

**THE NEEDS  
OF  
NORTHEASTERN MINNESOTA :**

**-- A SPECIAL MESSAGE --**

**To Members of the Sixty-third Legislative Session  
by  
Governor Karl F. Roivaag,**



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STATE OF MINNESOTA

**Saturday, April 20, 1963**

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**Mr. Speaker, Mr. President, and Members of the  
Sixty-third Session of the Legislature of the  
State of Minnesota:**

I am presenting this special message on Northeastern Minnesota because I believe the problems of this area are as important as any you have before you in this session.

Northeastern Minnesota, once one of the richest and most productive areas of the world, has suffered a severe economic slow-down. Some businesses are failing, others are having extremely difficult times. Unemployment is high and the resulting losses in human and economic values is one the state cannot tolerate.

Employment in iron mining has dropped 25 per cent in two years -- the general rate of unemployment is nearly three times the national average. In a few extremely hard-pressed sections, more than a fourth of the workers are without work. These figures do not reflect the numbers who are working a short work week.

One-half of the unemployed workers in Northeastern Minnesota are between 20 and 44 years old -- most in the process of raising their families. We cannot calculate the demoralization of family life that has been brought

about in our distressed areas. We can, however, calculate the enormous cost of care for these families.

Once an area of nearly full employment, Northeastern Minnesota has cost employers more than \$40,000,000 in unemployment compensation benefits in the past five years. This accounts in some measure for the depletion of the unemployment compensation fund which has caused us all so much concern during this session. Your bipartisan efforts to achieve agreement on a new unemployment compensation bill are indicative of that concern, and I wish to commend you for it.

In 1962 federal, state and local taxes expended for welfare purposes in Northeastern Minnesota totaled over \$23,000,000. Nearly half of that burden was borne by local real estate taxpayers. The real estate tax burden has increased substantially since the prosperous years, and today is being shouldered by fewer and fewer individuals.

It is clear that the people of the region are doing all they can do to restore their area to economic health. It is up to the rest of us now to put forth equal efforts. I pledge my personal support for such concerted and combined efforts as will restore this area to its former prominence.

I believe I can help generate this necessary team effort by outlining for you the measures I believe must be enacted now.

In formulating these recommendations, I have been guided by one overriding desire -- to get the people of Northeastern Minnesota back to work.

Your willingness to act decisively toward providing added employment has been shown by the enactment of a taconite statute, agreeable to most, and an amendment, agreeable to many. All Minnesotans, regardless of their stand on

individual proposals for providing the means, recognize the necessary goal -- continuation of the favorable tax climate that taconite has enjoyed for 22 years. Real hope is thus held out for an easing of some unemployment in the future through the construction of new taconite plants.

Last year, Minnesota produced more than 17½ million tons of taconite and additional construction has already been announced. Many other steps are needed, however, to insure continued development of this industry.

#### **MINERAL REDEVELOPMENT AUTHORITY**

Taconite plants require substantial ore reserves. We must be certain that any company desiring to build a plant will be able to obtain the acreage and ore reserves needed for operation.

Toward this end, I recommend establishment of a Mineral Redevelopment Authority, patterned after the familiar Urban Redevelopment Authority. The MRA would buy or condemn mineral properties, to assemble them in units economically feasible for mining, and sell these units to developers willing to make the large investments necessary in the taconite industry.

More than 81 per cent of the state's taconite lands are privately owned. Most of this land is owned or controlled by United States Steel or its subsidiaries and by Pickands-Mather as agent for other mining companies. These companies are often unwilling to sell this land to competitors prepared to go forward with immediate investment. I believe that a Mineral Redevelopment Authority such as I propose is necessary to bring about prompt, orderly development and to promote mineral development by research, by financial aid and by exploration.

#### A PLAN TO SPEED PRODUCTION

I also urge adoption of a progressively increasing property tax on taconite and semi-taconite reserves that are held over long periods of time but not mined.

According to a recent report of the Legislative Research Committee, taconite reserves in this state are capable of producing 17 billion tons of concentrated ore. This potential staggers the imagination, when one realizes that only three billion tons of natural ores have been taken out of the ground since the infancy of Minnesota's iron ore industry.

The logic of low taxes on mining taconite, to encourage such mining, would seem to reasonably call for higher taxes on taconite which is deliberately kept out of production.

Rights of all property owners must be fully recognized, but present taxes on taconite reserves are so insignificant that they should and could be raised substantially on unused reserves without reaching the level of taxation on ordinary businesses and residences. Such a policy -- mine the reserves or lose the tax benefits -- could be decisive in spurring more prompt development of our vast taconite potential.

#### TACONITE NOT THE WHOLE ANSWER

Improving the economic climate of Northeastern Minnesota requires more than developing only the taconite industry. Modern taconite facilities are highly automated and they alone will not absorb enough of the unemployment to give us a lasting solution to our problems. Current production of 17-1/2 million tons of taconite pellets annually employs nearly 6,000 workers in mining and processing. The proposed addition of seven to 10 million tons capacity in the relatively near future would employ only 2,000 to 3,000 more workers.

No single industry economy can nor should be expected to provide a stable economy in today's highly complex society. The times demand long range planning and diversification of industry in Northeastern Minnesota.

#### END DISCRIMINATORY FREIGHT RATES

Rapid development of diversified industry need vigorous, coordinated public and private efforts. As a first step, I urge you to help put Northeastern Minnesota in a better competitive position with other areas of the country.

I recommend an appropriation of \$100,000 to the Attorney General to appeal to the Interstate Commerce Commission for an end to freight rates that discriminate against Northeastern Minnesota. This area is presently at a severe economic disadvantage. John S. Wilbur, Vice President of the Cleveland-Cliffs Iron Company, points out that:

"Transportation charges from a mine on the Mesabi to a steel plant in the Pittsburgh area are \$6.56 per gross ton, which is 46 per cent of the delivered market price. Shipment by rail, a total distance of 218 miles, accounts for \$3.90 of this figure. This is a rail charge of 18 mills per gross ton mile. The total rail shipment rate for a ton of foreign iron ore from Baltimore to Pittsburgh -- a distance of 313 miles -- is \$3.65, or 11.6 mills per ton mile."

Industries in upper New York State ship to Pittsburgh at 8.8 mills per gross ton mile. With this same advantage, the cost of Mesabi ore delivered in Pittsburgh could be reduced by almost \$2. In addition, winter all-rail ore shipments from Lake Superior are now enjoyed by certain points in Canada, including Wyman, Quebec, Kirkland Hills, and Copper Cliffs, enabling these areas to ship ore to Pittsburgh at rates as low as 8.7 mills per gross ton mile.

We are not helpless in the face of this situation. The Interstate Commerce Act allows the Commission, on application by a state, to prohibit "unjust, unreasonable, unjustly discriminatory, unduly preferential or prejudicial" rates and to establish rates which are fair to all concerned. But to obtain such an order and justice, the Attorney General must hire economists, rate experts and others needed to prepare and present our arguments to the Commission.

#### PROMOTE TOURISM

I also urge you to appropriate to the Department of Business Development the full \$300,000 annual figure recommended by the Minnesota Arrowhead Association for tourist promotion advertising.

Michigan, South Dakota, Wisconsin, and the Canadian provinces of Ontario and Manitoba which compete with us for the tourist dollar, each spend much more than we do on tourist promotion. Last year the vacation advantages of the Arrowhead Country and other areas brought into Minnesota over \$350,000,000 spent by over one million visitors. By competing more vigorously with our neighbors in advertising and promotion we can greatly increase tourism revenues to the great economic benefit of the entire state.

#### PROMOTE DULUTH PORT

I recommend an appropriation for promotion and advertisement of the Duluth Port's advantages to shippers who now use the well-promoted ports on the Atlantic coast and other areas of the Great Lakes. Imaginative advertising and promotion will bring increased tonnage to Duluth and result in increased jobs there and throughout the state.

#### SUPPORT LOCAL DEVELOPMENT

In addition to those measures necessary to make Northeastern Minnesota's economy more competitive, we must give adequate technical and financial support

to local industrial development projects for pioneering industrial diversification in Northeastern Minnesota. Absolutely essential to this is:

(1) Adequate replenishment of the development revolving fund for loans under the Area Redevelopment Act;

(2) The State Executive Council should be empowered to use Area Redevelopment Revolving Fund for product feasibility and market studies of specific proposals. Several excellent industrial development projects have failed to materialize because we couldn't provide the hard economic analysis needed to convince a firm to make a favorable decision on plant location. Companies are reluctant to invest their own money on production and marketing consulting firms for this type of analysis, and the federal Area Redevelopment Authority is reluctant to make grants for technical studies. This proposal involves no additional spending and is extremely important. It can eliminate a major bottleneck in many currently proposed projects;

(3) Increased state participation in industrial development projects under the Area Redevelopment Act. Many areas of our state cannot raise the 10 per cent local project financing presently required. Raising the maximum state participation from 20 per cent to 30 per cent would enable the state to help underwrite the local communities' share where it is prudent to do so;

(4) Establishment of an Attorney General's office in the economically distressed area of the state to give technical legal assistance to local redevelopment efforts. This proposal, unanimously endorsed by the Range League of Municipalities as a necessary step in the fight to revive Northeastern Minnesota, could assist municipalities and local agencies in applying for federal public works grants and loans, in obtaining area redevelopment loans, and in preparing necessary testimony and legal arguments in hearings before Congress and federal and state administrative agencies.



### NEEDED PUBLIC WORKS

The projects I have outlined are designed to help restore prosperity and eliminate unemployment for the long run.

In the short run, we must put the unemployed of Northeastern Minnesota to work now on sound public projects which will have permanent value for the communities of that area.

(1) The Commissioner of Conservation should be given a substantial appropriation for immediate work projects to conserve natural resources in areas of economic distress;

(2) I urge an adequate appropriation for state aid grants to municipalities for accelerated public works. Under the Federal Accelerated Public Works Act a municipality must provide 50 per cent of the funds for such projects. Because of Northeastern Minnesota's economic distress and per capita tax limitation, many municipalities cannot provide their share. We are losing necessary federal projects because the state cannot now legally provide the required matching funds;

(3) I urge passage of a bill to remove legal doubts as to whether municipalities have authority to obtain grants or loans from the United States under the Federal Public Works Program;

(4) I urge a project of permanent value to the area, the construction of a modern, fully - equipped school and hospital for mentally retarded children in Northeastern Minnesota. This project will conform to our long-standing policy of hospitalizing youngsters where possible in institutions near their homes. Planning should go forward at once for this long-needed facility.

(5) I urge extending state aid (ADC benefits) to dependent children of unemployed parents. This would strengthen family life and would reduce the area's general relief costs, currently borne entirely by the area's hard-pressed real property tax payers.

These include a taconite statute and amendment. One of the first bills sent to me for my signature was one to allow labor credits in computing the occupation tax on semi-taconite.

A bill has reached the floor for the Senate, and has been given full hearings in the House which would extend to certain ores reduced to pellets the extremely favorable tax treatment now given only to taconite. This bill, in its present form, could eventually shift a large amount of the \$27 million paid now in ad valorem taxes by the mining industry into other businesses and homeowners.

Another bill which has reached the floor of the Senate would allow a mining company to deduct, in computing its occupation tax, the property tax paid on all ore, including ore not mined. At present the companies may deduct only the property tax on ore actually mined during the year. This legislation would result in a \$3,200,000 tax reduction to the mining industry for this biennium, \$2,000,000 of which would be enjoyed by the United States Steel Corporation.

Finally, a bill has reached the floor of the Senate allowing a mining company to deduct losses from one mine from production taxes on its profitable mines. This would shift to other taxpayers \$100,000 in taxes in the next year, and huge amounts in future years as anticipated losses are incurred in the initial operations of new taconite plants and mines.

#### PASS THE PEOPLES' LEGISLATION

I urge you now to consider the absolute necessity for bringing up, discussing and passing the measures I have outlined here, which benefit the rest of Northeastern Minnesota and the entire state.

We cannot deal with the problem of Northeastern Minnesota by assuming that benefits for one industry can cure the ills of all. We should settle for nothing less than an overall program such as I have outlined, tailored to the total needs of the whole region and the state.

Surely the people of Northeastern Minnesota deserve the same consideration and thoughtfulness we extend to the major industry in that area!