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Report of the  
House Select Committee  
On The Recession

To the  
Minnesota House of Representatives

February 19, 1992

Representative Irv Anderson  
Co-chair

Representative Gloria Segal  
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## **THE COMMITTEE**

The House Select Committee on the Recession was appointed on January 6, 1992. The Committee met eleven times, including five hearings outside the Capitol complex, to hear testimony from the public. The meetings outside of the Capitol complex were at Bemidji, Duluth, Minneapolis, Rochester, and Worthington. Public testimony was also taken in St. Paul.

In addition to taking testimony from members of the public who are affected by the recession or who have ideas on ways to improve economic conditions within the state, the Committee also sought testimony from professional economists. Economists from the University of Minnesota - Duluth, University of St. Thomas, and the Federal Reserve Bank testified before the Committee. The State Economist, who is on the faculty at the University of Minnesota, testified before the Committee as well.

## **EFFECTS OF THE RECESSION IN MINNESOTA**

The effects of the recession vary across Minnesota. In general, adverse impacts seem to be worst for sectors or geographic areas that were in difficult economic straits to begin with. As an example, the economy of Northeast Minnesota, which is heavily dependent on the long-depressed taconite industry, has been stagnant for an extended period of time, as evidenced by an unemployment rate of 6.3% for St. Louis County in October, 1991. The northeast region is only now regaining the level of employment that the region had in 1979, as measured by total jobs. An example of a sector that has been hit hard by the recession is manufacturing; the number of jobs in this sector has declined 5.7% during the recession.

Some of the comments of Dr. Tom Stinson, State Economist, are instructive in placing the recession in context. He pointed out to the Committee that, while the decline in economic activity during the current recession has not been too severe compared to other post-war recessions, the 1990-1991-1992 recession likely will prove to be the longest recession, in months, of the nine recessions that have occurred since World War II. The duration of this recession is of particular concern to economists; combined with slow growth prior to the recession, indications are that some economic sectors (and, consequently, some citizens) have been suffering for a long time. Economic growth, once lost, is lost forever. Dr. Stinson also noted that, because society has aged and the average worker is older than in previous recessionary times, layoffs are more threatening as they hit older workers with families and heavy financial responsibilities.

The growth rate of the economy simply is too slow. While Minnesota has generally grown faster than surrounding states over the past two decades, the current stagnation is adversely affecting thousands of Minnesotans. The questions that the committee has asked are these: What can the Legislature do to increase the growth rate of the economy in Minnesota, for both the long term and the short term? And, in the meantime, what steps must be taken to protect people who are poor or disproportionately affected by the recession from its adverse effects?

A committee philosophy has emerged. While there is healthy disagreement among committee members on the appropriate role of state government in economic matters, the

committee has come to consensus on some major points. **This recession obligates the state to provide for the social welfare of its citizens and to stimulate the economy and economic growth. Short-term economic stimuli are an immediate response to the recession; of equal importance for the Legislature is to focus on long-term economic gains through the enhancement of productivity. Long-term gains can be accomplished with public investment and through promoting and nurturing the strengths of the state's people and resources.**

## **COMMITTEE RECOMMENDATIONS**

Based upon the information gathered by the Committee, the following recommendations are offered to the House of Representatives:

### **COMMITMENT TO THE SOCIAL AND ECONOMIC STATUS OF MINNESOTANS**

Among the Minnesotans that feel the effects of the recession most acutely are the poorest, the recently unemployed, and the young -- especially young families. What is needed most by those who are out of work and in need of assistance is an opportunity to work, contribute and earn wages that will support their families. Failing that, they need assurance that there will be help in meeting their most basic needs for food and shelter. The following specific recommendations are offered to maintain the safety net.

**The 1992 Legislature should appropriate money to fund the Emergency Jobs Program administered by the Department of Jobs and Training.**

Funding the Emergency Jobs Program, which is the successor to the Minnesota Employment and Economic Development (MEED) program established during the 1983 recession, will put Minnesotans back to work. The emergency job program provides opportunity and stability for both employers and workers. Unemployed workers participating in the program have the financial and other benefits that come from employment and regular wages. Businesses, especially small firms, have the opportunity to grow and create long-term jobs through the wage subsidy.

**The Legislature and the Governor should restore all funding cuts for the Work Readiness Program.**

Fully funding the Work Readiness program will assure that the neediest Minnesotans receive minimum income support while they seek employment. Extending the time period for the basic \$203 Work Readiness grant is a cost-effective way to prevent homelessness and the corresponding increased use of temporary shelters.

**The Legislature should increase support for the Conservation Corps in the Department of Natural Resources and should endorse and support the state's application for federal assistance under the National Community Services Act being coordinated by the Governor through the Office on Volunteer Services.**

Opportunities for young people, particularly those who are out of high school and are not pursuing post-secondary education, are especially limited during recessionary times. The Committee recommends that the Conservation Corps be enlarged to expand the opportunity for service to additional sites within the state. The Conservation Corps is a proven way to provide training and work opportunities for young people. Last year over 250 young people ages 15-26 participated in the summer youth program and the year-round program. The Legislature and the Governor have supported the Conservation Corps for nearly two decades, even after federal funds were cut in 1981. The state's long-standing support for the Conservation Corps is evidence of the state's commitment to volunteer service. By continuing this commitment, the Legislature will provide a clear endorsement of the State's application for federal funds through the National Community Services Act, which will help expand work and training opportunities for young people within the ethic of community service and volunteerism.

**The Legislature, through whatever means are available, should support private, nonprofit and charitable organizations in helping disadvantaged Minnesotans via food shelves and homeless shelters.**

The legislature recognizes the important role food shelves and emergency housing shelters play in maintaining the social safety net. The number of homeless people, by some estimates, is at a record high. Increasingly, low income working people have had to turn to food shelves to augment their diets and to provide food for their children. It is essential to support this safety net and make sure that the resources are available to maintain the services.

## **BONDING FOR CAPITAL IMPROVEMENTS**

**The 1992 Legislature should authorize bonding for capital projects, with emphasis on projects that are labor-intensive; that can be begun quickly; and that enhance the productivity of Minnesotans, either by improving the public infrastructure, or by training people for job opportunities.**

The infusion of capital spending will put a number of Minnesotans back to work in short order. Further, by emphasizing projects that improve the state's infrastructure and labor force, the projects will enhance the state's competitive edge over the long term. With interest rates at a 27-year low, the financial cost of bonding is extremely attractive. Also, because the construction industry is somewhat depressed, the state could get more favorable terms with contractors than would be possible during non-recessionary periods. It is especially advantageous for the state to undertake projects now that likely would be undertaken in the next few years anyway. Department of Finance guidelines stipulate that debt service should not exceed 3% of non-dedicated, general fund revenues. However, due to significantly increased debt service capacity expected in the 96-97 biennium, slightly exceeding the 3% debt service limit in the 94-95 biennium would only be a temporary aberration.

The Legislature should also take a careful look at capital projects that will stimulate the implementation of telecommunications and information technology in the state. A pilot project demonstrating the use of new technology, owned and financed by the state, could leverage a great deal of investment within the state in the long term. Also, the importance of high-quality information is never so great as during hard times, when companies are seeking every market and every means of cutting costs, and laid-off workers are urgently seeking information about job options and career changes.

The Legislature should also consider using general obligation bonds to finance the construction of housing in the state. This stimulation of the construction sector would give the economy a badly-needed boost to help get the state out of the recession. It also would provide housing for people who are unable to find adequate, affordable housing in the existing market, making them into more productive, more highly motivated workers in the long term. One option that the committee heard testimony about was using the mechanism of the land trust as authorized in 1991 legislation.

Higher education projects should be of particularly high priority. One particular capital project that the Committee heard testimony about is the construction of a research building at the University of Minnesota, to house the five basic sciences departments of the medical school and the biomedical engineering center. This project would attract funding for research from private sources and the federal government, and would enhance the competitive position of Minnesota in biomedical industries, which is one of the state's strongest export industries.

**The Governor should immediately release all bonding authorizations enacted by the 1990 and 1991 Legislatures that have been placed "on hold."**

There remain 16 projects in this status, comprising approximately \$25,000,000 in authorized capital expenditures. Many are education projects, and would have the effect of educating a more productive labor force for Minnesota's future. Further, releasing the education bonding projects that are on hold from the 1990 legislation will result in the release of \$45,000,000 in maximum effort capital loan authorizations for needy school districts. Under the terms of the maximum effort loan authorizing legislation passed in 1991, the loans cannot be issued until such time as the other education projects authorized in 1990 are underway or formally abandoned.

**The Legislature and Governor should ensure that sufficient state funds are appropriated to match all available federal highway construction funds.**

Federal highway funds enable the construction of safer, more efficient interstate highways in the state, which enhances the productivity of Minnesota businesses. The federal funds also provide a short-term stimulative effect to the state's economy, which is badly needed. The Transportation Committees of the Legislature and the Department of Transportation should work together to determine whether major construction, repair, and rehabilitation projects can be accelerated using state bond financing.

**The Legislature should use general obligation bonding to fund a public projects program that will create jobs and provide facilities that benefit the public, matching state funds with local government funds.**

Investment in public facilities, by all levels of government, is a way to create short term jobs that provide long term public benefits. The legislature should encourage local units of government to participate in stimulating the economy and creating jobs by constructing public facilities such as hospitals, government buildings, and parks, trails, and other recreational facilities. A grant program, using state general obligation bonds to match local funds to construct local and regional facilities, is a way to stimulate investment. Such a program creates a partnership between the state and local governments, sharing of financial responsibility, and doubles the amount of investment that results from a given amount of state funding.

## **BUSINESS ASSISTANCE**

### **A. Tax Incentives**

**The Legislature should increase the research and development tax credit.**

This credit is given to corporations that increase their spending on research and development. Currently the credit is 5 percent of the first \$2 million of the increase and 2.5 percent on the amount above \$2 million. Either or both of these percentage rates could be increased, or the \$2 million upper threshold could be raised. This would stimulate more research spending in Minnesota, which will help corporations in the long run by developing new products and better processes. Since the credit is already in place, this change is easy to implement and will not complicate the tax system.

**The Legislature should enact a personal income tax credit for qualified equity investments in small companies.**

One constraint on economic growth in Minnesota that the committee heard testimony about was the difficulty small companies have in getting access to growth capital. A personal income tax credit for qualified equity investments in small companies would provide an incentive for persons to invest in such companies. The credit would be a percent of the amount invested, and could be tied to a requirement that the investment eligible for the credit be matched by an investment from another source, such as community or private venture and seed capital funds.

**The Legislature should extend the sales tax exemption for capital equipment to include replacement equipment.**

This exemption currently applies only to equipment installed in new or expanded manufacturing facilities. The exemption should be expanded to include replacement

equipment, thus helping manufacturers to modernize. This is similar in economic effect to an investment tax credit of 6.5 percent. If a federal investment tax credit, which has been proposed, is enacted, the combination of the federal credit and this recommendation will indeed provide substantial incentive for companies to modernize.

## **B. Business Capital, Agriculture, Export Promotion and Trade**

**The Legislature should fund innovative programs that meet the critical capital needs of small business, new business ventures, and export firms.**

Business success and growth depend on access to capital. Testimony before the committee emphasized the need for start-up capital for new ventures, the need for expansion capital for economic growth, introduction of new products and penetration of new markets, and the need for capital to finance agricultural and manufactured exports. Support for programs that help the private capital markets to respond to the capital needs of Minnesota businesses and support for public programs that provide seed capital, venture capital, and export finance contribute to the economic vitality of the state.

**The Legislature should encourage research, commercialization and market development to find new uses and develop new markets for Minnesota's natural resources and Minnesota-grown commodities.**

Agriculture and other resource-based industries are vital to the economic health of the state, especially rural Minnesota. The Legislature should support research that focuses on the development of new value-added uses for Minnesota resources and commodities. The state should also undertake the promotion of Minnesota resource and commodity based products as a way to develop new markets. These steps will foster economic growth and new job creation for Greater Minnesota.

**The Legislature should enhance Minnesota's position in the global economy through support for foreign trade offices to promote the state and its businesses to our trading partners.**

Increased exporting by Minnesota businesses and new foreign investment in Minnesota companies are likely to be important sources of economic growth. Foreign trade offices are one way to attract investment to the state and promote Minnesota products. The Legislature should consider creative and cost-effective ways to establish an official Minnesota presence in foreign countries. At a minimum, Minnesota should have trade offices in the countries of our largest trading partners. Currently, Canada, Japan, Germany and the Netherlands are the major export destinations for Minnesota manufactured products.

**Within Minnesota, the Legislature should encourage and support exporting by Minnesota based companies through coordinated efforts of the public and private sectors.**



Moving forward into the global economy has increased the international capacity of Minnesota businesses and institutions. What is needed now is a mechanism to pull together the capacities and coordinate the sometimes fragmented international roles, programs, and efforts. The Legislature should establish a mechanism to coordinate the functions of public and quasi-public institutions such as the Minnesota Trade Office, the World Trade Center, and the Legislature and the expertise of international authorities, private trading companies and successful exporters. In addition, the committee can offer Minnesota hospitality to foreign visitors, including representatives of government and business.

## **OPTIONS FOR FUNDING**

Some of the Committee's recommendations have a cost associated with them. The Committee has identified ways in which those costs can be covered. Because of a limited time schedule, the Committee did not fully discuss funding options. The following list is presented without recommendation.

The funding options are:

- Dedicate some lottery revenues to economic development purposes, as originally intended when the lottery amendment was proposed
- Use part of the budget reserve
- Re-examine state spending, and re-examine funding priorities
- Utilize existing funds dedicated to the Legislative Commission on Minnesota Resources to pay debt service costs on capital projects
- Increase tax on tobacco products and dedicate revenues to a specific purpose
- Authorize an optional local sales tax for communities that have specific economic development needs
- Cancel specific bonding authorizations that are no longer necessary or desirable
- Consider changes in the tax structure to make it more progressive with incomes, and utilize any resulting revenue increase.

## **OTHER COMMITTEE TESTIMONY AND DISCUSSION**

### **WORKERS' COMPENSATION**

Several people who testified felt that workers' compensation costs in Minnesota were too high. The economists who testified, pointed out that the recession is a national phenomenon and Minnesota has fared better than the nation in most respects. They concluded that workers' compensation does not appear to be a cause for the recession and that reform will not lessen its impact. Nevertheless, the Committee believes that workers' compensation is an issue which should be addressed by the appropriate legislative committees. It urges representatives of the insurance industry, business, organized labor, the Legislature, and the executive branch to work together for meaningful reform aimed at reducing costs for businesses.

### **HEALTH CARE REFORM**

Health care burdens were not listed by the economists as a cause nor a solution to the recession. However, it was emphasized several times by business persons that health care costs are a particularly burdensome expense and a barrier to their competitiveness. This issue was also brought up as a safety net issue due to the growing number of those without access to insurance. The Committee recommends that the appropriate legislative committees investigate solutions to the rising costs of health care and accessibility. It urges representatives of the insurance industry, business, the medical community, organized labor, the Legislature, and the executive branch to work together for meaningful reform aimed at reducing costs for businesses and ensuring access for everyone.

## COMMITTEE MEMBERSHIP

Representative Irv Anderson  
Co-chair

Representative Gloria Segal  
Co-chair

Representative Richard H. Anderson  
Representative Joe Begich  
Representative Steve Dille  
Representative Jim Farrell  
Representative Lee Greenfield  
Representative Joyce Henry  
Representative Rick Krueger  
Representative Harold Lasley  
Representative Edgar Olson

Representative Tom Osthoff  
Representative Bernie Omann  
Representative Ann Rest  
Representative Linda Runbeck  
Representative Wayne Simoneau  
Representative Brad Stanius  
Representative Steve Sviggum  
Representative Loren Thompson  
Representative Linda Wejcman  
Representative Ted Winter