adjustments taking place in the farm sector. In March of this year, the Federal Reserve Board and other agencies that regulate banks jointly announced plans to relax capital restrictions for banks believed to have a reasonable chance of regaining their economic health within a 5-year period.

Regulators also modified rules governing the handling of restructured loans (terms changed by the bank to make it easier for the borrower to repay the loan) in a way designed to help banks maintain their lending levels. Congress was debating stronger legislation at the same time. And the administration placed additional funds in the farm operating loan program so that the Farmers Home Administration could maintain its role as lender of last resort during the spring planting season.

Most observers agree that the above changes and last year's legislation (the Food Security Act of 1985 and restructuring of the Farm Credit System) will provide some breathing room to rural economies and financial markets. But it is almost as certain that the situation will remain difficult for several years. Some farmers and farm banks are beyond help and will not make it, and farm income is not expected to improve in the near future. Also, communities highly dependent on agriculture will face the task of diversifying their economies at a time when the necessary credit is difficult to obtain.

Margaret E. Dewar

The Role of Analysis in Economic Development: Lessons from Minnesota’s Iron Range

States may not be getting their money's worth from development programs formulated without benefit of economic analysis. Minnesota’s programs for its Iron Range, located in the northeastern part of the State, illustrate how analysis can get sacrificed in political tug-of-wars. The resulting programs may overlook projects with a good chance of success or encourage projects that will not achieve economic development goals.

Minnesota’s 1983 legislature passed a series of measures that greatly expanded the State’s involvement in economic development. These included an enterprise zone program, incentives for small businesses, subsidies for employing certain types of workers, tourism promotion, and an office to develop international trade. Those new measures are on top of Minnesota’s Iron Range fund; this fund alone has provided more than $35 million for business ventures since mid-1982.

In 1984, Virginia created the Rural Virginia Development Foundation to provide capital and training programs for new and expanding small businesses.

Also in 1984, Pennsylvanians approved a $190-million economic development bond referendum that provides for State loans and grants to help employees take over plants threatened with closings, to assist small business “incubators” (which provide space and services for new businesses), to provide startup capital, and for other activities.

These examples demonstrate that States are devoting more resources to influencing economic development. But they may be getting shortchanged. Lawmakers often do not know what contributes most to economic development, yet are reluctant to stipulate that development programs use economic analysis to help find the most promising directions and the projects with the best chance of success.

Careful analysis can lead to more effective use of public funds.

For Additional Reading


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A lack of economic analysis can lead to programs that fail. Without analysis, the programs can neglect to finance jobs and projects where public support might have made a crucial difference, they can support failing businesses that should not have received public support, and, most important, they can use public funds to stimulate growth that would have occurred anyway.

The Iron Range Resources and Rehabilitation Board (IRRRB) in northeast Minnesota demonstrates why States often do without economic analysis. The reasons were primarily political in that good analysis takes time and in this case, as in others, the program was conceived during a crisis with the principals looking for quick returns.

The IRRRB encourages new industries on Minnesota's Iron Range, a region of about 190,000 people where the unemployment rate reached 33 percent in spring 1983. Table 1 summarizes the 44-year history of the IRRRB's involvement in economic development. The economic protection fund, which became available in 1982, is the core of the economic development effort. Most of the IRRRB's funds have gone to tourism and to projects that encourage use of indigenous energy resources. Other funds have aided manufacturing and manufacturing service establishments, especially those related to wood products.

The IRRRB's members are five State senators, five State representatives, and the commissioner of the State Department of Natural Resources. Nearly all the legislators represent districts in the "taconite tax relief area," Minnesota's Iron Range and its surrounding region (see map).

Analysis Ignored in Selecting Economic Development Priorities

The 1982 economic protection fund legislation stipulated that the economic development efforts promote the development of minerals, alternative energy sources, forestry, small business, and tourism to create productive, permanent, skilled employment. The IRRRB's long-range plan targeted energy development and alternative fuels, timber and wood products, tourism and resort renovation, and

Table 1—History of IRRRB economic development program

<table>
<thead>
<tr>
<th>Year of legislation</th>
<th>Program</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>1941</td>
<td>IRRRB established</td>
<td>To develop the use of the region's natural resources and to provide for vocational training and rehabilitation of residents of distressed counties when the commissioner of the IRRRB determines that &quot;distress and unemployment&quot; exist because of limited use of natural resources.</td>
</tr>
<tr>
<td>1977</td>
<td>Taconite Environmental Protection Fund</td>
<td>For &quot;reclaiming, restoring, and enhancing&quot; areas damaged by mining or production of low-grade iron ore (taconite) and for promoting economic development.</td>
</tr>
<tr>
<td>1982</td>
<td>Some funds available through a technical advisory committee and a trust fund board</td>
<td>To address &quot;the severe economic dislocations and widespread unemployment that result&quot; when the mining and processing of taconite are drastically reduced: &quot;to be devoted to economic rehabilitation and diversification of industrial enterprises.&quot;</td>
</tr>
<tr>
<td>1983</td>
<td>Funds placed under the IRRRB</td>
<td></td>
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</tbody>
</table>


Rasjo Toru, a Swedish company, received $1 million in financing and a lease of State-owned land to produce peat for energy and to document the costs using the peat extruder shown here. No economic development analysis preceded the decision to provide funds; such thinking suggests that other industries might have produced more economic growth in the region.
What Good Is Economic Development Analysis?

Economic and social analysis can contribute to more successful area development programs. Assessing priorities and projects helps the community to achieve job creation goals. "Priority" analysis leads to an understanding of how a regional economy functions to make decisions about the direction of policy.

First, priority analysis must address the nature of the economy: Why does this region grow? Why do some firms locate in this region while others do not? What is the comparative advantage of the region?

Second, it must address the best ways government can intervene in the regional economy: What is the "opportunity cost" (forgone income and employment growth associated with funding one project rather than another or with funding no project at all) of investing in one industry rather than another? What can government do that the private sector will not do otherwise? What are the benefits and costs of a given approach? Who will benefit, and who will be hurt? For instance, an analysis of the problems, strengths, and needs of rural Virginia economies, undertaken by the Virginia Rural Development and Capacity Building Council, formed the basis for the Rural Virginia Development Foundation.

"Project" analysis can assess specific proposals for funding, ideally within a general strategy based upon an economic development framework. This type of analysis addresses questions such as: Can this business make a profit, or will it survive only as long as it receives subsidies? Would this enterprise make the same expansion or location decision without government intervention, or will the public money make a difference in the firm's behavior? Exactly how much financing should this firm receive to achieve economic development goals?

Although many agencies have the tools for this type of analysis, they are frequently applied only for assessing a business's financial viability. For example, the evaluation of Minnesota's business-financing programs showed that loans too often went for business expansion that would compete with other businesses in the same market and would therefore lead to the contraction of those other businesses and little if any growth in the economy.

Economic development officials usually count all jobs associated with a project as jobs that would not have existed otherwise. As a result, they view many projects as successful: but if they finance some projects for which the opportunity costs exceed the benefits, their work may actually constrain growth in a region. The goal of good economic development analysis is to identify projects where benefits exceed costs.

Few studies have been done so far on the role of analysis in political decisionmaking. Without such research, it is hard to evaluate the extent to which economic analysis can influence political decisions. The following studies give further background:


The IRRRB can use its economic development funds in the Taconite Tax Relief Area

The IRRRB can use its economic development funds in the Taconite Tax Relief Area mining and natural resource development, with attention directed to business diversification and new technology.

These priorities emerged from a process that excluded economic development analysis. The Iron Range legislators negotiated the priorities with Governor Albert Quie's staff. The sectors they chose were much the same as those advocated by Rudy Perpich, the gubernatorial candidate from the Iron Range. They decided that natural resources were the area's major asset. Indeed, lumber and iron ore had been the region's mainstays since the late 19th century. Basing economic development on the area's natural resources was also an IRRRB tradition. Small business and "technologically innovative" businesses were selected because "we knew most jobs are created in small businesses," the leader of the Iron Range delegation, Senator Douglas Johnson, said. The interest in high-technology industry reflected a Statewide effort to encourage such industry.

Use of economic analysis in the IRRRB's development efforts would have identified several major projects that would not have led to net growth in jobs and income for the region. Analysis would have shown, for example, that the IRRRB should not have encouraged energy production as a source of economic growth either by mining and processing peat or by subsidizing the production and use of

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wood chips and pellets for fuel. The region could grow more by continuing to import fuel and by putting its resources into more competitive activities. For another example, while creating major tourist attractions might help the region's resort owners, the analysis would have shown that the projects chosen by IRRRB probably held less promise than others for attracting additional visitors.

On the other hand, some of the IRRRB's efforts were constructive ways to try to encourage growth. For example, the IRRRB's studies of the market conditions for new industries provide information that may help firms decide to locate in the area.

This process suggests what may happen in other States that aim economic development programs at specific industrial sectors. The emphasis could be on reaching agreements quickly rather than on using analysis to find the best way to encourage the growth of jobs and income in the region. The political process of reaching agreement may rely on assumptions that are not necessarily true about the nature of regional economic development.

The IRRRB experience offers two examples of the weakness of such a process. First, those negotiating the priorities assumed that past sources of regional economic growth will also be future strengths. Because markets, technology, and other conditions change, however, extrapolation from the past is often uncertain. Second, the legislators and the Governor's staff assumed that widely held beliefs about sources of regional growth—in this case, small businesses and high-tech industries—applied to the Iron Range.

Such simple answers are rarely true for a particular region.

The legislators, gubernatorial candidate Perpich, and Governor Quie's staff did not use an economic development framework to identify promising sectors for growth, perhaps because they lacked the background or were not convinced that analysis was worthwhile. But the process was not entirely inadvertent. The legislators and Perpich wanted action, not further reflection. As Senator Johnson said in explaining the 1982 legislative proposal to other members of the IRRRB, "We would not allow any of this money to be used for more studies. The Iron Range has been studied to death."

Although using analysis does not necessarily mean doing studies, it would have meant getting advice from people with analytic backgrounds or hiring people with such backgrounds for the IRRRB staff. Those people would have needed time to formulate the best ways to encourage long-term development.

Other legislators might normally have pressed for more analysis, but the emergency conditions under which the legislature considered the bill made that impossible. Governor Quie called the legislature into a 1-day special session "to immediately address this severe unemployment situation" on the Iron Range.

The IRRRB Opposed Institutionalized Analysis of Projects for Economic Development

The Iron Range legislators wanted the IRRRB to handle the economic protection fund. Instead, the 1982 legislation set up two bodies to allocate the funds: a technical advisory committee of experts to review each loan application and a trust fund board of citizens, city and county officials, and legislators to approve projects deemed feasible by the technical advisory committee. As soon as the newly elected Governor, Rudy Perpich, took office and the new legislative session began, the Iron Range delegation successfully transferred authority over the fund to the IRRRB and eliminated the technical advisory committee and the trust fund board.

Wisconsin Extension Helps Community Economic Development

The University of Wisconsin-Extension has launched a program to help communities undertake the kind of economic analysis argued for in this article.

The program offers four 4-hour sessions conducted by Extension agents to help local leaders think through what can be done, evaluate their community's economic situation, and develop a plan of action to create jobs and income in the community.

Each session concentrates on a different aspect of local economic analysis. And the program shows how local leaders can also use a survey to draw the community at large into development activities.

For more information about the program, call Ron Shaffer (608) 262-9485 or Glen Pulver (608) 262-4963.

Shaffer and Pulver (and Peter Korsching) also collaborated on a manual to assist in the community economic analysis: Community Economic Analysis: A How-To Manual, developed in conjunction with the University of Wisconsin-Extension and the North Central Regional Center for Rural Development. For a copy, call Peter Korsching (515) 294-8320.
With the collapse of the iron ore mining industry, jobs became virtually the only important issue. The legislators and, by 1983, newly elected Governor Perpich needed to respond to the region's severe unemployment problems.

The Iron Range's political leaders would have been pleased with long-term economic development; but in the short run, any action to try to solve employment problems was probably as important as its actual impact on the region's economy. The legislators and the Governor wanted visible, newsworthy projects to create jobs, and they wanted them quickly. The technical advisory committee would have interfered, as any analytic institution would, in part because the visible projects were not necessarily technically or financially feasible and because analysis takes time. The legislators and the Governor needed to control the money to make sure that financing went for visible projects, quickly and without criticism from experts, and that the people knew they were responsible for the efforts to produce jobs in the region.

Other legislators could have voted against the changes sought by the Iron Range delegation, but with few exceptions they did not. Most legislators had more important issues at hand than the operation of an economic development fund for another area of the State. Many legislators thought that local officials (in this case, the Iron Range delegation) should be able to administer the economic protection fund as they wished because the fund came from regional production taxes paid by the taconite companies in lieu of property taxes. Legislators voted for or against the bill not because of economic development issues but because of the way in which the issue was posed and how their vote would affect other legislation they cared about.

**Other States Should Insist on Economic Development Analysis for Their Programs**

The IRRRB, the Governor's staff, and the State legislature did not draw on a general framework for thinking about economic development in setting priorities, and the IRRRB convinced the legislature to eliminate outside expert analysis of specific projects. This scenario can repeat itself in other States. Political leaders will often want to control the decisions on highly visible programs that involve large amounts of money, potentially affecting many of their constituents in important ways. But such programs are more likely to be successful in encouraging growth in jobs and income if analysis helps in setting the priorities and selecting the projects.

The Minnesota experience suggests how other States could structure economic development programs to make use of analysis more likely.

Programs should involve statewide interests from both political parties. One way of ensuring that is to finance economic development programs through an appropriation from general funds, not through a property tax, a severance tax, or any other kind of tax that a region can claim as its own. Legislators are less likely to cede control of the use of general revenue to a regional group, and their constituents are likely to be more concerned about the use of their tax money. The legislative appropriation process offers legislators, citizens, and interest groups from outside the region the opportunity to look closely at the operation of the programs each year and to design the programs so that they will be more likely to achieve development goals.

Interests in the rest of the State and in both political parties should take part not only in funding but also in implementing the program, even if the program benefits only one part of a State. The greater diversity of pressures and interests might make regional legislators less inclined to neglect long-term economic development goals in the interest of short-term political ones, helping to create an environment where analysis plays a role. Members of one party have an interest in assuring that members of another do not spend State funds for parochial reasons. Besides legislators, the group administering the funds should include local elected officials, citizens from a variety of backgrounds with interest in the economy, and experts on regional development. The drawback to such an approach is that with statewide participation, program funds may be dispersed over too many areas, with no chance of being effective anywhere.

These financial and administrative arrangements do not assure that economic development goals will take precedence or that analysis will be applied. Regional interests will still have a stake in controlling the funds, and legislators from other areas will have greater interest in programs of most concern to their own districts. Members of different political parties may serve each others' political aims rather than economic development goals. Therefore, other conditions in the policy environment need to reinforce attention to economic development results and encourage the use of analysis.

Outside independent analyses of the problems of a regional economy and of the best ways to deal with its difficulties can call attention to the effectiveness of the economic development effort as well as put pressure on administrators to offer their own analyses or to draw on others'. Outside analyses can exert pressure on administrators by influencing public views of programs and by providing more information for program opponents to use in
influencing other legislators and the public.

Outside analyses can come from several sources:

- Legislation could require a State or legislative audit agency to make periodic evaluations to look at the administration of the funds and at the success of the economic development programs in achieving growth and employment goals. The drawback to this approach is that a legislature frequently determines the work agenda of an audit agency. Unless the legislature calls for examination of development programs, the agency will not take on the job. An agency that is part of the State government is under pressure from groups for and against programs to come to conclusions that support their positions.

- Press coverage of State economic development programs might enhance public awareness and thereby pressure program administrators to show results. Announcements of funding for individual large development projects normally get media coverage, but that coverage often lacks mention of any analysis of the program. The drawback to this approach is that reporters often have little time for anything other than straight news coverage, and economic development is often only one of the issues they cover. Nor do the media necessarily believe that their readers or viewers are interested enough to merit repeated stories on such topics.

- University faculty could critique development programs. The disinterested perspective of faculty might encourage program administrators to design their approaches to achieve economic development goals.

The drawback to this approach is that universities reward faculty most for research that adds to knowledge in a discipline. Repeated studies assessing the same types of problems, while helpful for assessing the success of development programs, would be hard to justify in many universities.

All of these reviews can help educate elected officials and citizens about how development occurs and the trade-offs in opportunity costs. Better public understanding of how economic development can lead to growth may make programs not based on analysis less politically popular.

But even with such institutional arrangements to encourage the use of analysis in State economic development efforts, whoever has the greatest interest will continue to jockey for more discretion without interference from the analytic process. As pressures on one side erode the use of analysis in decisionmaking, other forces need to continue to demand that analysis be required in formulating long-term economic development policy.