

STATE LIMITS TO GROWTH

A Discussion Paper
for the
August 16, 1974
Meeting of the

National Legislative Conference
Albuquerque Conference Center
Albuquerque, New Mexico

by

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It's indeed an honor to be invited to participate in this National Legislative Conference. Coming as I do from a background with the Federal Reserve System, I have frankly had little occasion to become acquainted with the processes of state government except in the abstract, nor, more importantly, with state legislators.

For the past year, however, I have had the privilege of serving with the Commission on Minnesota's Future, and have come to know at first hand the dedication and concern of the twelve legislative members of that Commission. As in every walk of life, I'm sure there are both saints and scoundrels among elected representatives. Unfortunately, the legacy of Watergate has given the public at large the impression that the scoundrels predominate. That is certainly not my experience. Indeed, I believe that conferences such as this one are witness to the continuing efforts to find better ways of serving the constituencies you represent.

One brief word of local pride, if I may. I'm naturally delighted that the Conference has seen fit to select Marty Sabo, Speaker of the Minnesota House, as its chairman this year. He's clearly one of the bright young leaders of our future, and deserves this fine recognition.

The subject of this particular session is "State Limits to Growth." In thinking about the topic, I couldn't help noticing how differently we are inclined to approach the subject today than we did even twenty years ago. Growth in output, as measured by the Gross National Product, used to be the uncontested standard for judging success. More "things" automatically implied

a rising standard of living. Since it took people to produce "things," more things also implied more jobs, and more jobs meant full employment.

Though we still have a deeply-felt commitment to full employment, we have changed our notions about growth as traditionally defined. First, we have become increasingly aware of the adverse side effects of untrammelled growth in terms of pollution and environmental degradation. Second, we have come face to face with the spectre of dwindling natural resources, both in the abstract in such concepts as "The Closing Circle," "Planet Earth," "Limits to Growth," etc., and in concrete terms with sudden energy shortages.

Partly as a result, growth has come to be seen not as an unmixed blessing, but as a question of balance. Emphasis has shifted from standard of living to quality of life, and from economic indicators to social indicators in a broader sense. In fact, in thinking about the topic "State Limits to Growth," I wondered whether the planners of the Conference were interested in finding ways to overcome limits to state growth, or whether, on the contrary, they were seeking guidance on how one could limit state growth! In some sense, they probably meant both.

Limits to growth is not a new concept, although it has recently taken on new overtones in the process of becoming a popular slogan. In a fundamental sense, of course, economic questions since the beginning of time have tried to deal with the issues raised by unsatisfied wants on the one hand, and limited resources on the other. Whether it's the family budget or the national product, we are continually faced with choices involving more now versus more later, more of this and less of that, etc. And when these choices are made consciously rather than unconsciously, we almost inevitably find ourselves in the business

of making lists, assigning priorities, and in general trying to cope with the problems of limited resources.

What, then, can be said about state limits to growth? I'd like to consider briefly four types of "limits" with which policy-makers must contend in working through a philosophy and practical approach to questions of growth: 1) natural resources; 2) people; 3) outside influences; and 4) time.

I suppose the most obvious kind of limit, or constraint, or determinant, if you will, of state growth is resource endowment. Certainly, if one looks at the history of Minnesota, it's hard to escape the fact that much of that state's present pattern of life is a legacy of its position at the headwaters of the Mississippi River, hence a transportation hub; a grain growing area and hence a flour milling center; a source of first lumber and now of paper products; and of course the nation's provider of first iron ore and now taconite. The state's resource endowment, in other words, was both a stimulus to growth in certain areas, and a limit on growth in other ways. Minnesota doesn't grow bananas, for instance.

Yet resource endowment is perhaps less of a constraint on state growth today than it was in the past. It doesn't explain, for example, why Minnesota should have become a major center for the computer industry. But somehow this very break with a resource-oriented past symbolizes the fact that technological change is a widely recognized means for freeing us from resource limitations. Indeed, as the nation as a whole becomes more oriented toward the service industries -- away from primary activities such as mining and agriculture, and into the so-called post-industrial society -- one would assume that the links between a state's income and wealth and its traditional

natural resource base would become increasingly tenuous. It's also true that with changing values and relative scarcities, we now consider as natural resources such things as clean air, clean water, open spaces, and wilderness areas that were previously thought of as free goods, when they were thought of at all.

In a different sense, state governments have become much bolder in limiting growth despite resource endowments. Again to take an example from Minnesota, you have probably read about the famous case of the Reserve Mining Company and the state's efforts to halt the dumping of 67,000 tons a day of taconite tailings into Lake Superior, even at the possible cost of several thousand jobs in an area of the state where jobs are far from plentiful. Similarly, one of the most important and difficult decisions facing Minnesota legislators is whether, and on what terms, to permit exploration and development of apparently large copper-nickle ore deposits across the northern tier of the state. Many other states face similar choices on natural resource developments, petroleum refineries, deep-water ports, power plant sitings, and on and on. We have reached a time, in other words, when natural resources are no longer a necessary condition for growth within a state, nor indeed a sufficient condition if the residents decide to forego growth by leaving resources unexploited.

A different sort of limit on state growth grows out of population patterns and trends. In a crude sense, of course, one can think of growth simply as an increasing headcount. Again, however, our yardsticks are changing. More is no longer necessarily better. At the least, income per capita is taken

as the measure of well-being and growth, not total income. And if we knew how to measure it, I suppose we'd prefer a quality of life index.

There's no point in listing here all the characteristics of demographic patterns, but it is relevant, I think, to point out their potential influence on state growth. Migration rates, population distribution patterns, age characteristics and dependency ratios, education levels and other attributes of a state's population determine to some extent its potential -- and its limits -- for growth. Some of these characteristics can be influenced by public policies, others much less so. For example, for all the talk of discouraging immigration into certain states, I'm not aware of specific policies designed to accomplish this purpose, nor any evidence of the effectiveness of propaganda in this regard. In other instances, states provide high quality education for their residents only to find the best trained students leaving for jobs in other parts of the country. Similarly, there's much talk and some public effort to counter the migration from the countryside to the cities, or from the inner cities to the suburbs. But again I'm not aware of any substantial reversal of trends brought about by such policies, despite isolated cases of factories in the countryside.

One other characteristic of a state's population that's much harder to get a handle on, and yet may be as important as any other in determining growth and its quality, and that's leadership. Every one of you, I'm sure, could cite examples of towns or districts in your states that stand out from the rest, or are different from their neighbors, simply because a few individuals got together and made something happen. The same thing is true, I believe, on a larger scale at the state level. There've been many studies that have tried to identify the characteristics of leadership and how one goes about developing

it, but no one, to my knowledge, has yet hit upon a workable formula. At the same time, it's axiomatic that without good leadership, in either the public or the private sectors -- and of course preferably both -- growth can be stifled.

A third kind of limit on growth within a state relates to what's going on outside its borders. No geographical unit is an island, insulated from the world around it. This is obvious in so many ways. The Russian crop failure in 1972, for example, certainly had a pervasive impact on growth of incomes in our agricultural region. Likewise, in a different sense, the decision of oil exporting Middle Eastern countries first to embargo petroleum shipments to the U.S., and then to raise prices manyfold has had a profound effect on all developed countries. Even within this country, it has had substantially differing impacts on different states, depending on whether they were net oil producers or oil consumers.

State legislators hardly need to be reminded that what goes on in Washington can affect the growth of their states profoundly. Where defense contracts are placed, or other public works projects are awarded are cases in point. The shape and size of housing programs, rural development programs, urban renewal programs, and the long string of other federally funded programs will either promote or limit state growth, sometimes quite unexpectedly. And quite apart from government program levels, the overall state of the nation's economy will determine in large measure the pace of growth in the constituent parts.

It's also clear that the options open to any given state are determined to some extent by what its neighbors and competitors are doing. I have

in mind, for example, that differing tax levels and structures among various states do have some influence -- through it's not clear how much -- on locational choices by business. Similarly, if one state chooses to step out ahead of national norms on air and water pollution standards, it has to expect that some industries that might otherwise have expanded within its borders may choose to move next door. The same may be true for power plant sitings, and other investments usually thought of as spurring economic growth.

In sum, there are limits on state growth imposed by the outside economic environment, and by the competition of other states with differing philosophies of development.

Finally, there's a different sort of limit on state growth that has to do with time spans. When any of us gets a good idea, we usually want to implement it right away. Moreover, we've been taught that we live in a society of instant gratification, that the pace of change, in technology at least, is so rapid that we are suffering from future shock, that if we only had the will, we could bring the fruits of advanced ideas to all men, and moreover, that unless we hurry up and make changes soon, we'll drown in our own filth or run out of resources. Both the positive and negative inducements to rapid change, in other words, push us hard to find answers and implement programs.

Yet all of you share, I'm sure, the sense of frustration that comes from seeing some things change only slowly, and sometimes not at all. Despite our cult of quick solutions, we find that the course of human events is largely predetermined at any given point in time. This is true, of course, in an economic sense in that our capital structures -- our investments in plant and equipment, in cities and transportation systems, in housing and cultivated land -- are the

legacy of decades, if not generations. One does not replace or transform these overnight. Similarly, there is a great momentum -- or inertia, as the case may be -- in what might be called our institutional arrangements: the way we order our lives, the incentives to which we respond, our attitudes toward life and how we want to live it. These investments, then, in things and in ideas, limit the scope and pace of growth and change within the state at any point in time.

To recapitulate, the limits to state growth as I see them can be divided into four categories:

1. natural resource endowment;
2. population characteristics;
3. what's going on outside the state; and
4. the inertia that efforts toward change must overcome.

I'm sure that any one of you might analyze the issues differently, and equally validly. The important question, though is why you as state legislators are concerned about limits to growth in your state. The answer, I think, is probably twofold. First, many of you are being called upon to set limits to certain kinds of growth in your states, growth that your constituents no longer find acceptable for environmental or other reasons. Efforts at land use planning are a case in point. At the same time, you are expected to assure full employment, rising standards of living, better public services, and much, much more. Like they say, nobody ever promised you a rose garden, nor that the demands of the electorate would be reasonable, compatible or consistent!

The political arena has always been the place where conflicting demands have come head to head, to be reconciled or compromised. In this sense, the limits to growth questions are no different from those you and your predecessors have wrestled with in the past. But I do sense a new urgency in trying to deal with

the questions in a broader framework than heretofore. Previously, our frontier heritage permitted us the luxury of making decisions piecemeal, in isolation, without worrying too much about the side effects on other places, other people, or the next generation. We learn daily, however, that everything seems to be connected to everything else, that there are feedbacks in the system, whether biological, ecological, economic, or social that have to be taken into account, and that the margin for error seems to be diminishing. So we are being forced to take a broader look at the consequences of our decisions -- broader in two dimensions: first, integrating the whole spectrum of interacting issues that determine the quality of life today; and second, a conscious weighing of the tradeoffs between quality of life today, and quality of life tomorrow.

This perceived need to expand the framework within which intelligent decision-making can take place has been the genesis, I believe, of increasing efforts in various states in the last few years to plan more systematically for the future. Different states have responded in different ways. I don't think that any of the efforts to date can claim great results -- certainly we in Minnesota are at too early a stage to predict with confidence that we're on the right track. Yet I somehow think the efforts must continue, because the need is so evident.

Against that background, let me describe what the Commission on Minnesota's Future is, how it's going about its task, and what kind of results it hopes to achieve. Rather than discuss in detail the establishment of the Commission, its membership, duties, etc., let me refer those of you who are interested to a booklet called Minnesota's Future that provides this information. The key characteristics, it seems to me are these: 1) the forty citizen-members

appointed by the governor represent a broad cross-section of the state's residents, geographically, ethnically, age-wise and so on; 2) the twelve legislators -- six from each house selected on a bipartisan basis -- are playing an active role in the Commission's deliberations; 3) the Commission is funded by the legislature for two years and has an expected life of four years; 4) staffing is provided by the State Planning Agency; 5) the mandate is broad enough to permit an all-encompassing look at the factors that are likely to be important to the state's future; and 6) the ex-officio membership of the state's economic development region chairmen provides important input from across the state, and a channel of communication about the Commission's work to key local officials.

Following organizational meetings in October 1973 and January of this year, the Commission divided itself into four working committees, somewhat along the lines of the California Tomorrow plan: a committee looking at natural resources; a committee looking at man-made structures, such as housing, urban centers, transportation systems etc.; a committee looking at human needs, such as health care, education, employment opportunities, etc.; and finally, a committee looking at structures of governance, how decisions affecting the public are made, in both the public and private sectors. In each case, the intent is to learn about the way the system is operating at present, determine what major trends or changes seem to be occurring, assess the desirability of the probable future as it seems to be unfolding, identify alternative futures and the public policy measures required to bring them about. Our structure, in other words, is designed to cover the waterfront of issues affecting the quality of life today, and to take a bearing on the future.

Quite frankly, the task at times seems almost overwhelming. While we have been doing a good deal of thinking about how we might best communicate with

broad groups of citizens about our work, we have consciously deferred going to the public at large for their ideas until we had better defined in our own minds the key issue areas and key questions that ought to be asked, and how we might best set out the trade-offs that almost always are involved.

We are just now in the process of putting together our first interim report to the Governor and the legislature. We intend to use that document to give focus to our own thoughts, as well as to try to justify, to ourselves as much as to the legislature, that our efforts to wrestle the future into manageable bite-sized, prioritized alternatives are likely to bear fruit. We intend the report, likewise, to serve as the basis for communicating key questions to the public. This is a tall order, and we'll all feel a sense of relief and accomplishment if we can pull it off.

In a very real sense, one could think of our task on the Commission as one of searching for critical limits -- on the one hand identifying those negative limits that stand in the way of our growth toward the lifestyle we desire; on the other hand, recommending positive limits to growth of a kind we're no longer prepared to permit. Even assuming we can agree on such limits, and find acceptable public policy options that may help us to deal with them, we recognize that movement in the desired directions by the state will, in turn, be limited by the outside environment in which we're operating, and the inertia of our past. Growth, as I said at the outset, is a question of balance. The only way to achieve balance is to put all the evidence on the scales -- that's what the Commission on Minnesota's Future is trying to do.

I must say I'm greatly encouraged by the strong support of our legislative members. They are our best assurance that the Commission can lead to concrete results. At the same time, they have urged us not to be bound by

traditional ways of thinking. And with great practical foresight, they have warned that despite our best efforts, we will not be able to identify all the major trends of the future, and have therefore urged that we consider recommendations for an ongoing process that will continuously update the type of broad look at the future -- and desired futures -- in which we are now engaged.