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Why Don't State and Local Economic Development Programs Produce Economic Development?

by

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Most evaluations conclude that state and local business financing efforts to stimulate economic development in distressed areas outside big cities have little influence on either the level or the distribution of economic growth. The studies show that programs without specific geographic targets are used disproportionately by businesses in growing areas of a state, rather than in distressed areas, but have no measurable effects on the growth of the state economy. Programs aimed at specific distressed geographic areas show almost no effects on the growth of these areas.[1]

The evaluations leave economic development planners and policy makers without insight about why programs have no effects or what they should do to make programs more successful in encouraging growth in distressed areas--the programs' explicit aim. Where the evaluations do offer policy direction, the recommendations reflect primarily the framework of neoclassical economic theory. Because these programs seek to influence economic activity, such recommendations are useful. However, programs that state and local government officials implement are political as well as economic, and programmatic changes that are likely to have the most effects on program outcomes must emerge from understanding the political economy of programs, not just their economics.

This paper draws on a study of an economic development program, Minnesota's Small Cities Economic Development Program, to assess three possible explanations for the poor results of state and local programs to stimulate the economies of distressed areas. State

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[1]Margaret E. Dewar, "Tax Incentives and Public Loans and Subsidies: What Difference Do They Make in Nonmetropolitan Economic Development?" in Richard D. Bingham, Edward W. Hill, and Sammis B. White, eds., Financing Economic Development (Newbury Park, CA: Sage, 1990). Exceptions exist when the area designated as distressed is so small that a program can influence a decision to locate or expand on one side of a border rather than another and therefore can produce an effect on the distressed area.

and local economic development officials implemented the Small Cities Economic Development Program in some ways that could stimulate economic growth, but their actions were often inconsistent with achieving the economic development goals of the program. Consistent with findings of evaluations of other such programs, the Small Cities Economic Development Program has had few effects on economic growth or on redistribution to distressed areas.[2]

This paper first describes the Small Cities Economic Development Program and enumerates its explicit goals. The paper then assesses three possible frameworks for explaining the ineffectiveness of the program in achieving those goals. Finally, the paper makes recommendations for helping this type of program achieve such goals more successfully, if indeed these goals are the desired purpose.

Minnesota's Small Cities Economic Development Program

The Small Cities Economic Development Program provides financing for businesses and projects related to businesses, such as infrastructure improvements. A local government applies to the state agency, the Department of Trade and Economic Development (DTED), for a grant on behalf of a specific business. The local jurisdiction usually lends the money to the business, although some businesses receive grants. When the business repays the loan, the local government deposits some or all of each grant plus interest in a revolving loan fund for economic development.[3]

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[2]Margaret E. Dewar, "Inside State and Local Economic Development Programs: The Record of Minnesota's Small Cities Economic Development Program," Working Paper 91-1, State and Regional Research Center, University of Minnesota, St. Paul, MN, Feb. 1991; Margaret E. Dewar and Beth Hagenlocker, "Getting to the Bottom Line on Low-Interest Loans to Business: An Evaluation of Minnesota's Small Cities Economic Development Program," unpublished paper, May 1992.

[3]Minnesota Department of Energy and Economic Development (DEED), "Minnesota *Small Cities Economic Development Program Application Manual,*" St. Paul, MN, Jan. 1986.

The program has two major sources of funds. One is the state-administered allocation of federal Small Cities Development Program grants, a part of the Community Development Block Grant program. The other is the state's Economic Recovery Grants, a program created in 1984 to supplement the federal funds. Any jurisdiction can apply for funds under the state program. Indian tribes and the state's largest cities and urban counties are not eligible to receive funds from the federal part of the program because they may receive Community Development Block Grant funds directly from the U. S. Department of Housing and Urban Development.[4]

From 1984 through late 1988 the Small Cities Economic Development Program received annual funding between $8 million and $9 million (of this, between $5 million and $6 million came from the state and approximately $3 million came from the federal government). During this period, the program's administrators approved grants to 162 cities, counties, townships, and Indian reservations, although five of these jurisdictions later received no funding when projects did not occur as planned. The administrators approved a total of 205 grants; eight of these were later terminated with virtually no funds spent. Local jurisdictions offered financing to or prepared to undertake projects on behalf of 209 businesses; nine of these businesses ultimately received no financing; ten businesses received more than one grant or loan. The loans or grants to businesses ranged from $10,000 to the legal limit of $500,000.[5]

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[4]Minnesota Statutes, ch. 116J.873 "Economic Recovery Grants"; Minnesota Rules, ch. 4300; "Minnesota Small Cities Economic Development Program Application Manual," especially p. 1; U. S. Code 42, ch. 69, "Community Development"; Code of Federal Regulations 24, ch. 5, subch. C, pt. 570, 1 April 1988.

[5]Grants approved for 209 businesses and additional grants approved for 10 of the same businesses meant DTED approved funds on 219 occasions for a business or a project in support of a business. Mike Auger, Director, Small Cities Economic Development Program, Community Development Division, Minnesota Department of Trade and Economic Development, St. Paul, MN, personal communication with the author, Feb.

For several reasons, the Small Cities Economic Development Program is a useful vehicle for assessing political-economic explanations for the ineffectiveness of state and local efforts to stimulate economic development in distressed areas through business subsidies. First, the program is a common type, so findings should be helpful in understanding many programs. As of 1986 twenty-six states offered direct loans to businesses, and fourteen offered grants. Other states have used the federal Small Cities Development Program for similar efforts. The Small Cities Economic Development Program is also similar in design to the federal Urban Development Action Grant program that operated from the late 1970s through the late 1980s.[6]

A second reason for examining the Small Cities Economic Development Program is that the program is supposed to respond to community distress and help low- and moderate-income people, in part because of its connection with the federal Community Development Block Grant program. The program is more likely than less targeted efforts to deal with two issues of importance to many state and local governments--regional decline and economic distress.

1988; data collected from the project files of the Small Cities Economic Development Program, Minnesota Department of Trade and Economic Development, St. Paul, MN; Julia Mason Friedman, "Improving Capital Market Efficiency Through State Programs," Research Paper E in The Report of the Governor's Commission on the Economic Future of Minnesota (St. Paul: Department of Trade and Economic Development, 1987), p. 147.

[6]National Association of State Development Agencies et al., Directory of Incentives for Business Investment and Development in the United States: A State-by-State Guide (Washington, DC: Urban Institute Press, 1983 and 1986); The Capital Group, Office of Federal Grant Management, "Final Program Statement: 1988 Michigan Community Development Block Grant Program," (Lansing: Michigan Department of Commerce, n.d.); Edward T. Jennings, Jr. et al., eds., From Nation to States: The Small Cities Community Development Block Grant Program (Albany: State University of New York Press, 1986); Marie Howland and Ted Miller, "Urban Development Action Grants to Rural Communities," Project Report, Urban Institute, Washington, DC, May 1988.

Third, the Small Cities Economic Development Program has existed longer than any other major state economic development program in Minnesota. As in every state, a large share of Minnesota's economic development efforts are short-lived. Survival and longevity mean data exist (albeit often in the form of voluminous written materials in file cabinets rather than computer-ready numbers), the program has results to be explained, and a history exists to draw upon for identifying political-economic explanations for the outcomes of the program.

On the other hand, the findings regarding the Small Cities Economic Development Program may not apply directly to some other programs. The Small Cities Economic Development Program's longevity suggests it may differ in important respects from other efforts. Even in these cases, however, the insights from this research are potentially relevant. The close look at the Small Cities Economic Development Program suggests why it lasted when other programs did not and thus helps reveal why other programs did not survive long enough to have a chance of success.

Generalizations regarding the workings of the Small Cities Economic Development Program are most applicable to programs that a state agency directs rather than those initiated by a local jurisdiction. Explanations for success or failure of programs where state enabling legislation leaves the responsibility for participation with local decisionmakers--as when local jurisdictions decide to issue industrial revenue bonds or set up tax increment financing districts--can draw on some of the ideas discussed here but should place greater emphasis on local political and economic conditions.[7]

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[7]Margaret Dewar, Glenn Nelson, and Thomas Stinson, "The Political Character of Targeted Area Development: Implications for Designers, Evaluators, and Managers" Staff Paper, State and Regional Research Center, University of Minnesota, St. Paul, MN, forthcoming.

The primary objective of the Small Cities Economic Development Program is "the development of viable urban communities, by...expanding economic opportunities, principally for persons of low and moderate income."[8] The Economic Recovery Grants are "to create new employment, maintain existing employment, increase the local tax base, or otherwise increase economic activity in a community."[9] Every project is to "benefit low- and moderate-income persons," to "prevent slums and blight," or to "alleviate urgent community development needs."[10] Every project is to meet two of three state economic development objectives: "creation or retention of permanent private sector jobs," "stimulation or leverage of private investment," or "increase in local tax base." Program administrators are to consider the community's "economic vulnerability" and need for employment opportunities and to evaluate the project's potential to reduce or eliminate this need.[11] In addition to these aims stated in legislation and regulations, the governor and the commissioner of DTED (previously the Department of Energy and Economic Development--DEED) touted the program as creating jobs for the state, and state job creation became an important program goal.[12]

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[8]U.S. Code 42, ch. 69, sec. 5301c; see also, Minnesota Rules, ch. 4300, pt. 0300.

[9]Minnesota Statutes, ch. 116J.873, subd. 2.

[10]Minnesota Rules, ch. 4300, pt. 0300.

[11]Minnesota Rules, ch. 4300, pt. 1901.

[12]"Dayton says state's business climate improved in 1983," Minneapolis Star Tribune, 2 Mar. 1984; Lynda McDonnell and Steven Thomma, "Economic development schooled in hard knocks," St. Paul Pioneer Press Dispatch, 2 Mar. 1986; Steven Thomma and Lynda McDonnell, "Rosy figures of job agency don't add up," St. Paul Pioneer Press Dispatch, 2 Mar. 1986; "Perpich says his strategy created, saved many jobs," St. Paul Pioneer Press Dispatch, 17 July 1986; "Perpich compiles list of firms aided during last three years," Minneapolis Star Tribune, 4 Oct. 1986.

During the period examined, from the program's birth in 1984 through late 1988, the Small Cities Economic Development Program took some actions that could lead to achieving these goals but neglected many others. The program took some actions contrary to those needed to achieve the programs' explicit aims. The activities of the program were consistent with evaluations that show little or no effect on a state's economy, distressed areas, and poor people.[13]

Why the Unimpressive Results?

The following sections pose three explanatory frameworks for understanding why the Small Cities Economic Development Program, or any similar economic development program, has so little effect on state and local economies. The explanations reflect a "technocratic" perspective, a "bureaucratic" perspective, and a view of the political imperatives in a private enterprise society. The activities of the Small Cities Economic Development Program are consistent with each perspective in some ways and inconsistent in others. The next sections discuss each explanation for the program's results and present evidence consistent and inconsistent with that explanation to draw conclusions about the usefulness of each perspective for understanding the outcomes of state and local economic development efforts.

The Technocratic Perspective.

From a technocratic viewpoint, an important answer to why the Small Cities Economic Development Program was not more successful is that the program's designers and implementers did not know what to do to achieve the program's goals, did not apply existing

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[13]Dewar, "Inside State and Local Economic Development Programs"; Margaret E. Dewar, "Loans to Business to Encourage Rural Economic Development," Policy Studies Journal 20, no. 2 (spring 1992).

knowledge of what kind of program can be most effective and what makes a program work, did not use appropriate analysis, and did not have information they needed to make better decisions. If the designers and implementers acted more wisely, the program could be more successful, or a more promising effort could replace the current program.

The technocratic perspective has a major influence on the thinking in public affairs, urban and regional planning, public policy, and applied economics. As a recent advertisement for the Journal of Policy Analysis and Management stated, "Better public policy is unquestionably a function of better information." "No sensible policy choice can be made [in many cases] without careful analysis of the advantages and disadvantages of each course of action," states a leading text. "By improving our ability to predict the consequences of alternative policies, and providing a framework for valuing those consequences, the techniques of policy analysis lead us toward better decisions."[14] The potential is "to inform decision makers well enough so that a more enlightened discussion of public policy occurs and better policy is adopted as a result."[15]

How does the technocratic explanation fit the Small Cities Economic Development Program's experience? The program was designed and implemented with little analytic input and no analysis of alternative policies for achieving the same ends. As the bill to create the Economic Recovery Grants progressed through the state legislature and as the regulations

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[14]Edith Stokey and Richard Zeckhauser, A Primer for Policy Analysis (New York: W. W. Norton, 1978), pp. ix, 329.

[15]Carl V. Patton and David S. Sawicki, Basic Methods of Policy Analysis and Planning (Englewood Cliffs, NJ: Prentice-Hall, 1986), p. 4. See also, Edward J. Blakely, Planning Local Economic Development: Theory and Practice (Newbury Park, CA: Sage, 1989), p. 290; Avrom Bendavid-Val, Regional and Local Economic Analysis for Practitioners (New York: Praeger, 1991); David S. Sawicki, "The Festival Marketplace as Public Policy: Guidelines for Future Policy Decisions," Journal of the American Planning Association 55, no. 3 (Summer 1989).

were written, knowledge about how to encourage growth was not applied.[16] As a result, achieving economic growth would be accidental unless the implementors independently incorporated such knowledge into their actions, and improving the welfare of distressed regions might be less effective than with alternative programs.

The staff who implemented the program did not introduce measures to assure that the program achieved its economic growth goals either for the state as a whole or for specific communities. The program application manual showed almost no attention to assessing how to stimulate more growth for the state than would have occurred without the program. Staff did almost no assessment of whether a project would bring about more growth for the state than no project or alternative projects. In one case, they even approved funding to a city on behalf of a branch plant when the city was involved in a highly publicized competition for the plant among northern Twin Cities suburbs.[17]

Staff requested no analysis of whether a project would bring about actual growth in a community. An application did not need to address the possibility that no action or alternative projects might bring about more growth than the proposed effort. Applicants needed to report before and after measures of tax base change, for instance, but did not have to consider how the tax base would change if the program did not intervene. If an

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[16] Patricia Liefert, "The Origins of the Economic Recovery Grant Program" (A Plan B paper submitted in partial fulfillment of the requirements of the degree of Master of Arts in Public Affairs, University of Minnesota, Minneapolis, MN, Aug. 1988).

[17]Dewar, "Inside State and Local Economic Development Programs"; file on Blaine, NCR-Comten, Small Cities Economic Development Program, Department of Trade and Economic Development, St. Paul, MN; Paul Gustafson and Jim Adams, "Suburbs all roll out their red carpets for business," Minneapolis Star and Tribune, 30 Jan. 1986, p. 1Y; Deets Mittelstadt, NCR-Comten, personal communication with Kimberlie Garg, winter 1989. NCR-Comten later declined to use the funds from the Small Cities Economic Development Program because of the hiring requirements.

understanding of the sources of economic change had influenced the program implementation, the program could have had more significant results.[18]

Although the technocratic view seems important in accounting for the effects of the program on economic growth, the perspective is less satisfactory in explaining the program's failure to redistribute economic activity to the most distressed areas of the state. The program's staff did not distribute funds in ways that reflected the information on economic distress that they used. Although they did know what to do to accomplish redistribution to distressed areas and although they said they were doing this, the results were poor. The distribution of funds only weakly correlated with the staff's measures of distress. Counties with higher unemployment rates and with higher poverty rates and lower median incomes in 1979 tended to receive more grant funds per capita. However, less distressed counties received more funds than more distressed ones. The 30 percent of counties with the lowest poverty rates in 1979 received 42 percent of all program funds; the 50 percent of counties with the lowest poverty rates received nearly 60 percent of total program funds granted to communities.[19]

Part of the reason for the bias of funding toward more prosperous counties was that the evaluation of applications did not place enough importance on economic distress. Other project characteristics could give an application enough points--up to 440--to exceed the 400 points required for funding without a project's doing well on the measures of community distress.

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[18]Dewar, "Inside State and Local Economic Development Programs."

[19]Ibid.

Further, the measures of local economic distress did not do well in discriminating among applications from more distressed areas and more prosperous ones. A community's application earned 80 points (the maximum possible based on statistical measures of distress) for annual unemployment, the preceding quarter's unemployment, and poverty if the county's rates exceeded the state's, and for median income if the county's 1979 median family income was less than the state's. Most counties were more distressed than the state as a whole because the prosperous, more densely populated Twin Cities and Rochester areas lowered unemployment and poverty figures and raised state median income. The poorest counties gained no advantage in this system compared to ones that were only slightly less well off than the state averages.

An application could earn up to 80 additional points on the basis of staff's judgment of a narrative of community need. Several of the conditions that staff looked for could have little to do with economic distress. These included "need to attract or retain essential services," "events contributing to a unique situation," and "opportunity or timeliness to implement project."[20]

The technocratic perspective's explanations are most unsatisfactory, however, in consideration of two questions. First, if the distribution of grants did not reflect the pattern of distress, did they show another pattern, and if so, what? Second, did the fact that knowledge about how to encourage economic growth was not introduced into the design or implementation of the program determine the failure to bring about growth?

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[20] "Minnesota Small Cities Economic Development Program Application Manual," p. 21.

The distribution of grants did show strong geographic patterns. Figure 1 shows the distribution of grants across the state for the nearly four years this study covered. St. Louis County which includes the Iron Range, the home of the governor and several senior legislators, received twenty grants, many more than any other part of the state. The Iron Range suffered severely from the collapse of the market for iron ore in the early 1980s. In spring 1983 the unemployment rate reached a high of 33 percent.[21] However, despite the region's problems in the early 1980s, the area was not more depressed than many other parts of the state by 1986. As of 1986 St. Louis County ranked eighteenth highest out of 87 counties in average earnings per job, although in part because unemployment was still high (9.1 percent compared to 5.3 percent for the state--the fourteenth highest county unemployment rate), the county ranked fifty-eighth highest among the counties in personal income per capita.[22] The county did better than these rankings in funding received; 66 counties received fewer grant dollars per capita.[23] The county was not "distressed" in 1987 according to criteria that legislation directed the Department of Trade and Economic Development to use.[24] When wages were adjusted for estimated living costs, "real" wages

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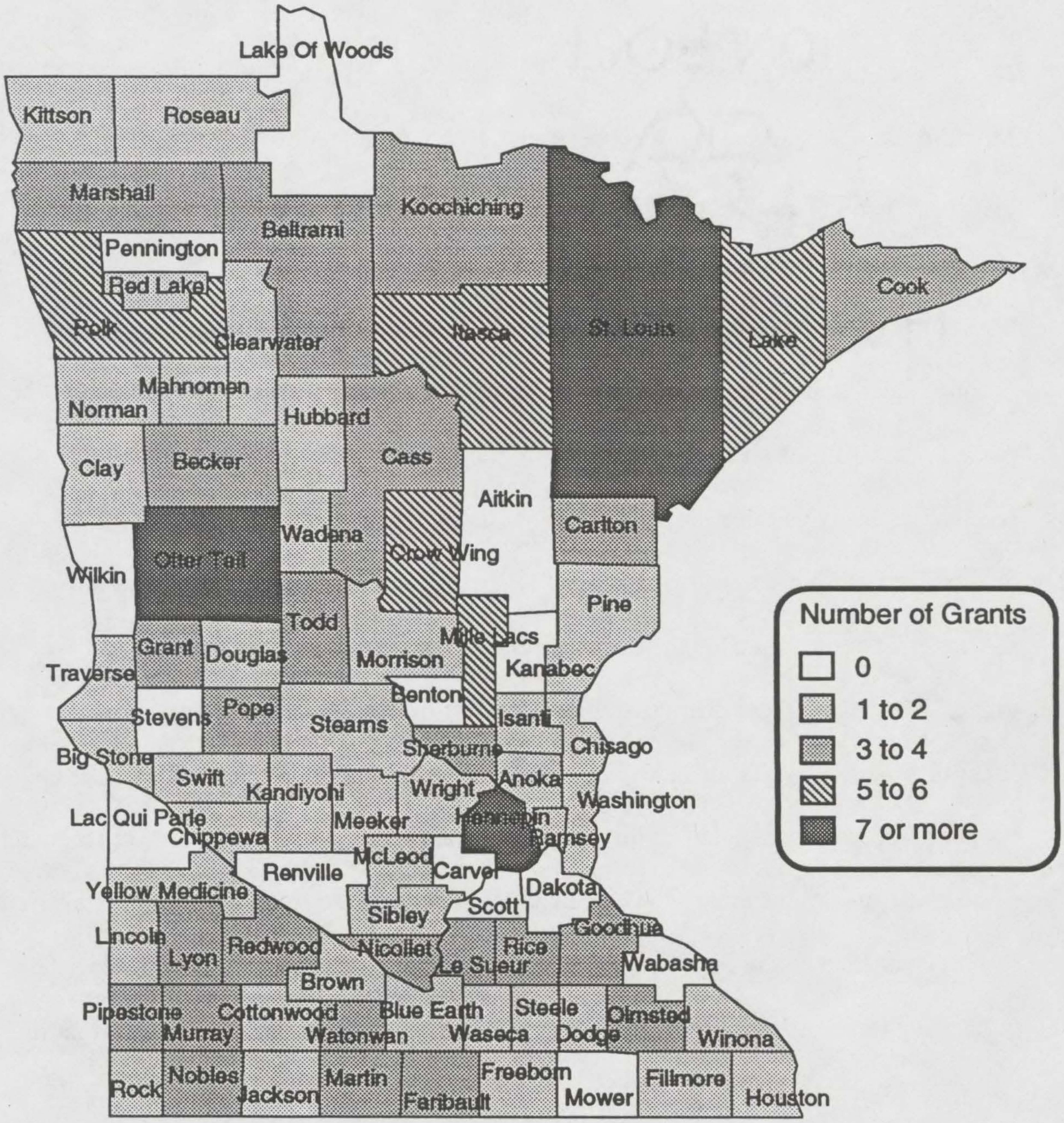
[21]Unemployment rate for "balance of St. Louis County," excluding Duluth, in "Northeastern Minnesota Labor Market Review," Minnesota Department of Economic Security, Duluth, MN, monthly 1982-84.

[22]U.S. Bureau of Economic Analysis, regional economic profile data for Minnesota, unpublished; Minnesota Department of Jobs and Training, "State and Area Labor Force Estimates, January 1980-December 1987," Research and Statistics Office, St. Paul, MN, Aug. 1988 (revised Sept. 1988).

[23]If St. Louis County had received funding consistent with its average earnings per job, only 17 counties would have received fewer dollars per capita. If St. Louis County had received funding on the basis of per capita income, 57 counties would have received fewer program dollars per capita.

[24]Lee Munnich to Joe Samargia and Thomas Gillaspy, memorandum regarding distressed county data and attachments, 28 July 1988. A county designated as "economically distressed" in July 1988 either (1) had an unemployment rate over 10 percent for May 1987-April 1988, or (2) had an unemployment rate 10 percent above the statewide unemployment rate and had at least 20 percent of employment in agriculture-related industries.

Figure 1. Number of Small Cities Economic Development Program Grants by County, 1984-1988



Source: Minnesota Department of Trade and Economic Development, Small Cities Economic Development Program.

in northeastern Minnesota (including several counties in addition to St. Louis) were the highest in the state in 1987.[25]

With the exception of seven grants to prosperous Hennepin County (site of Minneapolis and suburbs) and a concentration of ten grants in one western county, the other grants were scattered throughout the state, not concentrated in particular areas.

A map of the distribution of the largest grants, $247,500 to $500,000,[26] shows that St. Louis County received many more than any other county (see Figure 2). Sixteen of the twenty grants made to communities in St. Louis County were at least $247,500, and these made up one-fifth of all large grants the program made. Only five other counties in the state received as many as three large grants.

The distribution of grants by state senate district also shows striking patterns. The district of State Senator Douglas Johnson, chair of the Senate Tax Committee, received 18 grants; five other Senate districts (out of a total of 67 districts) received ten or eleven grants. Johnson's district, which included a large part of St. Louis County and all of Lake and Cook counties, received one-eighth of the program's grant funds. The senate district receiving the next largest amount of grant funds received less than half the funds of Johnson's district.

Overall, the patterns of geographic distribution of grants by county and legislative district suggest that important factors were influencing the distribution of grants that did not

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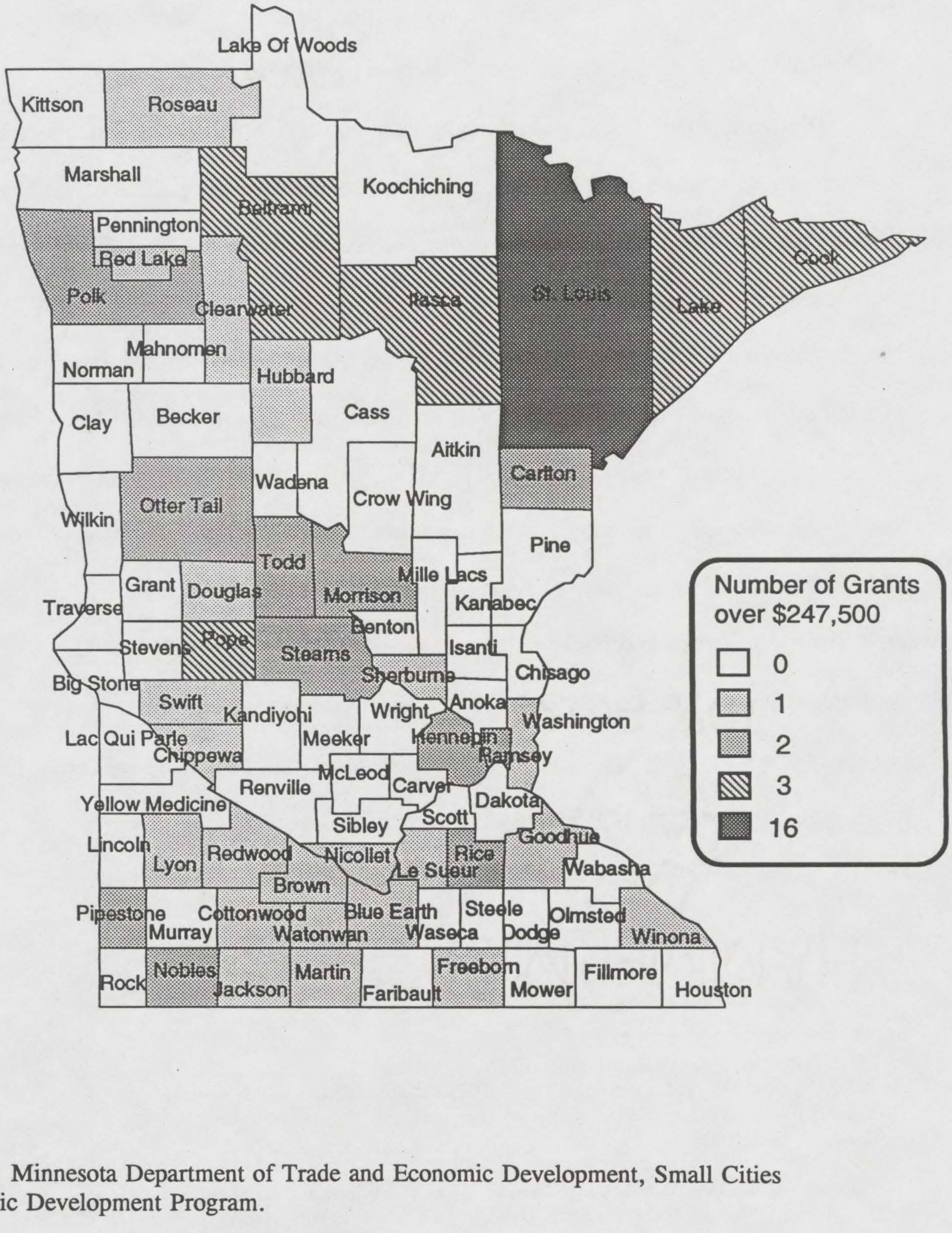
[25]Brenda K. Burk, "Regional Consumer Price Comparisons with Specific Application to Minnesota" (Master's thesis, Department of Agricultural and Applied Economics, University of Minnesota, St. Paul, MN, Jan. 1989), chap. 4.

[26]The program's application manual discouraged requests for more than $250,000. The legislation limited grants to a maximum of $500,000. $247,500 is used because this amount plus an administrative cost allowance of $2500 is a $250,000 grant.

Figure 2. Number of Large Grants by County, 1984-1988



Source: Minnesota Department of Trade and Economic Development, Small Cities Economic Development Program.

relate closely to economic distress and in fact might relate to distress only by chance. An explanation for the failure of an economic development program to achieve its explicit goals should include those forces; the technocratic perspective fails to do so.

Did the fact that the design and implementation of the Small Cities Economic Development Program did not draw on knowledge about how to bring about economic growth determine the program's failure to produce economic growth? Would a technocratically determined program have been successful? The experience of other Minnesota economic development programs suggests that the answer to both questions is no. In 1987 several state economic development programs were abolished that had provided financing for businesses since 1983. The programs that ended in 1987 did better than the Small Cities Program at assuring that a business could not undertake a proposed project without the state funding. These programs were also more likely to address capital market problems and therefore to bring about state and local economic growth.[27] Furthermore, a program set up in 1982 to stimulate the Iron Range economy incorporated analysis of projects, but the program was eliminated soon after it was established and replaced with a program that required less project analysis in general and virtually no analysis of big projects.[28] Programs that did incorporate more of the provisions technocrats would recommend and that promised to be more successful at achieving their explicit goals of

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[27]Friedman, "Improving Capital Market Efficiency Through State Programs," p. 147; Jeffrey John Schneider, "Capital Market Imperfections and the DEED Economic Development Fund" (A Plan B paper submitted in partial fulfillment of the requirements of the degree of Master of Arts in Public Affairs, University of Minnesota, June 1987).

[28]Margaret E. Dewar, "Development Analysis Confronts Politics: Industrial Policy on Minnesota's Iron Range," Journal of the American Planning Association 52, no. 3 (Summer 1986).

encouraging growth did not survive although the Small Cities Economic Development Program, incorporating almost no analysis of how economic growth could be affected, continued. Explanations for why programs that incorporated analysis were abolished reveal systematic reasons for eliminating economic development analysis.[29]

Ultimately, the technocratic explanation is not sufficient and may not even be necessary to understand the failure of economic development programs. This conclusion implies that providing information and analysis about how administrators should be running the program to bring about economic growth and to redistribute economic activity in the ways explicitly stated in legislation would not necessarily lead to adopting the measures. In addition, new procedures, no matter how correct from a technocratic perspective, would not make the program successful. Forces other than a lack of knowledge or analysis would continue to interfere with achieving the explicit program goals; or, if the program did adhere strictly to technocratic criteria, the program would not survive.[30]

The Bureaucratic Perspective

Another possible perspective for explaining the results of the Small Cities Economic Development Program comes from research on bureaucratic behavior and its effects on program results. From this point of view, state and local economic development programs do poorly at achieving their explicit goals because the people administering the programs face incentives and pursue aims that are at least partially inconsistent with actions needed to make the programs encourage economic growth and redistribute income. Rather than trying to

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[29]Dewar, "Development Analysis Confronts Politics."

[30]For technocratic recommendations for improving the performance of the Small Cities Economic Development Program, see Dewar, "Inside State and Local Economic Development Programs."

achieve these program goals, the program's administrators seek "budgetary security" to avoid significant reductions in the agency's budget within the following few years.[31] More than budget security, some argue, bureaucrats seek to maximize the budget of their program in order to increase "salary, perquisites of the office, public reputation, power, patronage, and output of the bureau," on the condition that the costs of supplying the output expected of the bureau are less than the budget.[32] To maximize budgets, heads of bureaus "do what they can to win favor in the eyes of officials in the legislature and at the highest political levels of the administration."[33] Once a program is in place, program administrators "have no more important interest than the continuance of the programs they administer"; they become the major coalition leaders in favor of the established programs.[34] Assuring budget security, guaranteeing continuation of a program, and maximizing budgets make possible the functioning of programs, but the activities required also can undermine programs' capacity to achieve explicit goals.

How well does this explanation match the experience of the Small Cities Economic Development Program? In many ways it fits the story of the Small Cities Economic Development Program, but in important respects it falls short of providing an adequate explanation of the program's results. The discussion below first looks at how the explanation

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[31]R. Douglas Arnold, Congress and the Bureaucracy (New Haven, CT: Yale University Press, 1979), p. 21.

[32]William A. Niskanen, Bureaucracy and Representative Government (Chicago: Aldine Atherton, 1971), p. 38.

[33] Eugene Bardach, The Implementation Game: What Happens After a Bill Becomes A Law (Cambridge, MA: MIT Press, 1977), p. 71.

[34]Arnold, Congress and the Bureaucracy, p. 51.

is consistent with the Small Cities Economic Development Program's history, then looks at inconsistencies.

In Minnesota in the 1980s, program survival had to be a major preoccupation of anyone who administered an economic development program in state government. In the 1984 election, months after the Economic Recovery Grants portion of the Small Cities Economic Development Program was initiated and only a year after other major state economic development efforts began, the Democratic-Farmer-Labor (DFL) Party lost control of the state House of Representatives to the Independent Republicans (IR). The IR leadership focused some of their harshest criticism on the DFL governor's economic development programs, a major emphasis in his 1982 election campaign and central to his agenda after taking office. The IR leadership vowed to eliminate economic development programs. In the 1986 gubernatorial campaign the DFL opponent in the primary, as well as the IR candidate, attacked the governor's economic development efforts. By late 1986, when the DFL regained control of the House, the governor no longer backed many of the programs and proposed a new direction for state economic development policy in the 1987 legislative session.[35]

After fall 1984 the administrators running economic development programs and the staff working in them could not know how long their programs or their jobs would last. Administrators of the Small Cities Economic Development Program needed to run it in ways

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[35]Bill Salisbury, "DFLers on the spot in budget battle," St. Paul Pioneer Press Dispatch, 20 Feb. 1986, p. 1A; Robert Whereatt, "Latimer criticizes Perpich's jobs claims," Minneapolis Star and Tribune, 21 June 1986, p. 1B; Robert Whereatt, "Ludeman challenges Perpich on business," Minneapolis Star and Tribune, 19 Oct. 1986, p. 1B; Karl Ensign et al., "Re-Thinking Economic Development: The Final Report" (A paper written for Policy Process II, University of Minnesota, 10 June 1987), pp. 8-11.

that would enable it to survive and, if survival seemed somewhat assured, would stabilize funding and staffing.

How could the program administrators achieve these aims? The program's most important constituent was the governor. If he withdrew support while the opposing party controlled one house of the legislature, the program would almost certainly not survive. The program addressed the governor's concerns in several ways. First, the governor wanted to relieve the economic problems of the Iron Range by countering the decline of the iron ore mining industry with the introduction of new economic activities. As the earlier discussion showed, the Small Cities Economic Development Program sent many grants to the Iron Range. Second, the program provided loans to firms engaged in the kinds of activities that the governor emphasized for state economic development. For instance, the governor promoted the development of alternative energy sources, tourism, and businesses involved in international trade as new opportunities for state economic growth.[36] More than ten percent of the businesses that received funding were engaged in these kinds of activities. Third, program staff followed up to provide funding to businesses where the governor offered aid. In early 1984, for instance, the governor traveled through southwestern Minnesota and discussed financing and other problems with business owners as he sought to defuse controversy over Minnesota's "business climate" of higher taxes and higher workers' compensation rates than in other states, especially the Dakotas. As the governor wrote to one business owner, the state's economic development agency "will do everything it can to

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[36]For example, "Perpich's vision of Minnesota's future," editorial, Minneapolis Star and Tribune, 12 Feb. 1983, p. 10A; Governor Perpich's State of the State address, Minneapolis Star and Tribune, 11 Jan. 1985, p. 4B.

provide you with a very attractive financing package." Some of the businesses later applied for and received funds.[37]

What effect did such actions have on the results of the program? In some ways the efforts undermined achievement of the goals of the program; in other respects they supported the goals. The disproportionate attention to Iron Range projects meant the program helped that troubled region but did not do as well at addressing the problems of other distressed areas of the state. Of firms that operated in areas of interest to the governor--in tourism, alternative energy development, and international trade--half were not in business by mid-1989 (compared to a business failure rate of about 15 percent for the program as a whole); although they were engaged in attractive kinds of activities, the projects were not viable, and program funds might have stimulated more growth if spent in other ways. In some cases where the governor offered business owners financial assistance, the help was key to keeping the businesses in the state or to bringing about a decision to expand in the state rather than outside. In these cases the program may have led to more growth in the state than would have otherwise occurred. However, so few businesses considered sites outside the state that these actions had little impact on the state's growth.[38] The overall result was a haphazard connection between the program's activities and the kinds of efforts needed to achieve the explicit goals of the program. Sometimes activities to achieve the goals of the program were

[37]Norman Fey, Fey Industries, Edgerton, MN, telephone communication with Kimberlie Garg, winter 1989; Phil McDade, "Huisken grant ok'd by Chandler city council," Murray County Herald, 6 March 1984; Ron Huisken, Huisken Meat, Chandler, MN, telephone communication with Kimberlie Garg, winter 1989; files on Edgerton, Fey Industries, and on Chandler, Huisken Meat, Small Cities Economic Development Program.

[38]See Dewar, "Inside State and Local Economic Development Programs."

consistent with efforts that could reinforce the support of the governor; sometimes they were not.

Although he abandoned other economic development programs, the governor continued to support the Small Cities Economic Development Program, despite criticism from the Independent Republicans and press coverage that appeared to undermine public backing. Abolishing other programs responded to the criticism of economic development programs although the activities of the Small Cities Economic Development Program had come under at least as much fire as the efforts of other programs.[39]

The support of the governor was necessary for the survival and stability of the Small Cities Economic Development Program, but his backing was not sufficient to assure the program would continue. The program also needed the support of legislators, and the program's administrators needed to assure they had that support. Indeed, the governor was more likely to continue to support the Small Cities Economic Development Program if it had backing in the legislature, for he would not have to compromise as much on other issues he cared about in order to keep economic development efforts intact.

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[39]Ensign et al., "Re-Thinking Economic Development." Because economic development programs were the central focus of Governor Rudy Perpich's administration, they were also the key targets for attack from political opponents and choice subjects for newspaper investigations. For example, Steven Thomma and Lynda McDonnell, "Rosy figures of job agency don't add up," St. Paul Pioneer Press Dispatch, 2 March 1986, p. 1A; Lori Sturdevant, "Recount ordered of jobs produced by state's action," Minneapolis Star and Tribune, 4 March 1986, p. 1B; "State agency's job figures appear to be inflated," Minneapolis Star and Tribune, 3 March 1986, p. 13A; Lynda McDonnell and Steven Thomma, "State loan programs get down to business," St. Paul Pioneer Press Dispatch, 2 March 1986, p. 13A; Bill Salisbury, "Perpich says his strategy created, saved many jobs," St. Paul Pioneer Press Dispatch, 17 July 1986, p. 1C; Betty Wilson, "Sparks may fly in Perpich-Latimer debate," Minneapolis Star and Tribune, 7 Aug. 1986, p. 1B; Lynda McDonnell, "Economists, Perpich at odds over jobs," St. Paul Pioneer Press Dispatch, 25 Aug. 1986, p. 1A; Betty Wilson, "Ludeman continues attack on Perpich policies," Minneapolis Star and Tribune, 19 Sept. 1986, p. 4B; Robert Whereatt, "Ludeman challenges Perpich on business," Minneapolis Star and Tribune, 19 Oct. 1986, p. 1B.

Administrators' concerns about legislative support were evident in several ways. Staff of the Small Cities Economic Development Program requested information about legislative district on the application form and kept computerized lists of projects by legislative district. By late 1988 at least one project had been funded in every senate district outside the Twin Cities metropolitan area and the cities of St. Cloud, Rochester, and Duluth; of these areas only St. Cloud had received no grants from the Small Cities Economic Development Program. All but eight of the other 63 house districts had received funds.

Information on legislative district was useful in at least two ways in gaining senators' and representatives' votes for the program's appropriation and in preventing the elimination of the program. First, the program staff offered legislators the opportunity to announce the award of grants to communities in their districts. Many legislators did make the announcements of the Small Cities Economic Development Program funding, and local newspapers reported this news.[40]

Second, information on where the grants went was also useful in lobbying. A lobbyist from the Community Development Division (which included the Small Cities Economic Development Program) told a lobbyist from another department that he had no trouble getting money from the legislature for the Small Cities Economic Development Program because so many legislators had benefited from it. How could such a lobbying process work? Armed with a list of the projects, the number of jobs associated with them, and letters of thanks from local businesses and elected officials, a lobbyist could show a legislator what the program had done for his or her district and promise more if the

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[40]Minnesota local newspapers, Minnesota Historical Society, St. Paul, MN.

program's funding continued. As the lobbyist from the other department observed, this was the style of the U. S. Department of Defense at work in Minnesota; funds were distributed among so many districts that virtually all legislators had a stake in the program and wanted the funding to continue.[41]

The lobbying process became visible when in one case the commissioner of the Department of Energy and Economic Development used it badly. The commissioner sent to the Independent-Republican Speaker of the House a copy of a letter from a mayor, one of the Speaker's constituents. The letter thanked the commissioner for helping the city attract a major corporation to the city. The commissioner attached a memo that said, "Just something for you to consider as you move to eliminate our department's funding." The Speaker responded publicly, "Don't threaten me. I don't make decisions about what's good for Minnesota based on threats from you or any other politician."[42]

Information the economic development department staff prepared for the legislature on the Small Cities Economic Development Program for the 1986 legislative session exaggerated the number of jobs and the amount of private financing associated with the program. The program's performance was overstated even under the extreme assumption that the program was responsible for all the jobs and private investments associated with funded projects. The rosy portrayal suggests that the program staff needed to make the key indicators of interest to legislators and the public look as good as possible. News reports

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[41] Sarah Stoesz, assistant to the commissioner, Minnesota Department of Jobs and Training, personal communication with the author, 1988-89.

[42] Liz Fedor, "Moe, Jennings swap blasts on economic development effort," news clipping in the files of the library of the Department of Trade and Economic Development, St. Paul, MN.

showed that only 70 percent of the jobs claimed could be documented.[43] In addition, the agency had approved projects with only two-thirds of the private funding they reported; their calculation of "private" funds included public funds from sources other than the Small Cities Economic Development Program.[44]

How did the need to assure legislative support affect the program's success in achieving its explicit goals? Concerns about what actions actually bring about economic growth or redistribute funds to more distressed areas had to be less important than addressing the interests of legislators. Grants were distributed across the state's legislative districts rather than allocated to businesses where the effects on economic growth might have been greater or concentrated in areas where the local economic conditions were worst.

Legislative support for the Small Cities Economic Development Program remained strong. Furthermore, the deputy commissioner for community development, under whose purview the Small Cities Economic Development Program fell, was popular with legislators and closely connected with the majority leader of the senate; these relationships safeguarded the Small Cities Economic Development Program. The Community Development Division gained new programs for rural development, and the Small Cities Economic Development Program maintained a somewhat stable budget as other economic development programs were attacked and eliminated in 1987. When the commissioner of the Department of Trade and Economic Development introduced the deputy commissioner for community development

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[43]Thomma and McDonnell, "Rosy figures of job agency don't add up." The effort to make the program look especially good backfired when the press exposed the exaggeration of the number of jobs created and saved.

[44]Minnesota Department of Energy and Economic Development, report on economic development programs prepared during the legislative session, winter 1986; files of the Small Cities Economic Development Program.

to a legislative committee in early 1989, the legislators applauded, not the response administrators normally received and more enthusiasm than accorded other administrators introduced at the same time. A legislative committee later in the same session adopted a bill that eliminated the office of the commissioner of the Department of Trade and Economic Development and designated the deputy commissioner for community development the top official in the department. Although the legislation did not become law, the action signified support for the deputy commissioner as well as discontent with the commissioner. The chair of the house committee on economic development, considering what program changes to propose in the 1990 legislature, said that although little academic support existed for the kinds of programs the Community Development Division offered, the deputy commissioner for community development had too much support for anyone to touch his programs. When an IR candidate won the gubernatorial election in 1990, the deputy commissioner for community development predicted he would keep his high-ranking position in the Department of Trade and Economic Development because Independent Republicans had also benefited from and supported the Small Cities Economic Development Program and other programs in his division. He was right; he became one of few high-level political appointees to survive the transition from the DFL governorship to the new IR administration in early 1991.[45]

The Small Cities Economic Development Program also needed the support of opinion leaders. Opposition of local newspapers and visible citizens groups could undermine the backing from legislators and the governor. To preserve public support, the administrators of the program presented a "public story" of how the program worked. Projects that the Small

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[45]Ensign et al., "Re-Thinking Economic Development"; Gary Dawson, "House budget panel cuts Speer trade office," St. Paul Pioneer Press Dispatch, 27 April 1989, p. 1B.

Cities Economic Development Program funded were initiated by communities, they said. Some exceptions, the administrators continued, stemmed from the fact that before other economic development programs were eliminated in 1987, business finance specialists traveled the state to meet with business managers to discuss participation in programs; their work stimulated some applications. If more applications came from some parts of the state than others, however, that was because some communities proposed more. The staff of the program did not solicit applications. After local jurisdictions applied, a point system determined which proposals were eligible to receive funding; little of the point system was subjective. The staff funded every project that earned at least 400 points out of a possible 600 as long as funds were available. The program ran out of money before the end of each fiscal year. However, because the state and federal fiscal years ended at different times, funds from at least one source were usually available. Lack of funds was the only reason a good project did not get money. The staff received no applications for unacceptable projects because in preliminary discussions the staff told business owners and community leaders when a project was unlikely to get funding. The administrators stated that no one made a full application who was not likely to get funds.[46]

The director of the Small Cities Economic Development Program said he was not sure exactly why his program had survived the demise of so many other economic development programs. However, he said, the Small Cities Economic Development Program was able to

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[46]For example, see Christie Ackerson, "Economic development discussed at seminar," Becker County Record, 3 April 1988, p. 6A; David J. Speer, "Economic development system's in good shape," St. Paul Pioneer Press Dispatch, 15 June 1987, p. 13A; Bob Cary, "Mark Dayton says: 'We're here to help,'" Ely Echo, 26 March 1984, pp. 1, 2; Mark Dayton, letter to the editor, Ely Echo, 9 April 1984, p. 6A; Auger, personal communication with the author, Feb. 1988.

respond to communities quickly. Within two weeks the program could give a response to an application. Programs that were eliminated had been more concerned about business financing issues than community development. A board that had to approve projects met only once a month. A decision could take several months.[47]

This public story was incomplete. It was inconsistent in many respects with the administrative imperative to deal with the concerns of the governor and legislators in order to keep the program going. The point system for rating applications gave the staff basis for judging projects and providing justification for decisions on projects. It also allowed considerable flexibility in funding projects. Many projects could earn the 400 of a possible 600 points to be eligible for funding. Staff could allocate more points or revise upward the points an application received when a project needed to be funded for political reasons. The Small Cities Economic Development Program did not always respond quickly to the applications from towns on behalf of small businesses, perhaps because staff could undermine legislative support if they financed too many businesses that failed, if business competitors were upset at the advantage subsidized businesses received, or if a business's former community protested subsidies received when a business moved to another town. Delays on small projects not of particular interest to the governor or key legislators were not damaging to the program but could allow time to assess whether business competitors had a strong case or whether the firm was using the subsidy to move.[48]

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[47]Auger, personal communication with the author, Feb. 1988.

[48]For instance, see file on Hibbing, Mathews Engineering, Small Cities Economic Development Program; managers of firms that received Small Cities funds, telephone communication with Kimberlie Garg, winter and spring 1989; memoranda on displacement analysis, Policy Analysis Division, Department of Trade and Economic Development, St. Paul, MN, 1985-88.

The program's staff were not necessarily comfortable with the more complicated reality. They jokingly referred to a group with the governor's support that was proposing a carpet factory on the Iron Range as "the carpetbaggers." They tried to enforce program regulations on the type and number of jobs to be produced by a project or criticized project proposals that did not meet guidelines, but they withdrew when the business managers or community leaders threatened unfavorable publicity or appealed to elected officials or to political appointees in the state's economic development agency.[49]

The public story did not eliminate the scrutiny of opinion leaders. For instance, in 1986 and 1989 the St. Paul newspaper published major stories on inconsistencies and abuses in the state's economic development programs, including the Small Cities Economic Development Program. Cartoonists for the St. Paul and Minneapolis newspapers frequently made fun of the administration's economic development efforts.

The administrative need to keep the support of the governor and legislators meant that little correlation existed between program allocations and regional distress. Further, it meant that financing projects most likely to encourage real economic growth had to be a secondary objective, even if administrative staff knew how to bring about economic growth. However, survival of the program was a precondition for having any impact on economic growth or redistribution of economic activity. No matter how well-meaning staff were in wanting to achieve the economic growth and redistribution goals of the program, they faced the absolute necessity of keeping the program alive if they were to accomplish anything at all. Other

[49]Staff of the Small Cities Economic Development Program, St. Paul, MN, personal communication with the author, Dec. 1988; files on Hibbing, Mathews Engineering, and Nashwauk, Hydro-Pro, Small Cities Economic Development Program; Ron Riegger, R-3 Baits, Moose Lake, telephone interview with Kimberlie Garg, winter 1989; Franz Hofmeister, SeaFest, telephone interview with Kimberlie Garg, May 1989.

state programs that could have had more economic development effects because of the way they decided on projects were also less responsive to political needs. Within four years of their start, those programs no longer existed to have any effects.

As this discussion shows, the bureaucratic perspective is helpful in many respects for understanding some observed behavior and explaining the program's lack of success in achieving its explicit economic growth and redistribution goals. The perspective leaves key issues unaddressed, however. For one, the bureaucratic perspective does not explain the motivation for the governor's interest in the program, only the reasons that administrators attended to his interest. The governor initiated projects funded by the Small Cities Economic Development Program from its beginning. As noted above, the governor's trip through southwestern Minnesota in early 1984 to talk with businessmen led to several applications to the Small Cities Economic Development Program; and the governor demonstrated initiative in other ways as well. The governor's interest existed independently of administrators' efforts to demonstrate the usefulness of the program. Similarly, the bureaucratic perspective does not explain why legislators were interested in a program like the Small Cities Economic Development Program, why so many took the opportunity to announce grants to communities in their districts, for instance, or why they would vote for funding the program if projects received funding in their districts.

Further, the public story that program administrators presented is inconsistent in an important respect with the explanation of behavior the bureaucratic perspective offers. Indeed, communities did initiate projects. Although the governor, Mark Dayton (the governor's first commissioner of the Department of Energy and Economic Development), and several legislators solicited projects, the program's staff did not. Such administrative passivity is inconsistent with a perspective that explains results entirely in terms of bureaucratic politics. The bureaucratic perspective deals only with the "supply" side in a political market for economic development projects. An additional explanation is needed for the "demand" side, for why elected officials see such projects as important.

Political Imperatives in a Private Enterprise Market-Oriented Society[50]

A third major framework for explaining state and local economic development programs' shortcomings focuses on political imperatives in a "private enterprise market-oriented society," where managers of huge bureaucratized corporations and the owners of individual and family enterprises make many economic decisions.[51] This perspective suggests that the requirements of public office lead elected officials to take actions that are often inconsistent with achieving the explicit goals of economic development programs to encourage economic growth or to redistribute growth to distressed areas and to low- and moderate-income people.

State and local officials run for office from geographic districts, and they must seek re-election at least once every four years. To win re-election they need to demonstrate concern about the welfare of the people in their districts. Public projects have an especially important role in this process. As Hanson pointed out in his study of the Minnesota legislature, "Legislators tend assiduously to serve groups of constituents by securing projects and programs that help them economically.... This 'pork' helps establish the member's

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[50]The term is Charles Lindblom's. See Charles E. Lindblom, Politics and Markets: The World's Political-Economic Systems (New York: Basic Books, 1977).

[51]Lindblom, Politics and Markets, ch. 7.

reputation as one who can deliver for the district, and builds political support that may cross party lines and ideologies."[52] Mayors also need to attract projects to their jurisdictions. Because state and local elected officials run for re-election so often, their perspective is short-term. They must show results for constituents quickly.

In regions experiencing economic distress where unemployment and low incomes are key issues of public concern, economic development programs are exceptionally valuable for delivering projects quickly. A grant to a community to be loaned to a business is newsworthy, and legislators and mayors can claim credit for delivering the funds that many people believe will increase employment.

The dilemma is that the kinds of activities that are highly visible, that lend themselves to announcements and groundbreaking ceremonies, do not necessarily bring about economic activity that would not have occurred anyway in the community or in a nearby town.[53] Elected officials have no reason to assess whether a business can undertake a project without public funds, whether a business would locate in a community without a subsidy, or whether a subsidy would have more economic development effect if it went to a different firm instead. Such questioning runs the risk of antagonizing business managers and generating unfavorable publicity at the same time that it undermines public confidence that delivery of the grant to the community is significant.

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[52]Royce Hanson, Tribune of the People: The Minnesota Legislature and Its Leadership (Minneapolis: University of Minnesota Press, 1989), p. 19.

[53]For details on this issue with respect to the Small Cities Economic Development Program, see Dewar, "Inside State and Local Economic Development Programs," and Dewar and Hagenlocker, "Getting to the Bottom Line on Low-Interest Loans to Business."

Activities that are not so visible or quick may better encourage real economic growth. For example, a program to teach entrepreneurs how to do business plans may be more effective in encouraging actual economic growth, but the results of such a program are hard to see and measure, and the program's activities attract little attention. The program does not meet the important political needs of elected officials to deliver projects to their districts quickly and visibly.

Although they opt for visible, quick, often unpromising projects, bringing about economic growth is very important to political leaders. Business decision makers choose locations for economic activity, levels of investment, technology to utilize, numbers of employees to hire, the kinds of workers hired at what salaries in what kinds of work, and the products and services to be produced. These decisions determine the level and geographic pattern of unemployment, the geographic distribution of wealth and income, the distribution of income among groups of people, the value of property, and the solvency of city governments. In industrial sectors where market power is concentrated in a few firms, as in many types of manufacturing, business decision makers have considerable autonomy. In sectors where no small group of firms dominates, however, business decision makers have less choice about the actions they must take to keep a firm in operation. The decisions that private business actors make have such important implications that public officials take great interest in the results of the decisions and seek to influence them. State and local elected officials, however, have little power to affect levels of employment and income.[54]

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[54]Charles E. Lindblom, Politics and Markets, chap. 13; Stephen L. Elkin, City and Regime in the American Republic (Chicago: University of Chicago Press, 1987), chaps. 2, 3.

Elected officials' immediate incentives to pursue visible, short-term projects they can deliver to their districts combine with the importance of trying to affect economic growth to drive state and local political systems to provide many programs and large sums of public funds for economic development. At the same time, these forces mean that many programs are not effective in encouraging growth or redistributing growth and income to distressed areas. Some voters become increasingly disillusioned with the promises of the programs. As Robert Mier, the Chicago commissioner of economic development in the Harold Washington administration, has argued, grandiose economic development projects are like "time bombs" that will bring about explosions of constituent anger because they have not fulfilled their promise.[55] The continuing, unsolved economic development problems and growing public criticism lead to repeated search for other programs and to the reform of state economic development policy not only with the election of a new governor, but also in mid-term. The turnover and disruption contribute to the inability of programs to encourage economic growth or achieve redistribution to distressed areas.

This scenario plays itself out in the large regions of the United States with economic development problems. As Elkin has pointed out, however, inducing private investment in highly visible land use projects is crucial to local officials' ability to get re-elected in any local economic circumstances.[56] In prosperous areas, delivery of public projects that affect land value and the quality of life are important, especially for the interests whose property values are affected, but the projects need not be for economic development per se nor aimed

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[55]Robert Mier, professor of urban planning, University of Illinois-Chicago, comments in a session of the conference of the American Collegiate Schools of Planning, Portland, OR, Oct. 1989.

[56]Elkin, City and Regime in the American Republic, chap. 3.

at job creation or reduction of unemployment.[57] In less prosperous state and local economies, economic development issues are salient.

This perspective matches the experience of the Small Cities Economic Development Program in many respects but fails to explain the program's activities in other ways. The discussion below considers first how state and local officials' use of the Small Cities Economic Development Program is consistent with the perspective that emphasizes political imperatives in a private enterprise market-oriented society, then looks at inconsistencies.

--The Governor's View

When Governor Rudy Perpich took office in January 1983, the state was suffering from recession. Not only was iron ore mining depressed, but agriculture, forestry, and older manufacturing were also in trouble. As a consequence, nonmetropolitan areas of the state had lost much of their economic base. By 1985, economic disparities between metropolitan and nonmetropolitan areas of the state had become an important political issue. The governor needed and wanted to address the regional economic problems. As Perpich stated when he came into office, the central goal of his administration would be "job creation and economic recovery, achieved through a partnership between the public and private sectors." Two years later he told Minnesotans, "I know what it's like to need a job and not have one. I know what it's like to face the loss of home and community.... I want you to know that I will not rest in my efforts until all Minnesotans share in our improving economy."[58]

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[57]For a case study of the importance of project delivery that affects property values in a prosperous region, see Barbara Crosby and John Bryson, "Stadium Wars: Minneapolis, 1971-85," University of Minnesota, Minneapolis, MN, undated and unpublished draft manuscript.

[58]Text of Governor Perpich's State of the State address, Minneapolis Star and Tribune, 11 Jan. 1985, p. 4B.

The governor used the Small Cities Economic Development Program as one tool in his efforts to encourage economic development. The record of the Small Cities Economic Development Program suggests that the governor could also pursue at least two other goals of importance at the same time. For one, he needed to consolidate and reinforce support for re-election. The support had a regional dimension, and therefore, regional development projects were useful for strengthening this backing. The governor had received the votes of a high percentage of voters in his home region, the Iron Range. The governor pushed for regional development programs that could help this area and other distressed places in highly visible ways. These programs continued to enable the governor, along with legislators, to deliver projects to the region after the area was no longer one of the most economically distressed areas of the state.

The program was not just useful for delivering projects to the Iron Range, however. The program provided funds in cases where other communities faced crises, and also enabled the governor to take a highly visible role in relieving the problems. For example, in 1983 Wilson Foods filed for reorganization under the federal bankruptcy code, and its meatpacking plant in Albert Lea, Minnesota, was threatened with closing. The governor and the commissioner of the Department of Energy and Economic Development worked closely with city officials to arrange financing for local owners to buy the plant.[59] In another case, when Unisys closed its plant in Jackson, Minnesota, in 1987, the governor wrote to potential businesses, "The State of Minnesota is willing to offer $1 million in incentives to any company willing to occupy the Jackson plant and reemploy a significant portion of the idled

[59] "Buyer drops out on Wilson plant," St. Paul Pioneer Press Dispatch, 7 Feb. 1984, p. 5B; "Wilson plant finds buyer in Albert Lea," St. Paul Pioneer Press Dispatch, 11 Feb. 1984, p. 1C.

workforce.... Do not underestimate my commitment to offering a most attractive incentive package as a means of encouraging a company to fill the void left by Unisys." In summer 1987 the Small Cities Economic Development Program provided $500,000 of the funds to Raven Industries to do business out of the Unisys buildings. Although Raven promised only 70 jobs, in contrast to the 280 lost in the Unisys closing, and as of fall 1987 35 of 40 jobs at the plant were filled by workers transferred from another plant in the state, the enthusiasm and optimism that the project brought to Jackson were noteworthy.[60]

The Small Cities Economic Development Program was flexible enough to enable the governor to promise funds without concern that a project would be rejected. In one case, for instance, another state program, driven by more technocratically determined criteria, refused to make a loan to an Iron Range group headed by a businessman the governor had recruited to revive a proposal for a carpet factory. The commissioner of the Department of Energy and Economic Development stepped in to announce that the Small Cities Economic Development Program approved the loan.[61]

A second major way the Small Cities Economic Development Program was useful to the governor was in managing the politics of the business climate issue. By early 1984 the state's high nominal personal income tax rates and its property taxes, unemployment compensation rates, and workers compensation rates, which exceeded those of bordering states, had become rallying points for the governor's opposition within the state's business

[60]File on Jackson, Astoria Industries, Small Cities Economic Development Program; Jake Jatras, "Jackson welcomes Raven," Jackson County Pilot, 13 Aug. 1987, p. 1.

[61]Lynda McDonnell, "State loan to Paulucci questioned," St. Paul Pioneer Press Dispatch, 5 April 1987, pp. 1A, 9A.

community. When the Independent Republicans gained control of the state's House of Representatives in the 1984 election, they promised to address these issues. The governor needed to reduce the visibility of the business climate issue, or he could be forced to abandon some of his central programs to focus on taxes of concern to the business community.

The governor's trip through southwestern Minnesota in early 1984 aimed to demonstrate to business owners that his administration was prepared to go to lengths to make Minnesota a better place to do business. The efforts also may have prevented several newsmaking decisions to relocate or expand businesses in the Dakotas rather than in Minnesota. Funds available through the Small Cities Economic Development Program were important for this effort as the governor promised financing on the spot.

The governor took an entrepreneurial role in selling Minnesota to the managers of large corporations whose public statements had a disproportionate impact on the perception of the business climate.[62] The Small Cities Economic Development Program backed him up by providing subsidies to large corporations that had announced they were considering a move from the state and to other big firms that indicated they might be willing to locate in the state. The governor placed particular importance on these businesses' decisions. Countering criticism of a subsidy to a plant on the Iron Range to produce chopsticks for export to Japan, the governor pointed out, "Minnesota's economic development program has had hundreds of successes, including the expansions of ETA Systems in St. Paul, Beatrice Meats, Inc., in St. James, and Lake Superior Paper Industries in Duluth. In addition, NCR

[62]Lori Sturdevant and Robert Whereatt, "Perpich: his travel has lured 7,000 jobs to state," Minneapolis Star and Tribune, 17 Nov. 1985, p. 1A; controversy over the 3M announcement that a research and development branch would locate in Austin, Texas, rather than in Minnesota was reported in the Minneapolis Star and Tribune and St. Paul Pioneer Press Dispatch in early 1984.

Comten recently invested in a major new facility in Blaine and portions of Telex and Diamond Match have moved their operations to Minnesota."[63] All but one of the companies the governor cited had received funding through the Small Cities Economic Development Program.

The Small Cities Economic Development Program approved funds for 22 large corporations, and three of these received more than one grant or loan. Nearly 20 percent of Small Cities Economic Development Program funds went to these companies, although they made up only a little more than 10 percent of the firms assisted by the program. The subsidies were especially attractive. In forty percent of the cases, the funds were offered as grants to the company rather than as loans. In contrast, in the program as a whole, only one-eighth of cases where funds were approved for businesses involved grants for the businesses rather than loans. Almost 70 percent of the projects approved for funding for large corporations were for at least $250,000, compared to about one-third for the program as a whole. And as a manager of SeaFest (a division of International Multifoods) stated, when state staff people tried to insist on a connection between funding and the type and number of jobs in the company's subsidized Motley plant, he asked the commissioner of DEED to intervene to assure that the plant needed to meet no such requirements.[64]

The Small Cities Economic Development Program served as a responsive source of funds for the governor in his dealings with big corporations. The governor or his economic development commissioner often announced a subsidy to a large corporation through the

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[63] Rudy Perpich, letter to the editor, St. Paul Pioneer Press Dispatch, 27 Aug. 1987, p. 18A.

[64] Franz Hofmeister, SeaFest, telephone interview with Kimberlie Garg, May 1989.

Small Cities Economic Development Program before program staff received or approved an application for the funds.[65]

The grants and loans for big corporations revealed an uneasy alliance of political and business elites. Corporate management often stated that they were deciding on a location and considering a variety of sites, some in the state and some outside. The governor and the commissioner of DEED, later DTED, moved to provide the funds not only from the Small Cities Economic Development Program but also from other sources. The payoff was high to leading state elected officials of an announcement that the governor's role made the difference in a company decision to locate or expand in the state. Unlike many Small Cities Economic Development Program projects, large numbers of jobs were involved. The other side to the opportunity, however, was a threat. The cost to the governor, as well as to legislative leadership, was high of an announcement that a firm was leaving or deciding not to expand within the state because of a bad business climate or uncooperative state officials.

The decision of Economics Laboratory to move its international division from White Plains, New York, to St. Paul where the company had its headquarters illustrates the mix of cooperation and hostility between elected officials, the state economic development commissioner, and the management of a large corporation. In late 1984 Jon Grunseth, vice president of Economics Laboratory, publicly opposed the budget request for the state's Department of Energy and Economic Development. "We as a business community have watched announcements from companies moving all or some of their facilities from

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[65]For instance, see files on Pipestone, Bayliner Marine; Lake County, Louisiana Pacific; Worthington, Swift Packing, files of the Small Cities Economic Development Program; Josephine Marcotty, "Blandin expansion back on track," St. Paul Pioneer Press Dispatch, 29 July 1987.

Minnesota.... We need statewide, across-the-board economic incentives for all businesses and all individuals if we are going to protect the tax base of this state," he wrote. "The 'quality of life in Minnesota' is no longer sufficient to offset our high tax, transportation and energy-source disadvantages."[66] Less than a year later, Grunseth began negotiations for the Economics Laboratory effort to get its share of the funds from the economic development programs he criticized, asking the state and the city to pay for costs of moving a division to St. Paul. The data Grunseth presented to those accustomed to assessing financial packages showed how irrelevant the numbers really were. The figures showed the cost of the move but not the costs of operation in alternative sites once the one-time expenditure was made. The company received a $500,000 grant from the Small Cities Economic Development Program along with more than $1.8 million from other state sources, the city, and the St. Paul Port Authority.[67] In 1990 Grunseth became the Independent-Republican candidate for governor running against Perpich and attacking his efforts to encourage economic development in the state.

What were the implications of the governor's activities for the effectiveness of the Small Cities Economic Development Program in achieving its explicit goals? In some ways the efforts reinforced the goals and in other ways undermined them. Aid to the Iron Range or to cities with plant closings did not necessarily mean that assistance went to the areas with the greatest distress. Four of the twenty-two large corporations that received funds were

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[66]Jon Grunseth, letter to the editor, St. Paul Pioneer Press Dispatch, 25 Nov. 1984, p. G2.

[67]Letters and memoranda in St. Paul, Economics Laboratory, files of the Small Cities Economic Development Program; Lynda McDonnell, "Econ Lab moving division to St. Paul," St. Paul Pioneer Press Dispatch, 15 Jan. 1986, p. 8B.

located in the prosperous Twin Cities metropolitan area. Research shows that financial subsidies to large corporations rarely make a difference in a location or expansion decision.[68] Although the managers' part of the political deal in getting a subsidy was to say that the funds were key to the big companies' location or expansion decisions, half of those interviewed said they probably or definitely would have gone ahead with the project without the funds. The company had enough cash to finance its expansion, said the manager of Network Systems in Brooklyn Park who had been involved in negotiations for the funds from the Small Cities Economic Development Program, but they needed some incentive to tell the board of directors about to help justify staying in the Twin Cities. The grant the company received, $250,000, was "peanuts" to their large operation, he said, and the state should make more funds available to companies like his, as other states would have. When Telex managers decided to move operations to Blue Earth and LeSueur, they contacted the Department of Energy and Economic Development to inquire about funding and received a loan of $125,000 for each of the two plants; the loans were useful, but the location decision had been made.[69]

Whether or not the subsidies led to economic growth or redistribution of economic activity to more distressed areas of the state, the Small Cities Economic Development Program may well have been effective as one tool the governor used in managing the politics of the business climate issue. Good will about the business climate can mean that more businesses make decisions to locate and expand in a state than otherwise would have.

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[68]Roger W. Schmenner, Making Business Location Decisions (Englewood Cliffs, NJ: Prentice-Hall, 1982), pp. 51-53.

[69]Telephone interviews with Kimberlie Garg, winter and spring 1989.

Defusing controversy over the business climate also gives a governor more room for action on other issues of importance.

--Legislators' Use of the Program

The Small Cities Economic Development Program was also important to legislators and local elected officials in demonstrating that they were bringing development to their districts. Legislators frequently announced grants. Legislators and mayors received credit for the funds. Local newspapers often reported the stories on their front pages and praised elected officials on their editorial pages no matter how small the grant.[70] At the same time, as Todd Otis, chair of the House committee concerned with economic development, pointed out, economic development projects might be a risky kind of "pork" and could hurt an elected official because of what he called the "5 percent rule." Five percent of the voters would closely scrutinize the project claims and could be very critical; 5 percent of voters could swing almost any election.[71]

Although delivery of projects was important to all legislators, the emphasis on delivery of "pork" in their "home style,"[72] the role they played with constituents in their districts, differed from one legislator to another. Arnold has noted that big city congressmen care less about federal allocations to their districts than do congressmen from districts outside big cities. Minnesota legislators from cities with numerous districts, especially St. Paul and

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[70]Minnesota local newspapers, Minnesota Historical Society, St. Paul, MN.

[71]Comments of Todd Otis at a meeting on economic development in the Minnesota House of Representatives office building in the late 1980s, reported by Julia Friedman, professor of economics, Macalester College, St. Paul, telephone communication with the author, June 1992.

[72]Richard F. Fenno, Jr., Home Style: House Members in Their Districts (Boston: Little, Brown, 1978).

Minneapolis, tended to pay much less attention to the Small Cities Economic Development Program than did legislators from the nonmetropolitan areas. Arnold's generalizations about Congress suggest several reasons for less interest from Twin Cities legislators.[73] First, legislators have more difficulty generating personal publicity with grant announcements; the major Twin Cities newspapers have other news to print of greater interest. Second, a legislator has trouble getting credit from constituents for a grant. Any grant benefits many people outside the legislator's district; indeed, most beneficiaries might be from outside the district. With many legislators representing the city, constituents have trouble knowing which legislator actually deserves the credit for a grant. Finally, most grants from the Small Cities Economic Development Program are small enough to seem unimpressive to constituents in a large city.

Even among those who came from outside the more densely populated cities, however, legislators differed in the extent to which they emphasized project delivery and the delivery of economic development projects, in particular, in their relations with their constituents. For most Iron Range legislators the delivery of projects was especially important, and they worked together to get more economic development funds for allocation of projects to their region through the Iron Range Resources and Rehabilitation Board, funds they controlled, but also through special appropriations and through more general programs like the Small Cities Economic Development Program.[74] One Iron Range legislator, Douglas Johnson, was chair of the Senate Tax Committee, a position of influence over the

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[73]Arnold, Congress and the Bureaucracy, pp. 34-5.

[74]For example, see Dewar, "Development Analysis Confronts Politics"; Hanson, Tribune of the People, p. 119.

delivery of projects to other districts as well as his own. Unlike many legislators, Johnson was active in recruiting businesses for funding through the Small Cities Economic Development Program as well as other economic development programs. As one businessman stated, he was planning to build his factory in the Twin Cities metropolitan area until Johnson told him about the subsidies available if he came to the Iron Range.[75]

Legislators were creative in claiming the funds of the Small Cities Economic Development Program for their districts and receiving the credit for the funding. In 1987 the deputy commissioner of the Department of Energy and Economic Development announced a "line of credit" for Fergus Falls. Two hundred thousand dollars from the Small Cities Economic Development Program would be available for specific businesses when the Small Cities Economic Development Program staff approved applications. If the funds were not used within six months, the department would reconsider whether the money should be kept in reserve or made available to other communities. News accounts praised the state representative from the district for his key role in making the funding possible.[76] Despite the publicity, the arrangement with the state agency did not seem to differ from the situation any city faced. Any city had the opportunity to receive funds of $200,000 on behalf of businesses approved by the state agency staff; the six-month deadline meant that the funds would not be held so long that they would be needed for other projects before the budget for the year was depleted.

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[75]Joe Fondie, East Range Technologies, Aurora, MN, telephone communication with Kimberlie Garg, winter 1989.

[76]Kathy Berdan, "State to give city $200,000," Fergus Falls Daily Journal, 25 March 1987; Kathy Berdan, "City's loan pool swells by $200,000," Fergus Falls Daily Journal, 3 March 1987, p. 1; "No small potatoes," editorial, Fergus Falls Daily Journal, 1987, in the clipping files of the library of Minnesota Department of Trade and Economic Development, St. Paul.

In 1988, a representative introduced legislation that earmarked $800,000 of Small Cities Economic Development Program funds for economic development projects in areas where at least four local units of government cooperated to adopt school district consolidation plans. The legislation in effect took funds from the appropriation for the Small Cities Economic Development Program away from the control of the agency in St. Paul and offered it to organizations concerned with economic development in subregions of the state. As of 1989, several communities in the legislator's own district were the only ones to take advantage of the funding. Why did the legislator earmark the resources of the economic development program? "Because it was easy to do," one lobbyist explained, especially easier than getting a new program or a new appropriation for the same endeavor.[77]

The importance to legislators of delivering projects to their districts made the program helpful in legislative leaders' efforts to manage their caucus and to secure the passage of legislation they considered important. Senate Majority Leader Roger Moe and his staff had a close relationship with the deputy commissioner for community development in the Department of Trade and Economic Development. Moe sponsored legislation to place more economic development programs under the control of the deputy commissioner in 1987 and, in 1991, advocated using funds earmarked for assistance to displaced workers for subsidies to businesses administered by the deputy commissioner.[78] Moe's district received no more grants than most others, and Moe did not use grants to other districts to generate publicity

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[77] Laws of Minnesota, Ch. 686, Art. 1(o), 1988; "Economic Development: $1,000,000 Economic Development Fund Nears Completion," Regional Outlook (of the Upper Minnesota Valley Regional Development Commission) 10, no. 8 (Feb. 1989): 1; Stoesz, fall 1988.

[78] Ensign et al.; Stoesz, Aug. 1991.

for himself throughout the state. Given the importance of managing a diverse legislative caucus, however, significant influence over projects that constituted important "pork" to many legislators from nonmetropolitan areas must have been helpful.

What were the effects on achieving the programs' explicit goals of legislators' efforts to deliver projects to their home districts? The economic development funds did not necessarily go for the kinds of activities that would bring about economic growth. The amount of "pork" that legislators brought home did not correlate strongly with an area's economic distress. As legislators sought to act quickly and visibly to deal with economic development problems, as they had to in order to make re-election more likely, the explicit goals of the program did not determine the ways projects were funded.

--The Perspective of Local Officials

Local elected officials, most often mayors, also received credit and favorable publicity associated with the Small Cities Economic Development Program's grants. For many in areas of the state that had lost economic activity, new development was needed to help balance city budgets. Many mayors took important leadership positions in economic development initiatives in their communities. Observing the lack of employment opportunities for residents and facing budget problems as people moved away and left empty houses, Babbitt Mayor Don Cole sought funding from the Small Cities Program for a tire recycling plant whose parent company was based in the Twin Cities area and for the expansion of a local entrepreneur's cabinet shop as part of an all-out effort to encourage new industries in his Iron Range town.[79]

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[79]Sharon Schmickle, "Families cling to home on range," Minneapolis Star and Tribune, 25 Sept. 1983, p. 8A; Babbit, Kasson Manufacturing and Rubber Research Elastomerics, files of the Small Cities Economic Development Program.

In numerous communities outside the Twin Cities mayors formed alliances, often formal ones, with other interests in their communities that would benefit from promoting growth. In Albert Lea, Mayor O. H. Barnes and other civic leaders recruited a local businessman to buy the threatened Wilson Foods plant with the help of a Small Cities Economic Development Program grant and other public subsidies. Although the meatpacking plant involved the most jobs and generated the most statewide publicity, "Jobs, Inc.," an organization of public, commercial, and financial leaders in the county, took on numerous economic development initiatives to address plant closings that threatened many jobs.[80] In Jackson, Mayor Dave Fell applauded the Raven Industries plant, saying, "We want to bask a little bit in the glory." The Jackson Development Group, a nonprofit business group that formed in response to the city's economic development problems, continued to take a leadership role to promote development in the city.[81] In response to plant closings in Fergus Falls, elected officials and business leaders formed "Project 500," vowing to bring 500 jobs to the city in 500 days. They formed a port authority, created the Western Minnesota Industries Loan Pool, and took advantage of state programs to offer financing to businesses interested in expanding or locating in the city.[82]

Although the biggest cities' legislators did not take visible roles in the Small Cities Economic Development Program's funding of projects, mayors often did. In St. Paul,

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[80]Lee Egerstrom, "Determined town devises strategy for buying plants," St. Paul Pioneer Press Dispatch, 29 April 1986, p. 1B, 8B.

[81]Jatras, "Jackson welcomes Raven," p. 1; Dave Peters, "1 year later, Jackson thrives," St. Paul Pioneer Press Dispatch, 7 Dec. 1987, p. D1.

[82]Toni O'Brien, Port Authority, personal communication with the author, Fergus Falls, MN, Aug. 1988; "Economic Development Update," Fergus Falls Port Authority, Fergus Falls, MN, Jan. 1988.

Mayor George Latimer, whose administration was active in the city's development, heard that Ideal Security Hardware was considering a move out of the city and worked with the St. Paul Port Authority to get Urban Development Action Grant funds from Washington, D. C., along with a loan for the company from the Small Cities Economic Development Program. The mayor's announcement of the loan to Ideal Security emphasized that the project would employ workers laid off in the closing of a Whirlpool plant earlier that year: "We have all agonized over the dislocation of men and women who have worked hard all their lives and through no fault of their own are out of a job. Now we can do something for at least some of them."[83] In Rochester, Mayor Chuck Hazama announced funding from the Small Cities Economic Development Program for a soy sauce factory, a joint venture between a Chinese food processing firm and a local restaurant owner.[84]

Adding to the attractiveness of the Small Cities Economic Development Program was the fact that cities could keep at least some of the funds that a business repaid for a revolving loan fund for economic development. The loan fund could be used for other visible economic development projects in a community. Applications often seemed designed to succeed in bringing the funds to the community for a revolving loan fund. In Foreston, for instance, Woodcraft Industries received a loan to build a water tower. Without the Small Cities Economic Development Program funds, the company would have built an underground

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[83]Boyd Bowman, Ideal Security Hardware Co., telephone interview with Kimberlie Garg, spring 1989; "Officials make deal for jobs," St. Paul Pioneer Press Dispatch, 11 Dec. 1984, p. C1.

[84]Janice Gregorson, "March start is expected for Rochester soy sauce plant," Rochester's Post-Bulletin, 25 Oct. 1985, p. 27.

reservoir at half the cost. The tower was better for the town, said the manager at Woodcraft, because the town would get a revolving loan program.[85]

Working with mayors and city councils were economic development entrepreneurs, people whose jobs existed because of the state and local emphasis on economic development. They were sometimes urban planners or former bank loan officers employed by a city, sometimes self-employed consultants with contracts with numerous jurisdictions, sometimes staff in consulting firms or regional organizations. The economic development entrepreneurs were skilled in writing grant applications, dealing with state agency staff, and managing grant awards. They also took initiative in promoting economic development efforts. They sold their local areas to businesses considering relocation; they visited local businesses in search of candidates for loans; they brought groups together to work for economic development in an area. In Barrett, for instance, economic development consultant Gene Wenstrom (a former state representative) convinced a company to provide a family with a month at a resort on a lake to overcome their reluctance to move from the Twin Cities area and therefore to encourage the company's move. An urban planner working for Cottage Grove noticed a news article saying that another community's efforts to provide a site for Up North Plastics were encountering problems. He contacted Up North Plastics and eventually convinced management to locate in Cottage Grove instead.[86]

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[85]Don Swanstrom, Woodcraft Industries, Foreston, MN, telephone interview with Kimberlie Garg, Feb. 1989.

[86]Gene Wenstrom, economic development consultant, personal communication with the author, Elbow Lake, MN, Aug. 1988; Richard Lewis, former city planner for Cottage Grove, telephone communication with the author, Dec. 1988.

The economic development professional's position depended on the enthusiasm of local elected officials about his or her work. Just as local elected officials benefited from highly visible projects, so did economic development entrepreneurs. As John Levy, a former economic development official, states, "If the body politic does not know what the economic developer is doing, he or she may not be doing it much longer--no matter how good the economic developer may be."[87] The Small Cities Economic Development Program was ideal for generating high visibility projects, and it was popular among economic development entrepreneurs. Wenstrom argued, "The legislature should double the funding for the Economic Recovery Grants." He criticized a major new state program, the Greater Minnesota Corporation, aimed at stimulating longer term economic development--"We need help now. It grates on us because we have to have something now."[88]

What were the results of mayors' and economic development entrepreneurs' efforts to encourage growth in their communities through the use of the Small Cities Economic Development Program? On one hand, they affected the growth of their own communities in cases where development would not have occurred otherwise. However, the competition for development meant that funds did not necessarily go disproportionately to the most distressed jurisdictions. They went to those areas where elected officials and economic development entrepreneurs took the most initiative and where businesses were eligible for financing. In addition, even when local officials identified projects that meant growth for their communities, these projects did not necessarily produce growth for the state as a whole

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[87]John M. Levy, "What Local Economic Developers Actually Do: Location Quotients Versus Press Releases," Journal of the American Planning Association 56, no. 2 (Spring 1990): 157.

[88]Wenstrom, Aug. 1988.

because they displaced other projects that would have occurred in the region or elsewhere in the state.

Other interests rarely counteracted the local officials' parochialism. Although the staff of the program tried to avoid financing the "pirating" of businesses by communities from other parts of the state, they evaluated applications without consideration of the regional context. Cokato, for instance, received financing for a business that moved from a site sixteen miles away after choosing among sites in several towns in the county. The city of Courtland received a grant after arguing that its proximity to the larger cities of New Ulm and Mankato made attracting new businesses difficult. An application from Lake Crystal noted concern about "dependence" on the larger city of Mankato despite population growth and low unemployment. For achieving goals of employing new workers or encouraging growth in a distressed area or in the state as a whole, affecting a location among nearby jurisdictions was unimportant.[89]

--The Role of a Public Story

To sustain the support of opinion leaders at the same time that the program met political requirements, program staff and elected officials maintained a distinction between the public story of what the program did and the private reality. The public story was that the Small Cities Economic Development program aimed to encourage state and local economic growth and to help distressed areas and low- and moderate-income people. In public view legislators enthusiastically supported a program with this stated objective. The public story stated that the governor and the legislature backed the program in order to deal

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[89]See files on Cokato, Pick Industries; Courtland, Martens Distributing; Lake Crystal, Crysteel Manufacturing, Small Cities Economic Development Program.

with the economic development problems of distressed communities and to create jobs. When the program made outright grants to large corporations, these were for infrastructure, the program staff stated. Where grants to businesses could not be categorized as infrastructure, they were "incentive" funds to make up the difference in costs between the site chosen and another site in another state. These funds were crucial to the company's location decision, staff argued.

This public story was true, but the private reality was more complicated, as the preceding discussion has shown. The goals stated in the legislation and regulations were not the only important goals, although everyone would have been pleased to achieve those. The most important aim was to give the appearance of success in dealing with economic development problems by delivering projects to the districts of elected officials and by giving highly visible subsidies to major corporations.

--Inconsistencies with Political Imperatives

As this discussion demonstrates, the performance of the Small Cities Economic Development Program is consistent in many ways with the perspective that comes out of an assessment of political imperatives in a private enterprise market-oriented society. However, the experience of the program is also inconsistent with the perspective in several respects. First, elected officials needed the cooperation of program administrators. Conflict between elected officials and administrators would threaten to expose the private reality of the program and undermine its public support as well as interfere with the program's serving important political needs. If staff did not cooperate in meeting the needs of elected officials, the program would not exist for long. The viewpoint of political imperatives in a private enterprise market-oriented society has to be supplemented with the bureaucratic perspective to offer a complete picture of how state and local economic development programs work.

Second, research on economic development in big cities shows that political leaders, business elites, and other pro-growth interests often form "regimes" to promote development that enhances land values.[90] Even more of the program funds might have been expected to go to big businesses than was the case. State tax and regulatory policy and economic development programs considered together might well show more evidence of the alliance of business and political elites. The Small Cities Economic Development Program may not have had enough funds to be worth tapping large amounts for the needs of big business. In addition, because the legislation, reflecting the federal direction, aims funds at projects that benefit low- and moderate-income people, businesses that could not meet federal employment requirements often did not take advantage of the program.

Finally, and perhaps most important, the tone of the perspective on the political imperatives facing governors, legislators, and city officials does not do justice to the passion with which state and local officials desired and sought economic growth and prosperity for the state and for their communities. Promoting economic development with the Small Cities Economic Development Program was indeed good politics, but it was also a goal that the governor, legislators, mayors, and other elected officials very much wanted to achieve. Perhaps indeed, as technocrats would argue, if they had been armed with greater understanding of what actions would bring about actual economic growth, they would have chosen more successful approaches.

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[90]Clarence N. Stone and Heywood T. Sanders, The Politics of Urban Development (Lawrence: University Press of Kansas, 1987); Elkin, City and Regime in the American Republic.

Implications for Making Regional Development Programs More Effective

Evaluations of state and local economic development programs typically conclude with technocratic recommendations for ways to make the programs better achieve their goals. The argument of this paper has been that recommendations that ignore the political forces that deflect programs from their objectives are unlikely to improve the programs. The solutions derived from "tenseless arguments"[91] regarding artificially delineated problems are not actually solutions. Considering the political economy of programs, however, shows more clearly the difficulty of identifying any reforms that can make the programs more effective in dealing with regional economic distress and bringing about economic growth. The problem becomes one that cannot be a "problem" in the technocratic framework of policy analysis because it is not "solvable by specific organizations in a particular arena of action."[92]

Two aims of reform should be, first, to make locally initiated projects more likely to achieve the explicit economic development goals and, second, to reduce the political benefits of delivering projects that will not achieve the program's goals. To achieve the first aim, efforts should be initiated to help people in distressed communities to understand the character of their economies and to develop realistic expectations of what they can become and what kinds of efforts can lead to growth. The community economic assessment program of the Minnesota Extension Service is the kind of program that can play a major role in this effort because community people are involved in learning how to look at their local economy

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[91]Thomas J. Kaplan, "The Narrative Structure of Policy Analysis," Journal of Policy Analysis and Management 5, no. 4 (Summer 1986): 776.

[92]Aaron Wildavsky, Speaking Truth to Power: The Art and Craft of Policy Analysis (New Brunswick, NJ: Transaction, 1987), p. 26.

and at potential intervention.[93] Minnesota's Star Cities Program held the potential to help by encouraging communities to inventory their economic situation.

As DTED staff argue, if they do not fund enough proposals in distressed areas of the state, it is because they do not receive enough proposals for viable projects from those areas. Therefore, potential economic development entrepreneurs in the most distressed communities need training in understanding their local communities and the kinds of efforts most likely to lead to growth. They need training about how to take advantage of state programs to bring more funds to the most distressed areas.

Better understanding of the local economy and of the kinds of efforts that lead to economic growth makes it more likely that more of the projects proposed will actually lead to growth in a distressed area. In addition, as this knowledge becomes more widespread, elected officials and economic development entrepreneurs gain less political reward for visible projects that do not lead to actual economic growth because citizens understand how little effect a particular, visible project may have.

Rewards still would exist for local officials, however, that can undermine the effectiveness of a program to encourage economic growth in distressed areas. Highly visible efforts still offer more political benefits than activities that are less visible but might have more effect. Just as important, local efforts that help one community at the expense of a nearby jurisdiction remain attractive for local officials, and local officials will continue to undertake projects, for instance, to keep their own main street going in competition with

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[93]Claudia Parliament, Department of Agricultural and Applied Economics, University of Minnesota, initiated this program in Minnesota. Another example is the community economic assessment program that Ron Shaffer administers at the University of Wisconsin.

another town's or to advocate a project to help a firm relocate from another city in the area. State programs need to take the perspective of a larger region, promote cooperation among the local jurisdictions in an area in economic development, and refuse to subsidize projects that have the effect of moving economic activity around the region unless a business is moving from a prosperous area to a distressed area. As this paper has shown, a regional approach can reduce parochialism, but little incentive exists among decision makers at the state level to take such an approach.[94]

To achieve the second aim of reform, to reduce the political benefits of delivering projects that do not achieve the program's aims, the citizens of the state need more opportunities to learn about how economic development programs work and about how economic growth and the redistribution of economic activity occur. In Minnesota, groups such as Citizens League committees, the Legislative Auditors office, and the policy analysis division of DTED provide some of this information. More widespread knowledge of how economic development occurs can help the public in judging whether highly visible projects actually help a community or the state and can reduce the political reward for projects that do not merit funding.

In short, however, no approach can transform business loan programs for state and local economic development into highly effective efforts at achieving their explicit aims. Many incentives will continue to exist to use the programs in ways that deflect them from achieving their economic development goals as well as they could.

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[94]The IR administration that took office in Minnesota in early 1991 has begun to promote a regional approach to economic development (Thomas Stinson, state economist, Minnesota Department of Finance, personal communication with the author, St. Paul, MN, Aug. 1991).

As this paper has shown, economic development programs aimed at encouraging economic growth and helping distressed regions do serve important public functions that are not related to their explicit goals.[95] A governor may use such a program to manage the politics of the business climate issue so that disputes over taxes that affect businesses or wealthier individuals do not push most other equally important issues off the political agenda. A legislative leader may use such a program to manage a caucus with diverse interests in order to get constructive legislation passed. Providing a project for a legislator's district is a less expensive trade for a vote than compromises on other legislation (such as a funding formula for state aids to local units of government) can be. Whether these uses of economic development subsidies are beneficial to state and local economies or redistribute economic activity to distressed areas depends on the nature of the other policies the governor and the legislative leadership are advocating. Whether a well-informed citizen would see this use of economic development programs as helpful would depend on whether he or she shares the values of the governor and the legislative leadership.

Community leaders can use a program such as the Small Cities Economic Development Program along with a variety of other economic development tools to make positive differences in their local economies. For communities, however, others kinds of programs may be just as helpful as this one. If funding for regional development programs such as the Small Cities Economic Development Program remains a small fraction of the state budget, the programs may be useful to some communities, although not as helpful as

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[95]For a more detailed discussion of this issue, see Dewar, Nelson, and Stinson, "The Political Character of Targeted Area Development."

they could be in bringing about state economic growth and in helping particularly distressed areas.

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