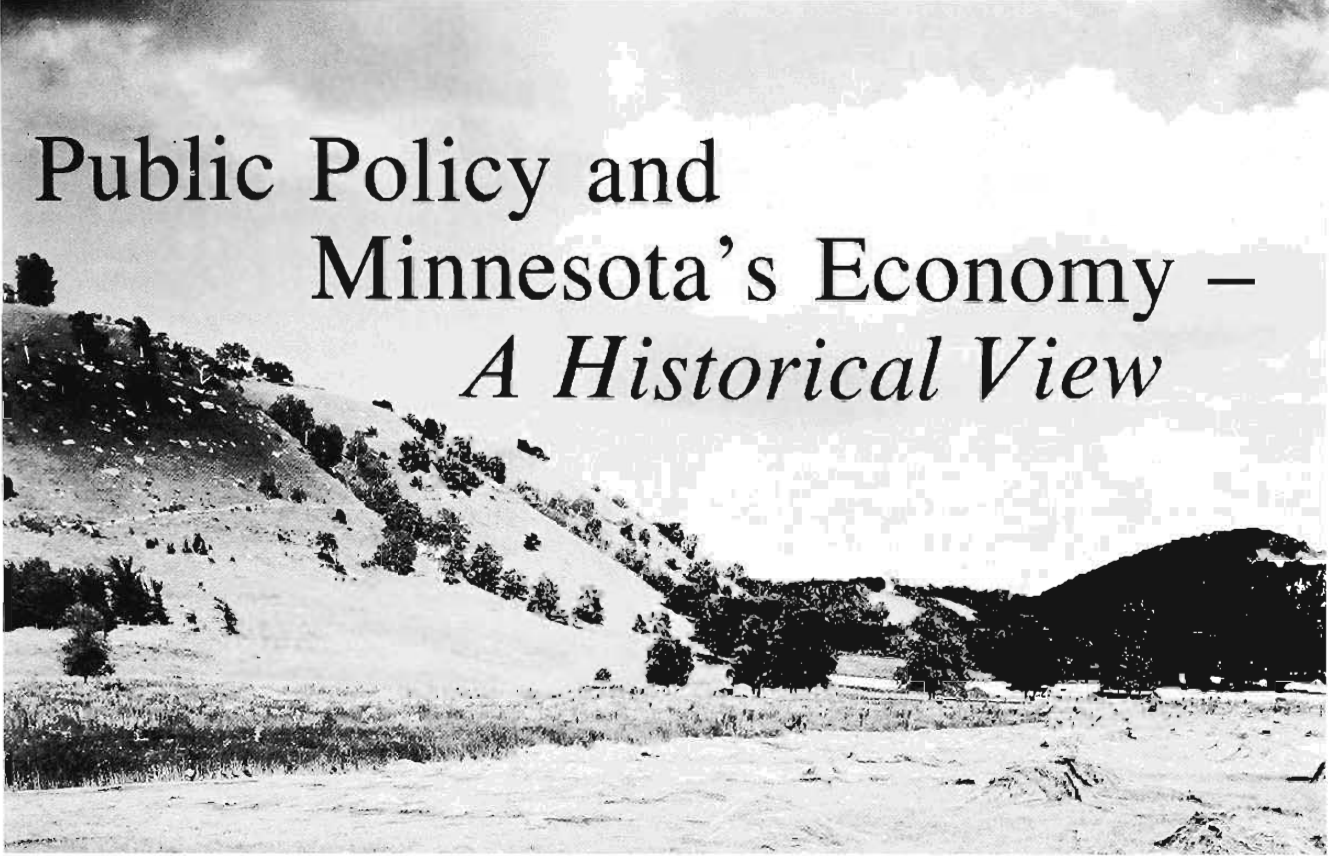


Public Policy and Minnesota's Economy – *A Historical View*



Russell W. Fridley

MR. FRIDLEY, director of the Minnesota Historical Society, made a somewhat shorter version of the following talk on January 14, 1975, at the auditorium of St. Paul Area Technical Vocational Institute as part of a three-day presentation to the Minnesota legislature called "Minnesota Horizons." More specifically, Mr. Fridley spoke at the "Economy" session which also included remarks by Bruce MacLaury, co-chairperson of the Commission on Minnesota's Future and president of the Ninth Federal Reserve District, and John L. Brandl, director of the School of Public Affairs at the University of Minnesota. Sponsors of the event were the Minnesota legislature, the Minnesota State Planning Agency, and the Commission on Minnesota's Future. The object of "Minnesota Horizons" was to give individual legislators opportunity to participate in a comprehensive review of where we are as a state and also to inform the public of trends through broadcasts of the sessions by the Midwestern Educational Television network, Minnesota Public Radio, and radio station KUOM of the University of Minnesota. A publication of summaries of the "Horizons" symposium is available for \$7.80 at the state's Documents Section, 140 Centennial Office Building, St. Paul 55106.

TRACING THE INTERACTION of public policy and the economy of Minnesota over the more than a century

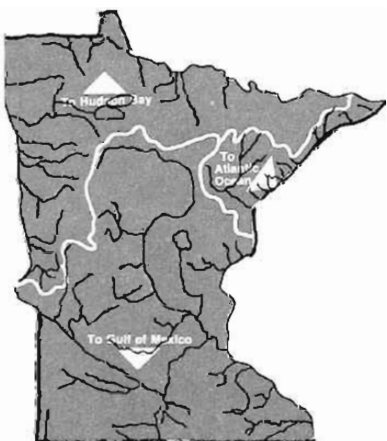
that has elapsed since the state was created in 1858 would require more wisdom than I possess and more talking than you would want to hear. So before you get too worried, let me say that I am going to touch on only a few aspects of a very large subject.

I would like to start by calling your attention to two figures. In 1850, census takers counted 6,077 people living in Minnesota. For the most part, this figure refers to the white population, since only a few of the area's Indian residents were included. A hundred years later, census takers in 1950 counted 2,982,483 Minnesotans. The century from 1850 to 1950 saw the transformation of a wilderness frontier territory on the fringes of American settlement into the modern state of Minnesota — a state known for its strong commitment to education, its skilled, healthy work force, its independent and open politics, its diversified economy, its progressive taxation, its cultural advantages, and its high "quality of life." Public decisions did much to bring about that transformation. Let us look at a few examples.

We tend to take for granted the geography of Minnesota. But party politics and public policy determined the size and shape of the state. Had its boundaries been drawn as suggested by one formidable group who dominated the settled southeastern portion of the state in the late 1850s, Minnesota would have been an agricultural state shaped much like South Dakota.



MINNESOTA would have had a horizontal shape, like the tinted portion of this map, if proponents of an east-west boundary line, marked by the forty-sixth parallel, had had their way.



THE STATE contains three great continental watersheds. The headwaters of the Mississippi flow south to the Gulf of Mexico, the Red River flows north to Hudson Bay, and water in north-eastern Minnesota flows to the Atlantic Ocean by way of the Great Lakes.

The problem began to develop in 1856 when statehood came to be seriously considered for Minnesota. It had been a territory since 1849 — a large territory encompassing much of what is now North Dakota and South Dakota — and by the mid-1850s its people began to think that it had acquired sufficient population to merit becoming a state. An important question developed: Which political party was to be the first to govern the state upon its admission? At that time the Democrats were in power in Washington, but the southern portion of Minnesota, which had by far the greater number of settlers, was dominated by Republicans. In general they favored making the southern half of the territory into a state, cutting off the northern half by an east-west line extending from the St. Croix River westward near such present-day communities as Hinckley, Little Falls, and Elbow Lake on to the Missouri River.

This struggle to determine the shape of the state was a dramatic one. To a considerable extent, it was a battle between economic interests — an east-west faction motivated largely by railroad interests and a north-south faction largely of fur traders. The east-west planners hoped to build a railroad from Winona to St. Peter, and continue it to the Missouri River. They expected to move the state capital from St. Paul to St. Peter, and they probably had enough votes in the 1857 territorial legislature to do it. But their plans were frustrated by perhaps the most colorful and famous of early predecessors of today's legislators — Democrat Joe Rolette, a fur trader — councilman from Pembina, who disappeared with the enrolled bill to remove the capital from St. Paul and hid in a hotel until the legislature adjourned. He thus saved the capital for St. Paul. You can see Joe Rolette, covered with furs, still hanging in the State Capitol — his portrait, that is.

Although there is a lot more to the story, suffice it to say that while the east-west faction was striving to gain its ends in Minnesota the territorial delegate to Congress — Democrat Henry M. Rice, another fur trader — was diligently at work in Washington, D.C. He introduced into Congress a hastily prepared bill to enable Minnesota to adopt a constitution and become a state with longer north-south boundaries. On February 26, 1857, Congress accepted Rice's proposal and drew the boundaries as they are today.

This public decision made 118 years ago profoundly influenced the course of Minnesota's economic history, for it determined the state's remarkable combination of natural resources — soil, timber, water, and minerals. The outcome of that boundary battle made it possible for us to develop the relatively recession-resistant, diversified economy we now enjoy. It gave us iron mining, a big chunk of forest-related industries, the rich lands of the Red River Valley, and a good share of the more than 10,000 lakes now so attractive to tourists as well as Minnesota's own citizens. Although we are concerned about their pollution, we are not currently worried about the abundance of our water supplies. One out of every twenty acres in the state is water.

Within Minnesota's borders lie the headwaters of three of North America's great watersheds — the Mississippi flowing south to the Gulf of Mexico, the Red River flowing north into Hudson Bay, and the lakes and streams of northeastern Minnesota and Lake Superior draining toward the Atlantic Ocean. This fortunate geographical factor early became important in the area's history, making it a focal point in the fur trade — Minnesota's first big business. The vast network of interconnected lakes and streams left by the receding glaciers were the reason British troops were stationed on Minnesota soil during the Revolutionary War. They were quartered at Grand Portage on the North Shore of Lake Superior because of the importance of that major fur trade post, which is now a national monument. And, except for postwar actions regarding the northern border, that is about the only historical connection with the American Revolution we can brag about now that the nation is marking its bicentennial.

The state's location at this crossroads of water thoroughfares made Minnesota a hub of pioneer transportation, and it continues to affect our economy to this day. Minnesota sits on the crest of the Middle West — a plateau containing the divides of three great continental watersheds — and had ample water power in a century unconcerned about oil or oil shortages. The waters of the Falls of St. Anthony, for example, powered the first mills to saw lumber and grind flour for the garrison at Fort Snelling in the 1820s.

The state was equally fortunate in the quantity and quality of its land. For one

thing, it has quite a lot of it — 84,068 square miles compared with 1,214 square miles in the small state of Rhode Island. And the varied lands within its borders have been responsible for the development of such major industries as lumbering, agriculture, iron mining, tourism, granite, limestone, sand, and gravel, to mention only a few.

Geographically, Minnesota is located in a climatic transition zone composed of pine forest, the hardwood forest known to the pioneers as the Big Woods, and prairie. Its climate, which is the subject of so much conversation, has varied at its all-time extremes from a high of 114 above to 59 degrees below zero — a range of 173 degrees.

NEXT TO the fur trade, lumbering is Minnesota's oldest major industry. The pine forest covering the northeastern third of the state provided the basis of Minnesota's lumbering and forest-products industries. In more recent times it has also become a valuable tourist attraction. Public policy — and sometimes the lack of public policy — had much to do with the evolution of both industries.

Minnesota's first commercial sawmill was built in 1839 at Marine on St. Croix by two men from Illinois and a tanner from Vermont. In 1856 a group of enterprising lumbermen from Maine constructed a boom at Stillwater to sort the harvest of white pine logs. During its existence this boom handled over fifteen and a half billion feet of white pine. From the beginning in the St. Croix Valley, the loggers gradually fanned out northward toward the Canadian border, and places like Duluth, Cloquet, Virginia, and Grand Rapids replaced earlier milling centers at Stillwater, Minneapolis, and Winona. Millions of logs were rafted down the Mississippi to St. Louis, and millions more were sawed and sold as lumber. White pine from Minnesota built towns, cities, and farms across the treeless plains of Iowa, Kansas, and Nebraska. People believed that the supply was inexhaustible. Only a few gave any thought to long-range consequences.

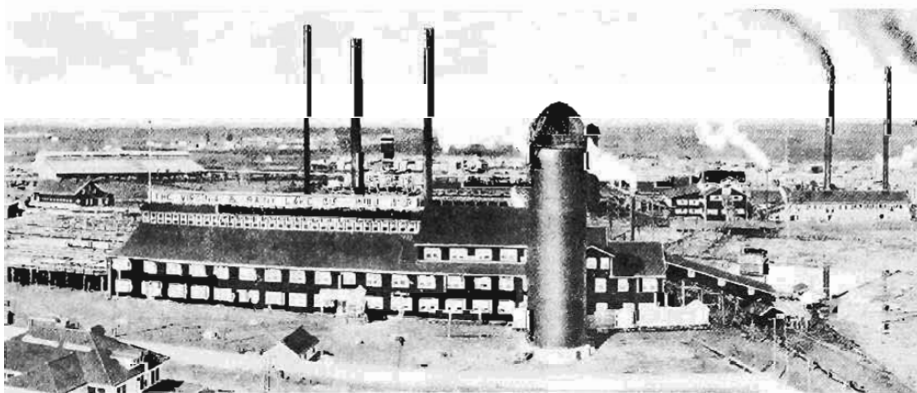
Both public policy and public opinion not only encouraged but indeed demanded that this harvest be cut as rapidly as possible. To the swift went the profits, and for many years people did not question that he who got there first deserved them. Nor did they be-

lieve that such profits should be shared to any great extent through taxes. The idea of conserving and taxing natural resources belongs largely to the twentieth century.

The state's attitude toward the lumbermen of the nineteenth century was benevolent and encouraging. As early as 1863 the Minnesota legislature permitted the cutting of timber on state school lands if it would promote the interests of the school fund. The "stumpage system" of taxation that became state policy opened a channel whereby lumbermen could cut coveted white pine without owning the land on which it grew. Even if they bought it, they usually paid only the homestead rate of \$1.25 an acre.

When Christopher C. Andrews asked the St. Paul Chamber of Commerce in 1880 to memorialize Congress for a grant of land to endow a school of forestry, Minnesotans could not believe that there would ever be a shortage of timber. In fact, little thought was given to the long-range consequences of these policies until a forest fire completely destroyed the village of Hinckley and killed more than 400 people. Andrews renewed his appeal for the public control of forests and the perpetuation of forest growth. The 1895 legislature listened willingly and on April 18, 1895, passed a bill "for the preservation of forests of this state and for the prevention and suppression of forest and prairie fires." Andrews, who thirty years earlier commanded the Third Minnesota Regiment in the Civil War, was appointed chief state fire warden at a salary of \$1,200 a year, and he embarked upon the long and distinguished career that earned him the title, "Apostle of Minnesota Forestry." By 1911 he estimated

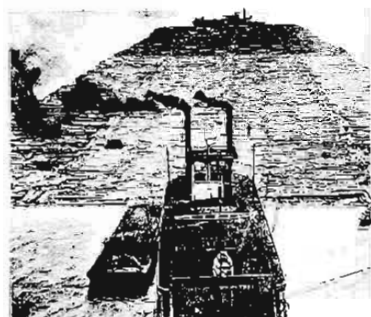
THE VIRGINIA & Rainy Lake Company's mill number 3, located at Virginia, was an enormous, sprawling plant. Only part of it is shown.



TOURISM is a major industry, especially in northern Minnesota with its abundance of lakes.



A HORSE-DRAWN logging sled hauls cut pine.



RAFTING A BOOM on the St. Croix from Stillwater to the Mississippi, about 1910

that he was presiding over timber worth a hundred million dollars, of which fifteen million dollars' worth belonged to the state of Minnesota.

One of the earliest blocks of this land was given to the state in 1899 by John S. Pillsbury, who presented a thousand acres of cutover pineland in Cass County, to which the legislature added some 2,000 acres of tax-forfeited lands to create a "forest reserve." In 1905 the state received for forestry purposes a gift from Congress of 20,000 acres of land in St. Louis County. In 1911 the legislature turned over to the state forestry board the management of all Minnesota's state forestry reserves and authorized the board to appoint a trained forester.

By that time Andrews was eighty-two years old. The board appointed a younger man as state forester, naming Andrews to the less demanding job of secretary. He continued to serve faithfully until his death in 1922, having launched not only the state's forest-fire protection system but also its reforestation and the projects that resulted in the creation of Chippewa National Forest in 1902 and Superior National Forest in 1909. By 1928 the higher lands of Chippewa National Forest were already well covered with what one historian called "a thrifty growth of pine."

At the time of Andrews' death, the heyday of white pine in Minnesota was over. The peak of its production in the state occurred in 1905. After that the supply of this timber ran out. The last log went through the Stillwater boom on July 12, 1914. But gradually the twentieth century found uses for the second-growth trees while it planted faster-growing spruce and red and jack pine. Today Minnesota's forest products constitute the state's fifth largest industry. Jack pine and poplar yield pulpwood for paper and building board. Other products include Christmas trees, posts and poles, railroad ties, and fuel wood.

Indirectly the heyday of white pine exerts a continuing influence on Minnesota's economy, for it contributed to the large amount of land in public ownership. Twenty per cent of Minnesota's land area is in the public domain. For its relative age — 118 years — no state possesses so much public land. White pine lumbering was not wholly responsible. Other factors included the re-

moteness of forest areas from land sought for farming, the cold climate, and sparsely settled areas. Public policy also played a role. The same Enabling Act of 1857 that drew Minnesota's boundaries laid a generous base by granting the state two sections out of every thirty-six-section township for school lands, plus additional lands for public roads, a university, and other internal improvements. The beneficent effects of these grants have continued throughout the state's history. And there have been other additions. For example, enlightened legislators in the 1930s created thirteen new state forests by grouping tax-delinquent lands, many of them cutover pinelands. Unquestionably, this feature of the state patrimony has influenced the growth of Minnesota as a haven for vacationers, helping to promote the increasing prominence of the tourist industry in the twentieth century.

BECAUSE THEY were not discovered until the closing decades of the nineteenth century, Minnesota's high-grade iron ores were exploited under economic policies that reflected the slowly changing attitudes toward natural resources. Although a general awareness of the presence of such minerals as iron and copper in northern Minnesota existed as early as the 1850s, the first iron mine to be opened in Minnesota was the Soudan on the Vermilion Range in 1884. Three years earlier, George C. Stone, a Duluth promoter who had been active in a campaign to attract "foreign" capital to Minnesota, had induced the 1881 legislature to enact a tax of only a penny per ton, in lieu of all other taxes, upon any ore that might be mined. This remarkable concession was considered justified by the risks involved in opening new mines; in fact, the measure was entitled "Act to encourage mining in this state."

Not until 1890 was the potential wealth of the Mesabi Range discovered, but thereafter it was rapidly developed. On the Mesabi the ore lay near the surface in large, soft, rich pockets. It could be scooped out of open pits at first by armies of unskilled laborers, later with heavy machinery. And scoop they did. Of the two and one-half billion tons of ore taken from Minnesota since mining began here, all but a small portion has come from the Mesabi.



LUMBER PILES at Cloquet.



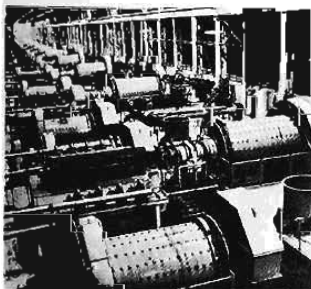
G. C. ANDREWS



THIS IRON MINE at Hibbing was the largest open pit mine in the world. The picture was taken about 1930.



A MINER bars down loose iron ore in the underground mine at Soudan, about 1936.



MILLS GRIND taconite to the fineness of flour in the E. W. Davis Works at Reserve Mining Company, Silver Bay.

Throughout the years the state made intermittent efforts to devise a satisfactory tax system for iron ore. The 1881 tax policy designed to encourage mining was declared unconstitutional in 1896. A year later a modest ad valorem tax was substituted. It was levied and collected by the state but shared with county and local governments in the range area. Even today one can see the impressive schools, parks, and other public improvements in the range cities financed by these taxes.

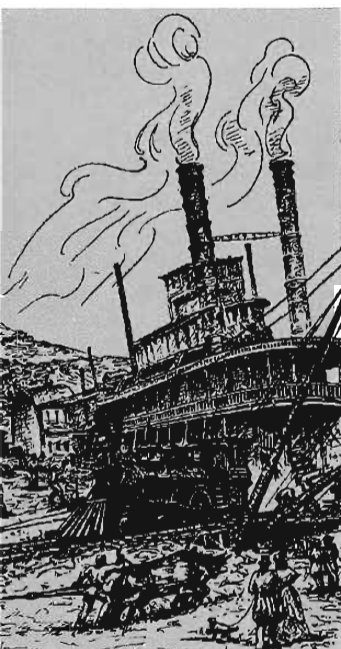
In 1906 Minnesota's constitution was amended so that mining lands might be taxed on a par with other properties, and in ensuing years numerous efforts were made to alter the tax system. In 1913 a classification law was passed permitting ore properties to be assessed for tax purposes at 50 per cent of full and true value, a percentage higher than that then applied to urban real estate. The efforts to alter the tax system on iron ore reflected a growing sentiment favoring the "natural heritage" principle that private enterprise should share with the commonwealth a larger portion of the profits derived from an unrenovable natural resource. But it was difficult to find an acceptable formula beyond the ad valorem taxes. Tonnage taxes and royalty measures were passed, then vetoed in 1909 and 1919. A constitutional amendment of 1922 authorized a 6 per cent occupation tax on the value of the iron. The next year a 6 per cent royalty tax was added, with half of the funds slated for the state's permanent trust funds for schools, internal improvements, and so forth. Later additions and surtaxes to the occupation and royalty taxes elevated them to about 14¼ per cent.

Minnesota's propensity to write taxation measures into its constitution is somewhat unusual. It did so for both iron ore and railroads. More recently, after World War II exhausted the state's high-grade ores, public policy played a leading part in the development of taconite and other low-grade ores. It did this in two ways: by financing the work of the University of Minnesota's Mines Experiment Station, established in 1911, and by passing the taconite amendment to the constitution in 1964. Taconite had been known to exist for about a hundred years, and as early as 1910 sizable shipments of ore concentrates were being made. In 1913 E. W. Davis became interested in the magnetic taconite ores of the eastern Mesabi, and over the years he worked at the experiment station to devise ways to make this extremely hard ore usable. Progress was slow, but by 1941 the prospects seemed sufficiently favorable to engage attention. The 1941 legislature exempted taconite companies from the traditional ad valorem tax and established a fixed tax per ton on pellets actually shipped. The taconite industry was also required to pay occupation and royalty taxes, although at a reduced rate. In the next twenty years taconite plants were built and expanded at Silver Bay and Hoyt Lakes. Others for non-magnetic, semitaconite ores appeared at Biwabik, Chisholm, Coleraine, Ely, Grand Rapids, and Nashwauk; a 1959 state law extended tax benefits to semitaconite. These benefits were made considerably more permanent by one of the most dramatic examples of the effects of public policy on the economy of the state — the 1964 taconite amendment which wrote into the state constitution protection for one industry in order to increase employment and economically revive the depressed range area.

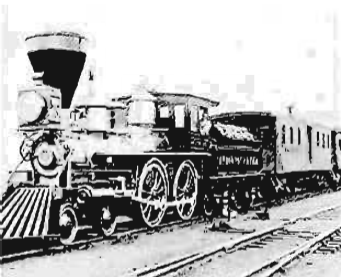
LESS DRAMATIC but no less important to the state's economic history is transportation, a key area affected by public policy over a much longer period of time. In general both state and federal policies in the mid-1800s encouraged the development of water and land transportation across the nation. In Minnesota few economic problems in the 1850s occasioned greater interest and concern than transportation. As settlement moved out from friendly riverbanks, faster and better means of getting from place to



AERIAL VIEW of Reserve Mining Company some years ago.



THE WILLIAM CROOKS engine is unloaded from the steamboat "Alhambra" at St. Paul, September 9, 1861.



THE WILLIAM CROOKS pulls cars.

place were vital to growth, developing industry and markets, and the fabric of society and government.

When Minnesota became a state in 1858, its principal roads were the river systems. On land, the famous Red River Trails linked the growing settlements near Fort Snelling with the British colonies in present-day Manitoba, and five so-called "military roads" which laid the foundations of our modern highway system had been built by federal funds in Minnesota's territorial period. Though supposedly needed for "the defense of the frontier," the roads' real purpose — much like our modern interstate highway system — was to aid commerce and settlement. The most important one connected Lake Superior with the head of steamboat navigation on the Mississippi at St. Paul.

But most of all pioneer Minnesotans wanted railroads. In an effort to capture the "iron horse," territorial legislators authorized a \$5,000,000 loan for railroad construction. This initiative did not produce a single mile of track in the 1850s, although it was responsible for a cartoon which is the first known reference to Minnesota as "the Gopher state." It also saddled the young region with a burdensome debt — a problem that was not resolved until the 1870s. The first rail line in the state, over which the engine called the "William Crooks" ran a scant ten miles between St. Paul and the settlement that became Minneapolis, materialized in 1862. After that, Minnesota, like most western states, matured as the tracks progressed. Vast areas were given away in the form of land grants to encourage railroad construction. The locations of towns and the prosperity of whole sections were determined by where the rails went. As almost the sole means of long-distance travel and transportation in the nineteenth century, railroads wielded immense power.

By the 1870s rails had been flung south, southwest, west, and northwest from the Twin Cities, and connections to Milwaukee and Chicago had been achieved. The state was well on its way to a rail network that embraced more than 9,000 miles by the 1920s. Three transcontinental lines linked the Twin Cities with the West Coast. The expansionist dreams of early Minnesota promoters had come true.

Like attitudes toward natural resources,

public policies and public sentiment concerning railroads began to change in the 1870s. Increasingly heard were calls for the intervention of government to regulate the rates farmers paid to ship their grain to market. To understand this agrarian protest, which continues to affect attitudes and public policies even today, it is necessary to look briefly at Minnesota agriculture — the state's dominant economic activity during the first hundred years of its existence.

BETWEEN 1850 and 1880 the railroads carried throughout Minnesota several great waves of European immigrants who were often lured to settle in the area by state-supported advertising and other settlement schemes. By 1880 some 70 per cent of Minnesota's people were either immigrants or the children of immigrants. Most of these immigrants were farmers, and with their coming agriculture became the dominant occupation in the state.

The first farms were diversified and largely self-sufficient. Cash crops were unimportant because of the lack of transportation to carry them to market. High prices during the Civil War, however, encouraged the growing of wheat, especially in southeastern Minnesota, where the rugged hillsides were tailor-made for water-powered gristmills and the grain could be taken by wagon to river ports along the Mississippi.

The building of railroads, the productivity of the virgin soil, and the increasing use of farm machinery further stimulated wheat production, and during the 1870s settlement and railroads extended to the Red River Valley. There, the vast acres of flat, rich land led to the first experiments with large-scale, semimechanized agriculture — the famous bonanza wheat farms. Minnesota soon became the nation's leading producer of wheat, and Minneapolis became its flour-milling capital.

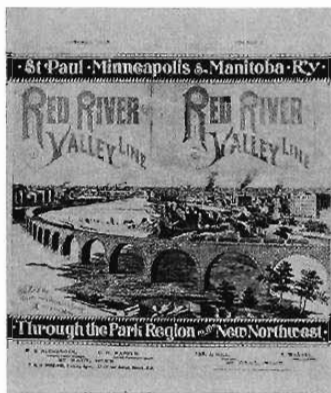
The agrarian movement begun in the 1870s represented one aspect of the farmers' efforts to extricate themselves from the one-crop dominance of wheat and the trade practices that favored the market rather than the farmer. The agrarian crusade was first ignited by the Granger movement founded by Minnesotan Oliver H. Kelley, whose home near Elk River is now a state historic site. Aspects of the movement, which ultimately

influenced not only state but national farm policy, were carried on by subsequent farmers' organizations including the Nonpartisan League, one of the forerunners of the Democratic-Farmer-Labor party. As the elevator and railroad came to dominate the transport of grains to market after the Civil War, Minneapolis, with its large mills, became the central wheat market.

The decline of wheat prices during the economic depression of the 1870s, the absence of public supervision of grain grading, the lack of control of grain elevators, the costs of grain storage, the organization of wheat-buying "pools," and varying railroad rates led to widespread grievances on the part of farmers. Agitation for government intervention led to the correction of the worst abuses in unfair grain grading and to the establishment in 1885 of the Railroad and Warehouse Commission (now the Department of Public Service) to oversee freight rates. The commission was established during the term of Governor Lucius F. Hubbard, who articulated the changing public policy when he declared that regulation was necessary because corporations should be "the servants and not the masters of the public."

For twenty years wheat had been the state's main crop, but in the early 1880s farmers in southeastern Minnesota, faced with exhausted soil and declining prices, began the shift to diversified farming that reached its peak in the first half of the twentieth century. Dairying and livestock became especially important in the central, east-central, and southeastern counties, and over the years agricultural strains better suited to the cool northern climate — like Grimm alfalfa, the Wealthy apple, and, in the 1930s, hybrid corn — encouraged further diversification. Flax, introduced in the 1880s, remained an important crop; more recently it has been joined by soybeans, sugar beets, potatoes, clover seed, and other small grains. Public support of the University of Minnesota's College of Agriculture and its network of agricultural experiment stations has been significant in bringing about the shift from one-crop farming.

Minnesota now ranks fifth among the states in farm income. Food and food products are an important part of its economy. In the late 1960s it was first in the production of oats, sweet corn, butter, and nonfat dry



A RAILROAD BROCHURE, depicting the Stone Arch Bridge in Minneapolis, helped lure immigrants to farm lands.



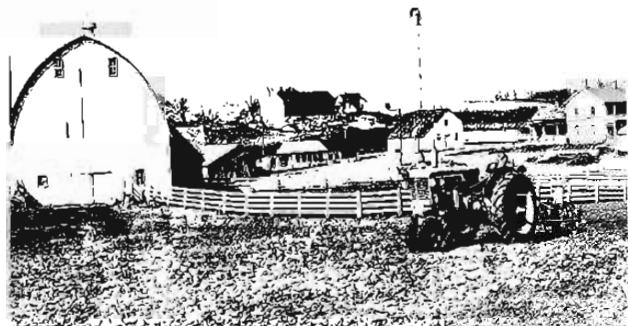
IMMIGRANTS from Holland pose in front of the Chicago, Burlington, and Quincy Railroad car that brought them to the state about 1910.



OX-DRAWN plows break the rolling prairie for farm land.



HARVESTING wheat on a James J. Hill "bonanza" farm at Northcote, about 1900



A MODERN Minnesota farm

milk; second in hay, clover seed, milk cows, and turkeys; third in flaxseed, green peas, milk, American cheese, and honey; and fourth in livestock and livestock products, corn, rye, and sugar beets. However, after having achieved fame in the nineteenth century as the nation's biggest grower of wheat, Minnesota now ranks a mere seventeenth in the production of this grain.

The many new settlers who suffered severely during the deep recession — or panic as it was then called — of the 1850s had no expectation that government would help them. Public response seems to have been limited to the establishment of the first wave of county poorhouses that were built in Minnesota. By the 1870s, however, public policy was beginning to regard the problem of economic hardship in a new light. That decade saw two notable indications of changing attitudes. One had to do with banking. The other concerned direct relief. Both interjected the state government into new areas of economic responsibility.

During the 1850s the supply of money available in Minnesota was often insufficient for business purposes. Interest rates were high, and "wildcat" banks flourished that issued their own paper money. On July 21, 1853, an editorial in a St. Paul newspaper noted: "As a mania for wildcat banking appears to have seized hold of a portion of our community . . . it would be well to elect sound money men to the coming Legislature so that a stringent law may be passed for its suppression."

The 1854 legislature did make an attempt to control the freewheeling finance. Its members passed a bill forbidding the issuing of "bills or promissory notes, or checks, certificates of deposit, or other evidences of debt, for the purpose of loaning them, or putting them in circulation as money unless thereto especially authorised by law." Violations were to be punished by a fine of \$100, but the law was more honored in the breach than in the observance.

By 1858 the first state legislature recognized the need for additional regulation of banking. Its members passed a general banking statute stipulating that banks must have a minimum capital of \$25,000 and be located in towns having more than 200 permanent residents; that bank notes could be issued if they were secured by bonds of equal value issued

by the United States, other states, or Minnesota; and that if the market value of the notes declined, the bank could be called upon to provide more collateral.

This law also had little effect. Wildcat banks continued to operate, chiefly because Minnesota was lenient in allowing banks to use the state's nearly worthless five-million-dollar railroad bonds as security. In fact, in 1861 only one of the three state-chartered banks — the Winona County Bank — could meet its obligations.

When economic recession again hit in the 1870s, the need for reform grew. In 1878, during Governor John S. Pillsbury's tenure, the legislature established the office of public examiner, an action that went a long way toward cleaning up the abuses. As historian William W. Folwell put it: "Public funds were no longer available for the accommodation of treasurers and their friends having private notes to meet." Later, further reforms were passed — notably in 1909 when the state department of banking was established.

ONE OF THE state's first efforts at direct relief occurred when southern Minnesota farmers suffered recurring so-called grasshopper plagues in the summers of 1873 through 1876. (Actually, the insects were locusts, not grasshoppers.) In 1874 they destroyed crops in twenty-eight Minnesota counties. The legislature that year appropriated \$30,000 to aid farmers in purchasing new seed and for other relief measures. The 1876 legislature authorized the paying of bounties on the pests and their eggs, but farmers had not yet seen the end of the insects. In 1876 new swarms of locusts visited forty counties and damaged thousands of acres of crops.

When the 1877 legislature assembled, most of its members recognized the grasshopper menace as the number one problem facing the state. In the debate over granting direct state relief, however, a representative who opposed the idea made a statement that still has a familiar ring. He expressed the belief "that gratuitous appropriations from the State Treasury . . . are unwise if not unconstitutional, and calculated to undermine the self-respect and independence of the people."

Nevertheless, the legislators dealt com-



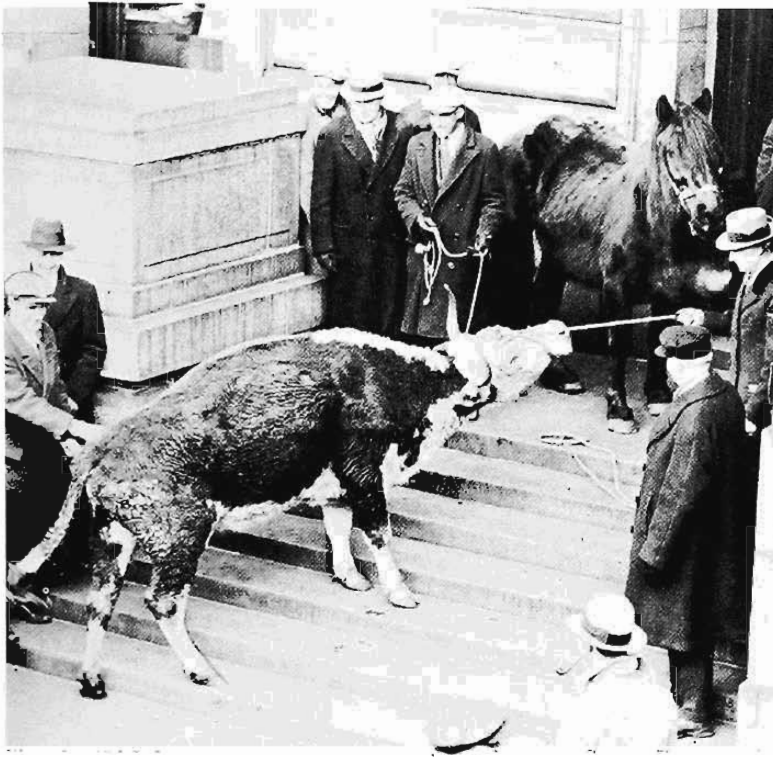
"GRASSHOPPER" menace is depicted in this grim cartoon.



A COMBINATION of cutworms and heat ruined this farmer's corn crop. The photograph was taken about 1935 on a farm near Appleton.

FARMERS' HOLIDAY Association members and unemployed workers demonstrated at the State Capitol about 1933.





A STARVING COW and horse were brought to the State Capitol by farmers to dramatize the need for relief during the 1930s depression.

FLOYD B. OLSON



prehensively with the problem, canvassing the affected districts and making a thoroughgoing study, appropriating emergency relief funds of various kinds, and generally setting the policy for a good many future measures giving relief from agricultural catastrophes. In addition, Governor Pillsbury declared April 26, 1877, as a day of prayer and fasting. That summer the grasshoppers disappeared, and the wheat crop in 1877 was excellent.

The grasshopper relief measures were a portent of things to come. During the devastating Great Depression of the 1930s, large-scale relief efforts became widespread public policy. By and large the 1930s were a period in which state governments tended to retreat from their traditional responsibilities in the field of economic policy and turn for aid and leadership to the national government. As we all know, the decade saw an immense expansion in federal programs, power, and activity, and a corresponding decline in the state role in Minnesota and elsewhere.

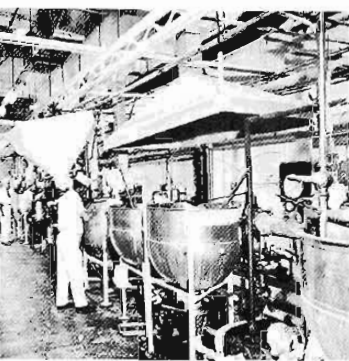
The vital economic questions of the 1930s involved distribution, not production. The

times were out of joint from a surplus, not a scarcity, of goods and services. Therefore the important economic decisions were those which affected the distribution of income among the state's citizens and the protection through state action of groups, like small family farmers and nonunion wage earners, who were at a ruinous disadvantage in the marketplace.

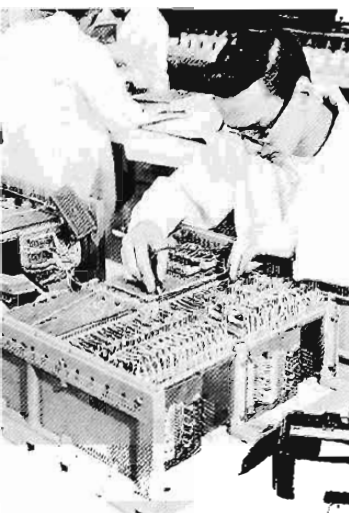
Like that of other midwestern states, Minnesota's agricultural depression began in the 1920s. Then between mid-1931 and mid-1932 farm income dropped by half, mortgage foreclosures skyrocketed, and crops rotted in the fields because prices would not cover the cost of harvesting them. Desperate farmers, organized for direct action by the Farmers' Holiday Association, appeared on the steps of state capitols to demand that midwestern governors declare an embargo on all farm commodities selling below their cost of production and initiate an indefinite moratorium on farm mortgage foreclosures.

Governor Floyd B. Olson recognized the practical and constitutional impossibility of such state action, but he joined with other farm-belt governors and became their eloquent spokesman in pressuring the Roosevelt administration to adopt a mandatory, rather than a voluntary, system of price controls for farm products. The problem of farm mortgage foreclosures was also technically outside his power, but in February, 1933, the tide of mob action reached such heights that Olson issued an emergency proclamation suspending all foreclosures until the legislature could take action on a moratorium law. In April, the 1933 legislature extended the redemption period on past-due mortgages for two years, thus intervening directly on behalf of the debt-ridden family farmer. Minnesota's action was challenged in the courts and the United States Supreme Court's decision upholding the law became a nationwide landmark in the area of state powers.

THE 1930s SAW several other major turning points in state economic policy. One was the enactment of an income tax which laid the foundation for one of the most progressive state tax structures in the nation. Another was extension of the state's power to give disaster relief to include economic as well



CANDY MANUFACTURING is just one of Minnesota's many diversified industries. This is an interior view of the Pearson Candy Company in St. Paul.



"BRAIN" industry workers such as these in the Univac Division of the Sperry-Rand Corporation in St. Paul have become increasingly important to the state's economy.

as natural disasters and the voting of massive relief funds. Thus Minnesota recognized an obligation to its unemployed citizens. Another was the outlawing of "yellow dog" contracts and the use of injunctions in labor disputes. This was in line with national policy embodied in the Norris-La Guardia and Wagner acts, but Minnesota's changing attitude toward the bargaining rights of labor was also reflected in Governor Olson's unorthodox handling of several key labor disputes. Under the leadership of the Farmer-Labor party Minnesota shifted from a traditional stronghold of antiunionism and low wages to a state in which the economic influence of organized labor is greater than in most other heavily agricultural areas.

Worth noting also are some popular economic policies that Minnesota did not adopt. Unlike many states, Minnesota enacted no old-age pension, nor, despite the socialist rhetoric of its political leaders, did it engage in any program of public ownership to stimulate employment or industrial expansion. Nevertheless, the decade of the 1930s saw a distinct change in the state's economic as well as its political climate. This was characterized by an attempt to redress in some measure the imbalance in economic forces that produced the crisis, suffering, and stagnation of the Great Depression.

By the middle of the twentieth century, Minnesotans long accustomed to thinking of their state as rural and agricultural awoke to find that several fundamental shifts had occurred in the state's economy. For the first time, 1950 census figures showed that the value of goods manufactured in Minnesota exceeded that of its agricultural products. The great extractive industries like lumber, mining, and to some extent agriculture have been supplanted by manufacturing and service industries, and close to two-thirds of Minnesota's people now live in urban areas. The variety of industrial production is enormous, ranging from food processing and taconite pellets to such "brain" industries as printing, electronics, and computer manufacture — all calling for a highly skilled work force that bears witness to Minnesota's commitment to a strong public education system dating back to its territorial period. The first territorial legislature convened in 1849 made public education one of its earliest articles of business. It laid the foundations for a strong

school system by declaring that any township having five resident families would be declared a school district. In 1962, although Minnesota ranked twenty-sixth in the country in per capita income and thirtieth in disposable income after taxes, it ranked fifth in public school revenue from state and local sources and second in the ratio of its students who graduate from high school. The state has also been among the leaders of progressive taxation as well as in the first rank among states providing high-quality public services — a combination of public policies that have helped to make possible the much-praised "quality of life" for which Minnesota is now known.

Historians sometimes tend to isolate incidents and occurrences, and it is not always easy — even with the wide-angle lens of historical perspective — to see the interactions in economic development. In this rambling review, I have tapped only a few of the rich veins in Minnesota's heritage to give you some examples of the impact of public policies upon the state's economy. In looking back over this span of more than a century, it strikes me that the outstanding characteristic of such policies has been flexibility, the will to adapt — albeit slowly — to changing forces and circumstances. In the examples we have reviewed, the state's public policy toward natural resources, agriculture, transportation, banking — and the list might be expanded — was at the outset one of encouraging their rapid development. It moved in the later years of the nineteenth century to a role of restraint and regulation. Perhaps it is fair to say that in the twentieth century public policy increasingly shifted from reaction to action — from merely reacting to conditions to attempting to change or ameliorate them. It seems to me that we are still witnessing a blend of those two public attitudes. This changing role of government, augmented by Olson's dynamic leadership, transformed most dramatically during a period of great crisis — the 1930s — a truly pivotal period for our state.

The record of the last quarter of the twentieth century remains to be compiled, and many members of this audience will be participants in shaping that chapter. It will be the task of historians of the twenty-first century to assess their record, for, willy-nilly, today's future is tomorrow's past. Thank you.



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