THE MINNESOTA STATE GOVERNMENT
IN THE GREAT DEPRESSION

By

WADE TYLER TEN HAKEN

A Thesis Submitted to the Honors College
In Partial Fulfillment of the Bachelors degree
With Honors in
Economics

THE UNIVERSITY OF ARIZONA
MAY 2015

Approved by:

Dr. Price Fishback
Department of Economics
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Abstract
Minnesota had a number of industries in the 1930s that played key roles in determining state policy. These industries included agriculture, flour, and lumber. During the time period, Minnesota politics became more radical in order to address the vast changes taking place that were brought on by the Great Depression. This radicalism brought on one of the most powerful state level third parties the nation has ever seen and possibly Minnesota’s most successful governor. From 1929 to 1940, Minnesota’s state legislature had many obstacles to overcome including an economic bubble in the agriculture industry, teamster strikes within the Twin Cities, and radical state-level politics. The legislature implemented numerous programs and tax policy changes to face these challenges, while the federal government passed the New Deal to address many of the same issues from a federal level. Many of these policies have been described by historians as successful while others have not. Based upon the statistics provided by the University of Arizona Economics Department, there may have been underlying economic factors that were overlooked.
Introduction

Throughout the Depression, Minnesota passed some essential laws that directly addressed the ongoing economic crisis. Between 1929 and 1940, the Minnesota State Legislature convened on six different occasions. Several of these sessions occurred to create policies that could upend the economic emergency. In regards to understanding the purpose of many of the laws that were passed by Minnesota in the 1930s, one must appreciate what was going on within Minnesota socially, economically, and politically.

Agriculture has always played a vital role in the Minnesota economy. During the Industrial Revolution and into the first two decades of the twentieth century, Minnesota agriculture experienced unprecedented growth. By 1920, the inflated prices that existed in Minnesota agriculture had taken a historic decline. Minnesota farmers struggled for a decade before the Great Depression hit. This led to dramatic decreases in prices for agriculture goods as excess supply accompanied a lagging demand. Conditions only seemed to worsen by the time the market crashed in 1929.

The Midwest dealt with a severe drought beginning in 1933. The Federal Government provided the Drought Relief Service, but the Minnesota Government felt as though they needed to do more. The legislature decided to invest $500,000 for drought relief purposes. This was done in order to improve markets for livestock feed, livestock, corn, and grain. Each of these markets were heavily integrated; thus, all of them were affected negatively by the drought. The Agricultural Adjustment Act attempted to cut back supply of livestock and crops in order to address this issue; however, this policy decision was met with backlash from the Minnesota Government.
Floyd B. Olson served as Minnesota’s governor from 1931 through the summer of 1936. As a young man, he gained an appreciation for the working-class while working on docks in Seattle and Canada. He carried these sentiments back to Minnesota, where he rose through the ranks of the Farmer Labor Party. Once he became governor, Olson implemented a number of policies to help counter act the woes of the Depression. These policies help give direct relief to the growing number of impoverished Minnesota citizens.

The political power of the Farmer Labor influenced many of Minnesota’s policy decisions during the Great Depression. Coming from humble beginnings, the party grew exponentially following the 1929 Market Crash. Although urban workers and rural farmers had their disagreements, both groups decided to work under the same political umbrella in order to gain leverage throughout the state. Over time, however, the Farmer Labor party faded away due to the smaller radical groups that had joined them. The stigma of being a socialist party eventually diminished the political power of Minnesota’s most historically significant third party.

In order for the Farmer Labor party to gain their initial rise to power, they had to gain the support of industrial workers. These workers came from two industries: lumber and flour. Both industries enjoyed tremendous success in the late 19th century and early 20th century. By the time the Depression hit, both groups were furious about the treatment they had received from their employers. This led to several strikes; the most notable strike being the Minneapolis Teamster Strike of 1934.

Throughout the 1930s and into the following decades, many historical and media publications used statistics to illustrate the plight of the Great Depression. In order to give an objective interpretation of Minnesota in the 1930s, raw statistics will be analyzed to either support or refute many of the statistics provided by these publications. Also, these raw statistics
will be compiled into a regression analysis that applies seven explanatory variables. This regression will identify which variables had the most significant impacts on improving the state’s economy.

**Overview of Session Laws (1929-1940)**

In response to the Great Depression and the New Deal, the State of Minnesota developed a plethora of new tax and spending policies. The purpose of this excerpt is to analyze how Minnesota contributed to, reacted to, and recovered from the Great Depression of the 1930s. For that purpose, my research will focus upon key legislation that effected state expenditures and taxes. This paper will refer to October 29, 1929 as the beginning of the Depression and December 31, 1940 as the end of Depression. Although there may be some discrepancies over when the Depression began and ended, this paper will keep the scope within these aforesaid years.

In the legislative session of 1929, Governor Theodore Christianson, Secretary of State Mike Holm, and the legislature focused upon two primary funds: The Trunk Highway Fund and the Road and Bridge Fund. These funds were intended to bring rural farmers out of isolation so they could better interact with the state economy. Between these two funds, the state was enabled to issue up to $250,000 in public debt (Sec. 5 Art. 9). The Road and Bridge Fund was not to exceed $50,000 in state funding (Sec. 22 Art. 1). Taxes were required to pay off this debt within ten years, which may have further exacerbated the negative consequences of the Depression. The state collected tax revenue by levying an “excise tax upon any substance, material, fluid, force, or other means or instrumentality…used or useful, in producing or generating power for propelling motor vehicles…used on public highways of this state” (Sec. 5 Art. 9). The state also passed a mortgage registration tax that required a “proportionate amount of the tax to be paid to
the State Treasurer…in accordance with the proportionate value of the real estate” (Sec. 30 Art. 1). This proportionate value was determined by the State Auditor. A mortgage cannot be recorded until this tax is paid.

To better understand consumer behavior and market trends, the state established the Bank Tax Commission. The President of the Senate appointed three members of the Senate, and the Speaker of the House appointed three members of the House for the committee (Sec. 38 Art. 1). The duty of this commission was to study taxation, credits, mortgages, investment companies, and loan companies in order to help the legislature make more effective decisions. The Commission was allotted $25,000 to conduct their research (Sec. 38 Art. 2).

In 1933, the 48th Session of the State’s legislature took place. This was the first session that directly addressed the emergency situation of unemployment. The state also wanted to help cooperate with the federal government to regulate the manufacture, transportation and sale of intoxicating liquors. The first matter addressed was healthcare. The State and Governor Floyd Olson appropriated $48,000 for the State Board of Health. $48,000 immediately; $30,100 of which was appropriated to the Center of Preventable Diseases and Laboratory (Sec. 5 Art. 1). In response to the rising rate of poverty, the state created a state elected position called the “Poor Overseer” (Sec. 19 Art. 1). The overseer worked with the state to issues bonds that were then used to loan money to those who were in need. The amounts for the bonds had a stated maximum of $25,000 (Sec. 20 Art 1). In order to further combat poverty, the legislature stated that no delinquent personal property taxes from 1932 would have to be paid until April 1, 1933. These payments were free from penalty charges (Section 36). The state also issued bonds in counties of over 200,000 people for the purpose of “Poor Relief”. This relief was not to exceed a total of $1.5 million. (Sec. 43). The state allowed municipalities to borrow funds directly from
the state for the purposes of poor relief, given that the “Governor finds that the amounts requested are within the reasonable needs of the political subdivision and that no other sources or by regular methods of borrowing” can solve the issue (Sec. 120).

In small rural counties, the rate of taxation was to remain fixed. For the “General Revenue Fund” the tax rate in these counties could not exceed “8 mills on the dollar of the assessed valuation in any one year” (Sec. 34 Art 1). This session also created a solution for the problem of the banking system. The state created an appointed position called the Commissioner of Banks. This selected individual retained the right to suspend any bank, for any given period of time, in order to assess the bank’s financial health (Sec. 39 Art 1). The Commissioner was to oversee banks as they attempted to “reorganize without ceasing operations” (Sec. 55). The Commissioner determined when certain banks needed to take holidays in order to reorganize. The state even created its own bank holiday on March 6th, 1933 to address financial issues. All banks were required to close down for that day (Sec. 56).

In 1935, the 49th Session of the legislature decided to issue a new tax levy. Governor Floyd Olson and Secretary of State Mike Holm were still at the helm. The levy stated that “prior to the issuance of any refunding bond, the city will levy an ad valorem tax, to help pay the principal and interest of such bonds” (Sec. 5 Art. 3). This tax was charged to the products of “Any corporation here for organized, for pecuniary profit” in the state of Minnesota. The session also emphasized the importance of education. This was evident through the presentation of school improvement bonds, which sold for 4% interest at a maturity of twenty years (Sec. 9).

The primary purpose of this session was to deal with the drought in Minnesota that began in 1933. The government claimed that the drought was an “existing emergency”. In drought relief alone, the state government allocated $500,000 to offset the negative economic impact (Sec. 30).
The fund was handled directly by the State Executive Council, where they intended to focus their resources towards the “livestock meal” and agriculture markets (Sec. 9). On top of the previous tax levy, the state implemented another tax levy in certain counties for “general revenue purposes” to “defray county expenses” for the years 1935 and 1936. The tax revenue was not to exceed $80,000 per county (Sec. 35). This tax was levied in certain counties who had not experienced the full economic consequences of the drought.

In 1937, the 50th Session of the State’s legislature met. The Governor was Elmer Benson and the Secretary of State was Mike Holm. This was the first session following the death of Floyd Olson. The legislature convened on May 24, 1937 and adjourned on July 23, 1937. The goal of this extra session was to “balance the state’s budget and reduce the heavy tax load”. First, the state validated the payment of any real property taxes that were intended to be paid in 1936 without penalty. Any penalty charges that were paid in 1936 were to be refunded (Sec. 1). This reimbursement was intended to assist farmers who could not pay off their taxes as a result of the Depression. Most of those charged with this property tax were farmers. Then, the session explicitly stated all taxes would be amended from the 1927 tax laws. Most industries had their tax burdens reduced to as low as 6% of their total gross earnings. Most notably, the freight line firms had their taxes reduced to 7% of their total gross earnings (Sec. 3). Alcohol was taxed on a pro rata system based upon how much alcohol was in the good being sold (Sec. 8). Another focus of this session was tourism. Their purpose was to furnish “tourist information and advertise the recreational” with up to $2,500 per county (Sec. 12). The state then focused on cutting mortgage taxes, especially for rural communities. The Department of Rural Credit was established with the goal of fixing rural mortgage rates at 4% (Sec. 17). The goal was to be less lenient in giving out these mortgages so this low interest rate could function effectively.
In 1939, the 51\textsuperscript{th} Session of the legislature convened for the last session and amended the tax levy passed in the previous session. The amendment brought back tax penalties that had been voided in the 50\textsuperscript{th} session (Sec. 5). To counter this amendment, the state decided to grant relief from the inequitable foreclosure of mortgages. The courts could then re-sell any foreclosed homes for “a fair and reasonable market price” (Sec. 7). This section recognized the severity of the Great Depression and the drought that had left the state in economic despair. The state had also dealt with a long series of protests from urban mill workers in Minneapolis. As a result, the police force gained the power to declare a state of emergency when deemed necessary (Sec. 7).

Figure 1 below shows the per capita tax revenue by year in Minnesota. According to the session laws, there was an increase in state expenditures and tax cuts in 1933. In 1935, Minnesota placed an ad valorem tax on bonds and the state started to tax counties that had not experienced the severe consequences of the drought. This seems to be supported by the pattern conveyed in Figure 1, as tax revenue began to increase following 1933.

### Figure 1: Real per Capita State Tax Revenue by Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Real PC State Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1931</td>
<td>17.502</td>
</tr>
<tr>
<td>1933</td>
<td>13.109</td>
</tr>
<tr>
<td>1934</td>
<td>14.79</td>
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<tr>
<td>1935</td>
<td>17.183</td>
</tr>
<tr>
<td>1936</td>
<td>19.254</td>
</tr>
<tr>
<td>1937</td>
<td>24.841</td>
</tr>
<tr>
<td>1938</td>
<td>32.043</td>
</tr>
<tr>
<td>1939</td>
<td>32.246</td>
</tr>
<tr>
<td>1940</td>
<td>46.382</td>
</tr>
</tbody>
</table>
State tax revenue indicates how well a state is doing from an economic perspective. If a state generates more revenue, then this indicates the markets and individual industries within the state are prospering. According to Figure 2, the real per capita state tax revenue hit its minima in 1933. Every year after 1933, Minnesota realized increases in per capita tax revenue.

**The Cornerstone of the Minnesota Economy**

The quarter century following the Civil War transformed the United States from a relatively weak power in the global economy to an economic superpower. In that time frame, the country threw down railroads, dug out mines, cut down forests, populated cities and built factories at an uncompromising pace (4). What seemed to go unnoticed, however, was how quickly the farming industry grew during these several decades. Many of those bedazzled by the force of the industrial age seldom mention the growth of the agriculture industry (4). While agriculture proliferated in a majority of regions throughout the country, the growth was most
impressive in the Great Plains. As agriculture cemented itself in the economy of the Great Plains, it also cemented itself as a cornerstone in the Minnesota economy.

To this day, agriculture remains the foundation of the Minnesota economy. Today, Minnesota is a leading state in annual farm income (19). In regards to production, Minnesota ranks fifth among all fifty states, generating approximately four percent of the nation’s total agricultural receipts (19). In regards to annual revenue, corn for grains, hogs, soybeans, dairy products, and cattle are the largest exports from Minnesota (19). In a paper about 1930s state legislation, it is necessary to mention current production in order to put everything into context. Agriculture is, and always has been, the most important industry in Minnesota. In turn, state legislation throughout 1930s Minnesota was profoundly influenced by the agriculture sector of the economy. The importance of the agriculture industry in Minnesota goes all the way back to the early 20th century.

During the first two decades of the twentieth century, Minnesota experienced an unprecedented period of industrialization and prosperity. Farmers adopted new technology and machinery in order to raise farm productivity; however, transportation was the most essential part in driving this era of prosperity. Gravel roads, the invention of the automobile, and state funded Rural Free Delivery systems helped relieve farmers from rural isolation (5). The Country Life Movement called attention to lagging rural living standards and the economic problems that had been contributing to decades of farm exodus (5).

Prices remained high and stable, trade terms were favorable for the farmers, and per capita income for Minnesotan farmers increased. World War One kept the good times rolling as worldwide demand for food starkly increased in 1916, as the government promoted the aggie cause through slogans such as “Food Will Win the War” and “Plow the Fence for Defense” (5).
Foreign demand for American grown crops remained high through 1919, sustained by the war and reconstruction. This led to a strong demand for high quality crop land. Due to this demand for quality land, Minnesota farmers spent a majority of World War One bidding against each other for land, while taking advantage of the lenient and long-term credit offered by Federal Land Banks, which had been established in 1916 (5).

Unfortunately, this unprecedented growth bore unforeseen consequences. This period of prosperity created an economic bubble, as the real value and the trading value for agricultural goods grew further and further apart. Once this bubble had burst in 1920, a twenty year period of economic depression in the Minnesotan Agriculture Market ensued (5). Despite farmers’ hardships, innovation and productivity continued in Minnesota. How state policy makers handled this portion of the market was crucial in determining what would happen to Minnesota economically and politically into the Depression.

For much of America, the middle and late 1920s were years of affluence, technological progress, and business expansion; however, during this period of prosperity known popularly as the “Roaring Twenties”, farmers in Minnesota met economic hardship and financial setback. Crop prices had risen steadily for the first couple of decades in the twentieth century, outpacing non-farm prices (5). As post-war relief efforts tapered off in the summer of 1920, a long-dormant European agriculture market came out of hibernation. As a result, foreign demand for American farm goods tapered off as well, revealing that the farmers had only been reaping the benefits of artificially inflated prices caused by the war. Food exports fell by more than half, from $4 billion in 1919 to $1.8 billion in 1922 (5). Even on the home front, markets for agriculture were soft as average Americans had grown used to wartime restrictions on food. Americans continued to buy
less grain, beef, eggs, and poultry (5). This had very detrimental effects on the Minnesota economy and agriculture market nearly a decade before the Market Crash of 1929.

Minnesota made a number of investments in order to help alleviate the depressing agriculture market. In 1923, the Minnesota Agricultural Experiment Station instituted the nation’s first rural electric line. This farm electrification experiment lasted from 1923 to 1928. By 1930, 23,342 farmhouses in Minnesota had electricity (5). By 1929, the University of Minnesota had established a Master’s Degree in Agriculture Engineering (5). This led to a variety of innovations that helped increase farming efficiency. Unfortunately, these innovations and advancements in the agriculture industry only seemed to create a positive feedback loop between the amount Minnesota was innovating and the severity of the recessing market. This became very evident when the Depression hit as the supply of agriculture continued to increase while demand continued to lag.

Although Minnesota had experienced bank failures and acute agricultural distress in the 1920s, that slump was small in comparison to what was to come in the 1930s. The economic depression that began for Minnesota farmers in 1920 had now spread to the rest of the nation, and Minnesota’s market for agriculture only continued to plummet. By 1932, farm prices and incomes had reached a Depression low point (5). United States agricultural exports dropped by two-thirds between 1929 and 1932 (5). Farm prices fell even more abruptly than they had following the end of World War One. Corn prices dropped from 80 cents per pound in 1929 to 32 cents in 1932. Wheat went from $1.04 per pound to 38 cents, beef cattle from $9.47 to $4.25, and eggs from 30 cents to 14 cents per dozen (24). Minnesota was paying the price for the vast and swift expansion of its agriculture industry, the spread of credit, the inflation of capital surpluses, and the very efficiency of its innovations (3). This is where Minnesota had to deal
with the consequences of the positive feedback loop they had created throughout the 1920s. The more efficient Minnesota became in terms of their production, the more detrimental it became for the agriculture market due to the decline in prices. The supply continued to increase due to the spread of electricity to farms and innovations in the Agriculture Engineering field, demand decreased due to failing markets at a home and abroad, and, as a result, the prices for agricultural goods plummeted.

**Figure 3: Supply and Demand Shifts in the Agriculture Market**

Figure 3 above illustrates the market for Minnesota corn in the late 1920s and into the first three years of the Great Depression. On the Y-axis, the graph has prices in cents. On the X-axis is quantity as represented by pounds of corn. For the sake of simplicity, the middle line is assumed to be one pound. S1 represents the supply of corn prior to the implementation of farm electrification and the innovations in agriculture engineering. D1 represents the demand for corn prior to the market crash of 1929. As the graph illustrates, the price of corn drops from 80 cents at the intersection of S1 and D1 to 32 cents a pound at the intersection of S2 and D2.
Figure 4 shows the revenue generated by Minnesota’s agriculture economy. In an expanding economy, one would hope that this market would steadily grow instead of experience the volatility displayed in this graph, especially considering how weighty the agriculture market is in Minnesota’s economy. This growth seems to hit a wall in 1933 and 1934, and the revenue even begins to decline in 1936. Considering how critical weather is for any agriculture market, a severe lack of rainfall may have been the culprit in this case.

Although excess supply may have plagued farmers throughout the 1920s and into the early 1930s, their woes were enhanced by an unexpected turn in the climate of the Midwest. By 1933, Minnesota averaged three inches less rainfall throughout the state in comparison with 1932. By 1934, rainfall had fallen by more than six inches as compared to 1933 (9). This brought a whole new dynamic into what was already a failing agriculture market. The New Deal worked
frantically to deliver relief to these Midwest families and to get farmers to start conserving their soil (9). Inopportune, the New Deal could only do so much to relieve the ailments of the agriculture market. The state government needed to step up and help a group that had been struggling for nearly a decade and a half.

**Drought Relief and the Impact on Farmers**

Among the many catastrophic events that occurred throughout the 1930s, the severe drought that ravaged many parts of the United States may have been the most unpredictable. The great plains of the Midwest received much of the brunt of this unprecedented drought. As part of the New Deal, the Federal Government enacted the Drought Relief Service in 1935. The State of Minnesota also addressed the issue directly in the legislature’s 49th State session, which also occurred in 1935. The state recognized that it was in an economic state of emergency. This state of emergency was defined by a rising unemployment rate, an exponential increase in the impoverished population, and a decrease in funding for public education. Minnesota state legislators took extreme spending measures to counteract the declining economy. In Chapter 30 S.F. No 772 of the 49th Session, Minnesota passed “An act to appropriate $500,000 for Drought Relief providing for the expenditure and distribution thereof whereas an emergency exists” (49th Session, Sec. 30). Adjusted for inflation, that would be about 8.7 million dollars in today’s economy (16). In order to recover from the economic downturn, Minnesota sought to address the natural disaster that compiled the existing economic disaster.

As many New Deal initiatives had intended, consumers benefited the most from the federal Drought Relief Service. The fund helped alleviate the rising costs in livestock feed, corn, and other agricultural products caused by the lack of rainfall. Considering how corn has served as a staple in many American diets, consumers benefited greatly from this relief fund by
enjoying the same low prices they had enjoyed prior to the drought. Others, primarily the farmers and ranchers, felt that the federal government could have been even more generous with their spending on federal grant subsidies in response to the drought. Farmers and businessmen from Chippewa County, Minnesota lobbied against what they felt was an “unjust price schedule” establish by the Drought Relief Service of the New Deal (18). Farmers insisted that “bankrupt prices” related to the Agricultural Adjustment Act were being given for cattle, and that buying replacement stock with such subsidies was nearly impossible (18). Minnesota farmers and ranchers felt as though they needed priority prices in order to rebuild their already depleted estates (18). For these reasons, Minnesota State Legislatures felt it necessary to establish their own independent drought relief fund to further promote the farming economy. The consequences of the drought were so severe, that the federal drought subsidies were insufficient in the eyes of the state legislature, Governor Floyd B. Olson, and the Farmer Labor Party.

The drought had also caused a sharp decline in feed for livestock, and a majority of Minnesota’s livestock was in imminent danger of starvation. The legislators stated that “Owners of said livestock are without funds or other means of procuring feed for them, and in that the loss in large numbers of such livestock by death or by premature marketing would deplete the livestock supply within the State…the preservation of such livestock is essential to the welfare of the State of Minnesota” (49th Session, Sec. 30). In order to combat this emergency, the Minnesota legislature felt even more inclined to invest a half a million dollars in state expenditures to combat the problem.

Livestock feed was essential to the State economy for a number of reasons. First, as the supply for livestock feed decreased, the price of livestock feed began to rise. As one would expect, as it became more expensive for farmers to feed their livestock, the supply of livestock
decreased. This led to livestock based food availability decreasing drastically, leading to increases in aggregate meat prices. Second, many individuals working in the Midwest relied upon farming and raising livestock for employment. Considering how integrated the markets for livestock feed and corn were, both labor markets suffered considerably from the drought. Third, consumers were still feeling an impact on their food prices. Nearly 60% of the commonly used livestock feed was composed from corn (8). As the demand for livestock feed remained inelastic, and the supply of corn decreased due to poor weather conditions, the price of corn products increased for consumers.

In 1953, Economist Karl Fox conducted an empirical study in order to better understand the relationship between feed production and livestock numbers in the 1930s. This study correlates to our third issue in understanding the impact of meat pricing. In order to simplify his model, Fox argued that there was a national price of livestock feed. He concluded that all forty-eight states produced feed grain to some extent, and they were able to conduct trade in order to adjust to volatile weather conditions between regions. Unit transportation charges for feed grains were small enough to permit a well-integrated national market, so that prices and consumption of feed in each state were determined simultaneously with prices and consumption in all other states (8). Through this method, Fox derived a demand function for livestock feed across all states, including Minnesota. He concluded that a one percent increase in the supply of feed concentrates per grain consuming animals unit was associated with a two percent decrease in the United States average farm price of corn. He also found that a one percent increase in prices of grain-consuming livestock was associated with a one percent increase in the farm price of corn (8). This finding illustrates how integrated the markets were for livestock feed, livestock, grain, and
corn. This created problems as farmers could no longer afford to feed their cattle while consumers could no longer afford to buy food at the market.

Although many farmers were in serious financial binds during the first three years of the Great Depression, there was a great deal of variability across the regions of Minnesota. Farmers in the southern counties generally fared better than those in other parts of Minnesota. Faribault, Houston, Mower, Nicollet, Jackson, Scott, Wabasha, and Goodhue counties in southern Minnesota all got enough moisture to grow crops and hay for their livestock (5). On top of the favorable weather conditions, the farms in this region generally had low debt and were well diversified. Southern Minnesota farms produced everything from hogs, cattle and dairy herds to poultry, corn, hay and mixed grains (5). As Midwest historian Jerome Tweton once conveyed, “The southern Minnesota farmer had long ago abandoned his dependence upon one crop…This diversification played an instrumental role in the economic condition of the area” (24). Unfortunately, other areas throughout the state did not get through the drought unscathed. Counties in central Minnesota were ravaged by grass hoppers and soil erosion. The state even legalized “payments made by counties and towns of the state for the purpose of controlling and exterminating grasshoppers” (48th Session, Sec. 67). Farms in Big Stone, Stevens, Pope, and Swift counties were essentially all wiped out (5). Furthermore, the state addressed the issue of plant diseases and rodent control in the midst of the drought. By 1935, any county board in Minnesota could “appropriate money for control of insect pests, etc…When recommended so to do by the State Commissioner of Agriculture” (49th Session, Sec. 29 Art. 1). The state took this matter so seriously that they passed a law stating that “Any person who shall prevent, obstruct or in any manner interfere with the county authorities or their agents in carrying out the provisions of this act…shall be deemed guilty of a misdemeanor” (49th Session, Sec. 29 Art. 8).
Although John Steinbach never wrote a book about the drought in Minnesota, there were many years in which Minnesota received the brunt of the dust bowl era. During the first year of the drought, in 1933, Minnesota experienced some of the driest conditions in the states. Figure 5 below illustrates the amount rainfall that decreased across the nation between 1932 and 1933. Although some regions, like the Southwest and the Beltway, saw increases in rainfall during 1933, the Midwest got the worst of the drought.

**Figure 5: Map of the Drought**

![Map of the Drought](9)

**Figure 6: Months with Severe Drought in Minnesota**

![Months with Severe Drought In Minnesota](9)
As shown in Figure 5, the Living History Farm claims that Minnesota realized a three inch decline in annual rainfall from 1932 to 1933 and a six inch decline in annual rainfall from 1933 to 1934 (9). According to Figure 6, the claims of the Living History Farm seem to be supported. However, there seems to be a discrepancy between 1933 and 1934. The Living History Farm claims that annual rainfall decreased by over six inches between these two years. Nevertheless, this seems to be more of a discrepancy between the data itself. The data used here is in ‘months with severe drought’ while the Living History Farm used inches of annual precipitation.

The federal passage of the Agricultural Adjustment Act had a momentous impact on the economics and politics of Minnesota. In 1933, as part of the New Deal, the United States government passed this federal law in order to reduce agriculture production. This was done by paying farmers subsidies for lost earnings so they would not plant on the entirety of their land. The act also mandated the killing of excess livestock (1). The purpose was to scale back the supply of crops and livestock in order to drive up their prices. These subsidies were raised through a tax that was exclusive to companies that processed farm products (1). These taxes and subsidies were overseen by a newly formed agency, the Agricultural Adjustment Administration (1). The farmers of Minnesota argued that the administration was giving the farmers “bankrupt prices” for their cattle just to be killed by the federal government (18). Such backlash further influenced the State Government to implement its own Drought Relief Service, considering how important agriculture was to the Minnesota economy.
In regards to per capita Agricultural Adjustment Act Grants for the states in Figure 7, Nebraska and Oklahoma surpassed Minnesota in every year other than 1938. The Agricultural History Society conveyed the negative impact the AAA had on Minnesota and how the act contributed to the rise to the Farmer Labor Party, but Nebraska and Oklahoma may have been even more devastated by the AAA and the act’s stipulations (18). In 1935, Nebraska had an astounding $67.91, in 1967 dollars, per capita Agricultural Adjustment Act Grants. This was the year before the federal government ruled the act unconstitutional and revised the law. As Figure 5 illustrates, all of the states had a negative derivative in 1935, indicating that all of the states in this sample had experienced less AAA grants per capita following the amendments to the law in January 1936.

When the Agricultural Adjustment Act was passed, Franklin Roosevelt appointed Henry Wallace as the Secretary of Agriculture. Wallace made the decision to force farmers to cut back production by 30%. Floyd B. Olson, governor and head of the Farmers’ Holiday Association,
pushed for compulsory production control and price-fixing, with a guaranteed cost of production (7). This was met with backlash from Wallace over the topicality of what it meant to license every plough field in the country under the AAA. Olson argued that taking dynamite to cheese factories and kerosene to crop fields was not the solution (7). This was not the only quarrel Olson had with the federal government. He threatened to challenge Roosevelt for the presidency unless he introduced more radical reforms in terms of controlling the “key industries of the United States” (21). Olson embodied the attitude of many hard working farmers throughout the Midwest who felt slighted by the federal government. There were very few politicians more radical in their policy decisions during the Great depression than Floyd B. Olson.

**Governor Floyd B. Olson**

Quite possibly Minnesota’s most important leader during the 1930s was Floyd B. Olson, the 22nd Governor of Minnesota and the first member of the Farmer Labor Party to win the position. He took office in 1931 and died in office due to stomach cancer in 1936. As he stated in support of the 1934 Teamster strikes, “I am not a liberal…I am a radical” (23). His radicalism in response to the adversity of the depression has solidified Olson as one of Minnesota’s most notable governors and the most notable governor of the Depression.

**Figure 8: Olson’s Official Gubernatorial Portrait Finished After his Death in 1937**
Olson was born on the north side of the twin cities. After attending the University of Minnesota for a year and working on the Northern Pacific Railway in 1910, Olson decided to leave Minnesota and travel west. He worked a series of odd jobs in Canada, Alaska, and a few other states in the northwest. Eventually, he decided to settle in Seattle to become a dockworker. Through this work, Olson began to adopt the populist, even semi-socialist, philosophy he would use for the rest of his life. In 1913, Olson decided to return to Minnesota to attend law school. In 1915, he graduated from law school and became a practicing lawyer in New Prague, Minnesota.

After four years of practicing law independently, Olson was hired as the assistant attorney of Hennepin County in 1919. Hennepin County has historically been the largest county in Minnesota by population and is home to the Twin Cities, Minneapolis and St. Paul. After a year of working at the County Attorney’s office, Olson took over as the County Attorney, because the previous attorney had been convicted of taking bribes. Through this position, Olson was able to gain political influence throughout the state.

As the Hennepin County Attorney, Olson earned a reputation as a stern prosecutor who was quick to indict fraudulent businessmen. This characteristic stemmed from the sentiments he developed against crooked business practices while working in Seattle. He also went after the Ku-Klux-Klan amidst a media frenzy. During the trials, he received numerous death threats against himself and his family; however, he was still able to complete his prosecution of the group. Due to his ability to face adversity while maintaining a high moral standard for himself and others, Olson was reelected to the position in 1922 and 1926. The ideals he conveyed as the county attorney would eventually be used to catapult Olson into the governor’s office.
One of Olson’s most significant actions was the stance he took against the Minnesota Citizens Alliance. The Citizens Alliance was a combination of state and local anti-trade union organizations prominent in the United States during the first decade of the 20th century (7). Olson launched a vigorous prosecution against the political group for hiring a hit man to attack the home of a union leader in Minneapolis. After the case, Olson became a hero in the labor-movement community. Through this support Olson gained the gubernatorial nomination from the Farmer Labor Party. By 1930, many organized labor unions, coalitions of small business owners, and farmers supported the former county attorney. After an initial failed attempt at running for governor in 1928, Olson won by a landslide in 1930, garnishing around 60% of the popular vote. The race had four candidates, and Olson was able to secure 82 of the state’s 87 counties (21). Olson’s campaign for governor was one that focused on progression. He told his voters: “I am not a liberal, I am what I want to be - I am a radical... What is the ultimatum, we are seeking? The ultimatum is a Cooperative Commonwealth” (21). Through this philosophy of change, many voters who had voted for Theodore Christianson or Ernest Lundeen in 1928 were now Olson voters in 1930. After the Depression hit, Olson pushed for radical progressive change in response to the Depression conditions.

**Figure 9: County results of the 1932 Election, Showing Olson’s dominance.**
Following the 1929 market crash, Minnesota did not experience the immediate rise in unemployment that Eastern cities had suffered in the winter of 1929-1930. In turn, the traditional philosophy that private charitable agencies should care for the temporarily unemployed prevailed throughout Minnesota (17). At the time, the largest charitable agency in Minnesota was the Family Welfare Association (FWA). Although Minnesota’s rise in unemployment was not as immediate, the Great Depression eventually made its way to the Land of 10,000 Lakes. By January 1931, the number of unemployed in Minneapolis alone ran as high as 35,000, a number too great for even the FWA to withstand. As a result, a Communist Party had formed in the Twin Cities and the Farm-Labor party had gained control throughout the State. The city of Minneapolis replaced conservative William Kunze with Farmer Labor party member William Anderson for Mayor. The day after Olson’s inaugural speech in January 1931, Communists led by district organizer Karl Reeve marched to the capitol to stage a demonstration for unemployment relief (17). As the depression intensified with each passing year, so did the pressure from leftist groups. In order to counter these groups, Olson’s government issued two million dollars in direct relief bonds in 1932 alone (17). Olson’s aggressive approach to alleviating poverty helped drive Minnesota’s policy decisions in the heart of the Depression.

By the time Olson had taken office, Minnesota’s legislature was officially nonpartisan. However, Olson had some serious obstacles to overcome following the 1929 market crash. During his three terms as governor, Olson favored progressive income taxes, social security programs for the elderly, environment conservation programs, and improving conditions for the
unemployed. In order to improve conditions for the unemployed, he introduced Minnesota’s first form of public unemployment insurance (21). In the 48th Session of Minnesota’s state legislature, Olson pushed for the State Commissioner of Insurance to take control by giving the state “certain powers relating to the insurance laws and the conduct of the business of insurers” within the state (48th session, Sec. 78). The legislature claimed that due to an “abnormal disruption in economic and financial processes” insurers could no longer “carry on in a normal and ordinary matter” (48th Session, Sec. 78 Art. 1). Through this law, the state was then able to take control of the insurance market by gaining the ability to “suspend any law related to insurance” with an emphasis on suspending the “payment of insurance premium” (48th Session, Sec. 78). This helped keep insurance policies intact for those confronted with economic hardship who could no longer afford necessary insurance. Olson also took it upon himself to create “An act relating to the support and/or relief of poor persons and appropriating money for the administration thereof” (48th Session, Sec. 89). Within this law, the legislature states that the “State Board of Control” can provide “poor persons” with necessary “work relief”. This “work relief” was defined as support and/or relief in wages or other compensation, paid for in cash. The new law also pushed for direct relief, which was defined as “relief to poor persons in form of food, clothing, shelter, medical care and supplies, and other necessities of life” (48th Session, Sec. 89 Art. 1). The funds for this program came directly from the State Treasurer who maintained a designated relief fund. The legislature also shifted more responsibility on to the counties in regards to caring for the poor. Prior to 1933, the towns were given funds directly from the state to care for the poor. In 1933, Olson’s administration put some of the burden upon the counties to provide relief for their poor. The administration “authorized and empowered” the counties of Minnesota “to issue and sell bonds therefor in a sum not to exceed $25,000” for poverty relief (48th Session, Sec. 91 Art.
1). Olson was also able to effectively established old age pensions, a new minimum wage, and cooperative business enterprises that hired the recently unemployed (21).

Inopportune, Olson began to lose the support of the middle class and conservative groups toward the end of his third term as governor due to the radical platform of the Farmer Labor Party. Nevertheless, Olson was able to maintain the support of labor and agriculture organizations. The Farmer Labor Party played a large role in the political environment of Olson’s administration, as well as political environment of Minnesota during the Great Depression.

**The Minnesota Farmer Labor Party**

A major part of the Minnesota government’s political and economic decisions during the 1930s were based upon the values of the Farmer Labor Party. In the 1930s, the federal government played a much smaller role in influencing the politics of local communities. In an era of local politics and one party dominance, the Farmer Labor Party reigned in Minnesota. As Richard Valey articulates in his 1989 novel *Radicalism in the States: The Minnesota Farmer-Labor Party and the American Political Economy*, the Farmer Labor Party was “the most successful case of a radical, state level third party that American politics has ever seen” (25). In an article written in 2014 by Graeme Anfinson, the Farmer Labor party is described as “the most successful labor party in United States history” (2). The goal of the party was to redistribute wealth so that ordinary, working-class, citizens would not be effected by some of the anxiety causing ills that accompany capitalist society. In order to gain enough votes to make the third-party relevant in the state’s political landscape, the Farmer Labor Party was innovative enough to unite the farmers and urban workers of Minnesota. Historically, metropolitan factory workers and rural farmers had developed a genuine mistrust for each other. Nevertheless, leaders from
both the urban landscape and rural farmland learned how to work together within the organization to win big. This bond was essential in the establishment and early history of the Farmer Labor Party. In turn, the party gained substantial electoral strength in both rural and urban areas.

During the height of the party’s power in the 1930s and early 1940s, the party was able to elect three Minnesota Governors, four United States Senators, and eight House Representatives in office. Floyd Olson was the first of the three governors who served sequentially through 1939. At the peak of the party’s power, the Farmer Labor Party even had a majority in the Minnesota legislature. The party initially emerged from a variety of leftist parties present in the Midwest. The Non-Partisan League of North Dakota, the Union Labor Party of Duluth, Minnesota, and various farming coalitions throughout the region helped form the Farmer Labor Party of Minnesota. The party functioned on a platform of union protection, government ownership in certain industries vital to the agriculture market, and social programs.

The Farmer Labor party came from humble beginnings. In 1918, the party was established as a political federation of labor unions, rather than just a labor friendly political party (2). Within the first twelve years of the party’s existence, it experienced very little growth. In 1928, the then Farmer Labor Association had only amassed a mere 7,500 members when Olson ran for office the first time around and lost. To put that in the context of the state’s third parties, the Minnesota Non-Partisan League was 50,000 members strong in 1918 (25). Despite its diminutive size, the Farmer Labor party expanded rapidly over the next several years. By 1933, the party more than doubled in size to 20,000. By the end of 1933 and into 1934, the party hovered around 40,000 registered members (25). The party’s rapid expansion was due to its diverse appeal to urban workers and rural farmers in a time of great economic disparity.
However, there were many disagreements between the two groups in regards to what legislative actions should be taken in response to the Depression.

**Figure 10: Results of the 1936 Minnesota Gubernatorial Election.**

![Map of Minnesota with counties colored in green and red to represent Farmer-Labor and Republican parties, respectively.]

County Results for the 1936 Election
Green: Farmer-Labor Party
Red: Republican

Although labor unions and rural farmers were unified under the Farmer Labor Party, there were many disagreements among the various interest groups. As articulated by the Minnesotan Political Scientist George Mayer, “The farmer approached problems as a proprietor or petty capitalist” (10). This outlook among farmers led to incongruities over how the state and the Farmer Labor Party should provide relief for their supporters. Farmers were inherently biased towards protecting their property and subsidizing the prices for agriculture. Successful farming conditions were promoted by tax reduction, access to credit, and price floors for agricultural goods (25).

On the opposite end of this seesaw sat the urban city worker, who supported the Farmer Labor party through the party’s backing of labor unions. These groups sought relief from hunger, work related diseases, and exposure that followed the eventual wake of unemployment that was
prevalent throughout the Great Depression. Unlike the farmer, the urban worker usually had no property or economic assets to protect, and the worker was generally immune to increased taxation. From the urban standpoint, there was more to be gained by demanding financial relief directly from the state, even if such measures came at the expense of diluting property rights (25). Although both rural farmers and urban workers were placed on the same side of the political fence, they very seldom agreed upon how the state government should approach the economic crisis (25).

After Floyd Olson’s first re-election in 1933, the Farmers Holiday Association formed a mob in front of state office demanding three things from Olson’s administration: to prevent foreclosure sales to the creditors of indebted farmers, to raise the price of agricultural goods, and to offer farmers low cost credit for their land and machinery (25). In response, Olson and the legislature enacted a one year temporary moratorium on farm mortgage foreclosures (25). However, the statutory mortgage moratorium was eventually ruled illegal by the court system and subsequently removed. Olson’s administration may have been too willing to compromise in instances such as these; instances that may have contributed to the demise of the party.

One of the other factors that held back the Farmer Labor Party was its form of state level radicalism. Prior to the passage of the New Deal, political forces in local state governments were propelled by radical ideals that correlated with the struggles of rural regions. Democratic and Republican parties found issues in attempting to gain political power in regions outside of industrial metropolises throughout the 1920s and 1930s. This made it possible for third parties to penetrate the political system and gain substantial followings. However, the Minnesota Farmer Labor Party began to lose political significance in the late 1930s and into the 1940s. Why was one of the fastest growing parties in Minnesota’s history so quick to dissipate? Increased federal
authority, the passing of the New Deal, and increased political leverage for Republicans and Democrats are all noteworthy factors. However, state level radicalism may have played the most dynamic role in bringing about the decline of the Farmer Labor Party.

State-level radicalism grew in large part out of the willingness of Socialist party activists to work alongside other radical groups. Debsian Socialists often worked under Farmer Labor Party members in order to participate in economic protest. The Farmer Labor Party offered socialist protesters the opportunity to demand economic legislation without carrying the stigma of a being under a socialist party. On the national level, socialism was very unpopular. In his best performance on the presidential ballot, Eugene V. Debs, a popular union leader and the leading politician for the Socialist Party of America, gained a mere 6% of the popular vote in the 1912 Presidential Election. During the first couple of years of the Depression, barriers to entry in the political realm dropped dramatically for radical socialist groups. However, having a relationship with the stigma of radical socialism brought an end to the Farmer Labor Party over time. Political entrepreneurs emerged from all walks of life, setting an overtly radical platform throughout Minnesota. This radicalism was a product of a severe economic recession, but such radicalism was not sustainable going into World War II. The party eventually merged with the Democratic Party in 1944 (2).

**Life for Industrial Workers in the Inner-City and Other Sectors**

Urban workers were the last piece needed to bring the Farmer Labor Party and Floyd Olson into the forefront of Minnesota politics in the 1930s. The Great Depression encouraged urban workers of the Twin Cities to take drastic action and create political ties with the rural farming communities. Throughout the 1920s, urban-city employers had enjoyed the ability to cut wages and break up unions without too much backlash due to a booming urban economy.
Although these employers enjoyed these benefits throughout the 1920s, the years following the 1929 Market Crash unleashed one of the largest social upheavals in United States history. In turn, this upheaval allowed the Farmer Labor Party to recruit members outside of their typical rural landowner demographic (23).

In order to best understand the perspective of the 1930s urban worker in Minnesota, we will first examine the economic landscape of the industrial sector. Two very important industries that prevailed in the 1800s and early 1900s were wood and flour. In the early 20th century, Minnesota lumber jacks reigned supreme in the national lumber economy. Even today, wood plays a vital role in the Minnesota economy. In 2007, the wood industry employed 28,442 people with a revenue output of $8.7 billion (13). Although they have commonly been considered industrial workers, the lumber jacks’ living conditions were far from urban. Working abnormal hours while traveling through the backwoods of Minnesota had offered competitive wages for workers until the depression hit. During the depression, working in the lumber industry became unbearable. As the leader of the Timber Workers Union stated, “We are the Minnesota Lumberjacks ... the most exploited group of workers in the state… The lumber barons of the Northwest have dealt with us as ruthlessly as they laid waste to our great natural resource, the Minnesota forests. Never receiving a living wage from the lumber industry, never earning enough to maintain a home and raise a family which is the right of every man” (20). The Farmer Labor Party was able to gain the support of these woodland groups because they were “sympathetic to their plight” (20).

The flour industry also played a critical role in the Minnesota economy during the 1930s. From 1880 through 1930, many considered Minneapolis to be the flour milling capital of the world. In time, Minneapolis became informally known as Mill City due to its astounding number
of flour mills (6). According to the Minnesota Historical Society, the city population seemingly grew in response to the growth of flour mills. In 1870, the city’s population was a mere 13,000. In two decades, around the same time the flour mills were being established, that number increased to nearly 165,000 (6). The population was rising at a rate of 350 percent during that time period (4). Grain from all over the Midwest was being exported into Minnesota to be processed into flour. This flour was then transported to Duluth and eastern U.S. ports where it would be exported or domestically distributed (6). In 1870, the city’s millers produced around 200,000 barrels of flour. By 1884, Minneapolis surpassed Budapest as the world’s leading flour miller (4). By 1890, Minneapolis was producing 7,000,000 barrels annually, one third of which was exported to other countries (4). This growth was due to the fact that Minnesota had favorable conditions for grinding wheat and they had easy access to cheap water power. This water power was generated by the Falls of St. Anthony, located within Minneapolis.

**Figure 11: Photograph of the Array of Flour Mills that Occupied the Sky of Minneapolis**

Due to this rapid growth, a large portion of the inner-city labor force worked in the flour industry. Unfortunately, the flour mills took a turn for the worse following World War One. This
happened for a couple reasons. First, St. Anthony Falls could no longer produce energy for the local mills. Second, a majority of the wheat sent to Minneapolis to be processed into flour was Spring Wheat. Unluckily, it was relatively costly to mill this Spring Wheat into a satisfactory product. The Spring Wheat would be “ground between conventional millstones, the hard and brittle husk of the kernel fractured and produced a darker flour than consumers preferred. Moreover, conventional milling practices frequently failed to mix the flour’s gluten and starch completely, making it turn rancid quickly” (4). In the long run, the growth of the Minnesota flour industry was not sustainable due to these factors. By the time the depression hit, Minneapolis had already dealt with a decade of turmoil in these key industries. The disorder of the 1930s only further provoked urban workers to take immediate and extreme action.

By 1934, urban struggle shifted away from hunger strikes and unemployment marches towards strikes for union recognition. In 1933, there were 1,695 work stoppages nationally, more than twice the number that took place in 1932. This involved 1,117,000 workers across the nation joining in labor protests in 1933 alone. By 1934, these figures increased 1,856 strikes that involved 1,470,000 workers. One of the most radical strikes took place was in Minneapolis, where workers took to the streets for over three months (23).

The Minneapolis Teamsters Strike of 1934 is one of the most notable examples of the social turmoil that took place in the Twin Cities during the Great Depression. The strike began in May and lasted through July as Union members picketed through the streets of the capitol city. The Minneapolis Teamster Strike took it a step further than other urban strikes going on throughout the country did because the rank and file system remained in control from start to finish. Leaders from the Communist League of America, Vincent Dunne and Farrell Dobbs, led the strike. The strike relied upon a bottom up mentality in which no member was placed above
another. The strikers were able to organize their own medical care and kitchens, creating more incentives for the unemployed and underemployed to join their movement (23).

This strike was able to take it a step further than that of other cities, most notably Toledo and San Francisco. The strike’s various operations involved thousands of workers outside of the base labor group, the Teamsters Local 574. In order to remain organized, the groups of urban workers would meet every day through democratically run nightly mass meetings (23). These meetings were run by a strike committee of 100 truck drivers. In order to keep everyone up to date, even if they did not attend the nightly mass, the drivers would type up and publish a daily strike newspaper. Through these aforesaid forms of communication, the strikers were able to organize “flying squadrons” throughout the downtown sector of Minneapolis (23). These “flying squadrons” were trucks filled with picketers who would blockade incoming scab trucks attempting to bring in employees who kept working despite the strike (15).

The protesters were attacked frequently by police, causing casualties on both ends; however, they remained resilient. Contrary to the expectations of authorities and the local companies, the strikers were not fearful in regards to facing a militia of police authorities and strikebreakers. At the peak of the strike in July, on a hot and humid day, 1,500 armed police officers and strikebreakers took to the streets of Minneapolis. As Farrell Dobbs articulates in his account of that day, he states:

“The pickets charged the deputies first and noticed that many uniformed cops were tending to hang back…. Sensing this mood among some of the cops, the pickets continued to concentrate mainly on the deputies. Soon even the bystanders were getting their licks in support of the strikers. Finding themselves mousetrapped, many deputies dropped their clubs and ripped off their badges, trying with little success to seek anonymity in the hostile crowd. By this time the pickets were also zeroing in on uniformed cops who had gotten into the thick of the fight. The scene of the battle spread as cops and deputies alike were driven from the market. The deputies were chased clear back to headquarters, the strikers mopping up on stragglers along the way. In
less than an hour after the battle started, there wasn’t a cop to be seen in the market, and pickets were directing traffic” (23).

**Figure 12: State Comparisons with Unit Labor Costs**

According to the International Socialist Review, Minneapolis experienced an unprecedented Teamster Strike that provoked thousands of workers to take to the streets and protest. According to the data, unit labor costs were increasing between 1933 and 1939 in every state in this sample, except Nebraska which took a momentary dip in 1935. In Minnesota, unit labor costs only seemed to be increasing slightly in 1933, which does not seem to reflect the interpretation of the International Socialist Review. On the other hand, this may be due to the fact that there is a gap in the data in 1934. Regardless, the data indicates very little signs that the Teamster Strikes had a more profound impact in Minnesota as compared to other states. If the strike was as successful as the article conveyed, there should be some evidence of a dramatic increase in worker compensation and unit labor costs relative to neighboring states.
Although this account inherently biased considering the source utilized is a socialist tribune, there seems to be some truth behind the account. This truth is apparent through Floyd Olson’s reactionary policy that followed in the summer months of 1934. Initially, Olson had supported the worker’s strike, declaring he was a radical in the face of the ongoing economic crisis. He even donated a sum of $500 to the strike fund (23). Yet, after witnessing bloody confrontations between the police and the protesters, Olson had no choice except to declare martial law. Olson contradicting his initial support of the protest may have put another dent in the Farmer Labor Party cause. The protesters put up a fight, but eventually they had settle with an agreement between themselves and the companies (23). This form of radical protest and socialist association contributed to the eventual fall of the once powerful Farmer Labor Party.

**State Comparisons**

**Figure 18: State Comparisons with Per Capita State Tax Revenue**
In comparison to other Midwestern States, Minnesota experienced the least amount of volatility according to the statistics. Between, 1931 and 1936, Minnesota remained near the bottom in regards to Per Capita State Tax Revenue. As has been noted, this encompasses Floyd B. Olson’s administration and the rise of the Farmer Labor Party. On the other hand, Minnesota did not experience a decline in Per Capita State Tax Revenue in any year following 1933. Also, Minnesota placed only behind Michigan in Per Capita State Tax Revenue by the end of the Depression in 1940.

**Statistical Analysis**

Although many statistics and economic interpretations have been given by various scholastic journals and 20th century media, this section will illustrate and interpret the raw statistics gathered by the economics department of the University of Arizona. The primary focal points will be parameter estimates for a number of key variables, as well as graphs illustrating what really happened in 1930s Minnesota. These key variables will be regressed into a model for the purpose of illuminating any policy decisions or market fluctuations that may have had the
most significant impacts on the state economies. The data provided by the university contains statistics from 1930 to 1940 across all forty-eight states. In conclusion, this will result in a maximum of 528 observations to be tested within the regression for each variable. Due to the possibility of omitted variable bias, the regression will be re-applied with year and state fixed effects. By using dummy variables for the years and states, the regression will control for variation across time, variation between the different states, and the fluctuations in data that may be results of nationwide shocks. After these regressions are run and analyzed, there may be some unexpected variables that meaningfully impacted the national economy and state economies.

**Hypotheses**

Dependent Variable: Per Capita State Tax Revenue. This outcome will be on the left side of the equation as $T_{it}$. \([(\text{STREVTAX})/(\text{cpi67})*100]/\text{Population}\)

**Figure 13: Predicted Signs for Parameter Estimates**

<table>
<thead>
<tr>
<th>Explanatory Variable</th>
<th>Beta</th>
<th>Predicted Sign</th>
<th>SAS Input</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Estimated Real PC State Income</td>
<td>$\beta_1$</td>
<td>Positive</td>
<td>E1RYPC</td>
</tr>
<tr>
<td>PC Federal Grants</td>
<td>$\beta_2$</td>
<td>Positive</td>
<td>RGRANTOGR/Population</td>
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<tr>
<td>Value of Farm Animals, 1967$</td>
<td>$\beta_3$</td>
<td>Positive</td>
<td>RVANIMALS</td>
</tr>
<tr>
<td>Months with Severe Drought</td>
<td>$\beta_4$</td>
<td>Negative</td>
<td>TMHDSXD</td>
</tr>
<tr>
<td>Unit Labor Costs, 1967$</td>
<td>$\beta_5$</td>
<td>Positive</td>
<td>RMANNEA</td>
</tr>
<tr>
<td>PC Agricultural Adjustment Act Grants, 1967$</td>
<td>$\beta_6$</td>
<td>Negative</td>
<td>RSGAAA/Population</td>
</tr>
<tr>
<td>PC Car Registrations</td>
<td>$\beta_7$</td>
<td>Positive</td>
<td>AUTOREG/Population</td>
</tr>
</tbody>
</table>

PC: Per Capita
\[ T_{it} = \beta_0 + \beta_1 Y_{it} + \beta_2 F_{it} + \beta_3 ValueFarmAnimals + \beta_4 Drought + \beta_5 LaborCosts + \beta_6 AAAGrants + \beta_7 percapAutoReg + \epsilon_{it} \]

Where \( \beta_0 \) represents the vertical intercept and \( \epsilon_{it} \) represents the error term. All of the monetary figures above are also in real terms, measured in constant 1967 dollars.

If per capita income increases, then per capita state tax revenue will increase. This hypothesis is based upon the notion that income tax revenue played a substantial role in state tax revenue. The assumption here is that as income increases, then so will income tax revenue; thus, per capita state tax revenue will increase when income tax revenue increases.

If per capita federal grants increase, then per capita state tax revenue will increase. The federal government increased spending in order to counteract a recessed economy, as well as to address the widespread uncertainty that took place within the midst of the Great Depression. These grants were intended to spur economic growth. Based upon this envisioned growth, per capita state tax revenue should be positively correlated with per capita federal grants.

If the value of farm animals increases, then per capita state tax revenue will increase. In the early 20th century, Minnesota focused upon pulling farmers out of isolation and into the industrial age. Unfortunately, this backfired when WWI ended and the foreign demand for farm products declined, and the domestic demand for agricultural goods detracted. As illustrated in the second narrative, the livestock, livestock feed, and corn industries were heavily integrated. Due to this integration, all of these industries suffered substantially after the end of WWI and into the Great Depression. In order to combat this dilemma, the Federal Government passed the Agricultural Adjustment Act in order to increase prices by cutting back supply. The act paid many farmers to cut back their crop acreage and number of farm animals in an attempt to increase prices and farmer incomes.
If days with severe drought increase, then per capita state tax revenue will decrease. The year 1934 ushered in the driest period of the Depression, with eighty percent of the United States recording extremely dry conditions (9). The years 1936, 1939, and 1940 experienced these unprecedented dry conditions. As a result, farmers in rural areas struggled to produce a sufficient amount of crops. This was compounded by the fact that the federal government had encouraged farmers to cut back supply in order to meet a deficient demand through the Agricultural Adjustment Act. By the mid-1930’s, the supply for agricultural goods had been cut back so dramatically by the federal legislature and the draught, many farmers were unable to make enough income off of their depleted supply.

If unit labor costs increase, then per capita state tax revenue will increase. As the cost of labor goes up, the expectation is that economic output is increasing as well. Increased per capita state tax revenue is correlated with an expanding economy; on the opposite end of the spectrum, increased economic output is also linked to an expanding economy. Therefore, an increase in unit labor cost should be correlated with an increase in per capita state tax revenue. In Minnesota, this hypothesis is heavily integrated with the flour milling industry.

If per capita Agricultural Adjustment Act Grants increase, then per capita state tax revenue will decrease. The narratives on Minnesota described what a detrimental failure the Agricultural Adjustment Act was. The act did not effectively subsidize farmers for their losses in the livestock market, and the act was poorly timed with one of the severest droughts in American history. The farmers went even further into debt due to the prices provided to them by the government for their slaughtered livestock and burned crops. Hopefully, this regression will reflect the ailments of the Agricultural Adjustment Act and why the act was eventually ruled unconstitutional and amended in January 1936.
If per capita car registrations increase, then per capita state tax revenue will increase. Unlike today, many individuals did not own and could not afford to purchase motor vehicles. Once motor vehicles became more widespread, the states could use the purchases to gain revenue from ad valorem transportation taxes, sales taxes, and car registrations. In Minnesota, the state charged an “excise tax upon any substance, material, fluid, force, or other means or instrumentality…used or useful, in producing or generating power for propelling motor vehicles…used on public highways of this state” (46th Session, Sec. 5 Art. 9). An increase in per capita car ownership could be the calling card of an increase in average wealth following the passing of the New Deal in 1933.

Results and Interpretation

Figure 14: Summary of Statistics

<table>
<thead>
<tr>
<th>Variable</th>
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<th>Mean</th>
<th>Std Dev</th>
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<td>2631316.47</td>
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**Figure 15: Parameter Estimates**

<table>
<thead>
<tr>
<th>Variable</th>
<th>DF</th>
<th>Parameter Estimate</th>
<th>Standard Error</th>
<th>t Value</th>
<th>Pr &gt;</th>
<th>t</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1</td>
<td>-31.95265</td>
<td>25.32376</td>
<td>-1.26</td>
<td>0.2112</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PC State Income</td>
<td>1</td>
<td>-0.00875</td>
<td>0.02226</td>
<td>-0.39</td>
<td>0.6954</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PC Federal Grants</td>
<td>1</td>
<td>0.39633</td>
<td>0.10527</td>
<td>3.76</td>
<td>0.0003***</td>
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<td></td>
</tr>
<tr>
<td>Value of Farm Animals</td>
<td>1</td>
<td>0.00007508</td>
<td>0.00006412</td>
<td>1.17</td>
<td>0.2455</td>
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<td></td>
</tr>
<tr>
<td>Months with Drought</td>
<td>1</td>
<td>-1.70401</td>
<td>1.29993</td>
<td>-1.31</td>
<td>0.1942</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit Labor Costs</td>
<td>1</td>
<td>0.02667</td>
<td>0.01657</td>
<td>1.61</td>
<td>0.1121</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PC AAA Grants</td>
<td>1</td>
<td>-0.55341</td>
<td>0.48508</td>
<td>-1.14</td>
<td>0.2578</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PC Auto Registrations</td>
<td>1</td>
<td>-73.27956</td>
<td>146.12945</td>
<td>-0.5</td>
<td>0.6176</td>
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<td></td>
</tr>
</tbody>
</table>

*Statistically Significant at 10% level of significance

**Statistically Significant at 5% level of significance

*** Statistically Significant at 1% level of significance

PC: Per Capita

AAA: Agricultural Adjustment Act

Figure 15 shows the coefficients before applying year fixed effects, state fixed effects and state time trends. Once these effects are applied, the results should suffer less from omitted variable bias. Real per capita state income, severe drought, per capita Agricultural Adjustment Act Grants, and per capita auto registrations all had negative effects on real per capita state tax revenue. These metrics are troubling considering that an increase in income should result in an increase in tax revenue. According to the data, a $1 increase in real per capita state income is associated with a .00875 dollar decrease in real per capita state tax revenue holding all other
variables constant. Fortunately, the parameter estimate is not statistically significant at even 50%. As expected, the drought variable had a substantially negative impact on per capita state tax revenue. Every additional month of severe drought conditions was associated with 1.71 dollar decrease in per capita state tax revenue, holding all else constant. Some of the other variables, on the other hand, had very positive effects. The most impactful of all of these variable was per capita federal grants. A $1 increase in this metric led to nearly a 40 cent increase in real per capita state tax revenue holding all else constant. This value is also supported by the data with the estimate being significant at 1%

The coefficient of per capita auto registrations has an unexpected sign that is quite troubling; however, the finding is not statistically significant at even 50%. Although the large error seems to reflect a large parameter estimate, there is little evidence that car registrations would have had a significant impact on real per capita state tax revenue, especially in the negative direction.

In conclusion, the federal grants seemed to have had the most positive effect on the economy holding all of these other variables constant. Although John Maynard Keynes made a similar argument decades ago, there is a fair amount of validity in his points according to this data. Spending against the wind in the form of federal grants did help increase state tax revenue. As was expected, the drought and the Agricultural Adjustment Act had negative impacts on the depressed economy. This may be omitted variable bias, however, and the next step is to perform the estimation with year and state fixed effects.

Although the original regression analysis illustrated a straight forward and raw interpretation of the statistics provided, there were other factors that played a role in manipulating the per capita state tax revenue. Among these factors are differences between the
states that do not change over time, factors that change more convincingly in certain states over others, and the seasonal effects of some of these variables. In order to control for these factors, so that we can better pin down the effect of the 7 explanatory variables in question, a fixed effects analysis was performed. The fixed effect analysis included a state fixed effect analysis, which consisted in adding dummy variables to 12 states, as well as a year fixed effect analysis which consisted in adding dummy variables for each of the years from 1932 to 1940.

**Figure 16: Parameter Estimates with Year Fixed Effects**

| Variable                     | DF | Parameter Estimate | Standard Error | t Value | Pr > |t| |
|------------------------------|----|--------------------|----------------|--------|------|------|
| Intercept                    | 1  | -27.44121          | 37.18851       | -0.74  | 0.4632 |
| Real PC State Income         | 1  | -0.00399           | 0.03572        | -0.11  | 0.9113 |
| PC Federal Grants            | 1  | 0.35936            | 0.16924        | 2.12   | 0.0375**|
| Value of Farm Animals        | 1  | 0.00005549         | 0.00011105     | 0.5    | 0.6189 |
| Months with Drought          | 1  | -1.39663           | 1.4133         | -0.99  | 0.3267 |
| Unit Labor Costs             | 1  | 0.02369            | 0.01906        | 1.24   | 0.2182 |
| PC AAA Grants                | 1  | -0.54795           | 0.52045        | -1.05  | 0.2962 |
| PC Auto Registrations        | 1  | -65.52444          | 161.79678      | -0.4   | 0.6868 |

*Statistically Significant at 10% level of significance

**Statistically Significant at 5% level of significance

*** Statistically Significant at 1% level of significance

**Figure 17: Parameter Estimates with Year and State Fixed Effects**

<p>| Variable                  | DF | Parameter Estimate | Standard Error | t Value | Pr &gt; |t| |
|---------------------------|----|--------------------|----------------|--------|------|------|
| Intercept                 | 1  | 15.28032           | 52.51332       | 0.29   | 0.772 |</p>
<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real PC State Income</strong></td>
<td>1</td>
<td>0.01752</td>
<td>0.0404</td>
<td>0.43</td>
</tr>
<tr>
<td><strong>PC Federal Grants</strong></td>
<td>1</td>
<td>0.34313</td>
<td>0.17594</td>
<td>1.95</td>
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<tr>
<td><strong>Value of Farm Animals</strong></td>
<td>1</td>
<td>-0.00002714</td>
<td>0.00013337</td>
<td>-0.2</td>
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<tr>
<td><strong>Months with Drought</strong></td>
<td>1</td>
<td>-1.59042</td>
<td>1.45976</td>
<td>-1.09</td>
</tr>
<tr>
<td><strong>Unit Labor Costs</strong></td>
<td>1</td>
<td>0.01421</td>
<td>0.02219</td>
<td>0.64</td>
</tr>
<tr>
<td><strong>PC AAA Grants</strong></td>
<td>1</td>
<td>-0.40883</td>
<td>0.54667</td>
<td>-0.75</td>
</tr>
<tr>
<td><strong>PC Auto Registrations</strong></td>
<td>1</td>
<td>-119.94359</td>
<td>176.12172</td>
<td>-0.68</td>
</tr>
</tbody>
</table>

*Statistically Significant at 10% level of significance

**Statistically Significant at 5% level of significance

*** Statistically Significant at 1% level of significance

*Dummy States: Connecticut, Delaware, New Jersey, New York, Indiana, Michigan, Ohio, Iowa, Kansas, Arizona, California, Louisiana.

*Connecticut is the foundation variable.

Many of the coefficients of the variables are not statistically significant after state and year fixed effects are applied. Per capita federal grants continues to have a statistically significant effect in this regression. If all other variables are held constant, a one dollar increase in per capita federal grants will lead to a 34 cent increase in real per capita state tax revenue. The second most significant statistic is months with drought. For every additional month with severe drought, real per capita state tax revenue decreased by $1.59. Despite the parameter estimate only being statistically significant at the 20% level, there is strong evidence that prolonged periods of drought were devastating to the local economies.
According to the regression analysis, per capita federal grants had the most statistically significant impact on per capita state tax revenue. Figure 21, to an extent, conveys a different conclusion. Minnesota may not have experienced the same positive impact caused by federal grants in other states. This may have been due to several reasons. First, Floyd Olson’s
administration may have taken a lot policy decisions into their own hands rather than requesting aid from the federal government in the administration’s initial years. This could have been a byproduct of the Farmer-Labor Party’s state level radicalism. Second, certain federal grants may have been more useful for urban center rather than agricultural markets. Considering Minnesota relied, and still relies, heavily upon agriculture, this may have not been as beneficial for Minnesota. According to Figure 22, all of the states in this sample had their per capita federal grants peak in 1936. This is due to the passing of the Second New Deal. In 1936, Minnesota surpasses the other states in this sample. This would have been the final year of Floyd Olson’s time as governor before he passed away in 1937. In comparison to other states, these Federal Grants did very little to improve Minnesota’s economy.

**Conclusion**

In the 1930s, Minnesota relied upon the agriculture, flour, and lumber industries to provide jobs for the general population and tax revenue for the state. The economic ailments of the Great Depression provoked radical political change including the rise of Floyd B Olson and the Farmer Labor Party. Although relatively radical in terms of polices and political stances, Governor Olson and the Farmer Labor party became one of the most successful state level third parties in the history of the upper Midwest. From 1929 to 1940, the Minnesota State Legislature took major steps to provide unemployment relief and drought relief for those in rural counties effected by the lack of rainfall. Based upon the regression analysis run, federal grants seemed to have had the most statistically significant impact on per capita state tax revenue across the states.

In the future, when faced with a recession of this magnitude, Minnesota may find relief in policies that spend against the wind. Once Floyd Olson had time to implement his own policies, and when the New Deal was passed in 1933, the Minnesota state economy only continued to
expand in terms of per capita state tax revenue. Unfortunately, the radicalism of the Farmer Labor Party only worked to the detriment of Olson’s cause. The best solution may be to remain radical in an economic sense while remaining reserved on the political front. Whether this can be accomplished, by Minnesota or any other state in an exceptionally recessed economy, remains to be seen.

**Works Cited**


<http://www.harmon.uconn.edu/GraphTool/GraphTool.html>.


Session Laws