

A FRESH LOOK AT OUR REGION'S ECONOMY

"The purpose of this corporation shall be to promote the civic and community welfare and commercial, economic, industrial, and social progress of the area..."

The words I have just read you are taken from the Articles of Incorporation of a going concern now set to make a three quarters of a million dollar investment in the future of our region. The corporation and its program, one of the most exciting developments in regional thinking today, is the subject of my talk. But before I get directly into discussion of this corporation, let's consider a couple of our region's attributes about which we have all, I am sure, done a lot of reflecting.

I think there are two basic ideas that underlie our tendency in this region to stress heavily the topic of economic development. These are (1) a desire to provide increased opportunity and (2) a desire to provide increased balance to local activity. The quest for both - increased opportunity and increased balance - stems very fundamentally from the realities of our experience here in this area.

Let's look first at the problem of opportunity. The impact of opportunity in aggregate may clearly be read in over-all population trends. Population, economically speaking, is a basic resource of a given area along with its land, the capacity of its soil to produce food and other raw materials, and such concentrations of economic mineral deposits as it might possess. But one of the characteristics of population as a resource is that it is to a greater or lesser extent mobile, while the land and its capacity to produce minerals and food essentially are not. Indeed, one of the things I am most struck with

in looking at data on our district's population is the fact that such a high state of flux exists. This mobility of population clearly shows up in the population statistics for our district.

If we took a snapshot of population in the Ninth Federal Reserve district, we would get this generalized picture: about one-fourth of the district's six million people are living in rural areas on farms or ranches; another one-fourth live in smaller towns of less than 2500 population, while the remaining one-half live in cities and towns of over 2500. But this sort of look at population is not too informative. Oh, it does indicate, with appropriate national comparisons, that we are a relatively rural region. And it also shows that a fairly high degree of concentration in a very few metropolitan centers exists.

But when we begin to look at the dynamic aspects of population, then the features of most interest begin to appear. People in our district, as elsewhere, are 'on the move'. They move from farms and ranches to towns and cities. They move from smaller towns to larger ones. They move from this district to other districts. And of course there are always some who from time to time, prefer to move "upstream" in opposition to these dominant trends. I think the following figures underscore our tendency to be on the move.

Each year during recent years, about one out of every five of us has moved into a different house, and about 3 out of every 20 persons moving have moved to different states. During the first half of the present decade, about 40,000 more people moved out of the district than moved into the district each year. This movement cut away at our natural population increase of about 90,000 persons a year (the excess of births over deaths) such that the net addition to our total population was reduced to an average of about 50,000 persons per year. While the

relative impact of out migration varied by states, in all of our district states more people moved out than moved in, and nearly half of the counties in the district showed an actual decrease in population from 1950 to 1955.

Perhaps the most dramatic comparison we can make is our showing with that of the Far West. In 1914 when the Federal Reserve districts were formed, we outnumbered the San Francisco district population-wise 5.2 million to 5.1 million. By the latest Census, while our district succeeded in pushing upward to 5.7 million people, San Francisco ballooned by us to 16.5 million and outnumbers us now by 3 to 1.

I am sure you are well aware that one of the big factors operating here is what's happening in agriculture. Productivity has so improved that the historical movement from farm to town has accelerated. As a result there is continuous release of population from rural areas of the country seeking opportunities to work at urban and industrial centers. Now, the fact that we're the most rural of all the Federal Reserve districts, with some 25 per cent of our people living on farms and ranches (which is twice the national average) means that we have a much larger than average source of supply of people who move from farm to city. If we were to accommodate all of these people within our region, we would have to offer a correspondingly larger-than-average increase in employment opportunities in the non-agricultural sector of our economy.

Yet in fact the over-all expansion of markets and manufacturing in the Ninth district has tended to be not larger but rather somewhat smaller than the national average during the post-war period. For example, between the two Censuses of Manufacturers, 1947 and 1954, the dollar value added by manufacture in this area rose just 48 per cent, in contrast to a figure for the United States of 56 per cent.

The net result is that the Ninth District as a region has shown a declining share of the nation's population. In 1910 we had nearly 6 per cent of the population of the country. Today we have a little less than 4 per cent of the national population. Furthermore, because of the greater mobility of younger workers, people in their 20's and 30's, the age distribution of our region's population has been modified over recent years to give us an increasing proportion of the very young people and the very old people, relative to the national distribution.

So the fact that we annually export so much of our talent and our labor is one reason for wanting to be able to provide more opportunities here at home. We support, at no small expense, some very fine educational institutions only to have much of the cream of our graduating classes move out of the district to find jobs. In this region, where we are still very frontier minded in a day when our land frontiers have essentially vanished, we must look to "industrial frontiers" to provide a continuing growth of opportunities for our younger people.

Now let us turn to the second problem--that of balance or stability. One of the major rationales behind today's industrial development programs is that of providing balance to local activity. We have an awful lot of "one-industry towns" in our district, whether it be dependence on farming or mining or timber operations, and the drive for diversification is certainly a familiar one for a group such as yours. Current conditions in the Ninth district yield us a timely illustration of some of the problems that extreme dependence on one activity engender for a community. Such freshly-in-the-news factors as the steel strike in the eastern part of the district, the copper strike in Montana, and reduced small grain production in the Dakotas have cut sharply into the actual or immediately forthcoming stream of earnings at a number of localities in the district.

As you well know an estimated 8,500 persons are out of work because of the copper strike--concentrated in a very few communities in western Montana. Some 28,500 wage and salary earners are idled in the iron mining eastern part of the district. In many mining communities these events have meant that 50 to 90 per cent of all wage and salary employment has been directly affected and some of you know through personal experience the adverse impact that such a loss of earnings can have on a town. The challenge for economic development, then, focuses on the possibility of introducing new types of industry into some of our highly specialized communities. We would hope thereby that factors hitting hard at any one activity would be ameliorated by the balancing action of other, relatively independent sources of income.

#### OBJECTIVES OF UMR&DC SURVEY

Well, with these two problems as a backdrop--the problem of providing adequate opportunity and the problem of providing better balance--many business and public leaders have turned their attention to the concept of economic development in recent years. Considering the problem now from a regionwide standpoint, is there something that might be done by regional study and action to improve our standing relative to the nation? It was with just this question in mind that the organization known as the Upper Midwest Research & Development Council recently organized its program, and I would like at this time to outline the key features of this program for you.

Oh, by the way, in case some of you are wondering how Montana--which certainly has as delightful a western flavor as any state I've visited--how Montana fits into the so-called "Upper Midwest", let me say that in fact the area which will be covered in the work of the Council is

the entire Ninth Federal Reserve district. And this includes all of Montana as well as other areas in the district which could hardly be considered 'Midwest' in the ordinary sense.

Just how did this Council arise? Well, the Council was incorporated in the spring of 1958 as a non-profit organization under the Laws of the State of Minnesota. It was a successor of sorts to the Resources Research Committee organized by businessmen from Minneapolis and St. Paul in 1953 to sponsor a \$130,000 study of North Dakota lignite. The actual work was performed by the Arthur D. Little Company during 1953-1954. In contrast, the Council, which is organized on a much broader basis and with far more sweeping scope, explored the idea of an integrated economic study of the entire region. Finally by December of last year the general nature of the project and the arrangements for financing the study were announced. The Council was incorporated this year and organized with 30 Directors representing a wide variety of business interests throughout the region, including from Montana, Mr. John E. Corrette of the Montana Power Company and your own Mr. A. G. Martin of Billings. By and large the Directors of the Council are leading businessmen of the area, many associated with railroads, utilities, power companies, banks, and so on, whose operations are naturally quite closely linked with the welfare of the region's economy.

Now, let me repeat the quotation I started with from the articles of incorporation of the Upper Midwest Research & Development Council, to re-emphasize the aims of the organization:

The purpose of this corporation shall be to promote the civic and community welfare and commercial, economic, industrial, and social progress of the area of the United States of America comprising the Ninth Federal Reserve District, as presently constituted on this date and the

neighboring areas which are economically interdependent and interconnected with said Ninth Federal Reserve District, by any or all of the following:

And here I shall abridge the legal language of the incorporating document, identifying four avenues to implementation: (a) to acquaint the public at large, via studies and reports, with the factors affecting the growth of the area and the most practical means for accelerating sound growth, (b) preparing useful and informative factual information about the area's growth, (c) promoting the dissemination of knowledge about this area's resources, and its commercial and economic advantages, and (d) cooperating with all local and regional interests to further the corporation's objectives, where this does not involve political activity.

Or to boil that down let me put it this way: The over-all objective of the Council is to investigate the most practical means for accelerating economic growth on a sound basis in the Ninth Federal Reserve district. I might add that special emphasis will be placed on creating new job opportunities in the region.

Well, now, these were the general objectives in the minds of the men who initiated the Council. We know where we want to go; now, how do we get there? Through the period from early spring of 1958 to the latter part of this summer the Council went to work to turn this 'dream' into a practical operating program. They organized administrative and advisory committees, set up a specific program of research, arranged for financing the project and hired the nucleus of a research staff. By the end of August of this year the pilot phase of the study was actually underway. Let's examine now the organization of the program in more detail.

The Council consists of a 30-man board of Directors from which an 11-man executive committee, including the president of the Montana Chamber of Commerce, has been appointed. A 10-man Research Committee, of which I have been designated chairman, and which includes Dr. R. R. Renne,

president of Montana State College, was selected. An 8-man technical committee was established, with Dr. Spilhaus, Dean of the Institute of Technology at the University of Minnesota, as chairman, and also a 5-man information committee. In addition, two advisory committees have been established to help broaden the representation and acceptance of the program. These are (a) a Governors' Committee, comprised of the governors of the six states directly affected, and (b) a citizens' advisory committee, with 14 men representing agriculture (including 3 Montanans: George Diehl of Helena, Sumner Gerard of Ennis, and Jack Milburn of Grass Range), 17 men representing labor (including 2 Montanans: Frank W. Freeburg of Great Falls and James S. Umber of Helena), and 32 men representing business (including 4 Montanans: Russ B. Hart of Billings, Theodore Jacobs of Missoula, Edward I. Renouard of Butte, and Alex Warden of Great Falls).

And, of course, there many members of the Council who have very broad interests in Montana including Montana-Dakota Utilities, the Great Northern and Northern Pacific railroads, and your own Federal Reserve Bank.

The Council with the assistance and participation of the Research Committee determines the general bounds and approves specific areas of study for the project. The Council also will study and discuss the research reports generated by the research staff, and will formulate policy recommendations based on the findings. The views of the Governors' Committee and the citizens' advisory committee will be solicited and considered before publication of such reports. Now, that gives you some idea of the organization and representation that lies behind this new research program.

But as the Council sought financial backing it soon discovered that there was much more than local interest in the project. Indeed, the

project suddenly took on new dimensions. Additional objectives were introduced, of a very different sort from those we've been talking about. In the process three new groups came into direct association with the proposed economic survey. These are the Committee for Economic Development (CED), the Ford Foundation, and the University of Minnesota. These institutions exhibited keen interest in the regional economic study of our area for the lessons it might teach about methods and approaches to regional development. In other words here would be a proving ground for methods and study techniques which might be transferred in principle to other regions. So as it turned out, the eyes of the rest of the nation are turned on the Ninth Federal Reserve district and what we do with this project. In fact the Committee for Economic Development, which has long been interested in the general subject, has designated this study as their No. 1 area development project to provide a pattern for subsequent work in other areas, and has contributed financial support to the project.

The bulk of the financing will come from a Ford Foundation grant, approved last January 12, in the amount of \$350,000. In addition the Council proposes to raise \$250,000 in contributed cash and another \$100,000 worth of contributed research by companies and institutions in the region. The Ford Foundation grant must be made through a recognized educational institution, so the grant has been arranged through the Regents of the University of Minnesota, and the latter institution will have administrative responsibility for personnel employed under this project.

So now you see the survey has grown to take on much more than regional importance and has caught the interest of several high-ranking organizations. Perhaps it would be well to restate the objectives of the project, to more fully encompass the new developments:

The purpose of the project is to survey the economic forces and growth potential of the Ninth Federal Reserve District and to do so in a way which will help develop an action program to accelerate economic progress on a sound basis; advance scholarship in the field; and provide a model for continuing economic analysis for all regions of the country.

Well now we've talked about the organization and thinking that lie behind the proposed survey and I would like now to briefly discuss the survey itself, how it has been set up and staffed, and the things it will attempt over the approximately four years that lie ahead.

The operating research arm of the Council has been designated as the 'Upper Midwest Economic Study'. This unit will be a research staff which, when in full complement, may consist of about 10 persons. At present two top posts have been filled: that of Executive Secretary by Mr. Wendell Burns, and that of Research Director by Dr. James Henderson of Harvard, a man of recognized research stature. The size of the permanent staff thus is small, but the staff will by no means carry out all of the work. In fact a considerable amount of research will be handled on a contract basis by other colleges and universities throughout the region.

Broadly viewed, the research aspect of the project--as distinguished from the action aspect- is divided into three phases. First is a six-month research-design period or pilot study, begun in August. This pilot-study phase is financed entirely by the Ford Foundation. During this period the research program will be formulated in detail and a budget for the entire research project prepared in consultation with other research organizations.

The second phase, expected to last about three and one half years, would be an operating research period. Carrying the project forward to its second stage implies careful review of the pilot phase and approval of the scope and quality of the over-all research efforts.

The third phase would take us beyond the original 4-year period of the study and introduces a fresh concept--that of a continuing program of regional economic research. The Ford Foundation is very much interested in stimulating continuing regional economic analyses as distinguished from the "one shot" efforts that have been traditionally used in economic surveys in the past. Thus \$50,000 of the Ford Foundation grant is earmarked to help make the transition from phase 2 to phase 3, subject to, of course, careful review at the end of phase 2 of the justification for continuance of the project. The presumption would be that operation of a third phase, designed to continue the work beyond the original 4 years, ought to be the financial and administrative responsibility of the region. Now that you've seen the over-all form of the study, let's take a brief look at the direction of attack of the main part of the research study, the second phase.

Here are some of the questions to be answered in phase 2 of the Study: (a) what is the present economic position of the Upper Midwest? (b) how has this position changed in recent years? (c) how is it likely to change in the future? The third question is both the most difficult and the most important. It won't do for us to simply project the trends of recent years, since a major goal of the research program is to provide information for the formulation of an action program. In other words we want to do something to change the trends. A sound program of regional development requires information and analysis which will allow us to compare and evaluate alternative courses of action. Therefore the research analysis will be directed toward answering questions of a "what-would-happen-if" nature.

In fact, the principal objective of the pilot study phase, which was begun on August 1, is to work out an analytical framework

(a kind of theoretical model) that will facilitate (a) the comparison of many alternative courses of action, (b) the tracing out of many "side effects" in our complexly-interrelated economy, and (c) the evaluation of the net gains or losses to our economy in pushing for one policy alternative in preference to another. Consider for example a prospective expansion of livestock production along with a reduction of wheat production in some part of the district. The problem is then to determine what would happen to various economic activities throughout the district if this shift of resources from wheat to cattle took place. Certainly a complicated chain of events would be set in motion ultimately affecting the local demand for labor, the kind and amount of local services and supplies needed, the kind of terminal facilities required, transportation media, the type of financing and...well you name it. But I think you can see that the effects of just one change in use of a resource in one part of the district will soon spread far and wide throughout the region. More generally, the analysis would aim to estimate the effects upon income earned in agriculture, upon retail and wholesale trade, upon the food processing industries and so forth. The possible economic effects of many alternative ways of economic development upon many different sectors of the region's economy will be evaluated through this analytical approach in the Upper Midwest Economic Study.

In addition to working out this so-called formal or analytical framework, considerable effort will be applied to collecting statistical and factual information about the regional economy--its production, transportation, and consumption of goods and services during recent years. Particular emphasis will be placed upon the income and employment generated by different activities, and data will be sought in some detail

by state or smaller geographical units. The movement of goods between the district's states will be considered. The geographical classification chosen will be useful to groups such as yours whose interest is confined primarily to the data for an individual state. This statistical collecting job will be the source of much of the factual substance that will be plugged into the analytical framework.

Yet the basic data collected will not provide all of the information that is necessary for an analysis of the district's economy. A number of special studies are planned to supplement the basic quantitative data and provide relevant qualitative information. Among the topics tentatively scheduled for special study are (1) the nature of the alternative production possibilities available to agriculture, (2) the impact of the St. Lawrence Seaway upon established trade and production patterns, (3) the potential development of outdoor recreation resources, (4) the potential development of research and other "brain" industries, and (5) a survey of the prospects for selected mineral industries with particular emphasis on low-grade deposits.

Most of the effort devoted to special studies will be directed toward a determination of the comparative advantages of location in this district, i.e., a comparison of production, transportation and tax costs in the region with those of competitive outside locations. In addition to the special studies listed above, a general survey will be undertaken to determine those activities in which the competitive position of the Upper Midwest is improving or declining relative to other parts of the country. This survey will encompass potential as well as existing activities. Those sectors which the survey indicates are most likely to experience rapid expansion or decline will then be subjected to more intensive study.

Now, that's the general content of the research study, and as you see we anticipate nearly four years of work, coordinated and directed by a competent professional staff, drawing widely on the talent of the entire region. All of this research effort will culminate in a published research report about the end of 1962. The Council's own report and policy recommendations for an action program will follow in the spring of 1963. Some consideration is being given to speeding up the timetable.

I think you will agree that all of this looks very good on paper. But what's to guarantee that this, like so many other economic survey projects, will not simply end with an impressive brochure to be filed away and never heard from again? Well, we think there are several things about this new study that give it a rather special significance. First, we think it is unique because of its regional scope and its large scale. Certainly there has been nothing like it attempted before. Second, it combines into one effort by a single organization practical, high level guidance, technical economic direction, and broad regional representation. Third, the originating Council aims for action as an integral part of the program. Fourth, provision is made to translate this effort into continuing study of the region's problems and needs.

Let me close with this expression of the Council's own philosophy:

This project will not be fully successful unless it is carried forward with vision and imagination tested out by sound research. We start with the assumption that we are not satisfied with our present economic growth prospects. We must solicit and try to develop suggestions as to better use of our human and material resources. We must not be restricted by previous studies or existing opinions as to limitations of the economic growth possibilities of the Ninth Federal Reserve District.

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