

LOCAL GOVERNMENT AND ECONOMIC GROWTH

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As a preliminary to the preparation of a talk to any group, a speaker finds it useful to inquire into the reasons for his selection -- assuming that there is a rationale broader than simply being the person handiest to the program chairman with an undelivered speech.

It seems to me there are many reasons for me to be here today. As the Municipal League of Minnesota, you are the men officially charged with the responsibility of conducting local government in Minnesota. I am here with two hats: as President of the Federal Reserve Bank of Minneapolis, which is a regional bank charged by Congress with a number of objectives, of which one of increasing importance is to stimulate and encourage the economy of the district. I am also here as President of the Upper Midwest Research and Development Council, an organization of businessmen, educators and other civic leaders through the Ninth Federal Reserve District, with the avowed purpose, and I quote from the articles of incorporation, of promoting the "civic and community welfare, and commercial, economic, industrial and social progress of the area." Incidentally, the Upper Midwest Council has recently created executive committees in each state, designed to bring the efforts of the Council to the grass roots. These committees are organized in four divisions, which represent the Council's areas of interest: education, urban development, commerce and industry, and agriculture. I am pleased to say that one of your own members, Demetrius Jelatis, is a member of the urban

development committee, and will contribute substantially to its success. With 52% of the people in the Ninth Federal Reserve District living in cities in 1960, a number expected to increase to 60% by 1975, our organizations have a common interest.

"Why business and industry require effective municipal government" is the title of the talk assigned to me. It is a temptation which I shall resist -- perhaps to your sorrow -- to dispose of the rhetorical question with a simple phrase -- "They need it to survive" -- and then sit down. No organism can survive if an essential element of its environment is removed. I submit effective municipal government is as important to business as oxygen to a human being. Like oxygen, good municipal government is more conspicuous by its absence than by its presence, but it must be there or business dies.

In discussing effective municipal government and business, we are really talking about the role of city government in economic growth and development. Local government has not always been interested in the problems of economic development. Historically this was left to the local power structure in chambers of commerce, the local government administrators concentrating instead on basic services of utilities, police, fire protection, education and streets. There is today a general awareness that local government must become concerned with the social and economic implications of its actions. This is because there is a growing recognition that just as the business community does not operate on a part of the whole, neither does government. Instead, each must be concerned with the total climate of the city. No longer can we afford the luxury of piecemeal approaches and the

endless proliferation of agencies, public and private, spawned by the many elements of our communities. There are few cities that cannot muster a list of twenty-five or more of these groups, each of which is reactive only to its own special interests.

It isn't coming easily. The recognition that a city is a complex of many different elements, each of which has its place in the pattern of economic growth, has been "a long time a-brewing", and it's not yet a fact of general acceptance. Too often business groups look solely to a unit of higher education, with its direct parallels in student spending, ignoring the even greater importance of a good secondary school system. Municipal managers and business groups alike forget to check capacity limits of the utility systems to make sure there is proper provision for the expansion which will be required by the new industry they are so desperately seeking. The community repercussions of sudden economic growth are dimly perceived, if at all. A few more examples -- the introduction of labor unions to a community where there were none; racial problems where there were none; demands for recreational facilities on an organized basis where few, if any, were deemed necessary; the disruption of historic relationships within the tax base -- these are just a few of the price tags of unplanned economic growth. Weaknesses in the general social and governmental machine, which might have gone unnoticed for many years, suddenly become major breaks when the pressures of additional people and demands are placed upon them.

This leads me then to my first point. Essential, therefore, to any plan of economic development is an inventory of the present physical and cultural plant of your community. No one is in a better position than

municipal government to make such an inventory. But apart from the comparative ease with which this can be accomplished within the government structure is the very hard, real, political fact that it is on municipal government the criticism for the break-down will fall. The preparation of such an inventory will point up areas of development which will require attention if the community is to sustain no more than its normal growth patterns, and if this were the only reason for conducting the inventory, it would be of almost immeasurable benefit. A plus, though, is its value as a basis for attracting new industry. In this age of competition among cities for new industry, no industrial engineer is going to take his time and his company's money to conduct such an inventory for you. There are too many communities with an attractive brochure already in hand, in which the profile of the community is laid out, and the work of the locator made easy. The emphasis may not be necessary, but the brochure must be objective. It must be honest.

This leads me to a second point. Much has been said about the importance of offering practical inducements to industry in the form of specific tax exemptions, a preferential utility service, etc. Apart from the obvious discrimination in such a pattern as against existing businesses in the community, these are short-run inducements only. Of far greater significance to the prospect is the general regulatory climate in historical perspective. This comprehends the entire posture of the local government, from the attitude of the clerks with whom the public must meet for most of their contact with government, to the stability of the taxing structure. Nothing will make a businessman more uneasy than a feeling the local government doesn't know where it's going. It is important to innovate, but it is just as important to

maintain a course of direction with reasonably predictable objectives, as measured by past experience. The elusive factor of confidence is all-important in government relationships to business. The image of local government is as important as the image of industry. This image is created slowly, and must be continuously protected. No better reflection of the image can be found than the attitude of the businessmen who are already there. It is well known that only about 18% of American industry moves its location because of the efforts of community development of another city. I suspect that if the energies and funds devoted to industrial solicitation were instead spent internally, the goal of new jobs and new income could be met internally in the same inverse proportion. There are many extraneous factors over which you have no control for the location of business, most of which can be summed up under the heading of historical accident -- that it's this community, after all, where they started. Communities grow from within generally, and not from without. The cry, "We must grow from without," by many community leaders, as they pursue their elusive industrial quarry over the American landscape, could well be the subject for reflection before they start out. "Without what" is an appropriate extension of the cry. Usually it is without considering the local factors of labor supply, credit capacity, municipal services, and the impact on existing businesses, which are already stretching perhaps the supply of these factors. Therefore, the measure of your success in attracting new industry can be determined by reference to the success you've had in holding businesses you already have -- by their attitudes, by their willingness to expand where they are. After all, these are the businesses most easily obtained, because you already have them. Your only problem is assisting them in their growth.

"That government governs best which governs least" was an adage of political economy which was still in vogue when I was in college. It presupposed that there is a comparatively simple pattern outside of government within which the conflicting aspirations of the components of a community can be resolved. It was advanced in an uncomplicated era, when both individual and group constraints operated more effectively than they do today -- an era when our society was still equipped with built-in safety valves. I am not urging that the role of government in a positive intervenor sense be expanded, but it does seem clear to me that a distinction can still be made between this role and that of an environment conditioner. It is to this I wish to direct my closing remarks. We are urban dwellers now. The term "city" is more than a sum total of demographic factors -- it is a state of being for most Americans. Whether these individuals function effectively and creatively or not depends in large measure on the total environment in which they live. No one element of our social structure is in the position of local government to catalyze the many components of this environment.

May I dwell for a moment on this point. The enthusiasm with which we Americans attack and solve at cocktail parties the most complex of problems which have plagued the professionals is a national characteristic. Banking, school teaching, and government are three areas where every American citizen is an expert, and with little or no urging is prepared to prove it. Most of you have entered the mayor's office from another occupation, to which you expect to return sooner or later -- sooner involuntarily perhaps, but later voluntarily. I have been a banker for fourteen months -- like some of you, I suspect, I know infinitely less now than I did last April. Somehow in this period, banking and monetary policy have become enormously complicated.

"If you can't lick 'em, join 'em" is a useful instruction. Even though the American businessman is not necessarily qualified as an expert in government, education, and banking simply by virtue of his success as a seller or manufacturer of widgets, he often has an incredible curiosity about how things work, coupled with a real desire to do good -- and a seemingly inexhaustible compulsion to attend meetings. The title of this talk could be usefully modified, you know, to read "Why municipal government requires effective business and industry participation." This does not happen by accident. In the expertise of modern business hardware, in the management process itself, there are usually some outstanding businessmen in each community. That these men often know little of the processes of local or state government is less a criticism of them than local government itself. We have all had some experience with corporate management that preferred to keep the stockholders and the board ignorant and happy -- but believe me, such management deserves everything that happens to them -- and it usually does -- when the corporate crisis occurs. For if it is then necessary to go to their electorate for a decision which under the law only they can make, they are unqualified and unprepared. Little wonder it is usually a bad one for the company, and disastrous for management.

I believe this analogy is exactly on all fours with your situation. There are a number of outstanding examples where deliberate attempts to involve the business community in local government have paid off handsomely, not only in a stronger viable community, but in concrete savings as well. Yesterday's Wall Street Journal has a first-rate article on this subject.

Admittedly, it is not easy. We all have a tendency to jump too soon. It requires great tact and understanding on your part to channel the energies and enthusiasm of "take charge" men into the areas where their talents and qualifications will be most useful. Those of us who have had this experience of attempting to utilize talented, imaginative people outside their principal fields sometimes feel the same despair of a farmer trying to drive a flock of chickens up the road in a rainstorm. But if they are the only chickens you have, failure is really unthinkable.

There is another old homily referring to the need for "deeds not words", which I suspect could be reversed in this particular. Perhaps we need more words and fewer deeds. There is a French phrase referring to the dialogue of the deaf. In many respects, the elements of the local community are deaf people trying to converse with each other. As I mentioned earlier, there have been many attempts through forums to establish patterns of communication, to break down group barriers; but because these generally start from a point of special interest, they usually function somewhat less than effectively. What better central exchange of communication should exist in the city than the people in local government, whose efforts ultimately are directed by law as well as by custom to making the city function as a unit. Communication is the magic word in community development -- the creation of an environment in which people can live and work creatively.

I found a fifteenth century quotation which seemed to express what I have been attempting to say better than any of the modern references I consulted. "Divine nature gave the fields, human art built the cities." "Art" is defined in the new Oxford Dictionary as: "Skill, esp. applied to design, representation, or imaginative creation." This is the science of

government. With its exercise in a total sense, economic growth will occur. In its absence, a city will not only fail to grow, but will lose its existing industries. It's as simple as that.