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Occasional Paper No. 091-1: Small Towns Lack Capacity For Successful Development Efforts

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Occasional Paper

No. 91-1

February 1991

Small Towns Lack Capacity For Successful Development Efforts

B.J. Reed and David F. Paulsen

Smalltown residents in Nebraska put a high premium on the need for economic development efforts, yet most think their towns' efforts fall short. Some towns, especially the smallest, don't even try to put together a development project. And those that do try often need help of a kind that State and Federal agencies do not offer. Nonetheless, Nebraska is trying some new programs that match State aid with a town's needs and willingness for self-help. Based on a survey of 135 small towns in Nebraska.

About half of the small Nebraska communities we surveyed engage in some kind of economic development efforts. Such efforts, however, depend on community size, with the smallest towns having the fewest development projects. Despite some successes, community leaders perceive their economic development efforts as largely unproductive in creating new employment or wealth for their towns and villages. Community leaders regard these efforts as very important and are understandably frustrated.

The policy implications of these findings are sobering. The smallest jurisdictions may have little hope of ever generating the organizational and resource capacity to stimulate development activity. Even communities with some basic abilities often lack capacity in some area critical to economic development. Larger small communities need technical assistance, especially with financial packaging and solving general problems of organization for economic development. Yet these communities seldom know about

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help available from outside agencies, and the help that does come from those agencies is often episodic and poorly coordinated.

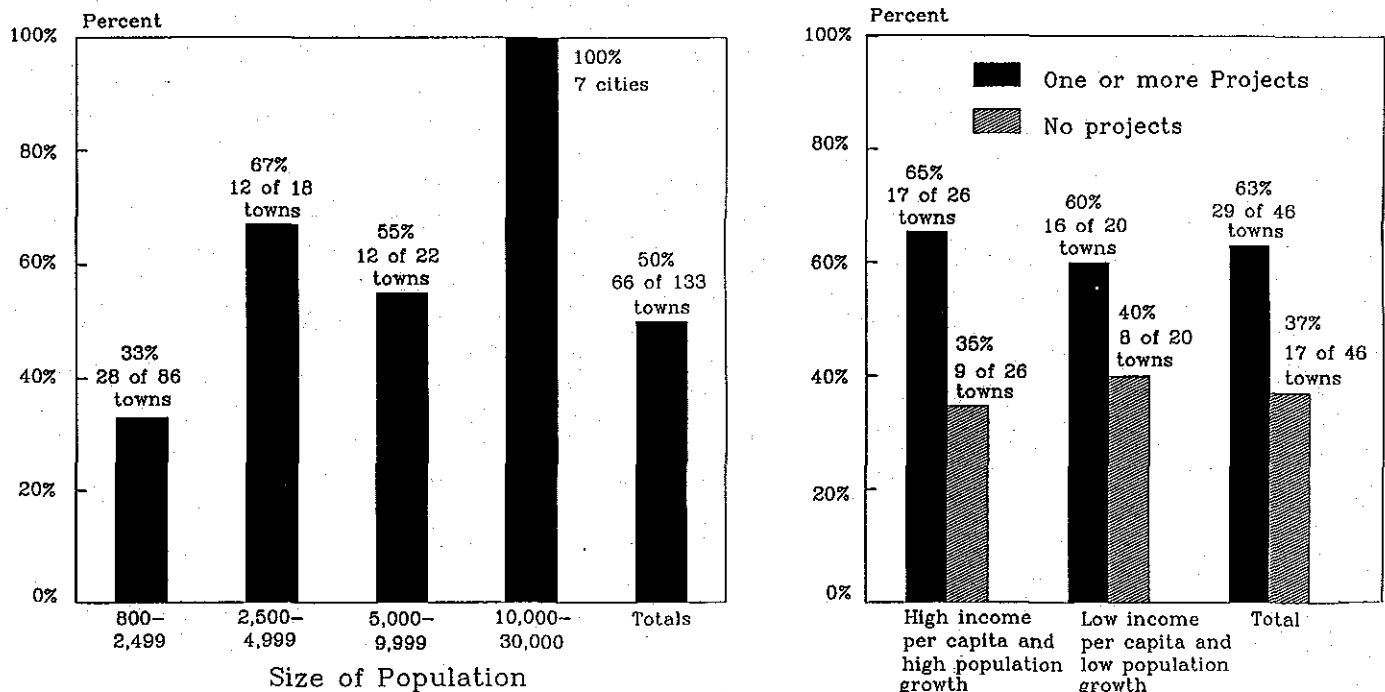
Critical Mass Needed for Economic Development Work

Half of the 135 small Nebraska communities we surveyed reported that they had undertaken one or more economic development projects; that is, the community had initiated an activity to stimulate economic investment by a specific business or industry. The 87-percent return rate on our questionnaire (135 of 153) suggests considerable interest in such projects. Population is a major factor (fig. 1) in community economic development activity. Only 33 percent of the communities under 2,500 population reported specific economic development projects, while 67 percent of larger towns identified specific businesses to assist. Size is merely an index for a variety of factors that affect a community's ability to carry out development projects. The factors include the leadership pool, availability of skills and knowledge, financial resources, and the like. While each community, large or small, has a different mix of influencing factors, small towns are less likely to be involved in development projects (one chance in three).

In addition to size, we also looked at population growth, per capita income, community wealth, and location as possible indicators of the likelihood of a community initiating an economic development project. None of these factors proved to be significant. A poor community located in a rural area was as likely to undertake economic development as a rich town located along the freeway. However, a disproportionate number of the poor towns were also small.

The number of projects per community shows another facet of the level of development activity. While 50 percent of the towns reported at least one project, 29 percent reported two projects, and only 18 percent reported three projects. More than half (57 percent) of these activities related to manufacturing, or wholesale and retail business

Figure 1. Factors Influencing Community Development Projects...
Income and population growth rates have little effect on whether or not a community takes on development projects.



Based on survey responses from 135 Nebraska small towns with populations ranging from 800 to 30,000

development. Seldom mentioned were residential area improvements, health care facilities, housing for the elderly, tourism, or public utility improvements. In fact, much project activity in very small towns centered around retail and main street retention or development. Such activity does little to stimulate the flow of new dollars into the local economy.

Our case study analysis showed similar findings. Small jurisdictions had few resources for project activities. Cambridge represents the typical small town. In this community of 1,200, project activity was almost nonexistent. Few new or expanding business opportunities had been established in the last several years. While some residents had expressed interest in being more active, little support or motivation surfaced. In contrast, a community like Gibbon, population 1,500, is the exception. Here much activity was under way. City leaders helped retain a clothing factory and worked to support expansion of beef and turkey processing facilities. In addition to these basic industries, financial and retail businesses were also established.

What accounts for the difference? Part of the difference is that Gibbon has strong committed leadership and an active city government and chamber of commerce. Another plus is that local business leaders have been willing to commit time and money to development efforts. In contrast, Cambridge had little leadership support for development. Economic resources are held by a few people who have expressed little interest in development efforts. No formal organization existed to undertake such efforts and resource capacity is limited.

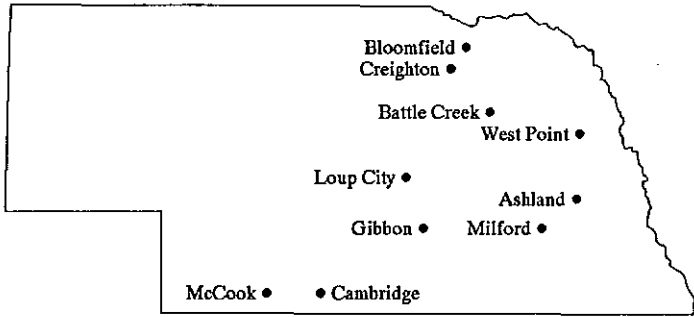
Economic development activities were often traditional and unspecific among our sample of communities. Most communities (53 percent) reported that they “keep current information” on the community, provide site assistance (46 percent), seek grants or outside funding (46 percent), prepare advertising and fliers (40 percent), and undertake prospect trips or host prospects (38 percent). Only a handful mentioned telemarketing, direct mail, training programs for new employees, and preparing financial packages.

Success breeds success in economic development. Communities that have been successful in obtaining State-administered Community Development Block Grants were much more likely than those that did not receive such grants to perceive themselves as successful. The dollar volume of these grants was strongly associated with getting further

Small towns were generally at a disadvantage to larger towns in competing for development funds.

Photo © David W. Sears





<u>City</u>	<u>Population</u> <u>1980</u>	<u>Projects</u>
Ashland	2,274	None listed
Milford	2,108	Health care clinic Recruitment of regional cable company
West Point	3,609	Existing business retention and expansion
Battle Creek	948	Nursing home development
Creighton	1,341	Post and pipe manufacturing company
Bloomfield	1,393	Wild horse ranch
Gibbon	1,531	Local restaurant Retention of clothing factory Expansion of beef and turkey processing plants Recruitment of bank and physical fitness center
Loup City	1,368	Recruitment of physicians
Cambridge	1,206	Hospital addition
McCook	8,404	Cottage industry development

grants and having volunteers and suitable sites for business development. There was a strong association between grants awarded, size of grants, and population size: larger communities often received more grants with a higher dollar volume, further improving their competitive advantage. The smallest communities simply did not compete or were unsuccessful when they did.

Small communities lacking outside resource support also lack local resources. Typical is Ashland, population 2,300. This community had no focused effort in economic development, no local resources had been generated, and few business initiatives existed. Milford, on the other hand, with population 2,100, has undertaken several projects in recent years, including the purchase and resale of a commercial building, the acquisition of a medical clinic, and the development of a golf course. In each instance, funds were donated by local citizens and businesses, and local leadership saw the projects to completion. The difference seemed to be leadership and access to capital. Milford has public and private interests who took initiative to achieve results, while Ashland lacks such initiative, especially in the private sector.

Informal, Skeletal Staff Typical of Development Projects

Both questionnaires and interviews indicate that the common organizational structure responsible for the development effort in small towns is either a nonprofit corporation or a local chamber of commerce. Although both types of organizations have large community-wide boards of directors, they function very informally and rely heavily on a small number of interested persons. Milford created different types of organizations to serve different purposes: a nonprofit corporation for acquiring a business structure, a medical association for acquiring a medical clinic, and a golf association to build a golf facility. McCook, on the other hand, relies exclusively on an industrial development corporation to carry out project activities.

Most of the organizations involved in economic development began in response to specific opportunities: a rumor that a certain corporation had expressed interest in locating a business in their town, for instance. Once the project was completed, the organization often became inactive. In other cases, the organization had never really been active.

Chambers of commerce have as their primary focus the general marketing of the community, training of business employees, and acting as a clearinghouse for information. Rarely do they become directly involved in project development. Nonetheless, many formal development corporations that worked on project activities were connected in some way with local chambers.

The internal operations of these development organizations were minimal. Almost 75 percent of the communities with projects had no budgets for economic development programs. Of those that did list budgets, only half reported more than \$2,500. Fewer than 40 percent of these small communities with projects reported any paid staff, and most of those had only one or two. Thus, economic development work depended largely on volunteers. Here, again, only a few had any formal training or prior experience in the field.

In many communities, the leadership base for economic development is narrow. Community leaders we interviewed reported difficulties in finding and retaining leaders for economic development. Typical comments: "I've got to quit this project and get back to making a living." A Milford public official stated: "We had someone who did pretty well, but he retired and moved to Arizona. Since then, no one has had the time and interest to pick up the ball."

Most community leaders interviewed reported that it is difficult to recruit younger leaders. Larger small communities with a larger pool of college graduates perceived their communities as being more successful in stimulating economic development activity and more optimistic about projects, perhaps fostering a better climate for economic development efforts.

Outside Agencies Seldom Used, Generally Offer Technical Help

Like all States, Nebraska has an array of State, local, and private organizations that offer assistance in economic development. Yet, our study shows that Nebraska community economic development groups had little regular interaction with these organizations. The very small communities had the least contact with outside agencies and received the least assistance.

The most frequent contact occurred between community groups and the State economic development department, regional utility district organizations, and the State municipal league. The next most frequent contacts were with county governments and regional economic development districts. Rarely mentioned were universities, community colleges, other State agencies, and private consultants. Local development agencies, the regional public utilities, the State economic development agency, and the State municipal league can help with preparing financing packages, locating prospects, and assisting staff. Other providers can help with specific technical problems.

Outside assistance was directed almost exclusively at technical assistance, rather than capacity building, that is enhancing a town's abilities to carry out development efforts itself, rather than depending on outside expertise. Interviewees reported that capacity-building assistance is frequently not available, especially training in development techniques. Outside development assistance also appeared to lack coordination. In Ashland, for example, public officials complained about the lack of follow-up and support after State agencies visited their community to offer support for mainstreet improvements.

Perceptions of Failure for Most Development Projects

Community perceptions about the importance of economic development contrasted sharply with actual outcomes. Over half the respondent communities, including those without any projects, regarded economic development as "very important." Two-thirds felt that it had become "more important" in the last 2 years. About 80 percent of all respondents felt that top economic development priorities were getting more jobs for local residents, helping to retain or expand businesses, and getting new businesses to locate in the community. These perceived priorities reflect the many kinds of community projects. However, the respondents perceived little success in achieving these goals.

Smalltown Development Efforts Need More, Better Help

Only 20 percent saw high success in job development and in efforts to retain and expand existing businesses.

On new business development, another important goal, respondents again saw their communities as unsuccessful. However, communities that had job, population, and income growth over the previous 3 years were more likely to see themselves as winning the economic development competition with other communities.

This survey of experiences and perceptions of leaders in Nebraska's small communities leads to one major conclusion: while organization, planning, leadership, and resources all matter in economic development, size matters most of all in both effort and outcomes. In addition, there is the wide disparity between smalltown interest in economic development and the capacity to carry it out.

Very small rural jurisdictions have little chance of success in stimulating economic activity. This is true despite economic development's high priority and increased importance among smalltown leaders. Budgets, staff, training, planning, and operations were almost nonexistent. Under these circumstances, local economic development was reactive and episodic, if it existed at all. Economic development is the domain of large communities. Among small towns and villages, the perception of success is quite low and this perception is borne out by the lack of project activity in these communities.

Outside helping agencies' efforts lacked coordination and focus to effectively support local efforts. Small communities were frustrated, and found little outside support to overcome the barriers that faced them. These communities are the least able (and in some cases the least willing) to change. They are unable to tap existing internal and external resources.

Rural communities often lack the basic public facilities and organizational and leadership capacity to stabilize or increase economic activity. They lack access to basic building-block financial and organizational resources. This, in turn, results in ineffective use of sophisticated economic development tools and financing resources. Small communities with limited capacity and weak delivery systems find such tools of limited use.

Even where institutional capacity does exist in small communities, external resources may not be available because State and Federal agencies that control many of these resources often funnel them to larger jurisdictions. These agencies expect better results by focusing economic development tools and resources in communities with proven capacity.

What Can States Do?

State policies can help deal with problems faced by the smallest rural communities. First, broad-based economic development assistance to every small community that demands it is unrealistic. The limited resources of State governments make such a policy untenable. Further, as shown by our survey results, most very small communities are in no position to use many of the economic development tools and resources that do exist. Where a community's economic viability has disappeared, it may be more appropriate to provide support in coping with this reality rather than raising local expectations that something can be done to change the situation.

However, it may also be bad politics and bad policy to exclude very small communities from access to such tools and resources if they demonstrate the basic motivation, commitment, and capacity to use these resources effectively. Resource support under such circumstances can help. While a large percentage of communities under 2,500 population may be unable to sustain a credible economic development effort, others who do have such capacity can effectively use resources to stimulate business investment.

States can also develop assistance policies to help increase physical and organizational capacities where some already exist. This will result in more effective use of economic development tools by these communities. Where communities lack the basic organizational and financial building blocks, States may be able to advise on how to manage a town in decline. State resources might be apportioned based on a town's

Background: Methods for Gathering Information

Research for this study is based on two sources. First, a questionnaire was mailed in 1988 to public and private sector leaders in communities from 800 to 30,000 population in Nebraska. The questionnaire was organized into five parts: perceptions of city economic condition, organizational and budgetary structure, internal and external relationships, assessing economic development activity, and information needs. Activity was measured in terms of the number of specific economic development projects the respondents indicated were occurring in their communities. The questions asked were aimed at soliciting respondents' perceptions of success in economic development. We received 135 responses from the 153 communities, an 87-percent response rate.

To provide additional information on the dynamics of community economic development, we conducted case studies of 10 communities within the larger sample to clarify organizational and leadership characteristics, and to get detail on development work.

The 10 communities were selected to be illustrative of the range of community settings in Nebraska. Important criteria included in the selection process were size, geographic location, and social and economic characteristics, particularly the economic conditions facing each community. Interviews were conducted with leaders in important positions in both the public and private sectors. Topics covered a range of issues including organization and finance, specific project initiatives, and respondent views about how well economic development activity was being pursued within their communities. We also used economic data on communities derived from studies prepared by University of Nebraska research groups.

We define economic development broadly to include efforts by public and private individuals and organizations within small communities to stimulate, directly or indirectly, the retention, creation, or expansion of economic wealth to the benefit of that community.

existing capabilities, resources, and motivation. Commitment of community organizations, and present conditions of the town's facilities should also be considered.

Multi-community regional development programs may also provide an opportunity for very small communities that lack fundamental resources. Circuit-riding development specialists, cooperative extension specialists, and State and university field offices have all been used effectively for this purpose.

Our survey and case studies demonstrate a major lack of planning and priority setting among all small communities. They need to be able to diagnose their current conditions. Through such an analysis, communities can determine realistic actions to take. Some may need to stimulate improved leadership, organizational capability, and facility improvement. Others may need to develop a realistic strategy to retain what services they have or prepare for further losses of existing services.

It's Already Being Done In Some Places

Nebraska has recently moved in this direction. First, the University of Nebraska at Omaha, in cooperation with the League of Nebraska Municipalities and the Nebraska Department of Economic Development, has developed an economic development strategic planning program for small communities. This program called S.T.A.R.T. (Strategic Targeting and Resource Training) has been used in over 20 small communities to develop plans for economic development. After completion of the process, State agency resources are matched with community needs identified in the strategic plan to assist with development. Since our study was completed, Cambridge has used this program to help identify realistic economic development initiatives.

A second State effort combines University of Nebraska resources with those of State government to create a community improvement program. This effort, operated through the Nebraska Department of Economic Development, works through a certification process to build capacity at the local level in three areas: economic development, community services, and governmental services. State governments in Missouri and Oklahoma have similar efforts under way.

While economic development is here to stay, the prospect for many of the smallest communities is questionable. Therefore, mechanisms to help communities of all sizes and all economic conditions cope with the dramatic changes of the times are increasingly important. State governments can take advantage of the opportunity to help even those communities that will continue to face stagnation and decline.

For Additional Reading...

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Improving Nebraska's Job Statistics: Learning From the Annual Revision to Nebraska's 1991 Employment Figures

by

E. David Fifer, Research Associate, Center for Public Affairs Research

Introduction

Nebraska looked to be one of the leading states in the nation, if not the leading state, in job growth during much of 1991. Each month, reports of Nebraska's continued job growth made it appear that the state had somehow managed to escape the national recession.

Nebraska's apparent economic vitality caught the attention of the national media. The *Wall Street Journal*, citing Arizona State University, noted that "Nebraska increased non-farm employment at a faster pace than any state during March and April.... From January through April, the state added 34,000 non-farm jobs—a 4.8 percent increase over the same period last year. Over the same four months this year, non-farm employment nationally fell nearly 1 percent."¹ A similar article, focusing on Omaha, ran in *USA Today*.²

Then, in March 1992, an annual revision of Nebraska's job statistics erased much of the growth apparent in the earlier estimates.

This report addresses the question of why Nebraska's original 1991 job estimates were later revised downward so substantially. Also discussed are some potential impacts of the statistical revision and possible actions for improving the accuracy of Nebraska's job statistics in the future.

Why Job Statistics Are Revised

To be useful, job statistics need a degree of both accuracy and timeliness.

But the question is how accurate and how timely? Producers of state job statistics must make tradeoffs between the two. Within the constraints of a given budget and a given technology, the easiest way to improve accuracy is to reduce timeliness and vice-versa. The more time there is to compile and analyze input data, the more accurate the resulting job statistics will be. But the longer it takes to develop the statistics, the less useful they are for describing current economic conditions.

The current approach for dealing with this dilemma is to publish job statistics for the same month more than once. A preliminary figure (more timely, less accurate) is later superseded by two or more revisions (more accurate, less timely). Each succeeding estimate takes advantage of better input data that become available with the passage of time.

Under current procedure, the preliminary employment estimate for any given month is revised two or three times over a one to two-year period.

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Figure 1. Publication/Revision Schedule for Nebraska Job Statistics

Approximate publication date:		Nebraska nonagricultural wage and salary employment for the month of:											
		January 1991	February 1991	March 1991	April 1991	May 1991	June 1991	July 1991	August 1991	September 1991	October 1991	November 1991	December 1991
Jan 1991	Preliminary												
Feb 1991	Revised												
Mar 1991	*												
Apr 1991	*												
May 1991	*												
Jun 1991	*												
Jul 1991	*												
Aug 1991	*												
Sep 1991	*												
Oct 1991	*												
Nov 1991	*												
Dec 1991	*												
Jan 1992	*												
Feb 1992	*												
Mar 1992	Benchmark	Benchmark	Benchmark	1st Bnchmk	1st Bnchmk	1st Bnchmk	1st Bnchmk	1st Bnchmk	1st Bnchmk	1st Bnchmk	1st Bnchmk	1st Bnchmk	1st Bnchmk
Apr 1992				*	*	*	*	*	*	*	*	*	*
May 1992				*	*	*	*	*	*	*	*	*	*
Jun 1992				*	*	*	*	*	*	*	*	*	*
Jul 1992				*	*	*	*	*	*	*	*	*	*
Aug 1992				*	*	*	*	*	*	*	*	*	*
Sep 1992				*	*	*	*	*	*	*	*	*	*
Oct 1992				*	*	*	*	*	*	*	*	*	*
Nov 1992				*	*	*	*	*	*	*	*	*	*
Dec 1992				*	*	*	*	*	*	*	*	*	*
Jan 1993				*	*	*	*	*	*	*	*	*	*
Feb 1993				*	*	*	*	*	*	*	*	*	*
Mar 1993				2nd Bnchmk	2nd Bnchmk	2nd Bnchmk	2nd Bnchmk	2nd Bnchmk	2nd Bnchmk	2nd Bnchmk	2nd Bnchmk	2nd Bnchmk	2nd Bnchmk

Figure 1 illustrates the publication/revision schedule for Nebraska's job statistics. The first (preliminary) estimate is published the month following the reference month. A revised figure is published two months after the reference month. Each year around March, job estimates for the most recent two years undergo a benchmark revision. Estimates for January, February, and March undergo one benchmark revision; estimates for other months undergo two benchmark revisions.

Why Nebraska's Preliminary 1991 Job Estimates Were Revised Substantially Downward

The annual benchmark revision of Nebraska's 1991 job statistics was quite large. For example, the preliminary work force estimate for December 1991 was 780,200. When the 1991 benchmark revision was published in March 1992, the new figure for the same month was 741,500. The annual revision reported 38,700 fewer jobs in December 1991 than did the preliminary estimate published just a few weeks earlier.*

A comparison of December 1991 preliminary job estimates with the corresponding first benchmark revisions for all states reveals that Nebraska's revision was of far greater magnitude than that of any other state. Thirty-one states had benchmark revisions of under one percent. Another eighteen had benchmark revisions of between one and 2.8 percent. Nebraska's benchmark revision was five percent. Thus, with the publication of first benchmark figures, Nebraska traded its number one ranking in job growth for a number one ranking in magnitude of statistical revision.

Table 1 shows states ranked by the percentage change of December 1991 employment estimates.

Why was Nebraska's annual revision so large? One reason, according to the Nebraska Department of Labor, was that the preliminary monthly figures had been inflated by a statistical adjustment that was added to the estimating procedure in 1991.³ The adjustment had been recommended by the U.S. Bureau of Labor Statistics (BLS). Its purpose was to account for new businesses whose employment under normal circumstances would not be captured otherwise by the estimating procedure. Following the large benchmark revision for 1991, the Department of Labor returned to its previous employment estimation methodology without the adjustment.⁴

*The final (second benchmark) revision was published one year later in March 1993. The final revision put Nebraska's December 1991 nonagricultural wage and salary employment at 746,700—still 33,500 jobs (4.3 percent) below the preliminary estimate.

Table 1. States Ranked by Percentage Change of Benchmark Revision (absolute value) in December 1991 Estimates of Employees on Nonfarm Payrolls

Rank	State	Dec. 1991 Preliminary Employment (thousands)	Dec. 1991 First Benchmark Employment (thousands)	Revision Percentage Change	Absolute Value of Revision Percentage Change
1	Nebraska	780.2	741.5	-5.0	5.0
2	South Carolina	1,561.7	1,517.8	-2.8	2.8
3	California	12,856.3	12,520.4	-2.6	2.6
4	Rhode Island	435.4	424.4	-2.5	2.5
5	New Jersey	3,570.1	3,482.3	-2.5	2.5
6	Alaska	232.0	237.5	2.4	2.4
7	Ohio	4,953.1	4,842.2	-2.2	2.2
8	Maryland	2,140.3	2,096.4	-2.1	2.1
9	Connecticut	1,590.7	1,558.4	-2.0	2.0
10	Arkansas	971.6	952.4	-2.0	2.0
11	Florida	5,404.4	5,302.8	-1.9	1.9
12	New Hampshire	490.2	482.8	-1.5	1.5
13	Pennsylvania	5,171.5	5,094.8	-1.5	1.5
14	Arizona	1,548.1	1,527.9	-1.3	1.3
15	Oregon	1,277.5	1,261.5	-1.3	1.3
16	Missouri	2,337.6	2,309.0	-1.2	1.2
17	Illinois	5,284.4	5,223.9	-1.1	1.1
18	Virginia	2,884.3	2,854.4	-1.0	1.0
19	Kentucky	1,505.2	1,490.7	-1.0	1.0
20	North Carolina	3,140.2	3,111.7	-0.9	0.9
21	Indiana	2,558.7	2,536.4	-0.9	0.9
22	New York	7,930.4	7,862.7	-0.9	0.9
23	Washington	2,176.6	2,194.6	0.8	0.8
24	Montana	302.7	305.2	0.8	0.8
25	Texas	7,193.0	7,250.7	0.8	0.8
26	Oklahoma	1,200.8	1,208.6	0.6	0.6
27	Alabama	1,643.5	1,653.4	0.6	0.6
28	New Mexico	586.3	589.6	0.6	0.6
29	Hawaii	546.9	549.9	0.5	0.5
30	Wyoming	200.6	201.7	0.5	0.5
31	North Dakota	273.8	275.2	0.5	0.5
32	West Virginia	633.0	636.2	0.5	0.5
33	Mississippi	955.5	950.8	-0.5	0.5
34	Kansas	1,110.3	1,114.8	0.4	0.4
35	Idaho	405.8	407.3	0.4	0.4
36	Iowa	1,240.4	1,244.8	0.4	0.4
37	Wisconsin	2,317.9	2,312.3	-0.2	0.2
38	Colorado	1,571.8	1,575.1	0.2	0.2
39	Delaware	343.5	342.8	-0.2	0.2
40	South Dakota	301.7	301.1	-0.2	0.2
41	Vermont	252.1	251.6	-0.2	0.2
42	Massachusetts	2,814.7	2,819.7	0.2	0.2
43	Utah	763.4	762.4	-0.1	0.1
44	Tennessee	2,192.6	2,190.1	-0.1	0.1
45	Michigan	3,912.5	3,915.0	0.1	0.1
46	Maine	513.5	513.8	0.1	0.1
47	Nevada	643.2	643.0	-0.0	0.0
48	Georgia	2,965.0	2,964.6	-0.0	0.0
49	Louisiana	1,634.5	1,634.5	0.0	0.0
49	Minnesota	2,154.5	2,154.5	0.0	0.0

Sources: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, February 1992, pp. 104-21 (preliminary employment)
U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, March 1992, pp. 114-31 (first benchmark employment, except California)
U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, February 1993, p. 65 (first benchmark employment, California)

No doubt the inclusion of the statistical adjustment contributed to Nebraska's overly optimistic preliminary employment estimates in 1991. It was probably not the only cause, however. A second factor appears to have been an overreliance on year-ago trends to estimate current employment growth during a time of economic downturn. A review of statistical revisions over several years suggests that Nebraska's preliminary employment figures are heavily influenced by employment trends posted the previous year.

Ordinarily, preliminary employment estimates are based on employment changes reported by a sample of employers responding to a monthly survey. The Nebraska Department of Labor conducts the survey and produces the estimates in cooperation with the BLS.

If the monthly employment survey data begin to deviate from the historical trend, state analysts must make a judgement: Do the sample survey data signal a real shift in the state's overall employment picture, or is the change merely an aberration restricted to a few employers in the reporting sample? If the analyst judges the former, the change in the current month's survey data is given more weight in estimation procedure. If the analyst judges the latter, then the change in the sample data receives less weight; instead, the analyst relies more heavily on the month-to-month employment trend recorded the previous year.

While this is acceptable procedure according to the BLS, chart 1 suggests that in recent years Nebraska may rely on it too heavily.

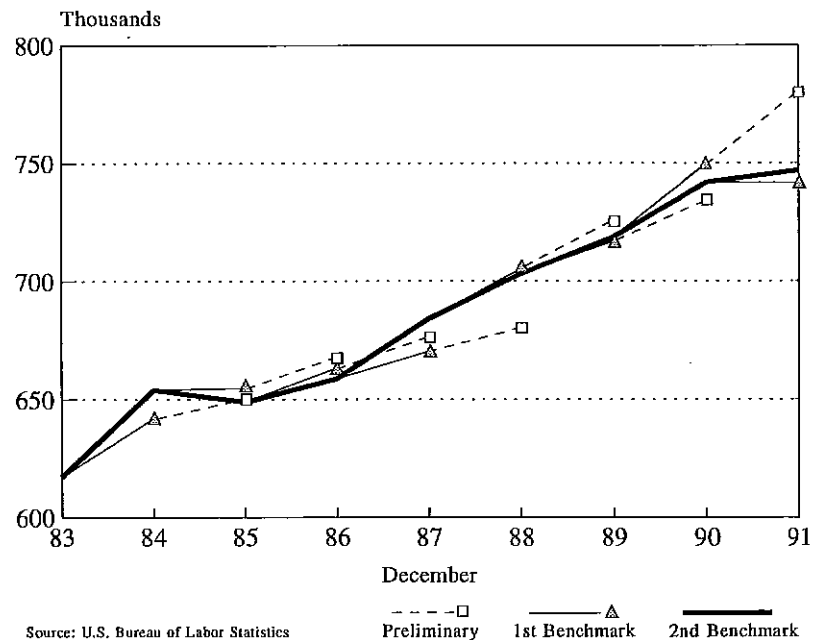
Chart 1 tracks three of the four Nebraska employment estimates for each December between 1983 and 1991.

The first estimate published, again, is the "preliminary" which comes out one month following the reference month. The second estimate published, the "revised," usually differs little from the preliminary and is not included on chart 1. The third estimate published, "first benchmark," is the first annual revision that comes out each spring. The fourth and final figure, "second benchmark," comes out a year after the first benchmark.

The "second benchmark" line represents the most accurate, but least timely, measurement of how Nebraska's employment has changed from December to December. Following a downturn in 1985, this line picks up slightly in 1986 and then grows steadily from 1987 to 1990. Positive job growth continued between 1990 and 1991 but at a slower rate.

The "preliminary" lines represent the most timely, but least accurate, measurements of employment growth. While admittedly the least accurate measurements, they should still at least approximate the state's true job situation. The "preliminary" lines, then, should at least roughly parallel the "second benchmark" line for the same period.

Chart 1. Nebraska Employment Estimates



Source: U.S. Bureau of Labor Statistics

---□ Preliminary —△ 1st Benchmark — 2nd Benchmark

What happens instead, at least for the last four or five years, is that the "preliminary" lines roughly parallel the "first benchmark" lines of the previous year. This suggests that Nebraska's monthly employment reports are being more heavily influenced by what went on the prior year than by what is going on currently.

For example, between December 1986 and December 1987 Nebraska's employment really grew by 3.9 percent (second benchmark figures), yet the preliminary estimate showed only 2.2 percent growth. Why? Apparently because preliminary estimates were based in part on current survey data and in part on what had been recorded for the previous year. When preliminary employment estimates are made, the latest data available for the previous year is the first benchmark series. The first benchmark series grew 2.2 percent from December 1985 to December 1986. Apparently this rate of growth was factored into Nebraska's preliminary job estimates for the following year, thus keeping them artificially low.

The same thing looks to have occurred in 1991, only in reverse. While the national economy was slowly coming out of the recession, Nebraska's preliminary employment estimate showed 4.1 percent growth from December 1990 to December 1991. Why? One reason was the inclusion of the statistical adjustment for new business employment. But it also appears that again the preliminary estimates were based partially on what had happened the previous year, when employment growth (first benchmark) had been measured at 4.3 percent from December to December.*

To test this idea statistically, two linear regressions were calculated. The first measured Nebraska's preliminary employment estimates for each December from 1986 to 1991 as a function of second benchmark employment figures for the same period. The second measured the same preliminary employment estimates as a function of first benchmark figures for the prior year.

The first regression yielded an r squared statistic of .83, and the second yielded an r squared statistic of .99. This means that Nebraska's preliminary monthly employment estimates are more closely correlated with the estimated year-ago employment trend than with what eventually proves to be the current employment trend.

In steady economic times, it makes little difference whether the current job growth rate is estimated based on this year's data or last year's data. When economic conditions are changing, as they were in 1991, it makes a great deal of difference.

Nebraska's mechanism for estimating current employment levels failed to detect a turning point in the job growth trend. Unless steps are taken to reduce reliance on prior year data for producing current estimates, Nebraska's employment statistics will probably miss future turning points as well.

Why Nebraska's Preliminary Job Estimates Rely So Heavily On the Prior Year's Data

There may be several reasons why state employment analysts discount current survey data in favor of data from the prior year.

One reason could be that some industries have weak or unrepresentative samples of employers participating in the monthly survey. Employer participation in the current employment statistics survey is voluntary. If survey response for an industry is inadequate, then state analysts must base the monthly employment estimate for that industry on other sources. The most convenient alternative source is the industry employment trend posted the previous year.

Perhaps another reason stems from a lack of corroborating economic indicators for the state. At the national level, unusual changes in employment can be evaluated in light of other economic indicators such as consumer confidence, manufacturers' new orders, and so on. At the state level, there are few current economic indicators besides the employment statistics themselves. An absence of corroborating indicators can make it hard for state analysts to explain or defend employment estimates that differ greatly from the norm (the norm being what happened the same time last year). When deviation in the current survey data calls for a judgement, the analyst may find it easier to opt for the employment estimate that reflects expectations rather than the one that challenges them.

*The second benchmark revision put the final estimate of Nebraska's job growth between December 1990 and December 1991 at 0.7 percent rather than the 4.1 percent initially reported. The statistical adjustment added to the estimation procedure in 1991 probably accounts for no more than half of the initial overestimate in job growth.

Potential Impacts of Large Statistical Revisions

Current employment statistics can affect business location and expansion decisions, investment decisions, and our perception of state economic development efforts.

Business Location and Expansion. A business looking to relocate or expand evaluates potential sites based on several factors, one of which inevitably is work force size and growth trends. Inaccurate employment information can cause the state to be mistakenly excluded from consideration.

According to *USA Today*, "...Ford Motor Credit initially ruled out Omaha when it went looking for a new customer-service center: It was worried it wouldn't find enough workers. But Ford—eventually sold on Omaha's location and convinced it could attract workers who were underemployed in part-time jobs—came anyway."⁵ More recently, the *Omaha World-Herald* described the initial feasibility study for the BMW plant: "These [215] areas were subjected to screening criteria such as: excellent supply of motivated, trainable employees ... A rigorous application of the process would have eliminated Omaha because of such factors as...low unemployment numbers, but, based upon [the consultant's] expertise and experiences in Omaha, it stayed on the candidate list."⁶ Unemployment numbers are based in part on the monthly job estimates.

Investment. Investors consider a state's economic climate when deciding where to invest their money. If inaccurate employment figures lead investors to believe Nebraska's economic conditions are worse than they actually are, Nebraska borrowers could end up having to pay an undeserved premium to attract financing.

For example, an analysis of second quarter 1992 economic trends published by a Chicago securities firm ranked Nebraska's economic performance among the bottom ten states. According to the report, "A somewhat surprising first time entrant [into the bottom-ten list] is Nebraska, which had a big drop in employment..."⁷ Nebraska's low ranking was undeserved and was the result of questionable methodology the firm used to compile its ratings. However, the sizable benchmark revision to Nebraska's employment compounded the problem by making it look as if the state had suffered a big employment drop when it really had not.

State Economic Development Efforts. Inaccurate employment statistics can lead to erroneous conclusions about the effects of state economic development efforts.

For example, in February 1992 the *Sunday World-Herald* ran a lead story titled, "Low Pay of New Jobs Forces Some People to Work Two." Citing preliminary employment numbers (at that time the most recent available), the article noted that "Nebraska generated jobs faster than any other state in 1991..." It then raised the question of how Nebraska could have sustained so much job growth without corresponding population growth—"more jobs than people":

"The state has added nearly 62,000 jobs in the past two years. The most recent population data indicate that Nebraska added only 8,600 people in an entire decade: 1980 to 1990."⁸

The article suggested that the bulk of the state's new jobs were in the service sector and provided either low pay or only part-time work. As a result, more people must be working multiple jobs, and that explained why Nebraska's reported job growth far exceeded population growth. (Current employment statistics count persons on payrolls equally without regard to the number of hours they work.)

Appropriately, the article also raised the question of how much LB 775 (the Nebraska Employment and Investment Growth Act) had contributed to the apparent job surge. No doubt many people were led to conclude that LB 775 had helped create a lot of low-paying and/or part-time jobs.

The annual benchmark revision to the state's employment figures was published a few weeks after the article ran. According to the revised numbers, Nebraska added about 28,200 jobs between 1989 and 1991. One year later (March 1993), the final (second benchmark) job statistics were published for 1991. The final figures now show that on an annual average basis Nebraska added 31,200 jobs—not 62,000—between 1989 and 1991.

Much of this 31,200 increase in jobs may be attributable to an increase in the percentage of people working, not to an increase in low-paying, part-time jobs. Between 1980 and 1990, the bulk of the baby boom moved into the age brackets where labor force participation is the highest (ages 25 to 54). At the same time, more women entered the labor force.

Given the revised job figures, there is no evidence to believe that the percentage of Nebraska workers holding multiple, part-time jobs was significantly larger in 1991 than it was five years earlier.

Improving the Accuracy of State Job Statistics

Granted, any inaccuracies in preliminary employment figures are corrected eventually through the benchmark revision process. Nevertheless, there are some compelling reasons for improving the accuracy of Nebraska's preliminary job figures.

First, the expectation that even the preliminary job numbers at least approximate the real rate of job growth is fundamental to any effort to understand current economic conditions in the state. As discussed, our perception of current job growth can affect business and investment decisions as well as public policy.

In addition, most people use and remember the preliminary figures, not the benchmark revisions that come out months after the fact. Preliminary job figures for last month make bigger news stories than do revised figures for one or two years ago.

First impressions tend to be lasting, and inaccurate ones are not easily corrected. Once people have the idea that Nebraska lacks a supply of available workers for new business, or that Nebraska is not a good place in which to invest, or that in recent years Nebraska has managed to add only low-paying, part-time jobs, it is little consolation to learn months later that we were mistaken.

It therefore seems appropriate to consider what might be done to help make Nebraska's monthly job figures more accurate. Some possibilities follow:

1. Employers could help by responding to the Nebraska Department of Labor's monthly employment survey. Many respond when asked, but some—including major employers—refuse to participate in the survey.
2. Nebraska might consider making employer participation in the survey mandatory rather than voluntary.
3. Additional training for state staff involved in producing employment estimates might be helpful.
4. Each month, the state conducts a review of the tentative job estimates prior to their release. In industries where the current survey data are questionable, the reasonableness of the tentative estimates is evaluated largely by comparing the current month-to-month percentage change with the change posted for the same period a year ago. This is a reasonable comparison, and it is convenient to make since the historical job figures for Nebraska are already stored on the state's computer system.
An equally reasonable (but less convenient) comparison would be to look at current industry growth rates for the nation and/or surrounding states. This receives little, if any, attention in the review process—probably because current data for areas outside Nebraska are not on the state computer. So doing, however, would offer some balance and outside-world perspective to the review process. In industries where there are inadequate or questionable Nebraska survey data, current employment information for surrounding states and/or the nation should receive as much attention as historical information for Nebraska.
5. The BLS might facilitate this by setting up a mechanism for telecommunicating current industry employment data among states.
6. For those instances where historical growth rates must be used in the estimation process, state analysts should consider averaging the month-to-month industry growth trend for several years rather than using only the prior year's trend.
7. The BLS might also conduct or sponsor some research into better understanding what factors affect the quality of state employment estimates. For example, what is the relationship between the accuracy of state job estimates and such factors as the level of employer participation in the survey, the background and experience of state staffs, the degree of automation, and so on?

8. Nebraska should set up a task force to explore the development of additional economic indicators. Such indicators could help corroborate federally sponsored employment estimates as well as address questions of state and local importance such as: Exactly what kinds of new jobs are being created in Nebraska? What do they pay? What are the labor force experiences of Nebraska's recent high school and college graduates? Where will the state's future workers come from?

The state could use its existing administrative data bases in creative ways to address these questions. The costs would be small, and the benefits to policy-makers of better information about state and local labor markets could be substantial.

Summary

Nebraska's mechanism for estimating current work force growth missed a turning point in 1991. Part of the reason appears to stem from an overreliance on prior-year data to produce current-year estimates. Nebraska's current employment statistics run the risk of missing future economic turning points unless improvements are made to the estimation process.

Work force growth is a key economic indicator. It affects business and investment decisions as well as public policy. The state and federal government should work to improve the accuracy of current employment statistics. At the same time, Nebraska ought to explore ways to use its administrative data bases to supplement such statistics with state-developed economic information aimed at meeting specific state needs.

Along with encouraging the creation of new and better jobs, Nebraska needs to encourage the creation of new and better economic information. The state should improve its capacity to track job growth, understand the changing economy, and measure the results of economic and social policies.

Endnotes

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4. Ibid.
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7. Bradford N. Langs, *Kemper Statewide Economic Trend Indicator Analysis, 1992-Second Quarter* (Chicago: Kemper Securities, Inc., 1992).
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