private community.

The "economic development" agencies are a part of this support system. But in recent years, at least, these have been concentrating on providing tangibles (mainly sites, buildings, and utilities) to particular firms.

Of special importance to the economy has been the maintenance of the quality of life in this region: a pleasant environment, and the kind of specialized recreational, cultural, and educational

## . . . . . IN OUR REPORT

opportunities associated with "world cities." Local quality of life affects almost all kinds of business, but especially the ones that are not so tied to resources located here or to the local trade area.

\* We conclude that there are two major concerns about our economy's future:

- Because of a growing uncertainty in the business climate, our region may lose out on forthcoming opportunities for economic growth and change.
- Because there have been only partial and sporadic attempts to understand the region's economy on a systematic basis, we may not be prepared to take advantage of new opportunities.

The region may not be adequately prepared to deal with the changes occurring in the economy because:

- The region seems to be viewing its economy in too narrow a framework,
- The region has not expanded its thinking and actions to adequately cover those areas where change and growth are occurring,
- The community is not searching for new and more effective ways to accommodate the trend toward services/management businesses, and
- We are not working aggressively enough to expand the export of both goods and services.

\* We recommend the following:

- Both the public and private sectors have to aim their work on behalf of the economy at helping existing

businesses to change. Our priorities should be to:

- Maintain our high quality of life;
  - Emphasize the teaching of communication skills;
  - Examine our tax structure;
  - Understand the economic impact of public actions;
  - Develop a sound energy policy and secure new resources; and
  - Broaden the focus of the State Department of Economic Development and the local development agencies.
- We must also encourage new business starts by:
- Increasing local research and development activity;
  - Getting special commitments from Twin Cities financial institutions to develop new mechanisms for financing business start-ups.
  - Aggressive action by state and local governments to contract with private businesses to provide public services; and
  - Legislative review of the state's corporate income tax to determine whether exemptions would be significant in helping new companies get established.
- Finally, but not of least importance, the region needs a systematic arrangement for thinking about economic change and the impact of both public and private actions on it. There should be some continuing program of economic analysis, established on a quasi-public basis, designed to identify and analyze crucial state and local economic issues.

## THE TWIN CITIES' ECONOMY IS HEALTHY AND CHANGING

### Unemployment is lower and per capita income higher than that for the nation as a whole.

The unemployment rate and the level of personal income are one good combination for measuring economic health. These two measures together show if Twin Citians are working and their standard of living. There are a number of other measures (e.g. business starts, value of building permits, corporate profits) which could be used to determine the soundness of the region's<sup>1</sup> economy, but these two provide a good summary.

Going back to the 1950s, the unemployment rate in the Twin Cities has been consistently lower than that for the nation as a whole. (See Figure 1.)

When examining personal income<sup>2</sup> two factors must be considered: first, the per capita level of income; and, second, the distribution of income. The Twin Cities area compares favorably with other metropolitan areas on both counts.

Per capita income tends to be slightly higher than average. (See Figure 2.) And, compared with other metropolitan areas, the Twin Cities has a smaller proportion of its families in low income categories and a larger proportion in high income categories. (See Appendix 1.)

### The economy is always changing.

Twin Cities business history is marked by five stages, each led by a particular type of business: first, trade (both wholesale and retail); second, processing raw materials; third, general manufacturing; fourth, high value added<sup>3</sup> manufactur-

ing; and, fifth, services/management businesses. The stages have not been discrete but rather have overlapped, and traces of each have been apparent throughout the region's history. (See Figure 3.)

Figure 3 shows the flow of business activity in the Twin Cities. Trade and the processing of raw materials were the first industries to dominate the economy. The trade function has continued to be strong. Processing decreased partly as a result of (1) the depletion of surrounding forests and (2) the shift to processing raw materials at points closer to final markets, or the source of raw materials—the farm or mine.

Manufacturing grew to take the place of processing. At first, it was heavily oriented toward producing agricultural equipment for local use, but eventually became more specialized and produced what the Minnesota Department of Business Development called in 1950 "preferred products," items which were

<sup>1</sup> Except where noted, "region" refers to the seven-county Twin Cities metropolitan area. Counties included are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington.

<sup>2</sup> Personal income is defined as "the current income received by individuals from all sources before deduction of personal taxes."

<sup>3</sup> The difference between a company's cost of raw materials and the selling price of its product. It would be the sum of all labor costs, profits, rents, interest, taxes and depreciation.

Figure 1



NOTE: In 1970, the Department of Employment Services changed its data base for determining unemployment rates...hence the unconnected trend lines.

Figure 2

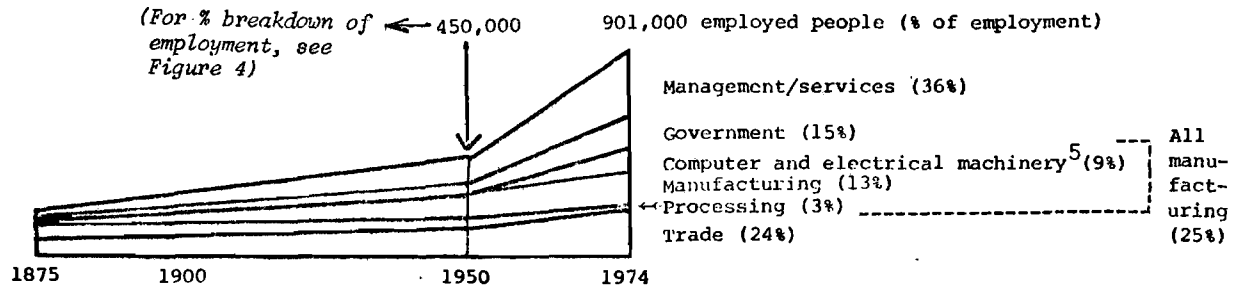
	1950	1971	1990 (projection)
Twin Cities per capita income	\$2,517	\$4,126	\$7,143
U.S. metro areas per capita income <sup>1</sup>	\$2,063	\$3,557	\$6,158
Twin Cities per capita income as % of U.S. =	122%	116%	116%

Source: Economic Projections, 1990, Bureau of Economic Analysis

<sup>4</sup>Work force is a total count of employment in terms of the number of jobs. Persons holding two or more jobs are counted twice. Labor force is a total count of individuals working or available for work between 16 and 65 years of age. Unemployment rates have been computed using both the number of jobs (work force) and the number of individuals available for work (labor force) as the base for determining the rate.

Figure 3

APPROXIMATE STAGES AND GROWTH OF THE TWIN CITIES ECONOMY  
AS MEASURED BY EMPLOYMENT



distinct enough or of such high quality and value that they could compete in distant markets despite the burden of higher shipping costs. Preferred or "high technology" products continue to dominate local manufacturing today in the region.

Although it would certainly be considered a "preferred product," the local computer industry was largely unrelated to previous manufacturing activity.

Most recently, the services/management businesses have become a major feature of the economy and, as will be shown later in this chapter, are expected to expand faster than any other businesses through the 1980s.

**Certain major forces have consistently affected economic change.**

Through every stage of economic activity, the Twin Cities' economy has been affected by certain major forces, largely beyond the control of the community. These forces influence both the changes in the way we make our living and the growth of the economy.

*Location* -- The Twin Cities and the Upper Midwest are relatively isolated from the rest of the country. This has been a significant factor in the development of the economy in two major respects:

-The Twin Cities developed as a large and, more recently, highly specialized

trade center for the Upper Midwest. From the earliest days, this community has served as a collection point and distribution center for goods and services moving to and from smaller settlements around the region.

-The kinds of goods we are able to sell outside the Upper Midwest are restricted by our location. Relatively high transportation costs in moving some finished goods to major world or United States markets have made it difficult to compete with producers located closer to major population centers. Many local manufacturing firms have production facilities elsewhere, but fortunately have kept their headquarters here. General Mills and McQuay Perfex are examples.

Generally speaking, the local major manufacturers are making products that are unique, highly specialized, or of high value. For example, about 6% of the region's employees in 1975 were producing computers and other non-electrical machinery<sup>6</sup>. For these kinds of work, transportation costs have been less of a

<sup>5</sup>The Department of Commerce considers computers and other data processing devices to be "non-electrical machinery." Electrical machinery would include generators and other items needed to utilize electrical energy.

<sup>6</sup>Ibid.

limitation because of either (1) the uniqueness of their products, or (2) the product itself is of such high value that transportation represents a relatively small part of the total cost.

*Population size and make-up* are influences on the Twin Cities economy in two respects: Residents serve as a market for products and services produced here, and also the residents are the Twin Cities' work force.

The marketplace for locally produced goods and services is limited by the characteristics of our population...the most important of which is its size.

The Twin Cities work force has a national reputation for its high quality. In some cases the quality has been high enough to overcome other economic disadvantages. For example, despite the limited local market and high transportation costs, the St. Paul Ford plant remains in operation and ships cars to 25 states. Since the late 1950s, the local Ford plant has ranked either #1 or #2 among the 14 Ford assembly plants in terms of quality, as measured by the amount of reimbursements paid by the company to dealers for repairs covered under warranty. Many of the types of work done in the Twin Cities require a skilled and talented work force. Local manufacturing is led by computers, computer components, electrical equipment, electronics and printing. The services component is substantially made up of businesses related to health care and business services. And, finally, by comparison with all other metropolitan areas, the Twin Cities ranks sixth on a per capita basis in terms of the portion of the work force working in central administrative offices (i.e. corporate headquarters) and activities directly related to corporate management (i.e. data processing, research and development).

*Raw materials* -- Through its first half

century, the Twin Cities' economy depended almost exclusively upon natural resources (including agricultural products) for its vitality. Much of its development was directly related to either the surrounding forests or farm land. At first, the Twin Cities' major functions were to process these raw materials, to wholesale processed goods to the rest of the nation, and to provide the farmer or logging company with the supplies, equipment and capital it needed in order to maintain the flow of raw materials.

This system began changing early this century. It became more economical to process timber and agricultural products elsewhere. For timber, the processing moved closer to the source of supply. For agricultural products, the general trend was to move processing closer to the final markets, but in some cases the processors relocated nearer to the farms. In any case, the Twin Cities lost and continues to lose this major source of work.

*Energy resources* -- Minneapolis owes its start to the water power produced by the Falls of St. Anthony. Without this resource, the city's first major industry, saw milling, would probably never have gotten started.

As technology changed and our community grew, access to fossil fuels became essential. However, there are no usable local energy resources. As a result, the Twin Cities came to depend upon Canada for petroleum, southern Illinois and (more recently) the Northern Plains states for coal, and the south central United States for gas. Until recently, establishing reliable lines of supply was not, as a rule, difficult, and development was not inhibited.

Today, the situation is less certain. The region is faced with curtailment of its petroleum imports from Canada by

1981, which account for about 43%<sup>7</sup> of our current primary energy supply, and a shortage of natural gas. Natural gas supplies are expected to decline from 348 billion cubic feet in 1974 to 265 billion cubic feet in 1980.<sup>8</sup>

However, access to western coal, coupled with the construction of a natural gas pipeline from Alaska's North Slope, could make the Twin Cities more "energy secure" than other metropolitan areas, particularly those to the east. The impact on the economy could be substantial.

*Climate* -- The extreme weather conditions substantially affect the economy of the Twin Cities. Operating expenses are higher because combined heating and air conditioning costs are higher than in many areas. Construction costs are greater for similar reasons.

Although winters are relatively severe, they are "usable" and permit a substantial winter recreation industry to complement the summer tourist trade. Areas with less severe winters do not have this opportunity.

*Chance* -- We should not underestimate the significance of luck or chance as a factor in economic development. Most recently, the start of the local electronics/computer industry was in many respects the result of good luck.

The local computer industry began with a single research and development firm. This company was started by a group of Navy scientists. In order to continue computer research begun during the war, it needed to associate with a qualified federal contractor and to find a building big enough to accommodate its research. Northwest Aeronautical, a St. Paul company which produced gliders during the war, was a qualified contractor with a large and idle factory in 1946. By chance, the scientists were working with

a stockbroker who was familiar with Northwest Aeronautical. The result was a computer research and development company in St. Paul which eventually became the Univac division of Sperry-Rand Corp.

**Current change is focused on businesses which have not previously been major sources of growth.**

Future economic health is not guaranteed. The economy's current evolution is focused on business activity which is quite different from the major sources of growth in the past. (See Figure 4.)

Local change in employment reflects a national trend that began before 1950. From 1950 to 1974, of all the goods-producing industries, only construction showed a significant increase in employment at the national level. Agriculture declined from 7.6 million to 3.5 million workers; mining declined from 955,000 to 672,000; and manufacturing increased from 17 million to 20 million workers, but declined from 27% to 21% in terms of its share of total employment. Over the same period of time, non-manufacturing employment increased from 32 million to 64 million people, moving from 55% to 67% of total employment.<sup>9</sup>

Total employment in the Twin Cities doubled between 1950 and 1974, growing from 449,000 to 901,000. Changes in the share of total employment for each type of business in the Twin Cities suggest a local trend toward non-manufacturing. (See Figures 4 and 5.)

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<sup>7</sup>Minnesota's Energy Situation, A Biennial Report to the Legislature and the Governor, Minnesota Energy Agency, January 1976, p. 3.

<sup>8</sup>Ibid.

<sup>9</sup>"The Pluralistic Economy of the U.S.," Eli Ginzburg, Scientific American, December 1976, p. 27.

Figure 4

TRENDS IN TWIN CITIES EMPLOYMENT AND EARNINGS, 1950-1990<sup>10</sup>

	1950		1970		1990	
	Total Earnings = Total Employment = Aver. Unemployment =		\$2.4 billion 449,000 3.6%		\$6.4 billion 785,800 4%	
	Earnings	Employment	Earnings	Employment	Earnings	Employment
Manufacturing:	28%	29%	29%	27%	26%	NO COMPARABLE PROJECTIONS AVAILABLE
-Non-Electrical <sup>11</sup>	-	4%	-	6%	7%	
Machinery	-	2%	-	3%	4%	
-Electrical	-	1%	-	3%	3%	
Machinery	-	-	-	-	-	
-Paper Products	-	-	-	-	-	
Services:	12%	12%	15%	17%	21%	
-Bus. & Prof.	-	-	-	12%	15%	
-Repair Services	-	-	-	1%	4%	
Finance, Insurance, Real Estate:	6%	6%	5%	6%	7%	
-Finance	-	-	-	2.5%	-	
-Insurance	-	-	-	2.5%	-	
Trade:	24%	26%	20%	24%	18%	NO COMPARABLE PROJECTIONS AVAILABLE
-Wholesale	-	8%	-	7%	-	
-Retail	-	18%	-	17%	-	
Construction:	8%	6%	7%	5%	6%	
Transportation, Communications, Utilities:	12%	10%	8%	7%	8%	
Government:	9%	11%	13%	14%	14%	
-State/Local	-	-	10%	12%	11%	
-Federal	-	-	3%	2%	3%	
Other	1%	< 1%	3%	< 1%	< 1%	
Total	100%	100%	100%	100%	100%	

Source: *Employment and Earnings, 1939-1974*, U.S. Department of Labor, 1975, p. 375. Bureau of Economic Analysis, special report on personal income in the Twin Cities metropolitan area, 1970-1974.

<sup>10</sup>1950 and 1970 were used to show trends primarily because the unemployment rates in these years were similar. This should help to keep the trends from being distorted by differing overall economic conditions at each particular point in time.

<sup>11</sup>In each case, data (when available) is also reported for the largest sub-categories of each business group. Business and professional services include: legal, health, management services, advertising, private education, and non-profit organizations.



Figure 5

1974 TWIN CITIES NON-FARM PERSONAL INCOME<sup>12</sup> AND EMPLOYMENT  
(4.5% unemployment rate)

	Total Non-Farm Personal Income = \$10 billion	Employment = 901,400
Manufacturing:	<u>28%</u>	<u>25%</u>
-Non-Electrical Machinery <sup>13</sup>	-	6%
-Electrical Machinery	-	3%
-Paper Products	-	3%
-Other	-	13%
Services:	<u>15%</u>	<u>19%</u>
-Business and Professional <sup>13</sup>	-	14%
-Repair Services	-	1%
-Other	-	4%
Finance, Insurance, Real Estate: <sup>13</sup>	<u>6%</u>	<u>6%</u>
-Finance	-	2.5%
-Insurance	-	2.5%
-Real Estate	-	1.0%
Trade:	<u>20%</u>	<u>24%</u>
-Wholesale	-	7%
-Retail	-	17%
Construction:	<u>6%</u>	<u>4%</u>
Transportation, Communications, Utilities	<u>9%</u>	<u>7%</u>
Government:	<u>14%</u>	<u>15%</u>
-State/Local	12%	13%
-Federal	2%	2%
Other	<u>2%</u>	< <u>1%</u>
Total	100%	100%

Source: *Ibid.*

<sup>12</sup>Although more up-to-date data on employment are available, the latest data available on personal income at the metropolitan level are for 1974.

<sup>13</sup>In each case, data (when available) are reported for the largest sub-categories of each business group. Business and professional services include: legal, health, management services, advertising, private education, and non-profit organizations.

From 1950 to 1974, manufacturing employment in the Twin Cities grew substantially, but declined from 29% to 25% in its share of total employment. Trade, construction, transportation-communications-public utilities (TCU), and finance-insurance-real estate (FIRE) also declined in terms of their shares of total employment. Only services<sup>14</sup> and government grew fast enough to increase their portions of total employment. Services moved from 12% to 19%. Government grew from 11% to 15%.

The trend in earnings has been somewhat different. (See Figures 4 and 5.) Both manufacturing and FIRE remained constant through the 24 years. Trade, TCU and construction declined. And, again, both services and government increased.

Projections to 1990 show that the share of the region's earnings<sup>15</sup> from both services and FIRE will be increasing, while government and construction will be stable. Manufacturing, trade, and TCU will all account for smaller shares of total earnings. Employment projections for 1990 are not available from the Bureau of Economic Analysis. Although they are not strictly comparable, 1990 employment projections by the National Planning Association support the trend in earnings: Employment in services is projected to grow to 25%; FIRE, government and construction to remain stable. Manufacturing, trade, and TCU may employ more people but their portion of total employment is expected to decline.

**Services/management businesses are joining manufacturing and trade as major components of the economy.**

Manufacturing remains important, but the services/management businesses are joining it as a major determinant of the Twin Cities' economic health. While the region ranked 16th in population among 159 U.S. metropolitan areas in 1972, it was the 11th largest seller of business

services,<sup>16</sup> one category of services/management activity.

Manufacturing is important to the economy for three major reasons: First, it contributes a substantial share of the region's total earnings. Second, manufactured products are often exported, and the region benefits from the flow of dollars to the Twin Cities from elsewhere. And, third, it adds diversity to our economy.

With advanced technology, the productivity per employee has increased such that this sector of our economy accounts for a greater share of the region's earnings than the number of employees would seem to indicate. In 1950, manufacturing, with 29% of total employment, was accounting for 28% of our earnings. In 1974, its share of employment was 25%, but it still accounted for 28% of earnings.

The services/management businesses cover a wide range of activity...from banking to engineering, from computer programming to any and every kind of consulting, from advertising to retailing, and from serving food to corporate management. The link between them is that their product is an "idea" or a "service" rather than a "thing."

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<sup>14</sup>The services category includes the following kinds of business activity: advertising, management consulting, health care, legal, private education and educational services, non-profit organizations, hotels and motels, amusements, personal services, and auto repair.

<sup>15</sup>Bureau of Economic Analysis, Area Economic Projections, 1990.

<sup>16</sup>Measured in terms of annual receipts. Business services include data processing, advertising, consulting, research and development, public relations.

In terms of the U.S. Department of Commerce classification system, services/management businesses would include those firms engaged in finance-insurance-real estate, transportation-communications-utilities, and services. Together these businesses accounted for 31% of the region's employment and 29% of its earnings in 1974. (See Figure 5.) As has been pointed out, services are the fastest growing businesses within the group.

The trend toward service and management types of economic activity may better be seen through the actions of local companies. For example, there are indications that our local computer industry will be focusing efforts on developing new ways to use computers rather than continuing primarily as a manufacturer. In a speech<sup>17</sup> before a group of security analysts, William Norris, Chairman, Control Data Corporation, described a strategy of corporate development that would make the company a "computer-based service corporation."

In addition to goods, the region is also a major exporter of services.

Manufacturing and trade accounted for 73% (\$4.8 billion) of the total value of the region's exports in 1971; 19% (\$2 billion) of the Twin Cities' exports were either ideas or services.

Export activity is important to the Twin Cities because each sale to an outside customer brings "new" dollars into the community and increases the region's total supply of capital. These "new" dollars can be used for additional new investment, increased employment, or higher wages.

Information on the region's export activities by business type is limited to one study done by the Metropolitan Council covering only one year, 1971.

Manufacturing accounted for 60% of the total value of the region's exports in 1971. Computers and related equipment

led all other manufactured products in exporting. By themselves, they represented about 13% of the total value of Twin Cities' exports.

Figure 6 shows the share of total output exported for each of the major types of Twin Cities' business activity. With 60% of its gross output being exported, the significance of manufacturing as an exporter and, therefore, as a source of new income for the region is clear.

Wholesale and retail trade is the largest non-manufacturing exporter. In 1971, trade accounted for about 13% of this region's export income.<sup>18</sup> This business is done primarily with the rest of the Upper Midwest.

Traditionally, the services/management businesses have been thought of as being of secondary importance to the economy because, unlike manufacturing, they did not export. They sold their products to other local firms and thus did not bring new dollars into the economy. Although this continues to be the case for many "personal services," other services/management businesses are major sources of export. (See Figure 6.)

For example, a St. Paul consulting firm was recently awarded the contract to plan a joint laundry service for three Nashville, Tennessee, hospitals. And, as a part of its recent reorganization, a major local bank created a separate department to handle its "national accounts." Finally, each of this region's corporate headquarters "sells" its services to branch offices and subsidiaries located, in many cases, all over the world.

<sup>17</sup>Speech described in the September 1976 Forbes, p. 12.

<sup>18</sup>"The Structure of the Twin Cities Economy, An Input-Output Perspective," Metropolitan Council, 1976, p. 4.

Figure 6

DISTRIBUTION OF TWIN CITIES EXPORTS AND SHARE OF GROSS OUTPUT  
EXPORTED BY MAJOR BUSINESS TYPE, 1971

Business Type	Exports Total = \$6.6 Billion	Exports as a % of Each Business' Total Output
Manufacturing	60%	60%
Services	4%	15%
Finance-Insurance- Real Estate	5%	11%
Trade	13%	30%
Construction	8%	25%
Transportation- Communications-Utilities	10%	41%
Other	<1%	-
Total	100%	-

Source: "The Structure of the Twin Cities Economy,  
An Input-Output Perspective," Metropolitan  
Council, 1976, p. 4.

The major market for much of what the Twin Cities has exported has traditionally been the Upper Midwest and, to a certain extent, Nebraska and Iowa. Recently, we find, our region is doing more and more business with distant parts of the country and the world.

Although it is not a perfect measure, the flow of long distance telephone calls is one indicator of changes in the market area of Twin Cities' businesses. Between 1972 and 1975, total domestic long distance calling activity increased by about 27%. Computed on a per capita basis, the heaviest flow of calls was with states in the Upper Midwest. However, the Southern and Mountain States (i.e. Colorado, Arizona, Utah, New Mexico, Nevada, Idaho) showed the greatest rate of increase in calling activity between 1972 and 1975. Foreign

calling activity increased by about 67%, with the heaviest flow of calls being to Canada and Western Europe. (See Appendix 2.)

Distant customers find themselves buying consulting services here because local consultants may in some way be linked with the local company from which the customers have purchased services or equipment. Or, the customer may be a subsidiary of a company which is headquartered here.

Much of the basis for our service trade with the rest of the Upper Midwest is historical. It dates back to development of the railroad. The Twin Cities was (and still is) an eastern terminus for routes across the northern plains. Following the railroads across the plains were grain brokers, bankers, and merchants...all of whom were in one way or another linked to the Twin Cities.

The ties remain today. The Burlington Northern has its headquarters in St. Paul. The Soo Line has its in Minneapolis. And, the addition of regular air service between the Twin Cities and other Upper Midwest cities has strengthened the link. The First Bank System and the Northwest Bancorporation, multi-state bank holding companies, have controlling interest in more than 200 banks across the Upper Midwest. The establishment of the Federal Reserve Bank of Minneapolis added to the region's status as a financial center. The financial link has been strengthened further by the development of two regional stock brokerage firms (Dain, Kalman & Quail, and Piper, Jaffray & Hopwood).

As Denver, Kansas City, and Omaha grow, the Twin Cities' relationship with the Upper Midwest may change. Two of the major products of the Upper Midwest, coal and food, are of increasing demand through the nation and the world. Someone will have to provide the services necessary to market these products.

Denver has a strong identity as a "natural resources" city. Its influence may be growing in eastern Montana and the western Dakotas, where coal production is increasing.

Both Omaha and Kansas City could also draw off some of the Twin Cities' services/management business. These cities have close ties to the communities to the south, and they are more centrally located in terms of reaching the rest of the United States.

**The services/management businesses account for a larger share of the region's employment than its personal earnings.**

The services/management businesses have been less automated, to date, relative to manufacturing. There is potential for greater automation. Some of it has already been realized through the use of electronic data processing equipment. However, until automation is more extensive, the services/management businesses are likely to continue to provide the region with a larger share of employment

than of personal earnings. (See Figure 4.)

Because they are less automated, the wage rates for many services/management workers are on average lower than those for manufacturing jobs. The major exception is the professional and managerial workers, whose salaries are relatively high. It is encouraging to note that, of all occupations in the Twin Cities, those classified as "professional and managerial" are growing at the fastest rate. (See Appendix 3.)

The services/management businesses are not as unionized as manufacturing. Although this is changing, it may partially account for today's lower wages.

**Government, a service "business", does not generally add to the region's export base.**

Like the services/management businesses, government's product is primarily ideas and services. It accounted for 15% of the region's employment and 14% of its earnings in 1974.

State/local government has been one of the Twin Cities' fastest-growing sources of employment and earnings. It appears that this growth has leveled off. While the growth has resulted in many of the services which make the Twin Cities an attractive place in which to do business, it is important that the growth of public employment be watched carefully. Unlike most private business, state/local government does not export its product. As such, it generally does not bring new dollars into the community. Except for federal funds received, state/local government activity must be paid for almost exclusively with local resources.

Federal funds are not currently adding to the region's income. During fiscal year 1975, Minnesota paid about \$934 million more into the federal treasury than it received in federal outlays.<sup>19</sup>

<sup>19</sup>Address by Neal R. Pierce to the Midwestern Conference of the Council of State Governments, July 8, 1976, p. 3.

**ECONOMIC CHANGE AND GROWTH PRINCIPALLY OCCURS  
THROUGH EXISTING COMPANIES DOING NEW THINGS  
AND THROUGH NEW BUSINESS STARTS . . .  
NOT THROUGH THE MOVEMENT OF ESTABLISHED COMPANIES  
TO THE TWIN CITIES FROM ELSEWHERE**

**The Twin Cities is becoming a corporate control center.**

Prior to 1950, the Twin Cities was primarily a production and trading center, but today, for many companies, it serves as a "control center." In 1972, about 5% (i.e. 38,000 people) of the Twin Cities workers were employed at corporate headquarters.<sup>20</sup> The greatest portion of these people were working in administrative positions; however, large numbers were also involved in research and development activities.

Corporate-headquarters-related employment grew by about 20% between 1967 and 1972. During this same period, local employment for all kinds of work grew by about 13%. In terms of corporate headquarters employees per capita, the Twin Cities ranked sixth among all metropolitan areas in 1972. If a similar comparison based on the number of headquarter firms per capita is made, the Twin Cities ranked second with 105 firms/million population. Boston was number one with 106 firms/million population.<sup>21</sup>

**80%-90% of the region's economic growth comes from existing and new local businesses.**

It is estimated<sup>22</sup> that between 80% and 90% of this region's growth has come from expansion by local businesses and the creation of new businesses here. Other communities have had similar experience, but in the Twin Cities the dependence on local companies for growth is probably greater for several reasons. Among them:

-the relatively small size of local markets.

-the relatively isolated location.  
-lack of local energy resources.  
-climate.

While the Twin Cities' location discouraged in-migration by existing companies, it also helped to nurture local businesses. Some new companies may have been sheltered from national competition by our community's relative isolation from the rest of the country.

To a certain extent, the diversity of the local business population can be traced back to the demand of the local and surrounding market. Residents of the Twin Cities and the Upper Midwest generated demand for a full assortment of goods and services. Local businesses had and still have (particularly the service businesses) a competitive advantage in serving this market.

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<sup>20</sup>"Establishments (and employees) primarily engaged in providing centralized management and other support services for other establishments of the owning company, rather than for other business firms or the general public." 1972 Enterprise Statistics, Part II, U.S. Department of Commerce.

<sup>21</sup>"Entrepreneurship and Future Employment in Minnesota," John R. Borchert, prepared for the Commission on Minnesota's Future, October, 1975.

<sup>22</sup>Formal estimates have been made by the Metropolitan Council and confirmed by public and private economic development agencies.

The Twin Cities has continued to depend upon home-grown companies for its economic vitality. Modern transportation and communications have brought the Twin Cities "closer" to the rest of the country, but this does not seem to have affected our source of growth.

**At the root of most economic change and growth is the success of local entrepreneurs.**

Eleven of the region's twelve largest manufacturing companies were begun in this community by local entrepreneurs. A similar situation exists for medium-size firms. In a study of 211 publicly held corporations based in the Twin Cities and having more than \$10 million in revenues during 1972, Professor John Borchert of the University of Minnesota found that "almost without exception these firms were started in the Upper Midwest region by local entrepreneurs."<sup>23</sup>

In 1965, no other major metropolitan area had a higher portion (about 53%) of its manufacturing employees working for locally owned companies. And, 90% of those employed by companies under "outside" control were working in jobs which had originally been created by local entrepreneurs and subsequently sold to outside firms.<sup>24</sup>

We cannot expect entrepreneurship to flourish here unless the community provides the proper climate.

-The local environment must offer prospective entrepreneurs some sign that success is possible. For most, this means that there is an opportunity to make a profit and to grow. The Twin Cities' history of successful home-grown companies has a beneficial effect. Their success encourages entrepreneurship here.

-Risk capital must be available for financing new businesses. There has been a variety of sources...venture capital companies, the local over-the-

counter stock market, private individual investors, and established companies.

In the last few years, funds have not been as readily available. The recent recession has been a major cause of this, but changes in the federal tax laws also may have had an effect.

-Within the community there must be a good supply of management talent as well as a significant amount of research and development activity. The presence of both the University of Minnesota and several major corporate headquarters and research and development facilities gives the Twin Cities a pool of both creative and management talent. New companies tend to get started in close proximity to these kinds of resources. The University's Institute of Technology has been the breeding ground for at least twelve new companies in recent years (e.g. MTS Systems, Rosemount, Inc.).

The region's computer industry grew from essentially a research and development operation that happened to locate in St. Paul after World War II. As Figure 7 shows, that research and development center eventually became a part of Sperry-Univac and has since helped to spawn numerous new companies. Not all succeeded, but the volume of activity was sufficiently high that some major successes resulted, Control Data being the biggest.

**The environment for new business starts is showing some signs of deterioration.**

There have always been risks involved in starting a new business, but today, with the national economy still recovering from a severe recession, the risks may be even greater. Local venture capital companies report that they are working, to a greater degree than

<sup>23</sup>See footnote 21.

<sup>24</sup>Ibid.

Figure 7

EXAMPLE OF TECHNICAL COMPANY FORMATIONS AND SPIN-OFFS\*  
ORIGINATING WITH ENGINEERING RESEARCH ASSOCIATES (ERA)  
(All are Twin Cities companies except as noted)

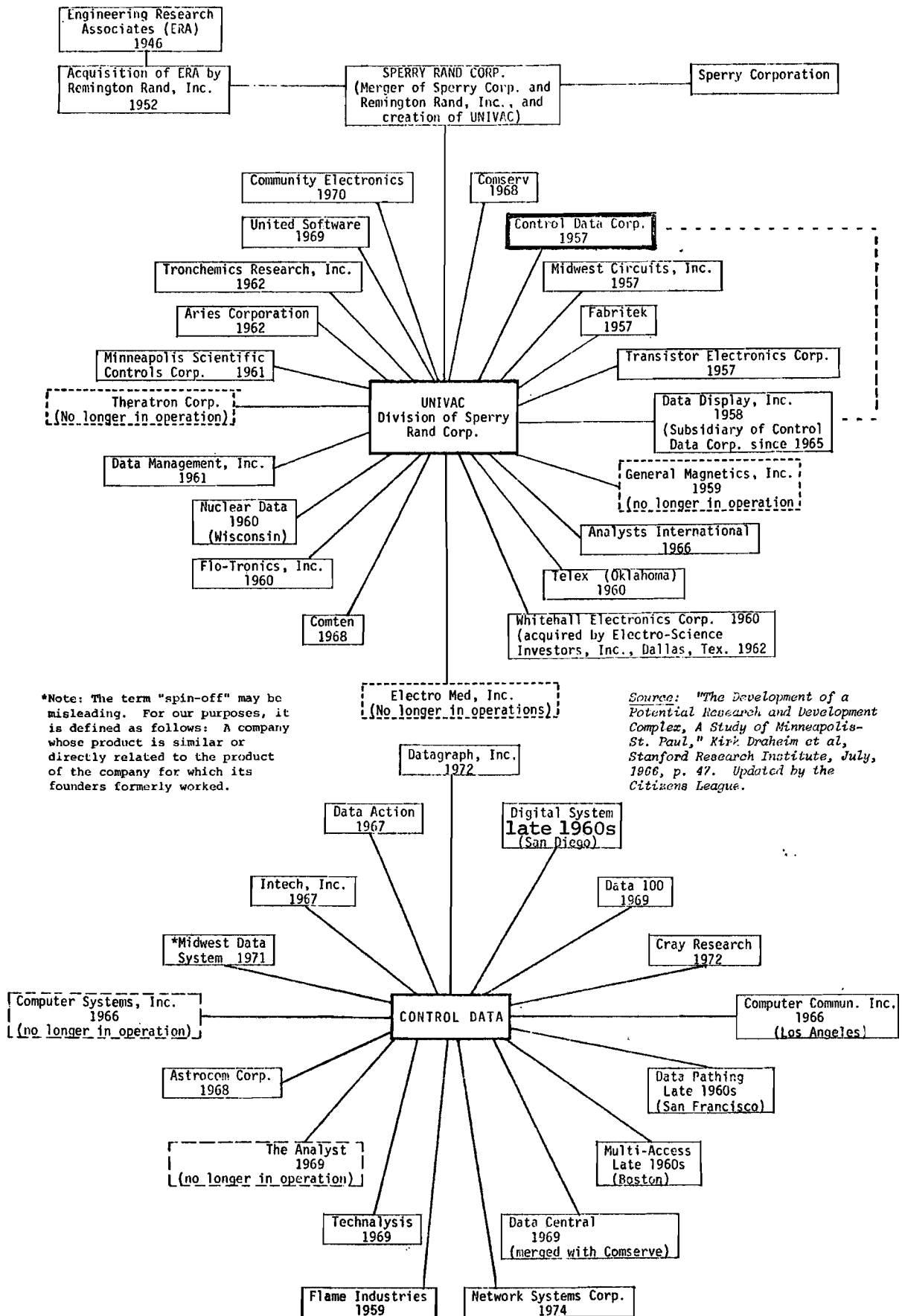
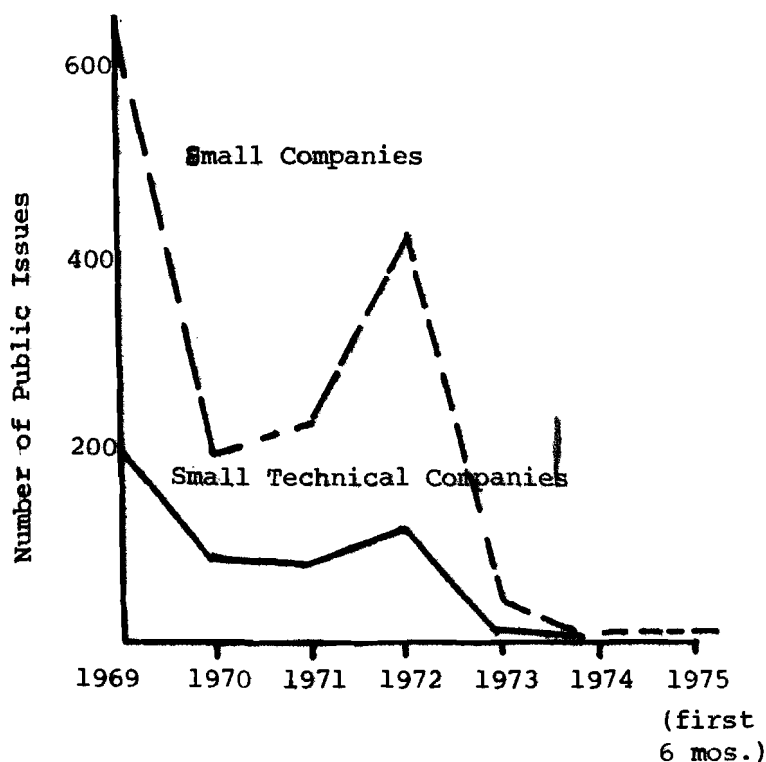




Figure 8

NUMBER OF SMALL<sup>25</sup> COMPANY PUBLIC STOCK ISSUES IN THE UNITED STATES, 1969-1975



Source: *Venture Capital,*  
S. M. Rubel & Co.  
Chicago, Ill.

previously, with companies outside the Twin Cities.

Figure 8 illustrates that the number of new public stock offerings nationally has decreased substantially. Local activity has followed a similar downward trend.

Although private research and development activity continues to grow (going from 16 to 33 establishments statewide between 1967 and 1972<sup>26</sup>), the flow of public funding for research has decreased. The decrease is primarily due to recent cuts in federal research and development activity.

<sup>25</sup>Includes all underwritings of equity securities of less than \$5 million for companies with net worth prior to offerings of less than \$5 million.

<sup>26</sup>Census of Selected Services, 1972 and 1967, U.S. Summary, Tables 3 and 5, respectively.

## **THE TWIN CITIES' ECONOMY IS HEALTHY PRIMARILY BECAUSE THE COMMUNITY HAS BEEN ABLE TO RESPOND AND ADAPT TO VARYING BUSINESS CONDITIONS**

**The Twin Cities has had a special need to be responsive.**

In many respects the local environment requires responsiveness. The northern location, lack of local energy supply, and the climate make doing certain business in the Twin Cities more expensive by comparison with other metropolitan areas. To compete in national markets, the region has had to be extremely sensitive to factors affecting cost and to opportunities to make products which were either unique or of significantly higher value. Without access to national markets, the economy would have been more limited. It may have been impossible for the community to reach and maintain a high "quality of life," many of the components of which require a community of substantial size and means.

The environment seems to have bred an extra measure of "flexibility" into the community's businessmen. As a result, the economy has adapted well to changing business conditions. Resourceful business people have been able to exploit enough new opportunities in a timely fashion to offset high costs and the decline of some local industries. For example, behind the growth of the local flour milling industry was a new milling process which allowed Minneapolis millers to make use of locally grown spring wheat. When the local flour milling industry began to decline in the early part of

this century, manufacturing (primarily farm equipment and paper products) was emerging to replace it.

**Economic stability is one outcome of being responsive.**

The diversity of the business population and the Twin Cities' continuing status as the major service center for the Upper Midwest are two results of being responsive. Both are major sources of economic stability.

The region has produced a business population which is relatively diverse. The region's sources of both earnings and employment<sup>27</sup> are and have been fairly well distributed over the ten major business groupings. It appears that the character of this diversity (that is, the actual mix of business types) has had the effect of partially insulating our economy from major national economic fluctuations.

Minnesota's<sup>28</sup> rate of economic growth (excluding agriculture and government) has fluctuated less than the comparable rate for the nation as a whole. During periods of prosperity, Minnesota has followed the national rate of growth quite closely, but during recession we have not been as severely affected. (See Figure 9.)

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<sup>27</sup>See Figures 4 and 5.

<sup>28</sup>Time series data on the Twin Cities' Gross Area Product are not available.

air service has helped to keep the Twin Cities attractive as a center for corporate management and businesses which might require extensive travel. While there has been substantial public participation in the development of these services, private business decisions have played significant roles.

The Twin Cities may be particularly well served by rail, air, and water transportation because it has been the birthplace for many of the transportation firms serving this market. Local demand was initially their only source of business. To meet that demand and to help build it, these companies expanded their service areas and made the Twin Cities the "hub" for their operations.

- The two bank holding companies and two regional stock brokerage firms which are headquartered here have fostered a degree of financial autonomy in the region and helped make the Twin Cities a "financial center." The development of the holding companies apparently resulted in part from the fear that local banks would be purchased by outsiders.<sup>30</sup> Both brokerage firms are large enough to underwrite stock offerings by local firms.
- Office space and manufacturing facilities have been provided through private industrial and commercial developers. There are about 100 private industrial and office parks scattered around the metropolitan area, as well as major private office development projects in both downtowns.
- Private research and development activities, as well as corporate headquarters, have brought many creative and highly talented people to the Twin Cities, who are a basic ingredient for the formation of new local companies.

Public assistance has been used in many cases to help build and maintain the economy's support system.

Action by private business alone has not provided all of the support services the

economy requires. Whether because of the substantial cost, or the need for legislative authority, public action has often been required to establish or develop the components of the support system.

Some actions, like stabilizing the deterioration of St. Anthony Falls to assure a source of power for saw and flour milling, were taken after the new business had been established, and were designed to help it prosper. Others, like research in taconite processing and the passing of the taconite amendment, were intended to help companies get started in the business. The state's vocational education program, and the exemption of machinery and equipment from the property tax, have assisted the development of manufacturing. The interstate highway system cut the cost of moving goods manufactured in the Twin Cities to market. It also bolstered the Twin Cities wholesale and retail trade business, making it easier for retail customers to come to the Twin Cities to shop and for wholesalers to move goods to retailers in other communities.

- The public financed and/or built many of the physical facilities associated with our transportation system. The State of Minnesota incurred one of its earliest debts to help finance the construction of the railroad between Minneapolis and Sault Ste. Marie. Public funds have also been used for airports, highways, and barge terminals.
- By eliminating the property tax on equipment and inventories, the Legislature made it more attractive for companies to make capital investments in Minnesota. As such, this action forms part of the support system, particularly for manufacturing and wholesale/retail businesses.
- Public funds have provided water supply and sewage treatment facilities.

<sup>30</sup>See Chapters IX and X of Charles S. Popple's book, Two Bank Groups in the Central Northwest, Harvard University Press, 1947.

-Legislative and administrative actions have played key roles in encouraging both national and international export activity. Taxes have been reduced on corporate income from sales by local companies to customers outside the state. Public authority is currently being used to create free trade zones in both Minneapolis and St. Paul. A business operating within a zone will be able to import and process materials from abroad without paying import duties until the finished goods leave the zone. If the finished product is sold abroad, no duty will be imposed.

-Public investment in education produces trained personnel for business. Vocational-technical schools have specifically tailored their curricula to the needs of local business, thereby saving a portion of the private cost of training workers.

### High quality of life is a product of the economy and an element in the support system.

Although it may be proper to identify our high quality of life as a product of our economy, it is also a contributing element to the economy's support system. For example, the local tourist and convention business depends heavily upon the region's high quality of life. If this deteriorates, then the Twin Cities will no longer be as attractive to visitors. At the same time, as this business grows, local quality of life is likely to increase not only from added spending, but also from the restaurants, theaters, and other amusements that develop to meet new demand.

The October, 1976, edition of the Minnesota Department of Economic Development's Industrial Development News summarized the findings of the major comparative studies of quality of life. The article concluded as follows: "Even though these quality of life studies and articles cover a long period of time and involve different criteria, definitions,

and data, the conclusions are remarkably consistent. In all comparisons, Minnesota, or its Minneapolis-St. Paul metropolitan area, ranks extremely high."

In the course of our research, "quality of life" was cited regularly by representatives of the business community as the region's major positive feature.

Although there is considerable debate over the ranking of factors affecting a local company's decisions regarding the kind of work they do in the Twin Cities, quality of life or something similar always seems to be a major concern. Many companies apparently place high priority on doing business in a community where living conditions are good.

A 1971 study<sup>31</sup> comparing the relative importance of selected factors (e.g. low-cost land, manpower training, schools, cost of living, recreational facilities, cultural activities, airline service, etc.) in stimulating the development of the electronics industry in three different cities showed that these "high technology" companies considered the factors related to "quality of life" (e.g. schools, recreational facilities) to be of greatest importance.

A variety of factors have contributed to our quality of life. Those of major importance in our opinion are discussed below.

Some actions have been taken to build on the region's natural setting. City parks as well as the region's forest preserves have been developed as recreational centers.

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<sup>31</sup>"Providing the Industrial Ecology Required for the Survival and Growth of Small Technical Companies, An Action Program for the Ozarks Region," by Cary Hoffman and Albert Shapero, Multi-Disciplinary Research, Inc., Austin, Texas, May 1971.

Public and private activities have built the region's educational, cultural, and sports programs. Apart from their role in job training, local colleges and the University add to our quality of life through the activities they sponsor. The Twin Cities is one of a few metropolitan areas which have well-established museums of both classical and modern art. Similarly, our community supports both a symphony orchestra and a chamber orchestra. The St. Paul Chamber Orchestra is one of only two professional full-time chamber orchestras in the United States. Local sports programs are as wide-ranging as cultural activities. In many cases there is both professional and amateur activity.

The quality of life is closely related to the economic health of the community. Funds which can be devoted to the arts, education, and recreation ultimately come from money earned by employees and employers in the region. If local business activity falters, then the quality of life will eventually suffer.

There is a close relationship between the size of the metropolitan area and its high quality of life. The concentration of people here has helped to make it possible to support a large number and variety of amenities. Public decisions, such as the ones to locate the university in Minneapolis and the capital in St. Paul, and the growth of private business, have resulted in local population growth.

The quality of public services, as well as government's reputation for problem-solving and honesty, has contributed to the community's overall well-being and, therefore, to its quality of life. Street maintenance, garbage disposal, and public safety are all critical to maintaining good living conditions. Our region's efforts toward metropolitan organization and land-use planning have given us a national reputation for progressive government. Although difficult to measure, the "illegal" cost (e.g.

kick-backs, pay-offs) of doing business in the Twin Cities and Minnesota is estimated to be less than in many other places.<sup>32</sup>

Economic development agencies, a part of the support system, focus their attention primarily on direct assistance to individual firms.

Developing specific parcels of land has been the primary responsibility of the region's ten local public economic development agencies as well as Housing and Redevelopment Authorities with business development responsibilities. Consequently, "direct assistance" to companies has usually meant helping them select a site and construct new facilities.

The location and size of the land parcel to be developed largely determines the kinds of businesses the agencies will promote.

Emphasis on land development has stimulated competition between communities for new businesses. The companies in question are in most cases already active in the Twin Cities, and, therefore, economic development efforts have done more to re-locate existing business activity than to facilitate change in economic activity.

Although all of the public agencies are also concerned about maintaining their existing business population, Bloomington and Minneapolis now concentrate on this almost exclusively. Bloomington has taken this approach primarily because it has few accessible major tracts of land left for business development. Minneapolis is in a tighter situation. Its concern is that a company's desire to expand will cause it to leave the city. Consequently, its agency places major emphasis on helping specific companies

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<sup>32</sup>Comments by John R. Borchert to the study committee on May 3, 1976.

find and/or assemble sites for expansion within the city.

Work of the state Department of Economic Development (DED) is focused mainly on promoting tourism and assisting manufacturers. Unlike the local agencies, the state department has set its priorities around specific types of business activity. In the course of its work with manufacturers, it often becomes involved in the construction of new facilities and matters related to land development, but this kind of work is not as central as it is to most local agencies.

Economic development agencies place emphasis on manufacturing because of its export activities. Currently, the DED uses about 62% of its \$2.9 million appropriation<sup>33</sup> to provide technical assistance to local companies, solicit companies from outside the state to move to Minnesota, and expand markets for Minnesota products. In each of these activities the focus is primarily on "goods" producers. For example, the DED produces an International Trade Directory which lists only manufacturers.

The state Department of Economic Development and the St. Paul Port Authority have ongoing programs to bring businesses to the Twin Cities from other parts of the country. The Port Authority has had its program since 1964. The state's program is older; however, its level of activity has varied over the years.

There is some debate over the effectiveness of programs to bring businesses from other parts of the nation or the world to Minnesota. It is difficult to show that promotional activity is a critical factor in a company's decision regarding a Minnesota location. In addition, the businesses which do move here are often branches of companies headquartered elsewhere.<sup>34</sup> On the other hand, a relatively small investment in travel and advertising might result in a new employer and taxpayer for the community.

Research on the subject does suggest, however, that companies base their locational decisions primarily on distance to markets, availability of raw materials, and the cost and supply of labor. Promotional programs or any other kind of incentive may be important only when "all other things are equal." For example, Kawasaki located a small-engine research and development center here shortly after a trade mission by the state to Japan. The mission provided the company with first-hand information about Minnesota and extended a formal "welcome." However, the Upper Midwest is a production center for goods which use small engines (e.g. snowmobiles, generators, farm equipment) and thus a good location to develop and test new products. It is difficult to say whether Kawasaki would have located in Shakopee without encouragement from the department.

#### Special business incentives have not been a major element in the support system.

By comparison with other states (particularly southern ones), Minnesota has not had as a part of its support system an extensive incentives program to attract businesses to the state. Those which do exist are aimed primarily at stimulating the construction of facilities, the purchase of inventories and equipment, and the export of Minnesota products. Among the most significant of these are: industrial revenue bond financing; property tax exemption on equipment and inventories, and, because of a favorable formula for assigning profits, corporate income from sales outside the state is taxed at reduced rates.

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<sup>33</sup>Fiscal year 1977. Source: Governor's Budget Proposal, 1977-79 Biennium, p. E-5419.

<sup>34</sup>This has been the experience of the St. Paul Port Authority. About 15% of its current tenants had no investment in Minnesota prior to locating on Port Authority property. All of these are branch facilities.

The impact which incentives (regardless of their form) have on business decision-making is not clear, nor is it certain that the benefits which they may bring to a community outweigh their cost. When companies choose a new location or make a decision on expansion, their major concerns are distance to markets, availability of raw materials, and the cost and supply of labor. Incentives may be important only when "all other things are equal."

Incentives may help to create a positive "business climate." Regardless of their dollar value, they show the business community that the state is anxious for them to either come to Minnesota or expand existing facilities. On the other hand, it may be possible to do this without "giving something away." For example, consistent and speedy decisions when issuing permits may accomplish the same results.

**There has been no formal community effort to analyze economic trends in the region.**

Research designed to examine the total economy in terms of its future prospects has not been done at the metropolitan level. There have been periodic studies of this kind done for the state and the Upper Midwest. Their major contribution has been to stimulate thought about the future...to start all of the independent

decision-makers in the economy thinking about coming changes and what must be done to respond.

In 1950 the Minnesota Department of Business Development published "Minnesota at Midpoint." This publication urged that manufacturing be added to the state's existing agricultural base. Similarly, the Upper Midwest Economic Study of 1965 showed that the states in the Upper Midwest were becoming less dependent on extractive and other primary industries (i.e. manufacturing, agriculture) and that service industries were significant not only as employers but also as exporters.

Some research efforts have been aimed at understanding the economy's current structure. For example, in 1976 the Metropolitan Council published an input-output study of the economy. Other research projects have examined specific aspects of the economy. In the late 1960s, a study was funded to explore the potential for corporate headquarters development in Hennepin County.<sup>35</sup>

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<sup>35</sup>"Minneapolis-Hennepin County as a Site for Office Complexes," report produced by the Fantus Co. for the Greater Minneapolis Chamber of Commerce, October, 1968.

## **MAINTAINING ECONOMIC HEALTH IS MORE CHALLENGING TODAY BECAUSE OF INCREASING UNCERTAINTY IN THE BUSINESS ENVIRONMENT AND BECAUSE LOCAL COMPANIES ARE LESS BOUND TO THE TWIN CITIES AREA**

### **Increased public regulation has added uncertainty to the business climate.**

New regulations have greatly expanded the number of decision-makers in economic matters, particularly when land-use and environmental issues are involved. And with the new regulations have come a whole series of new procedures, unfamiliar to both business and the public. These could add to the amount of time necessary for a company to expand or change the nature of its work or for a new firm to get started.

Because of the new processes, government more frequently finds itself with a major conflict to resolve. Government and business have not fully adjusted to this. As a result, the Twin Cities faces serious challenges in maintaining a reputation for public problem-solving. Both unresolved conflicts and new procedures affect the economy because they add "uncertainty" to the local business environment.

This situation is likely to improve as business and government become more accustomed to the new regulations. To make the adjustment easier, the state has recently established a "permit information center" and a "master permit application system." The latter reduces the number of applications which must be filed in obtaining certain permits and consolidates the public hearing processes.

Minnesota is ahead of many other states in enacting and implementing environmental and land-use regulations. In the long run, it could be advantageous to the state's economy to have settled these issues relatively early. Once fully developed, they are likely to add certainty rather than uncertainty to the business climate.

### **Stability and predictability are the major concerns regarding state and local tax policies.**

By comparison with other states, Minnesota is a high tax state. This is not a recent development. In 1975, only four other states took a larger share of their citizens' personal income through taxes than did Minnesota.<sup>36</sup> In 1965 there were only two. Putting aside the special exemption for income from sources outside Minnesota, our corporate income tax rate is the highest in the nation. Personal income tax rates are also among the highest in the nation.

Between 1965 and 1974, taxes as a percentage of the gross state product increased by 25%. This increase has not been as great as that in the states bordering Minnesota or the average for all states. (See Figure 10.) Despite the lower rate of increase, the portion of Minnesota's gross state product<sup>37</sup> used for public services remains comparatively high. However, it appears that the disparity between Minnesota and other states is decreasing. This is particularly true of business taxes.

Spending for education and highways are the major sources of the disparity between Minnesota's use of tax dollars

<sup>36</sup>Those states are California, Massachusetts, Vermont, and New York. Source: Minnesota Taxpayers Association, "How Does Minnesota Compare," December 1976.

<sup>37</sup>Gross state product is the total value of all goods and services produced in the state over a specified time period.



Figure 10

STATE AND LOCAL TAX REVENUES AS A PER CENT  
OF GROSS STATE PRODUCT<sup>38</sup>

	1965	1974	% Change (1965-74)
Total Business Taxes			
Minnesota	2.81%	2.75%	-2%
Bordering States	1.90	2.81	48
United States	2.37	2.69	14
Total, All Taxes			
Minnesota	9.52%	11.90%	25%
Bordering States	6.68	11.24	68
United States	8.25	10.86	32

*Source:* Minnesota Department of Revenue, and  
Bank of America for estimates of gross state product.

and the national averages.<sup>39</sup> Maintaining quality in both of these areas is of importance to the economy, but there must be continuous evaluation to make sure that programs in both areas are cost effective.

The major concern we have heard expressed by business regarding taxes has not generally focused on the rates of taxation, but rather on the importance to business of maintaining stability and predictability in state tax policies. There have been major changes in the state's business taxes during every legislative session over the past decade. (See Appendix 4.)

Some of the changes have resulted in the reduction of taxes for some types of businesses. Others have caused increases. Considering only business taxes, the overall effect has been a slight reduction in the portion of gross state product used to support public activities. (See Figure 10.) Nevertheless, every proposal for changes in the tax burden causes uncertainty and generates concern.

When tax rates are the issue the personal income tax is a general source of concern

while the corporate income tax raises objections primarily from companies doing business only in Minnesota. Several companies reported that because of the personal income tax they must pay a salary premium when recruiting executives from outside Minnesota. The impact of this tax on the services/management businesses could be particularly significant. Their principal raw material is talented people. If the tax adds unduly to the cost of getting that raw material, they may decide to locate elsewhere.

Some firms doing business only in Minnesota find the corporate income tax burdensome. Unlike companies having a portion of their sales out-of-state, they must pay the 12% tax on all of their income. In many cases the companies taxed most heavily turn out to be small and/or new firms.

<sup>38</sup>Time series data on the gross area (Twin Cities) product are not available. 1974 is the last year for which comparable data on gross state products are available.

<sup>39</sup>See footnote 36.

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**Growing uncertainty adds to the risk that companies face in doing business here.**

The negative effects of uncertainty are likely to be the greatest when a company considers expansion or any major change in its local operation. Because of "uncertainty," the company may decide that the risk is too great to consider changing its local operations. There is no single action which can be taken to minimize uncertainty. Most metropolitan areas face a similar problem. However, the public, the business community, and the regulatory agencies need to recognize the potential effects on the economy of continued uncertainty.

Unlike other policy areas, the state's economy is not regularly a focal point of legislative debate. The subject, rather, is approached as a part of debates on other issues. Consequently, policy on the economy is not articulated to the same degree it is in other policy areas...education, for example.

The consequences of this situation can be quite significant for the economy. The Legislature may not be seeing fully the economic consequences of its actions, and, at the same time, business may be misinterpreting legislative actions. The result can be mutual mistrust which inhibits cooperative action for the benefit of the general public and the economy.

**The Twin Cities is under increasing pressure to maintain its status as a good place in which to do business and live.**

Changes in corporate structure and ownership of local companies could lead to less business activity in the Twin Cities.

Over the last several years, many of the region's largest companies have shifted from management and control by the local family which began the business, to leadership by "professional" managers and control by stockholders. The founding families in most cases showed

great loyalty to the Twin Cities. They have supported the development of both cultural and social programs. But, of greater importance, they have provided a major source of jobs for the region.

The professional managers may not be able to share the family's loyalty to this community. Their first obligation is to the company's stockholders. Decisions to continue doing business in the Twin Cities, as well as any corporate support which managers might authorize for community activities, will be contingent upon the support of the shareholders, many of whom do not live in the Twin Cities.

**The most desirable services/management businesses have considerable flexibility in choosing their place of business.**

Those services/management businesses which pay relatively higher wages and are engaged in export activity are desirable kinds of businesses. Corporate headquarters, advertising firms, and major medical centers are good examples. Average wages are relatively high. They bring dollars to the Twin Cities from the outside—the headquarters through its subsidiaries, the advertising agency through outside clients, and the hospital through patients from elsewhere. (About 15% of the hospital days used in this metropolitan area are accounted for by outsiders.)

The Twin Cities' location, its limited raw materials, local markets and energy supplies will not necessarily constitute barriers to the growth of the most desirable services/management businesses. And, our work force should be quite suitable for meeting the skill requirements of these businesses. These factors, on the other hand, did affect most manufacturing, processing, or trade.

Since the non-manufacturer's product is a "service" or an "idea," location is less of a limiting factor, provided the community is served by adequate commercial air service and communications facilities.

These businesses demand a highly skilled work force as their major raw material. And, finally, by comparison with manufacturing, they are relatively less energy-intensive.

The same factors which explain the new opportunity for the Twin Cities also point out a new problem. That is, the

services/management businesses can locate almost anywhere. "Footloose" is an appropriate description. As a result, the Twin Cities, which already has a significant population of services/management businesses, must be careful to maintain those features of its environment which make it attractive to the non-goods producer, particularly those which are already here.

## **WE RISK A DECLINE IN CURRENT LIVING CONDITIONS IF WE FAIL TO RESPOND TO ECONOMIC CHANGE**

### **The Twin Cities needs to grow now as well as during the 1980s.**

During the remainder of this decade, the region's labor force will grow by slightly less than 100,000 people. This rate of expansion is comparable to what the economy has been absorbing since the mid-1960s. Once we reach 1980, the labor force is projected to grow at about half the rate of the 1960s and 1970s. This decline is expected because by 1980 the majority of the 1947-1959 "baby boom" generation will have entered the labor force.

As in other parts of the country, jobs in the Twin Cities are going to be lost to technological advancements and productivity improvements. The problem may be more severe here than elsewhere because the computer industry, one of our major employers (6% of Twin Cities employment), is becoming more automated. Unless production expands, either in this industry or another, the Twin Cities could face rising unemployment.

For example, one local computer manufacturer has decreased the number of people it employs in assembly by 1,500 over the last five years. At the same time, this firm's work force has expanded in areas related to software production, that is,

computer programming and applications of existing technology.

### **Our economy must, as it grows, take on new kinds of work.**

Without new kinds of work, our economy would soon lose its vitality, its adaptive qualities, and ultimately its stability.

Change in the economy stimulates new ideas and encourages entrepreneurship. This is of special importance because this region's economy has been built largely through the success of local entrepreneurs. Our future success depends on a continuous flow of entrepreneurial activity.

During each stage of the economy's evolution, it has added a new group of businesses. And, while today each of these groups is not of equal importance, its presence helps to account for our current economic health because it adds diversity.

Like other things, some businesses can become "obsolete." The greater the flow of new kinds of work, the less likely it is that the Twin Cities' economy will be dependent on products for which the demand is declining.

## ARE WE ADEQUATELY PREPARED TO COPE WITH ECONOMIC CHANGE?

### **Economic development is now too narrowly defined.**

To many people, and often those involved in community actions, economic development has come to be focused on "manufacturing" or, in some cases, "corporate headquarters.". Interest in manufacturing is related to a desire to increase export activity. By selling goods elsewhere, new dollars are brought into the economy. Corporate headquarters have attracted attention because, generally speaking, their presence in a community adds tax base and prestige.

### **"Physical facilities" have become the focus of most community actions.**

Most community actions are designed with adding physical facilities rather than economic evolution as their primary objective. Major emphasis has been placed on providing the physical infrastructure necessary for expansion. For example, in both central cities, there are major land development programs under way. In the suburbs, too, efforts have been aimed primarily at providing the public services (e.g. sewer, highways, schools) necessary for development.

### **Actions affecting the economy's support system must be evaluated regularly to make sure they remain consistent with economic changes under way.**

Although the cause and effect relationships have not been proven, the growth of some kinds of business activity has been closely linked to timely adjustments of some aspects of the economy's support system. A current concern is that appropriate steps be taken so that

the region will get maximum benefit from the growth of services/management businesses. However, care must be taken so that actions do not limit the ability of businesses to respond to other, possibly unrecognized, trends.

It is difficult to know the point at which one kind of action becomes irrelevant and another becomes critical. Many private actions have "profit" as an automatic and continuous means of evaluation. If a local airline cannot make a profit on its air freight business, then it tries to change its routes or curtails this aspect of its business. Evaluations of public or non-profit activities do not have "profit" as a basis for evaluation. As a substitute they must have good information on current conditions and trends in the economy.

### **The community, public and private together, needs to begin keeping closer watch on the economy.**

In the past, general analysis of the economy has been done sporadically through either the public or the private sector. Some examples were cited earlier. This approach does not provide adequate information to permit carefully reasoned judgments about the economy. Our economy is always changing. Each change requires some adaption or preparation by the community. Increased public regulation is having impact on the economy which we do not really understand.

Public/private inter-action on economic matters has often been limited to adversary situations, such as lobbying for

or against legislation or seeking public permits. It would probably be in the best interests of both private industry and public agencies to exchange information on the economy, examine trends, and discuss community actions which might be taken in response to discernible trends.

**This community should be searching for new and more effective ways to accommodate the trend toward services/management businesses.**

Because of the nature of the work of the businesses, physical facilities are not likely to be as major a concern. For example, since the services/management business's product is usually an "idea" or a service rather than some kind of "thing," access to a communications satellite may be more important than a new highway.

**Maintaining the quality of life and controlling the local cost of doing business should be major concerns.**

Quality of life may be the best overall means of keeping companies which are already here, but also attracting the talented people needed by these firms and, possibly, to start new ones.

As the region becomes more heavily involved in the services/management businesses, the quality of life here is likely to become a more significant force in economic development. As has been shown, these industries are not bound to a specific location. When they do shop for a community, quality of life is likely to be a major concern in doing such shopping. For example, a major local company, in announcing the expansion of its Twin Cities facility, stated that its first reason for expanding here was our "superior quality of life."<sup>40</sup>

There are some basic characteristics (e.g. climate, location) which make it relatively more expensive to live and work in the Twin Cities. As a result, there must be special effort to control

costs, both public and private, wherever possible.

State and local taxation is one of the costs which attracts the most attention. It is important that the value of public services be recognized as being worth the cost in taxes. This is a difficult relationship to prove. When considering future tax increases, the Legislature ought to have before it the results of new research on this subject, even if it is tentative.

Not all "private costs" are directly controllable by individual companies. Some are based on overall conditions in the community. Insurance rates are one example. Because of high hospital utilization, health insurance rates in the Twin Cities are moderately high by comparison with the cost for similar coverage in other metropolitan areas. Intra-area communications provides a more favorable example. At present, the Twin Cities has the largest free-calling zone of any metropolitan area in the United States, a definite advantage for the area. The region also has some advantage in inter-area communications. Twin Cities rates for WATS line service are lower than those in most major metropolitan areas.

It is difficult to suggest specific actions to control community-wide private costs. However, cost control should be a major factor when considering changes in support facilities (e.g. hospitals, power plants, public transit).

Education is a special concern because, as the economy evolves, some jobs will become obsolete and the people who held them may need retraining. The educational system must respond by providing opportunities to learn those skills which the economy, because of evolution, will employ.

<sup>40</sup>"Why Prudential Chose Minnesota," Floyd H. Bragg, Minneapolis Star editorial page, November 29, 1976

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**Special efforts might also be necessary to help companies do more exporting.**

The growth of non-manufacturing businesses is likely to mean that "ideas" as opposed to things will account for an increasing portion of our exports. Consequently, the local communications system is likely to be of special importance to the growth of services/management businesses. For similar reasons, air transportation may be of equal importance.

**Events outside of Minnesota must also be watched.**

Several matters of relevance to the local economy currently include pending negotiations with the Canadians regarding a gas pipeline from Alaska's North Slope, consideration of regular commercial air passenger service between the Twin Cities and Europe, and replacement of lock and dam #26 at Alton, Illinois. Small communities in the Upper Midwest are now growing faster than the Twin Cities, and this could change our economic relationship with them.<sup>41</sup> The outcome of these and other events will make the Twin Cities a relatively more or less attractive place in which to do business. Consequently, they deserve attention.

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**Actions affecting the economy's support system must be evaluated regularly to make sure they remain consistent with economic changes under way.**

Although the cause and effect relationships have not been proven, the growth of some kinds of business activity have been closely linked to timely adjustments of some aspects of the economy's support system. A current concern is that appropriate steps be taken so that the region will get maximum benefit from the growth of services/management businesses. However, care must be taken so that actions do not limit the ability of businesses to respond to other, possibly unrecognized, trends.

It is difficult to know the point at which one kind of action becomes irrelevant and another becomes critical. Many private actions have "profit" as an automatic and continuous means of evaluation. If a local airline cannot make a profit on its air freight business, then it tries to change its routes or curtails this aspect of its business. Evaluations of public or non-profit activities do not have "profit" as a basis for evaluation. As a substitute they must have good information on current conditions and trends in the economy.

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<sup>41</sup> Between 1950 and 1970, the growth rate in the Twin Cities' population exceeded that for smaller Upper Midwest communities. Between 1970 and 1974, these communities grew faster than the Twin Cities.

## EFFORTS ON BEHALF OF OUR ECONOMY SHOULD BE SUPPORTIVE OF CHANGE BY EXISTING COMPANIES AND NEW BUSINESS STARTS

### **Community actions must be designed to encourage growth and change by existing companies.**

Most economic growth will come through adaptation by existing local businesses. If our economy is to remain healthy, community actions must be designed to accommodate adaptation.

The region's economy has been built around "home-grown" companies. There is no evidence that this pattern is changing or likely to change, but there is evidence that business start-ups are decreasing. Therefore, emphasis in our efforts on behalf of the economy must be placed on home-grown and new companies.

To facilitate change by local companies, we feel it is necessary to do the following:

- \* *Maintain our high quality of life.* We must maintain basic public services (i.e. public safety, streets, sewers, parks), a wide range of recreational and cultural opportunities, and, particularly, educational programs.

- \* *Emphasize the teaching of communication skills.* The educational institutions in the Twin Cities should re-examine their curricula to insure that proper attention is given to communication skills. The success of any business, but especially the services/management businesses, depends largely on these skills--that is, the competence of their employees as writers and speakers.

- \* *Examine our tax structure.* In response to concern about Minnesota's relatively high tax rates, property tax increases, and unfavorable publicity on Minnesota's

taxes, the Legislature should again examine the tax structure with particular attention to the benefits returned in public services and the effects on the economy.

Our concern is that the economic effect of taxes may be increasing. As inflation pushes wages up, more people find themselves in the state's higher tax brackets. As a result, an increasing share of any salary increases may be absorbed by taxes. Consequently, the impact of the state's personal income tax on wages is likely to be of much greater significance.

- \* *Understand the economic impact of public actions.* As a part of their agendas for the interim, the Legislature's economic development subcommittee should review the process through which the Legislature debates the economic impact of legislative proposals. These committees might explore ways of building better understanding among members of the state's economy. For example, they might consider the creation of a joint legislative committee with responsibility for regular review of economic conditions and the economic impact of current and proposed policy. Another option might be to require an analysis of the "economic impact" of those legislative proposals thought to have major economic consequences.

- \* *Develop a sound energy policy and secure new resources.* The Legislature must develop a state energy policy based on the efficient use of available resources. Securing new energy resources should also be a major concern. There are two things for immediate consideration: first, alternative supplies of



both natural gas and petroleum; and, second, the opportunities that might be emerging for the Twin Cities because of its proximity to western coal fields. It may be that the availability of coal will change the kinds of work we do in the Twin Cities.

*\* Broaden the focus of the work of the state Department of Economic Development and the local development agencies.*

Given current information, the use of our limited resources to attract businesses to the Twin Cities from the outside seems justified only when we have a specific company in mind, that is, one which is known to be interested in an Upper Midwest location. Promotional efforts should focus on providing good information about the community rather than financial incentives. Members of the business community should be used as much as possible in making contacts. Their comments on the Twin Cities are likely to have greater credibility than those of a representative of a public agency. Some cities (for example, Pittsburgh) have private non-profit corporations supported by donations from local companies and government to manage this kind of work.

As part of their current work, the agencies should place greater emphasis on the following:

*-Helping businesses understand and comply with new forms of public regulation.*  
This activity could be a major responsibility of the public economic development agencies.

As a part of their efforts to assist businesses, particularly small companies and those that are new to this area, the agencies should fully understand applicable regulations, the reasons for them, and the procedures required to comply with them. Rather than merely echoing industry complaints about regulations, the goal of the development agencies should be to ease compliance

and minimize adverse economic effects. While the development agencies should not presume to determine public policy on environmental protection, land use control, and rate regulation, they can insure that legitimate concerns are taken into account and help the regulating agencies understand and minimize the problems they may be creating for the economy of the area.

*-Making it easier for existing local companies to change along with the economy.* The agencies might help companies change by working to make sure that the economy's support services respond to changing conditions. To do this now, the agencies must recognize the trends in the economy in order to anticipate what changes in public policy will be required to take advantage of them.

*-Helping companies to reach markets in other parts of this country and the world.* Some of the development agencies already work in this area, but, except for tourist promotion, they do so primarily with respect to "goods," to the exclusion of service businesses. The agencies should give equal attention to assessing and finding ways to improve the region's ability to export ideas and services.

**Entrepreneurship will continue to be a major source of economic growth and change and should be stimulated.**

Entrepreneurship will continue to be a major source of economic growth and change and should be encouraged.

To stimulate entrepreneurship we suggest:

*-An increase in local research and development activity.* The Legislature should explore the possibility of increased funding for this kind of activity by public institutions such as the University of Minnesota. In addition, tax, educational, and other public policies should be reviewed to

determine what changes can be made to foster research and development activities in this area. As a part of our limited activity to bring existing companies to the Twin Cities, we might consider a special effort to attract research and development firms.

-A special commitment by Twin Cities financial institutions to develop new mechanisms for financing business start-ups as well as operating capital for the first few years of development.

-An aggressive program by state and local government to contract with private businesses to provide public services. By careful contracting, government may maintain a desirable level of service and also support businesses which, unlike government, can seek markets outside the Twin Cities. In turn, the tax payments for government services may be reduced.

-A review by the Legislature of the state's corporate income tax to determine whether exemptions would be significant in helping new companies get established.

## THE COMMUNITY SHOULD UNDERTAKE STRATEGIC THINKING ABOUT THE TWIN CITIES' ECONOMY

### **We need a special effort to collect and analyze pertinent economic information.**

The process of economic change is complex. If the community is to comprehend any substantial part of the change that is continually under way, we need a special effort to collect and analyze pertinent economic information in an understandable and usable fashion. More specifically, we need to be concerned with:

*-Monitoring economic conditions.* The region needs a set of easily understood measures which summarize economic conditions and trends. In this report we have used the rate of unemployment and the level and distribution of personal income to measure current economic conditions. To these might be added the rate of capital spending, business starts and failures, venture capital investments, and numerous others. Special care should be taken to make sure that the indicators provide a good description of the changes that are occurring in economic activities.

*-The environment for entrepreneurship.* There is need for better information and analysis of entrepreneurial activity. Currently, reliable information regarding new business starts, failures, and branching into new work by existing companies is lacking. Developing this data base is the first step. It must be followed by analysis focused on understanding the factors which affect entrepreneurship.

*-Markets for Twin Cities goods and services.* The extent to which this region will benefit from the growth of business activity will depend largely on exporting, both by selling products elsewhere and through the purchase of goods and services

by visitors. There may be a greater role for the community to play in facilitating exports. At present, however, we do not have adequate information regarding the type of goods and services being exported as well as their destination. These data are necessary to determine where there is potential for increased export activity, or whether community action of some kind is needed.

*-Support system for services/management businesses.* The specifics of what should be included in such a system are not well understood. For example, it is not clear exactly what is required in terms of transportation or communications.

Very few metropolitan areas have devoted much effort to encouraging the services/management sectors of their economies. Consequently, there are few models to follow. The Twin Cities should evaluate each ingredient in the economic process (i.e. labor supply, capital, raw materials, location) to discover how they contribute to or detract from the local growth of services/management businesses. Research in these areas should help the Twin Cities take advantage of opportunities accompanying the expansion of services/management segments of the economy.

We believe that the future economic health of the Twin Cities area may well depend on our ability, as a community, to gain some comprehension of the changes that are occurring in our economic activities, and to do so early enough to take advantage of those changes. We believe that the collection and analysis of economic data for the Twin Cities area and the state would greatly improve the chances for the timely adjustment of public and private

policies. Such adjustments might be necessary to take advantage of changes in the economy. Information and analysis of economic change should also be helpful to private industry, particularly the smaller and newer businesses whose resources are limited.

To be of maximum usefulness, such information must have credibility, not only in the business community but with public officials, organized labor, and the general public as well.

**A quasi-public "economic analysis program" should be established.**

We suggest that an effort be launched to establish an ongoing joint public/private Economic Analysis Program to bring together the best available talent and information to identify and analyze the crucial state and local issues affecting our economic future. The analysis program is not designed to collect new information from individual firms, but rather to provide the community and particularly its businessmen and policy makers with economic analysis of existing information. Because the Twin Cities economy is so interrelated with the economy of the state, we believe the program should be statewide in scope with separate analyses for the Twin Cities and other regions of the state.

With the participation of existing state and local agencies, educational institutions, philanthropic organizations, labor unions, and private industry, the task can be accomplished without the creation of a new state agency or the addition of new public employees.

Existing public and private organizations with an interest in the region's economy should take the initiative to establish a broadly representative committee to develop the organizational structure and recommend financing for the analysis program. Organizations like the Upper Midwest Council or the Center for Urban and Regional Affairs

at the University of Minnesota might take the leadership on this effort. As an alternative, the Governor could create the organizing committee, led by a private citizen and representative of all segments of the community.

During the 1977 legislative session, an appropriation was made for a study to "recommend a policy for economic alternatives in Minnesota."<sup>42</sup> The sum of \$120,000 is authorized for use by the Governor with the approval of the legislative advisory council. The authorized study does not require a joint public/private effort, nor does it make specific provisions for study of all of the topics that we think ought to be analyzed. However, the Governor could offer this study as a basis for establishing a credible economic analysis program, regardless of whether he initiated efforts to establish the analysis program.

The need for a credible source of long-run analysis of community concerns has been suggested by others. In a previous Citizens League report, State Fiscal Crises Are Not Inevitable (June, 1972), it was recommended that a Minnesota governmental policy institute be created to analyze the longer-term consequences of current public policy and alternative courses of action and to attempt to identify future problems. In 1976, the Commission on Minnesota's Future recommended the creation of a public policy institute whose responsibilities would include:

- identifying on a continuing basis long-range trends.
- evaluating and making recommendations regarding alternative courses of action with respect to these trends.
- evaluating the intended and unintended impacts of existing and prospective state policies.

<sup>42</sup>Section 19, State Departments Appropriations, Senate File No. 1467.

Appendix 1

Number and Per Cent of Families in Income Groups, 1969

	<u>Twin Cities*</u>		<u>United States</u>		<u>Twin Cities* as Per Cent of U.S.</u>
	<u>Number</u>	<u>Per Cent</u>	<u>Number</u>	<u>Per Cent</u>	
less than \$2,000	11,391	2.6	3,010,211	5.9	0.38
2,000- 4,999	37,624	8.6	7,362,387	14.4	0.51
5,000- 7,999	53,119	12.1	9,532,220	18.6	0.56
8,000- 9,999	58,855	13.5	7,098,301	13.9	0.83
10,000-11,999	68,448	15.7	6,595,510	12.9	1.04
12,000-14,999	82,520	18.9	7,031,917	13.7	1.17
15,000-24,999	98,014	22.4	8,176,995	16.0	1.20
25,000-49,000	22,389	5.1	1,972,996	3.8	1.13
50,000 and over	<u>4,761</u>	<u>1.1</u>	<u>398,053</u>	<u>0.8</u>	<u>1.20</u>
All Families	437,121	100.0	51,168,599	100.0	0.85

\*Five counties

Source: U. S. Census, compiled by the Metropolitan Council, Table 6 in Economic Profile of the Twin Cities Metropolitan Area, December, 1975.

Appendix 2

TWIN CITIES LONG DISTANCE CALLING PATTERNS, 1972 and 1975

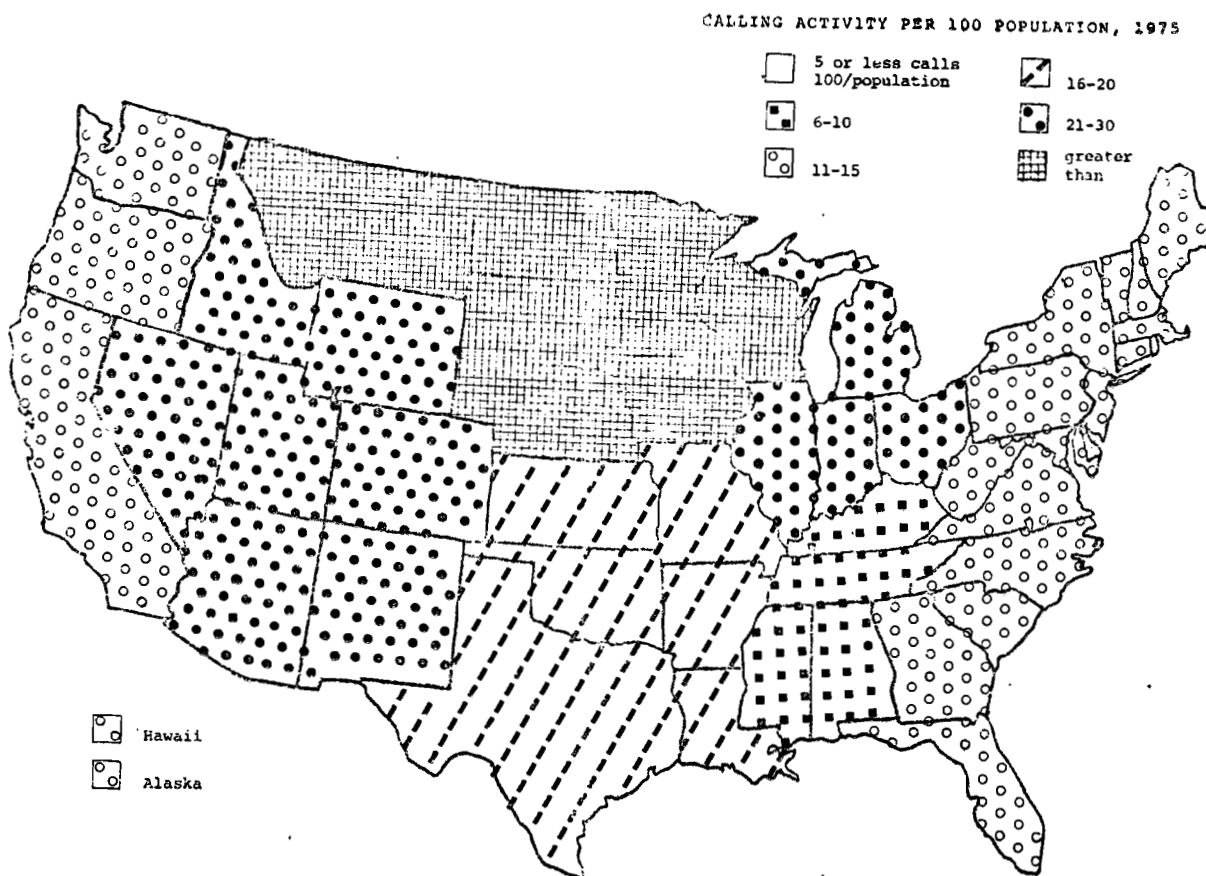
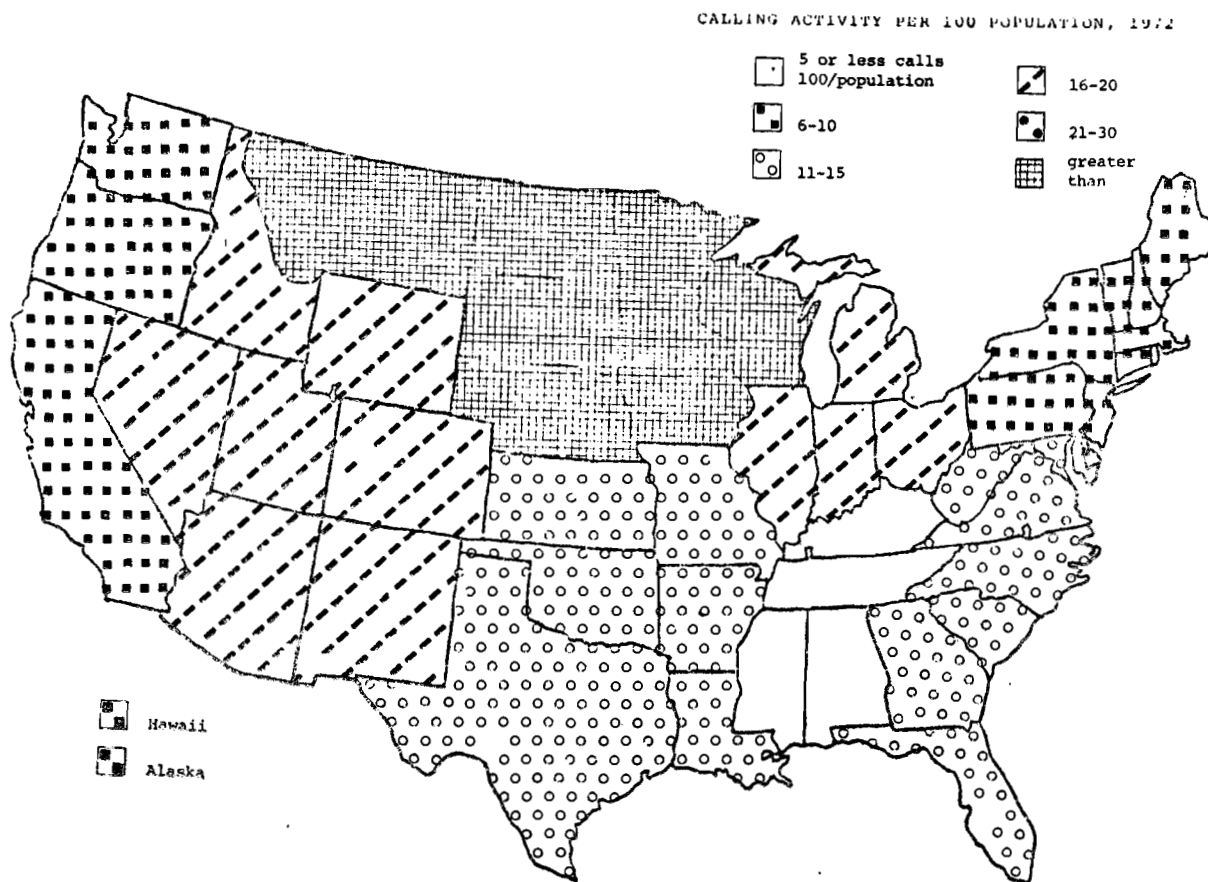
Long Distance Call Activity per 100 Population, 1972 and 1975

<u>Region</u>	<u>1972</u>	<u>1975</u>
New England (Massachusetts, New Hampshire, Vermont, Connecticut, Rhode Island)	7	11
Middle Atlantic (New York, New Jersey, Pennsylvania)	10	14
East North Central (Ohio, Indiana, Illinois, Michigan)	20	25
West North Central (Nebraska, Minnesota, Iowa, North Dakota, South Dakota, Montana, Wisconsin)	130	148
South Atlantic (Delaware, Maryland, Washington, D.C., Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida)	11	14
East South Central (Kentucky, Tennessee, Alabama, Mississippi)	5	9
West South Central (Arkansas, Louisiana, Oklahoma, Missouri, Kansas, Texas)	12	18
Mountain (Idaho, Wyoming, Nevada, Colorado, New Mexico, Arizona, Utah)	9	12
Pacific (California, Oregon, Washington, Hawaii, Alaska)	9	12

*Source of data:* Data reported here were provided by Northwestern Bell Telephone Co. They were obtained from a random sample of 5% of the long distance calls made to and originated from the Minneapolis-St. Paul metropolitan areas between July 1, 1972, and December 31, 1972, and between July 1, 1975, and December 31, 1975. The sample includes WATS calls and all types of regular toll calls.

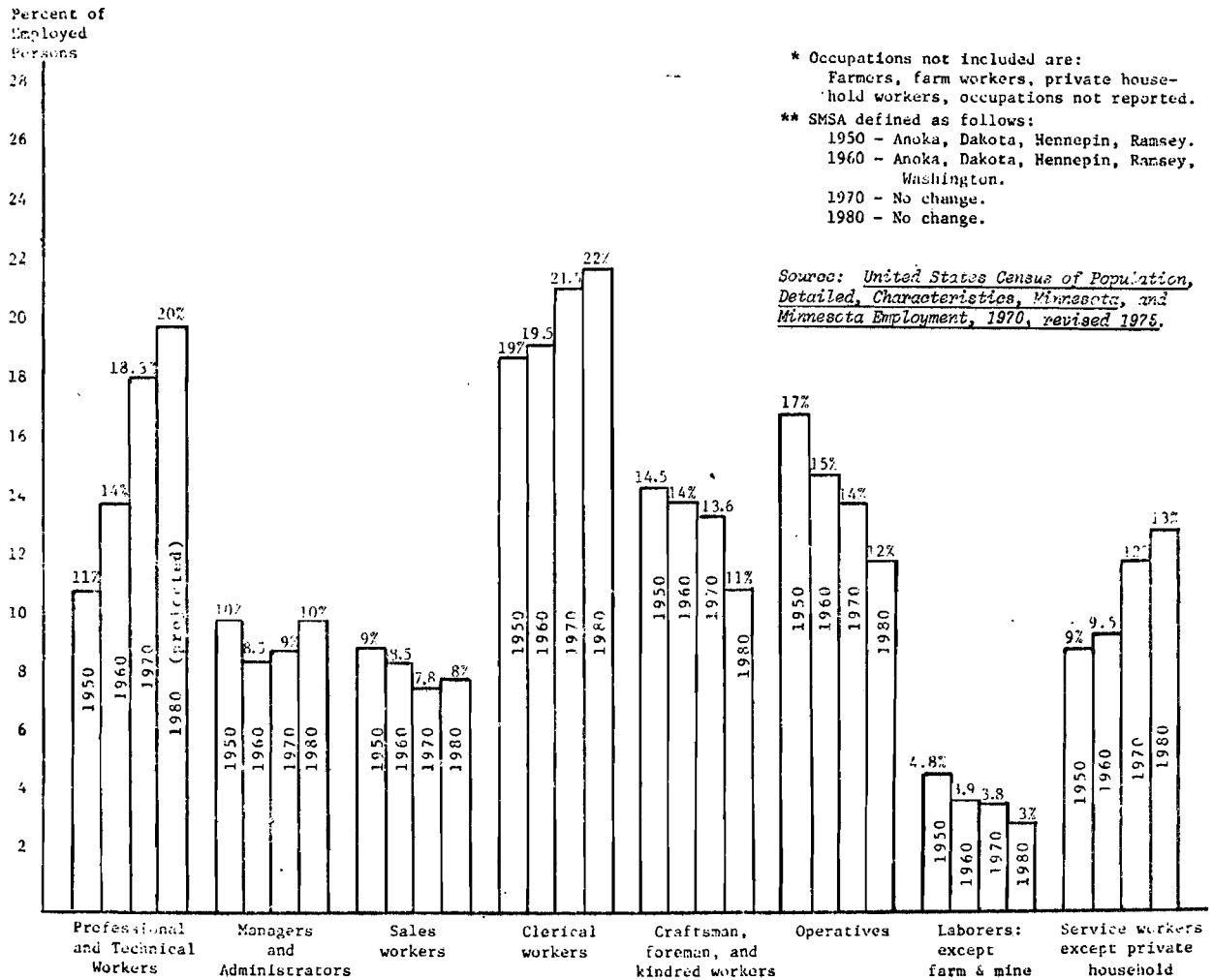
Appendix 2 (continued)

The maps below show the total long distance calling activity between the Twin Cities and the rest of the United States.



### Appendix 3

#### DISTRIBUTION OF EMPLOYED PERSONS FOR SELECTED\* OCCUPATIONS: THE MINNEAPOLIS-ST. PAUL SMSA\*\*





Appendix 4

CHANGES IN MINNESOTA'S BUSINESS TAXES, 1967-1977

1967

1. 3% sales tax.
2. Corporate income tax raised from 10.23% to 11.33%.
3. State mill levy for building bonds and teachers' retirement fund eliminated.
4. Business given option of exempting either inventory or machinery from personal property tax.

1969

1. 5% income tax credit on pollution-control equipment, up to a maximum credit of \$50,000.
2. Taconite production tax-base rate raised from 5¢ to 11.5¢ a gross ton.

1971

1. Sales tax increased to 4%.
2. Corporate income tax increased to 12%.
3. Federal income tax eliminated as deductible item on Minnesota returns.
4. Machinery and inventories exempted from personal property tax.
5. Assessment rate on commercial and industrial property raised from 40% to 43%.
6. Taconite tax increased 4¢ a ton, with additional increases ranging up to 14¢ a ton by 1979.

1973

1. Business permitted to include only sales within state in the sales portion of the formula for determining income tax.
2. Huge and ponderous machinery exempted from personal property tax.
3. Employers' excise tax imposed on payrolls.

1974

1. Income tax imposed on railroads, in addition to existing 5% tax on gross receipts in Minnesota.
2. Newly discovered iron ore to be retroactively taxed over preceding 6 years.

Appendix 4 (continued)

1975

1. State takeover of medical care costs that had been paid from property taxes.
2. Taconite production tax increased by 39¢ a ton to up to 72.2¢, depending on the producer's base.

1977

1. Reduction in the ratios used to arrive at the taxable value of residential property is likely to result in higher property taxes on commercial/industrial property in some communities.
2. Elimination of unemployment compensation benefits for voluntary quits and persons fired for cause. While this would tend to reduce employer payments, another action increased the rates at which employers contribute to the unemployment compensation fund.
3. The legislature granted a modest reduction in the amount which businesses pay in employer payroll tax.
4. The production tax on taconite was increased.

Source: Minnesota Taxpayers Association.

## WORK OF THE COMMITTEE

The Citizens League Board of Directors, in May, 1975, authorized creation of the study committee on the Twin Cities' economy. The committee's charge from the League Board was:

The Twin Cities metropolitan area appears to lack a policy on economic development. Some city governments have industrial development commissions to attract business within their borders. But little seems to be taking place areawide.

First, we will review the trends affecting the Twin Cities economy. This will include, for example, the impact of an available labor force in this area which is growing faster than the total population. It will include looking at national and statewide trends on economic development and how they are likely to affect this area. Part of the review will be to evaluate whether current efforts at measuring economic trends in the metropolitan area are adequate.

Second, we will reach some conclusions on the urgency to have an economic development policy for the area. This will include a review of how this metropolitan area is competing nationally and a review of the benefits and liabilities of inter-municipal competition within this metropolitan area. We will try to determine what economic development should mean for this metropolitan area. Does it mean just trying to attract new industries? If so, what kind? Manufacturing? Or does this area have particular characteristics which might call for some other kind of emphasis? If so, what would be stressed? Services?

Third, we will review the activities of public bodies in economic development in the metropolitan area, including the industrial development commissions, the Metropolitan Council, and the Minnesota Department of Economic Development.

A total of 58 League members signed-up for the committee, but only 26 participated actively in the work of the committee. The chairman was Wayne H. Olson, an attorney from St. Paul. The other members of the committee were:

Francis M. Boddy	Peter Hutchinson	Kenneth R. Rees
James T. Christensen	Orvil J. Johnson	Kent Robbins
Kenneth E. Ford	Dorothy Perry Kidder	Raymond D. Rossini
Roger W. Forsberg	Richard Kiekow	Fred Senn
Marvin P. Geisness	Eugene P. Knaff	A. Kent Shamblin
Katherine Gustafson	Fred Landgraf	Dale A. Simonson
Peter G. Hames	Charles S. Neerland	Irma Sletten
James W. Hawks	William B. Payne	Matthew H. Thayer
Rudolph K. Hogberg	Philip M. Raup	

The committee was assisted by Bill Blazar and Jean Bosch of the Citizens League staff.

The committee held a total of 52 meetings from May 3, 1976, to June 6, 1977, an average of one per week. For the convenience of committee members and resource persons, meetings were held in both Minneapolis and St. Paul.

The committee spent the first several months hearing from a wide range of resource persons including business and labor leaders, university professors, and public officials. On two occasions the committee visited with resource persons from outside the Twin Cities. A luncheon meeting was held with Robert Pease, Executive Director, Allegheny Conference on Community Development, Pittsburgh, Pa. Via conference call the committee talked with Ralph Widner of the Academy for Contemporary Problems, Columbus, Ohio.

Detailed minutes were prepared of each meeting of the committee, with copies being made available to members who were not present and to a large mailing list of persons who were interested in the subject matter under study. A limited number of copies of the minutes are on file at the Citizens League office, as are copies of background articles, staff reports and surveys and other data.

After the initial orientation portion of the committee's work, several months of internal discussion resulted in a series of drafts of findings and of conclusions. Following general agreement on the findings and conclusions, the committee's discussion shifted to recommendations and, finally, to adoption of this report.

Raymond Rossini was the only committee member with a major dissent regarding the committee's report. His objection focused on the committee's recommendation for an Economic Analysis Program. In summary, his concerns were as follows:

- Information collected or analyzed through the program may not be useful to individual companies because it would be too general...that is, deal with the whole region rather than the specific needs of a particular company.
- It seems clear that economic trends in the Twin Cities parallel national trends. If there is need for information on general trends, the Twin Cities should be able to utilize data and analysis already available.
- The data collection proposal should be cost justified (which it may not be) and should not compete with private efforts to provide information.

Mr. Rossini thought that the analysis program's only merit was that it might perform the important function of showing public concern for business health. He felt that this might be achieved more directly through an expanded effort by representatives of the community to contact and offer technical assistance to individual businesses.

A complete copy of Mr. Rossini's dissent can be obtained from the Citizens League office.

As is always the case with Citizens League reports, the work of this committee could not have been possible without the important participation of a number of resource persons. We offer our sincere thanks to the following persons who acted as resource persons for our Twin Cities' economy committee. They are listed in the order of their appearance, and the titles and positions shown are the ones they held at the time they spoke to our committee.

John Borchert, director, Center for Urban and Regional Affairs, University of Minnesota.

John S. Adams, associate professor, Department of Geography, University of Minnesota.  
Les Boudrot, Metropolitan Council.

Robert Bergstrom, research director, St. Paul Chamber of Commerce.

David Dahl, research department, Federal Reserve Bank of Minneapolis.

John Moon, research director, Minneapolis Chamber of Commerce.

Charles Brown, vice-president for employee relations, Honeywell, Inc.

Rudolph Pinola, director of research and planning, Minnesota Department of Employment Services.

Robert Killeen, international representative, United Auto Workers.  
Fred Deming, president, National City Bancorporation.  
James Henderson, professor, Department of Economics, University of Minnesota.  
Robert Jorvig, president, Cedar-Riverside Associates.  
Leonard Ramberg, former senior vice-president, Northwestern National Bank of Minneapolis, and former member, Metropolitan Airports Commission.  
Bruce MacLaury, president, Federal Reserve Bank of Minneapolis.  
Katherine Gustafson and Ellis Ohnstad, Minnesota State Planning Agency (and Commission on Minnesota's Future).  
Richard Wallen, Minnesota Energy Agency.  
Rolland W. Comstock, vice-president, communications, Northern States Power Company.  
Donald Soukop, vice-president, Community Investment Enterprises.  
Richard Kolkmann, manager, energy forecasting, Northern States Power Company.  
Dudley J. Russell, traffic department, Minneapolis Grain Exchange.  
Raymond Glumack, executive director, Metropolitan Airports Commission.  
Brant Lewis, St. Paul CETA (Concentrated Employment and Training Act) Program.  
Joseph Sizer, director, environmental planning, Minnesota State Planning Agency.  
Orvin L. Olson, director, finance and international trade division, Minnesota Department of Economic Development.  
Anthony Trow, director, industrial development division, Minnesota Department of Economic Development.  
Ronald Way, Minnesota Pollution Control Agency.  
Leo Gross, chairman, Minneapolis Industrial Development Commission.  
Donald Risk, executive director, Minneapolis Industrial Development Commission.  
Donald Dunshee, director, industrial development, St. Paul Port Authority.  
William McGivern, public relations director, St. Paul Port Authority.  
John Thompson, former chairman, and Harold Hursh, staff, Bloomington Promotion and Development Commission.  
John Ranck, chairman, and Michael Mulrooney, coordinator, Coon Rapids Economic Development Commission.  
James Heltzer, former commissioner, Minnesota Department of Economic Development.  
Robert H. Peterson, executive director, Powderhorn Development Corporation.  
Charles Burrill, metropolitan area director, Minnesota Transportation Department.  
Donald Paterick, executive director, Minnesota Taxpayers Association.  
Ronald Rainey, Minnesota Tax Study Commission.  
State Representative William Kelly, chairman, House Tax Committee.  
Stanley Cowle, Hennepin County Administrator.  
Francis M. Boddy, former Professor of Economics, University of Minnesota.  
Lee A. Vann, commissioner, Minnesota Department of Economic Development.  
Wilbur Maki, professor, Department of Agricultural and Applied Economics, University of Minnesota.  
Robert Hoffman, chairman, physical development committee, Metropolitan Council.  
Henry Rutledge, chairman and chief executive officer, Northwest Bancorporation.  
Philip Raup, professor of Agricultural and Applied Economics, University of Minnesota.  
Daniel Haggerty, executive vice president, Northwest Growth Fund.  
Kenneth Rainy, Academy for Contemporary Problems.  
Robert Van Hoef, vice president, First National Bank of St. Paul.  
Robert Fisher, executive vice president, Data 100 Corporation.  
Mark Anderson, Minnesota Association of Commerce and Industry.  
Arnold Cohen, assistant dean, Institute of Technology, University of Minnesota.  
William Drake, president, Data Card Corporation.  
James Moore, resident director, Minnesota Department of Economic Development.  
Raymond Warner, professor, Institute of Technology.  
Jim Faue, St. Paul Port Authority.

## THE CITIZENS LEAGUE

. . . formed in 1952, is an independent, nonpartisan, non-profit, educational corporation dedicated to improving local government and to providing leadership in solving the complex problems of our metropolitan area.

Volunteer research committees of the CITIZENS LEAGUE develop recommendations for solutions to public problems after months of intensive work.

Over the years, the League's research reports have been among the most helpful and reliable sources of information for governmental and civic leaders, and others concerned with the problems of our area.

The League is supported by membership dues of individual members and membership contributions from businesses, foundations, and other organizations throughout the metropolitan area.

You are invited to join the League or, if already a member, invite a friend to join. An application blank is provided for your convenience on the reverse side.

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## WHAT THE CITIZENS LEAGUE DOES

### STUDY COMMITTEES

- 6 major studies are in progress regularly.
- Additional studies will begin soon.
- Each committee works 2½ hours per week, normally for 6-10 months.
- Annually over 250 resource persons made presentations to an average of 25 members per session.
- A fulltime professional staff of 6 provides direct committee assistance.
- An average in excess of 100 persons follow committee hearings with summary minutes prepared by staff.
- Full reports (normally 40-75 pages) are distributed to 1,000-3,000 persons, in addition to 3,000 summaries provided through the CL NEWS.

### PUBLIC LIFE

- 4 pages; published twice monthly, except once a month in June, July, August and December; available to non-members by subscription.
- Includes material in CL News other than that directly relating to Citizens League activities.

### PUBLIC AFFAIRS DIRECTORY

- A directory is prepared following even-year general elections, and distributed to the membership.

### PUBLIC AFFAIRS

- Members of League study committees have been called on frequently to pursue the work further with governmental or non-governmental agencies.

### COMMUNITY LEADERSHIP BREAKFASTS

- Minneapolis Community Leadership Breakfasts are held each Tuesday at the Grain Exchange Cafeteria, 7:30-8:30 a.m. from September to June.
- St. Paul Community Leadership Breakfasts are held on alternate Thursdays at the Pilot House Restaurant in the First National Bank Bldg., 7:30-8:30 a.m.
- An average of 35 persons attends the 55 breakfasts each year.
- The breakfast programs attract good news coverage in the daily press, radio and, periodically, television.

### CITIZENS LEAGUE NEWS

- 6 pages; published twice monthly, except once a month in June, July, August and December; mailed to all members.
- Reports activities of the Citizens League, meetings, publications, studies in progress, pending appointments.
- Analysis, data and general background information on public affairs issues in the Twin Cities metropolitan area.

### QUESTION-AND-ANSWER LUNCHEONS

- Feature national or local authorities, who respond to questions from a panel on key public policy issues.
- Each year several Q & A luncheons are held throughout the metropolitan area.

### INFORMATION ASSISTANCE

- The League responds to many requests for information and provides speakers to community groups on topics studied.

## Application for Membership in the CITIZENS LEAGUE

(C.L. Membership Contributions are Tax Deductible)

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\*\$25 for families desiring only one copy of CL NEWS. \$30 for two separate mailings

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