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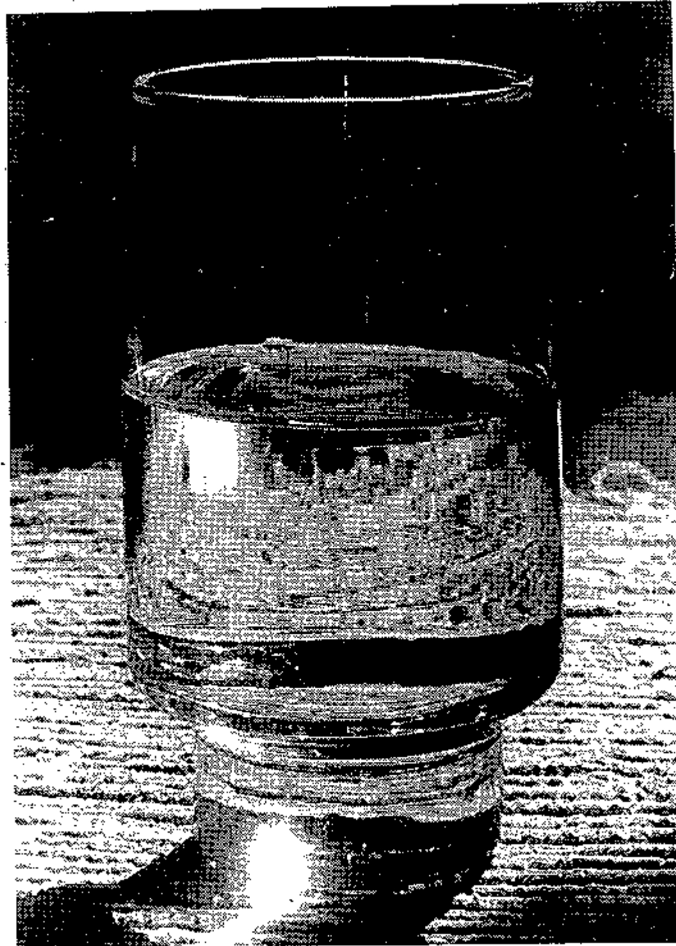
State Economic Development Policies and
The Small Agricultural Communities of the Middle Border



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CENTER FOR RURAL AFFAIRS
1990

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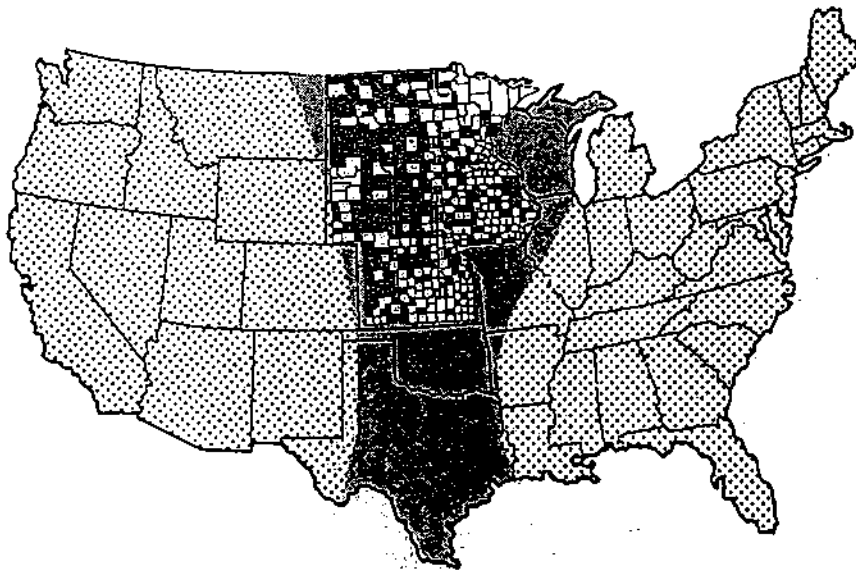

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The report is one of several published by the Rural Public Policy Project of the Center for Rural Affairs. Project Leader during much of the work on this report was Patricia E. Funk. Current Project Leader is Marty Strange. Major support for the project is provided by the Ford Foundation through the Rural Economic Policy Program of the Aspen Institute for Humanistic Studies; the Jessie Smith Noyes Foundation; and the General Mills Foundation. Some of Marty Strange's work on this project also took place during a period when he was a senior associate for the Center for Rural Affairs on leave of absence from his ordinary duties as the Center's Co-Director. This leave was made possible by a grant from the Joyce Foundation.

While the support of all these organizations is gratefully acknowledged, this report represents the views of the Center for Rural Affairs and not necessarily those of the Ford Foundation, the Aspen Institute, the Jessie Smith Noyes Foundation, the General Mills Foundation, or the Joyce Foundation.

I. INTRODUCTION

Two Rutgers University geographers caused quite a stir when they suggested that the Great Plains will inevitably become largely depopulated and that "the wisest thing the federal government can do is start buying back great chunks of the Plains, replant the grass, reintroduce the bison -- and turn out the lights" (Farney 1989).

The idea was immediately ridiculed and denounced by public officials, editorial writers, and scholars from the region. But we couldn't help but wonder whether their protests reflected their embarrassment at the lack of a better idea?

This report reviews the economic development policies of six states in the nation's mid-section that embrace 277 counties whose economy is essentially agricultural and generally troubled. These counties constitute a rural economic region scattered in checkerboard fashion between the urban areas and larger rural trade centers of Iowa, Kansas, Minnesota, Nebraska, North Dakota, and South Dakota.

The region shares a one-dimensional economy heavily dependent on production of the basic agricultural commodities that are most regulated by federal farm programs. The 277 counties included in our analysis are declining in population and have higher rates of poverty than the rest of the counties in these six states. And perhaps most important, because they are scattered among six states and hold only 17 percent of the population of these states, they are politically weak.

But although scattered and weak, these communities are still home to over two million people who exhibit some of the most admired features of the American character -- independence, ingenuity, and industry. We have borrowed novelist Hamlin Garland's term the "Middle Border" to capture the frontier character of this region.

National attention focused briefly on the Middle Border when the farm crisis was prominently in the news. But as the most troubled farm debt has been wrung out of the farm economy, public interest in the region has waned. Yet the needs of these communities have become more acute even as the most visible effects of the farm crisis have passed. Farm communities still must cope with the long term effects of depopulation and lower property values. At the community level, the farm crisis lingers long after the balance sheets of surviving farmers begin to improve and the immediate threat to lending institutions passes.

National agricultural policy has generally worked against these communities by encouraging crop specialization and farm consolidation, narrowing their economic base and depleting their population base. Meanwhile, the federal government has largely left economic development policy to the states.

This report turns, then, to the states to ask what they propose to do to meet the development needs of their small agricultural communities, those places in between the metropolitan areas and the rural trade centers, the undifferentiated small towns and associated farms, the hinterland.

In addressing that question, we first describe the particular circumstances of these communities, the socio-demographic and economic conditions that distinguish them from other places within the region (section II).

We then review the statutory, policy, and program basis for economic development in the six states, placing them in the context of federal rural development policy, and distilling from numerous official documents and statements what might best be termed the "development personality" of each state (section III). Here we are interested, in part, in how the states view their small communities, and whether their development personality has traits that explicitly address the needs of these communities.

While the approaches used by these states are fragmented, overlapping, and sometimes contradictory, several region-wide patterns emerge from this patchwork quilt. There are certain "development strategies," or interacting programs and policies that reinforce each other, common to all the states, in greater or lesser degree. We identify four such strategies, and discuss their impact on small agricultural communities (section IV).

We then discuss our findings and their policy implications and make some recommendations (section V). We close with a word to the small agricultural communities (section VI).

In order to encourage a broad discussion of state policy toward these communities, we sent an early draft of this report to the governors of the six states and asked for their comments. Based on their comments and on those of other invited reviewers, we made significant revisions. Then we asked the governors for final comments, which we have published in their entirety (section VII).

We have been impressed by the layers of development programs, many with origins in one of the earlier episodes of enthusiasm for state economic development activity. Our analysis of these programs cannot be complete. The field is too dynamic, and the scope of activities considered by some to be "developmental" is far too broad for comprehensive treatment.

We have therefore not given equal weight in this report to all kinds of activities, nor have we given consistent treatment to activities that might be considered on the periphery of development policies. Some programs usually considered peripheral to economic development have been given more consideration because they address or purport to address the needs of rural people or places. Others that are usually considered to be more relevant to economic development we have treated only lightly because they are either focused on urban communities, or are only residues of an earlier generation of development programs, or are small in scale and impact. This report is not about state economic development policy generally, but about its

relationship to small agricultural communities.

We are not impassive toward these communities. Let us make our bias clear. We don't think society owes any community, any place, any people, anything more than a fair shake. Not every ambition that has played itself out in the Middle Border is worthy of being fulfilled. There have been serious mistakes made in the name of agricultural development, especially with respect to soil and water abuse. Sometimes, whole communities have been built on the false foundation of such mistakes, and inevitable pain has followed. Neither the states nor the federal government has a duty to validate these mistakes with remedial policies aimed at propping up bad economic ventures.

Nor can we expect too much of the states. Their central place in reports like this are, in part, a reflection of the sad retreat of the federal government from its responsibility to balance the national economy by assisting in the development of distressed regions. Local governments have a responsibility as well, as does the private sector. In fact, it can be argued that the states have little or no development responsibility other than the most basic duty to govern well by providing for the essentials -- education, infrastructure, and a judicially well-administered commercial code.

But the states do have a duty to provide equal access to public services to all people within their respective jurisdictions, and to avoid discrimination against people on the basis of their place of residence. They also have a responsibility to share in the cost of damages caused by their own development policies. Much of the economic and social dislocation under way in the Middle Border is a product of development policies that first encouraged growth in the region and now hasten decline.

Is the Middle Border worth saving? Not any more than any other place. But the people of the Middle Border have made important contributions to American life. They are sturdy, productive, and generally honest. For generations, they have educated, then exported, their young to other communities who have been glad to have them. We do not believe that America would be better off with the Middle Border in permanent decline.

Not many years ago, many of the states that now boast strong economies were collectively in despair, characterized as the "Rust Belt" by their closed and deteriorating industrial plants. But those stricken communities had unfulfilled potential, and the states that decided to build on, rather than deny that potential, have benefitted from it. Maybe we should think of the Middle Border, with its agricultural problems, as the "Rot Belt." Like every other place, the Middle Border has its unfulfilled potential.

A memorable Peace Corps recruitment advertisement pictured half a glass of water with a caption that went something like this: "Is this glass half empty or half full? If you think it's half full, join Peace Corps."

Many analysts see the Middle Border as a half empty place, being drained of its future. But we see it as half-fulfilled, needing appropriate responses from the public sector to help it realize its potential. We hope this report helps to provoke such responses.

II. THE MIDDLE BORDER: A SOCIO-ECONOMIC PROFILE

Between the industrial Midwest and the Great Plains lies an essentially agricultural region composed of plain, brown-wrapper small towns placed in the midst of family farms. These are the communities "in-between" the larger towns and growth centers that dominate the region demographically and politically. As places with little or no reason to exist but for agriculture, they give the region its essentially rural character, and its identity in the nation.

These communities share a common history on the edge of cultivated agriculture, on the margin of dense settlement, and at the break between sub-humid and semi-arid climates, where the western Corn Belt gradually becomes the eastern Great Plains and the Wheat Belt. For its literary and descriptive elegance, we use novelist Hamlin Garland's ironic term the "Middle Border" to refer to this transitional region in the heartland of America.

In the view of most analysts, the Middle Border communities constitute a region in decline, separate from the healthier urban centers interspersed among them, and suffering from the fundamental long-term economic restructuring of agriculture that has been especially evident in the past decade.

The United States Department of Agriculture has helped to define this region by delineating "farming-dependent" counties. Our own analysis focuses on the six Midwestern states in which these counties are concentrated: Iowa, Kansas, Minnesota, Nebraska, North Dakota, South Dakota. Nearby parts of adjoining states -- Missouri, Illinois, Wisconsin, Colorado, Wyoming, and Montana -- exhibit many of the same characteristics.

To develop a better understanding of the socio-economic conditions in the Middle Border, we studied the counties in these six states that are the most rural and agricultural. We realize that there are many typical small towns and agricultural communities within the boundaries of other counties in these six states, and that no economic region can be accurately defined by county boundaries alone. But county designations are useful because they constitute the smallest geopolitical units for which most socio-economic data are commonly available.

We analyzed counties in which at least 30 percent of the people employed in non-service and non-retail jobs in 1986 were engaged in production agriculture.

This approach differs substantially from that used by USDA to classify "farming-dependent" counties. USDA's criteria was based on the percentage of wage, salary, and proprietor income in a county that came from production agriculture. This is not a particularly effective measure of the role of farming in a county because the net income of farmers is extremely volatile, distorted by artificial accounting rules, and a poor measure of the volume of economic activity generated by the farm. Employment is a more stable and reliable measure.

We chose the 30 percent level as the threshold because it seemed to separate rural counties into "farm-based" and "not-farm-based" fairly well. Most rural counties with lower than 30 percent of the non-retail and non-service workers employed in farming or ranching had well below 30 percent.

In calculating the percent of employment in production agriculture we excluded the service and retail sectors because they are largely dependent on the rest of the local economy anyway, and no rural county will depend disproportionately on these sectors. We might have excluded government jobs from our analysis as well, but included them because there are some rural counties that are heavily dependent on government jobs -- primarily military installations, public utilities, and Indian reservations. We wanted to exclude these counties from classification as farm-based, so we included government jobs when we classified counties.

As a result of this analysis, 277 of the 503 counties in these six states, or over half, are classified as "farm-based" using 1986 data from the U.S. Department of Commerce's Bureau of Economic Analysis (Figure 2.1). Coincidently, none of these counties had a town of 20,000 or more. These were truly rural counties.

To compare conditions in these counties with those in other counties in the six-state area, we classified the remaining counties into three categories:

Non-Farm Rural: Less than 30 percent of nonretail and service employment in production agriculture and no place of 20,000 or more population in 1980, and not part of a standard metropolitan statistical area in 1980.

Urban: A place of 20,000 population but not part of a standard metropolitan statistical area in 1980.

Metropolitan: Part of a standard metropolitan statistical area in 1980 (a place of 50,000 or more population or adjacent and economically connected to such a place in 1980.

A. Population

Generally, the people who live in the 277 farm-based counties in these states constitute a dwindling minority group in states becoming increasingly urban and metropolitan in character. In the more heavily populated states, there are more people living in farm-based counties, but they constitute small proportions of total population. In the most rural states, the population in farm-based counties is a larger share of the total population, but still a small number of people.

Of the 12.5 million people living in these six states in 1986, over 2.1 (17%) lived in farm-based counties (Table 2.1). Although population has increased in the region as a whole by 8 percent since 1969, it has fallen in farm-based counties by nearly 6 percent while increasing in other rural counties by 7%. As a result, the region has generally become more urban. In fact, a majority of the population now lives in metropolitan areas, which

Figure 2.1 Farm-Based Counties 1986
in Middle Border States

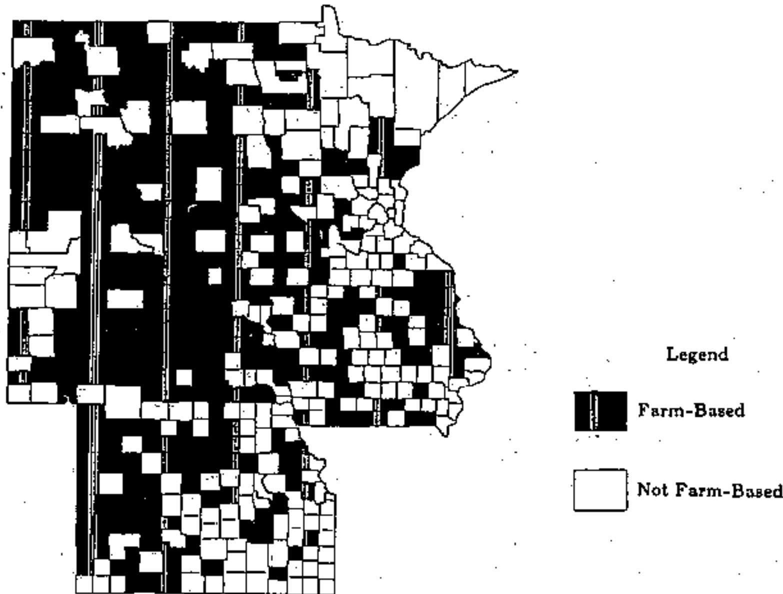


TABLE 2.1 Middle Border Population

	REGION		IOWA		KANSAS		MINNESOTA		NEBRASKA		NORTH DAKOTA		SOUTH DAKOTA	
	1969	1986	1969	1986	1969	1986	1969	1986	1969	1986	1969	1986	1969	1986
FARM-BASED	2,252,919	2,125,022	694,002	659,126	271,496	255,256	424,491	418,634	369,985	350,559	240,875	215,801	252,070	225,646
NON-FARM	2,468,906	2,635,936	546,678	546,808	531,423	563,758	763,361	840,141	274,306	289,894	128,528	149,257	224,610	246,078
URBAN	1,319,882	1,398,787	424,678	423,288	358,013	393,593	179,338	183,681	203,633	223,387	57,553	61,257	96,667	113,581
METRO	5,520,347	6,350,538	1,139,595	1,221,481	1,075,110	1,248,199	2,390,917	2,771,523	626,057	733,833	194,027	252,834	94,641	122,668
TOTAL:	11,562,054	12,510,283	2,804,953	2,850,703	2,236,042	2,460,806	3,758,107	4,213,979	1,473,981	1,597,673	620,983	679,149	667,988	707,973

Source: Derived from BEA Total and Percapita Income by County

have grown by 15 percent since 1969, and 62 percent live in either metro areas or other urban counties. This trend toward urbanization is most pronounced in Minnesota (70% metro-urban) and Kansas (67%). Only North Dakota and South Dakota have a majority of their population living in rural areas. But those states are also the most rapidly urbanizing.

Iowa has the largest farm-based county population (nearly one-third of the regional total). Iowa and Minnesota together hold half the region's farm-based county population. However, the proportion of population living in farm-based counties in Iowa and Minnesota is only 15 percent. It's much higher in the more rural states of North Dakota and South Dakota, where the population of farm-based counties constitute's just under one-third of the states' population.

Farm-based county population has fallen most slowly in Minnesota since 1969 (-1.4%) and fastest in South Dakota (-10.5%) and North Dakota (-10.4%). As the population in farm-based counties has fallen in every state, the population of other rural counties has increased in every state (although only slightly in Iowa).

The relationship between loss of farming as a source of employment and population living in farm-based counties is demonstrated in Figure 2.2. As the farm employment base declines, so does population. For counties that were classified as "farm-based" in 1969, population fell on average .9% between 1969 and 1986 for each 1 percent drop in the ratio of farm employment to 1969 non-service and non-retail employment.

B. Income

Farm-based counties have lower and more erratic income levels, higher levels of poverty, and less evenly distributed income than other counties in these states.

Although farm-based counties had 17 percent of the population of the six states in 1986, people working in those counties (a slightly different group from those who live in farm based counties) earned about $15 billion that year, only 12 percent of the total earned income in the six states (Table 2.2). In two out of every three years between 1969 and 1986 (and in every year between 1976 and 1985), per capita income in farm-based counties was below per capita income in other categories of counties (Figure 2.3). And while generally lower, it was also more variable.

Moreover, income in farm-based counties is more unevenly distributed among the people who live there. Poverty rates average higher than in all other kinds of counties and are twice the metropolitan rate (Figure 2.4). On average, over one-third of the households have incomes under $15,000, farm more than in all other types of counties in the region (Figure 2.5). And the average gap between mean and median income is larger in farm-based counties than in all other categories (Figure 2.6).

While the farm economy is, by definition, an important source of income to these counties, it is not the only source. Despite the fact that these counties depended more on farm income than did any other category of

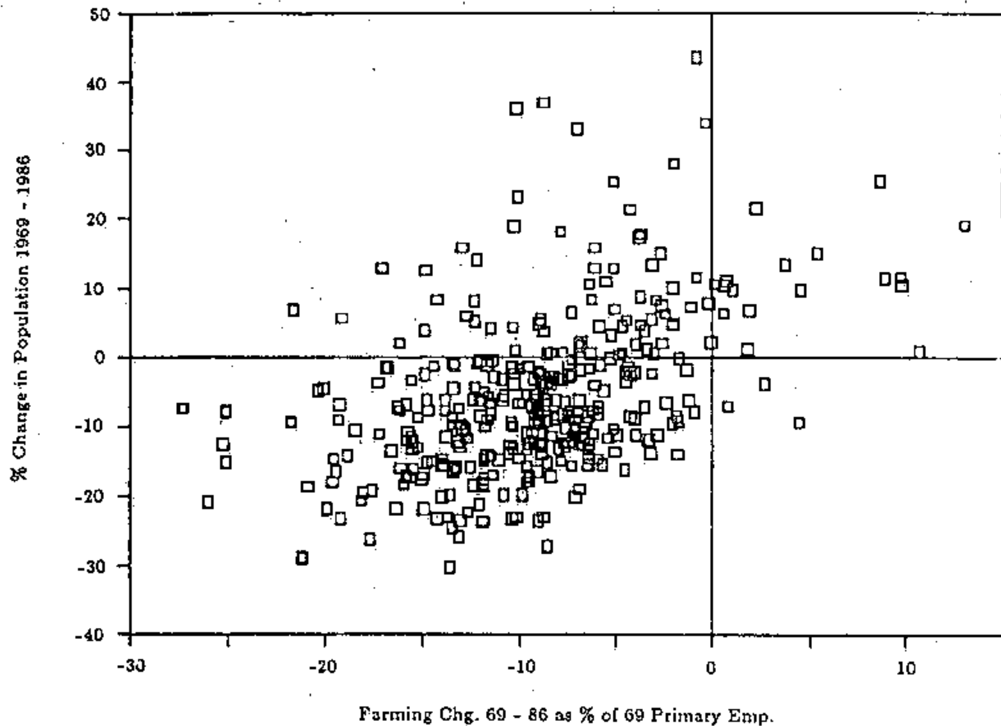


Figure 2.2 Pop. Change by Farming Loss 1969 - 1986

TABLE 2.2 Middle Border Regional Earned Income ($ '000s)

	FARM-BASED	NON-FARM RURAL	URBAN	METRO	TOTAL
Gross Earned Income (1)					
A. Proprietor					
1. Farm	4,574,760	2,875,346	732,535	817,548	9,000,189
2. Non-Farm	2,696,330	3,155,573	1,555,981	6,552,341	13,960,225
3. sub-Total:	7,271,090	6,030,919	2,288,516	7,369,889	22,960,414
B. Labor					
1. Farm	491,311	315,498	88,597	125,903	1,021,309
2. Non-Farm	7,241,705	14,971,032	10,427,300	69,881,746	102,521,783
3. sub-Total:	7,773,016	15,286,530	10,515,897	70,007,649	103,543,092
C. Total Gross Earnings					
1. Farm	5,066,071	3,190,844	821,132	943,451	10,021,498
2. Non-Farm	9,938,035	18,126,605	11,983,281	76,434,087	116,482,008
3. Total:	15,004,106	21,317,449	12,804,413	77,377,538	126,503,506

SOURCE: BEA, 1988

NOTE: (1) Non-farm labor gross earnings based on place of work; all other earnings based on place of residence.

Figure 2.3 Percapita Income 1969 - 1986
in Middle Border States by County Type

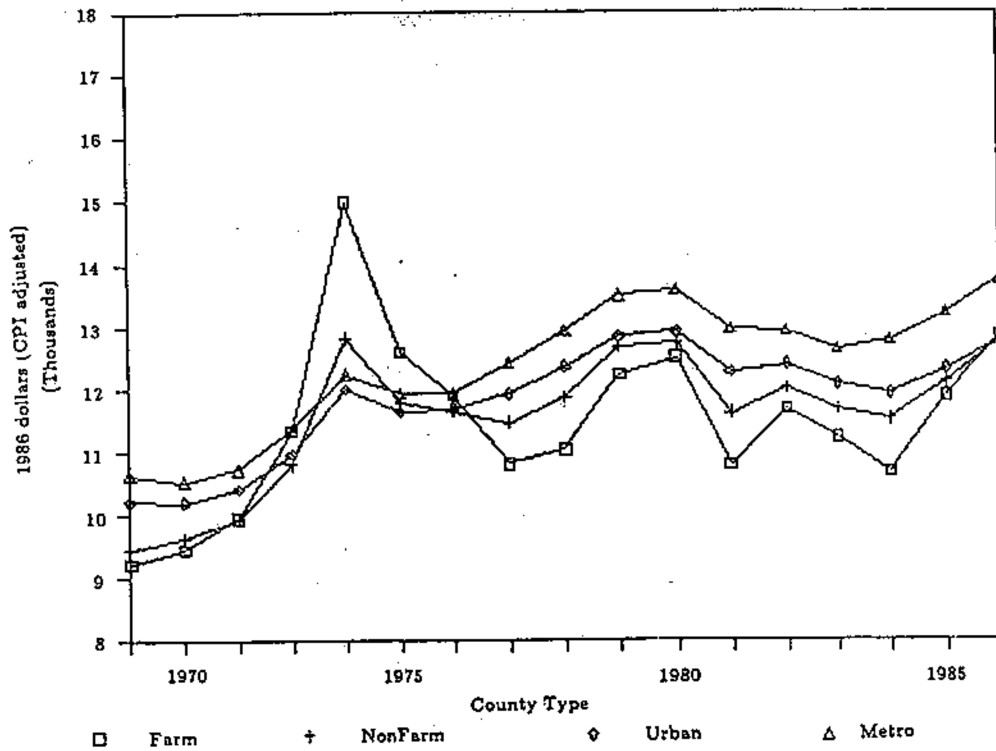
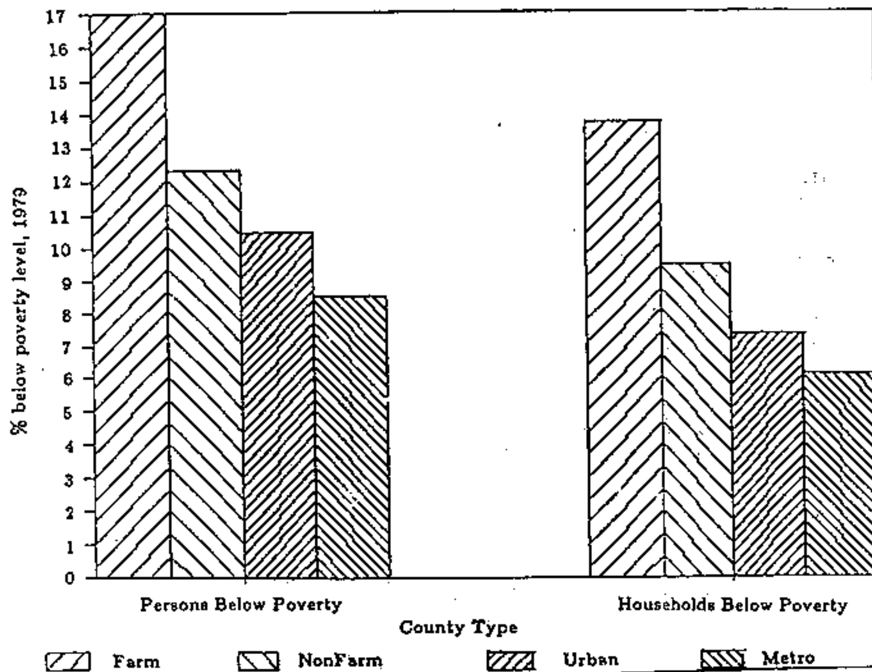


Figure 2.4 Poverty Rates: Persons & Households '79
in Middle Border States by County Type



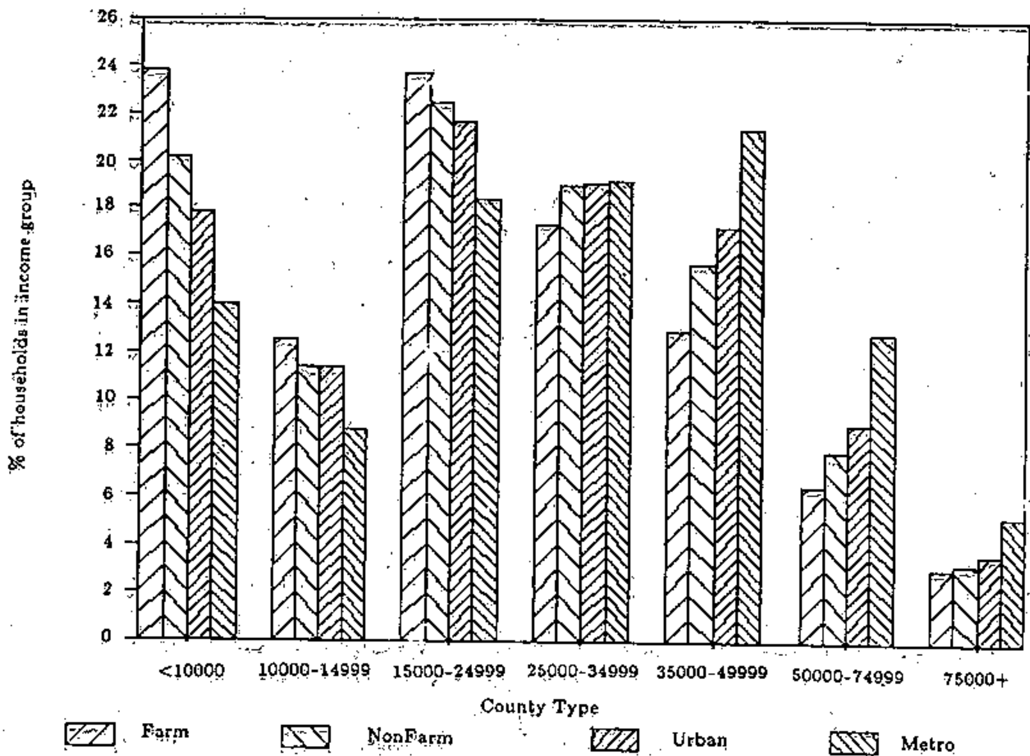


Figure 2.5 Income Distribution 1986
in Middle Border States by County Type
% of households in income group
0
2
4
6
8
10
12
14
16
18
20
22
24
26
<10000
10000-14999
15000-24999
25000-34999
35000-49999
50000-74999
75000+
County Type
Farm
NonFarm
Urban
Metro

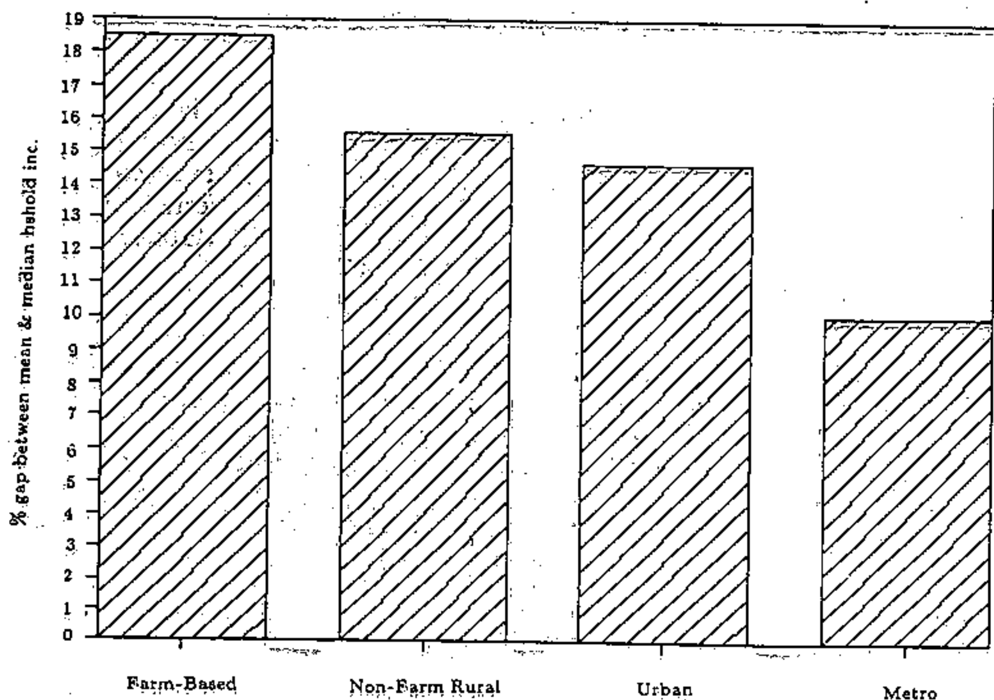


Figure 2.6 Income Concentration Index 1986
in Middle Border States by County Type
% gap between mean & median hshold inc.
0
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
Farm-Based
Non-Farm Rural
Urban
Metro

counties, non-farm earnings in farm-based counties in 1986 nearly doubled farm earnings. Still, the importance of the farm economy to the region cannot be denied. Almost two-thirds of the proprietor income in farm-based counties is from farming, and much of the rest is undoubtedly generated by trade with the farm sector.

It is also important to note that farm income is significant to non-farm counties as well, where it measures 15 percent of total income and 48 percent of proprietor income. In fact, nearly half the total farm income of the region was earned in non-farm counties.

People in farm-based counties rely heavily on self-employment for income. Just under half (48%) of all earned income in farm-based counties is from farm and non-farm proprietorships, 70 percent higher than the comparable rate for other rural counties and five times the rate for metropolitan areas. This heavy reliance on self-employment for income is not merely a characteristic of the farm sector in farm-based counties, either. In fact, 27 percent of the non-farm income is from self-employment, more than double the regional rate of 12 percent and much higher than the next closest county category, the non-farm rural counties, where the figure is only 17 percent. People in farm-based counties are used to working for themselves.

But, neither income earned working for yourself or income earned working for others is as large in farm-based counties as unearned income from passive investments and government transfer payments (Table 2.3). More than two-fifths of total personal income is from unearned sources in these counties, a rate higher than any other category of counties and nearly 50 percent higher than the comparable rate for metropolitan areas.

Farm program payments (along with social security and welfare) are a big part of the government transfers, of course. But it is important to note that compared with other types of counties, a smaller portion of the unearned income in farm-based counties is from government transfer payments and a higher portion is from passive investments that yield rent, dividends, or interest. This means that despite low income for the population as a whole, at least some people in farm-based counties have substantial amounts of capital invested.

Undoubtedly, much of this capital is tied up in agricultural land, and as such supports the local economy (note that absentee landlords' income is not reported in Table 2.3 because the data are based on income received by people who live in the county). But much of the rest may be invested in relatively low-yielding financial paper, and may constitute an untapped development resource for local communities.

C. Employment

Employment in farm-based counties is heavily based in three sectors of the economy -- farming (26.5%), service (18.3%) and government (15.4%) (Table 2.4). The rate of employment in farming is double that of other rural counties, whose reliance on manufacturing is comparable to that of the urban and metro counties and double the rate of farm-based counties. Farm-

TABLE 2.3 Middle Border Personal Income, by Residence ($ '000s)

	FARM-BASED	NON-FARM RURAL	URBAN	METRO	ALL
A. Adjusted Earned Income (1)					
Total	15,842,067	20,806,670	11,660,922	70,536,713	118,846,372
B. Unearned Income					
1. Transfers	4,505,782	5,613,314	2,790,588	11,993,898	24,903,582
2. Rent/Div/Int	6,350,082	6,869,623	3,402,973	15,296,204	31,918,882
3. Total	10,855,864	12,482,937	6,193,561	27,290,102	56,822,464
C. Total Personal Income					
Total	26,697,931	33,289,607	17,854,483	97,826,815	175,668,836

SOURCE: BEA, 1988

NOTE: (1) Earnings adjusted to exclude personal contributions for social insurance and net in-commuting to county

Table 2.4 Middle Border Employment by Sector, 1986

	FARM-BASED		NON-FARM RURAL		URBAN		METRO		TOTAL	
Sector	No.	%	No.	%	No.	%	No.	%	No.	%
FARM	258,630	26.5%	164,852	12.3%	41,872	5.4%	67,022	1.7%	532,376	7.7%
MANUFACTURING	59,949	6.1%	183,259	13.7%	105,335	13.7%	557,173	14.5%	905,716	13.1%
CONSTRUCTION	44,507	4.6%	60,991	4.5%	34,172	4.4%	180,469	4.7%	320,139	4.6%
WHOLESALE	48,135	4.9%	56,733	4.2%	31,933	4.2%	220,843	5.8%	357,614	5.2%
F.I.R.E.	48,506	5.0%	73,281	5.5%	41,381	5.4%	334,980	8.7%	498,148	7.2%
T.C.U.	35,034	3.6%	65,307	4.9%	3[illegible]59	4.5%	203,201	5.3%	337,801	4.9%
OTHER RESOURCE	18,297	1.9%	33,548	2.5%	12,757	1.7%	41,374	1.1%	105,976	1.5%
GOVERNMENT	150,233	15.4%	207,612	15.5%	154,053	20.0%	556,181	14.5%	1,068,079	15.4%
SERVICE	178,621	18.3%	277,552	20.7%	176,940	23.0%	1,017,273	26.5%	1,650,386	23.8%
RETAIL	133,080	13.6%	218,419	16.3%	135,751	17.7%	658,539	17.2%	1,145,789	16.6%
GRAND TOTAL:	974,992	100.0%	1,341,554	10[illegible]%	76[illegible],423	100.0%	3,837,055	100.0%	6,922,024	100.0%

Source: BEA 1988

based counties are alone in having over half their jobs in the primary sectors. And contrary to some commonly expressed concerns that small rural counties employ too many people inefficiently in government, employment in the public sector is comparable to or lower than the other county types.

Employment in the wholesale sector is relatively high, however, reflecting the heavy presence of grain elevators, feed stores, fertilizer and chemical suppliers, and bulk petroleum dealers -- all fundamental to commercial agriculture as it has developed in the region.

Employment in the retail, service, FIRE (fire, insurance and real estate) and TCU (transportation, communication and utilities) sectors is relatively low in farm-based counties.

The farm-based area's heavy reliance on self-employment is apparent in Table 2.5. Over two-fifths of all working people are self-employed in these counties, double the rate in the region, 44 percent higher than the rate for other rural counties, and triple the metropolitan rate. Again, this disproportionate commitment to self-employment is not merely a feature of the farm sector. Self-employment rate in the non-farm sector is also significantly higher for farm-based counties than for other types of counties.

The quality of self-employment may be changing, however. Total income from self-employment in the region stayed about the same between 1969 and 1986, but fell in rural areas, especially in farm-based counties (Table 2.6). This occurred despite increases in the number of self-employed jobs in all types of counties due to a real decrease in income per self-employed job. Importantly, all of the decline in per-job income occurred in the non-farm sector, as income per self-employed farm operator increased slightly.

This diminution of self-employment is most severe in the metropolitan counties (46% decline in real income per self-employed job), but it is significant in all types of counties, including farm-based (33% decline). Either many more self-employed jobs are part-time, yielding less income per job, or they are lower paying. They may also be less entrepreneurial and more labor-based types of self-employment.

But despite this income decline, the rate of self-employment in the non-farm sector increased throughout the region between 1969 and 1986 from 12 percent to 16.4 percent of total employment. Nearly twice as many non-farmers in the region were self-employed in 1986 as in 1969. This rate increase occurred in all types of counties, including in the farm-based county where the initial rate was highest (23.6%).

In fact, in farm-based counties, 45 percent (54,994 of 121,544) of all net new jobs in the non-farm sector during the period were from self-employment, the fastest rate at which self-employment contributed to new job formation in the region (double the metropolitan rate).

This may indicate a desperate population clinging stubbornly and unrealistically to their place of residence, and willing to live on less if necessary. But self-employment is growing everywhere in the region, and

TABLE 2.5 Employment, 1969 and 1986

		FARM-BASED		NON-FARM RURAL		URBAN		METRO		TOTAL	
		No.	%	No.	%	No.	%	No.	%	No.	%
1986	Farm jobs										
	Self-emp	209,065	80.8%	133,890	81.2%	33,175	79.2%	52,546	78.4%	428,676	80.5%
	Not self-emp	49,565	19.2%	30,962	18.8%	8,697	20.8%	14,476	21.6%	103,700	19.5%
	Total:	258,630	100.0%	164,852	100.0%	41,872	100.0%	67,022	100.0%	532,376	100.0%
	Non-farm jobs										
	Self-emp	197,372	27.2%	251,739	21.2%	117,597	16.2%	483,198	12.8%	1,049,906	16.4%
	Not self-emp	528,586	72.8%	934,085	78.8%	609,214	83.8%	3,287,255	87.2%	5,359,140	83.6%
	Total:	725,958	100.0%	1,185,824	100.0%	726,811	100.0%	3,770,453	100.0%	6,409,046	100.0%
	All jobs										
	Self-emp	406,437	41.3%	385,629	28.6%	150,772	19.6%	535,744	14.0%	1,478,582	21.3%
	Not self-emp	578,151	58.7%	965,047	71.4%	617,911	80.4%	3,301,731	86.0%	5,462,840	78.7%
	Total:	984,588	100.0%	1,350,676	100.0%	768,683	100.0%	3,837,475	100.0%	6,941,422	100.0%
1969	Farm jobs										
	Self-emp	262,042	83.7%	160,664	83.5%	39,401	82.1%	53,944	79.0%	516,051	83.0%
	Not self-emp	50,968	16.3%	31,710	16.5%	8,618	17.9%	14,300	21.0%	105,596	17.0%
	Total:	313,010	100.0%	192,374	100.0%	48,019	100.0%	68,244	100.0%	621,647	100.0%
	Non-farm jobs										
	Self-emp	142,378	23.6%	142,544	16.7%	62,186	10.7%	202,444	8.0%	549,552	12.0%
	Not self-emp	462,036	76.4%	712,871	83.3%	518,692	89.3%	2,322,584	92.0%	4,016,183	88.0%
	Total:	604,414	100.0%	855,415	100.0%	580,878	100.0%	2,525,028	100.0%	4,565,735	100.0%
	All jobs										
	Self-emp	404,420	44.1%	303,208	28.9%	101,587	16.2%	256,388	9.9%	1,065,603	20.5%
	Not self-emp	513,004	55.9%	744,581	71.1%	527,310	83.8%	2,336,884	90.1%	4,121,779	79.5%
	Total:	917,424	100.0%	1,047,789	100.0%	628,897	100.0%	2,593,272	100.0%	5,187,382	100.0%

TABLE 2.6 Income from Self Employment, 1969 and 1986

		FARM-BASED		NON-FARM RURAL		URBAN		METRO		ALL	
		$ (000s)	$/job	$ (000s)	$/job	$ (000s)	$/job	$ (000s)	$/job	$ (000s)	$/job
1986	Self-employment										
	Farm	4,574,760	21,882	2,875,346	21,475	732,535	22,081	817,548	15,559	9,000,189	20,99[illegible]
	Non-farm	2,696,330	13,661	3,155,573	12,535	1,555,981	13,231	6,552,341	13,560	13,960,225	13,292
	Total:	7,271,090	17,890	6,030,919	15,639	2,228,516	15,179	7,369,889	13,756	22,960,414	15,529
1969	Self-employment										
	Farm	5,362,789	20,465	3,204,225	19,944	763,302	19,373	1,017,748	18,867	10,348,064	20,052
	Non-farm	2,905,431	20,406	3,076,001	21,579	1,424,275	22,903	5,157,810	25,478	12,563,517	22,861
	Total:	8,268,220	20,445	6,280,226	20,713	2,187,577	21,534	6,175,558	24,087	22,911,581	21,501

fastest in the more urban parts of the region (albeit from a smaller initial level of self-employment) where the income per self-employed job has fallen the fastest. The increase in rural non-farm self-employment therefore is not different from the experience in the rest of the region. It is different, however, in two crucial ways: It continues to grow despite declining population, and in that it is now a major contributor to net new job formation.

In sum, the farm-based counties of the Middle Border are substantially poorer, suffering from depopulation, relatively more dependent not just on farm income, but on unearned income from passive investments and on self-employment in the non-farm sector. These places are hurting, but they are not without resources and not without resiliency.

III. STATE DEVELOPMENT PERSONALITIES

At least four of the six states under consideration have formally mandated development plans (Iowa, Kansas, Minnesota, and Nebraska), and two, Minnesota and Kansas (the two most urbanized states), have an explicit rural development policy. As important as formal policies, however, are scattered legislative enactments, gubernatorial initiatives, agency plans, special study commission reports, and other documents that constitute a de facto state economic development policy.

A. Some Commonalities, and Their Sources

We discovered some commonalities among the six states in their development policies. Although each state has its own development "personality," they operate within a common "culture" of development. The cultural characteristics are:

** All states emphasize export-led development strategies that rely on the production and sale of goods and services beyond state borders.

** All states sanction organizations that are extensions of important industries in the states, especially agricultural commodity groups and tourism. These quasi-public organizations use dedicated taxes to promote or subsidize their industries.

** All states recruit and subsidize businesses to locate in their state, with varying degrees of discrimination. The recruitment tools include tax incentives, direct financing, customized job training, publicly accomodated infrastructure improvements, arranged private sector financing, and utility rate adjustments. In recent years, emphasis has shifted somewhat to retention and expansion strategies, especially in the already more-industrialized states in the eastern and southern perimeter of the region.

** All states have small business assistance programs and community development programs, although these depend heavily on federal funding.

** All states have accepted the argument that states should play a significant role in promoting the development of new technologies, products, and businesses with risk capital, research and development programs, and public-private partnerships. This has resulted in numerous new institutional arrangements involving private businesses and the state, especially the universities. This strategy is most advanced in the most industrialized states of the region (Kansas, Iowa, and Minnesota), but it is present in all states.

** All states want to reduce their relative dependence on agriculture, diversify agriculture through new crops, and enhance the value of agricultural products through more processing.

** All states think that more people would visit them for vacations if they knew how beautiful and pleasant they were; all have increased

tourism promotion.

** None of the states want to raise taxes to pay for development and increasingly rely on dedicated taxes (e.g. hotel room taxe proceeds used to promote tourism), informal or voluntary taxes (checkoff funds from agricultural commodities to promote exports or research), and lotteries or other gaming activities to pay for development programs.

These similarities are not particularly surprizing. These six states share similar resources, demographic characteristics, economic problems, and opportunities; their responses are bound to be somewhat similar.

Moreover, many programs are functions of federal legislation and federal funding, prominantly for public facilities, job training, housing, small business assistance, and cooperative extention. Within a range, states have discretion in how these programs are implemented, but there is nonetheless a familiar look to all of them. These programs represent the majority of explcit development expenditure in some states.

The similarities among the states are also, in part, an intentional strategy. All the states engage in greater or lesser degree in **competitive differentiation** strategies. They want to stand out as unique in the region in order to attract the attention of businesses considering locating in the region and faced with a choice among neighboring states. They want to be like the shiny penny in a glass jar. To do so, it is necessary to replicate any program or policy offered by a neighbor, and to add something new and different as well. Thus each state has a tendency to mimic others while searching for something that makes it stand out -- at least until the neighbors match it.

Finally, the similarities reflect the simple fact that the governors, legislators, and development officers of the states participate in similar associations, forums, and seminars. And they tend to hire the same development consultants.

Two of these common influences deserve a further word before describing the development personalities of the individual states: The changing context of federal rural development policy and the role of development consultants in fashioning what we call a "competitiveness paradigm."

B. Taking Stock of the The Federal Rural Development Context

State economic development policies for rural areas must be considered in the context of federal rural development policy. Unfortunately, there is no such federal policy context.

For as long as anyone can remember, rural policy has been the distant, unwelcome cousin of farm policy. Actually, it was the Eisenhower Administration that first suggested that farm policy was not doing much to help most rural people, including most farmers whose farms were too small to be aided much by commodity price supports (Osbourn 1988), a position that has now become conventional among rural policy activists.

Despite this early recognition of need, rural policy lagged. There were smidgeons of interest -- the Area Redevelopment Act of 1961 provided support for rural development groups in depressed rural regions; President Johnson's National Advisory Commission on Rural Poverty focused some attention on the "people left behind"; the landmark Rural Development Act of 1972 mainly committed the federal government to building the infrastructure necessary for industrial recruitment to rural areas; the Rural Development Policy Act of 1980 established the first comprehensive attempt to coordinate federal efforts in rural areas and directed the Secretary of Agriculture to present Congress with a comprehensive rural development strategy annually (Osbourn 1988).

But these efforts were, at best, well-intentioned and ineffective. As a group of USDA executives recently concluded, "Rural policy at all levels of government consists of a collection of programs that, however useful individually, do not add up to a coherent and consistent strategy to achieve any well-understood goals" (USDA 1989). In short, the prevailing sentiment in the nation's capital toward rural communities was best (if harshly) summarized in the 1970s by a federal official who, explaining his administration's decision to cut funds for rural water and sewer facilites, said: "It is not the federal government's responsibility to make up for people's error in judgment as to where they live."

So, although the nation is supposed to have a rural policy, it really doesn't.

But that is not to say that no thinking is going on about rural development. Indeed, in recent years there has been a starburst of research, reports, and monographs on rural development prepared by professionals in the Department of Agriculture, land grant universities, state agencies and associations of state agencies, and private consulting firms commissioned by both private and public sector groups.

This interest is sparked in part by the farm crisis and its impact on rural communities, in part by the general malaise in rural mining and manufacturing, and in part by the continuing interest in getting away from urban centers.

The sourness in the farm economy and the growing disaffection with farm programs has prompted renewed interest in rural policy among some professionals in the USDA's Economic Research Service. What are these USDA officials thinking? Their thoughts were collected in a widely distributed report (USDA 1988) that said, in sum:

1. Rural places are diverse in character, with only a quarter of them primarily dependent on agriculture; another quarter on manufacturing, a fifth on retirement resettlement, an eighth on providing government services (Bender et al 1985).

2. Agriculture is past its peak as a source of employment growth in rural areas, and its relative contribution to rural income is falling as well. The future of most rural people is not tied to

farm policy.

3. Diversity among rural communities makes national policy choices complex and supports a greater role for the states which can more effectively develop sub-state regional strategies.

4. Public policies should not promote growth where people live, but the "overall regional and national economy is better served by a policy that facilitates a smooth and rapid movement of capital and labor from weaker to stronger industries, and from less competitive to more competitive locations."

5. The federal role should be to make investments in human resources -- education and workforce retraining -- because rural communities cannot afford to educate people who are likely to move elsewhere anyway, and there is a broad public interest in educating them so will contribute to increased national productivity and competitiveness, whether in rural areas or elsewhere.

6. The federal government should not invest in site-specific infrastructure improvements, but should help local communities develop the decision-making capacity to choose a development strategy best suited for them.

Facilitating "the smooth and rapid movement of capital and labor from weaker to stronger industries and from less competitive to more competitive locations" is about as explicit a statement of intervening on behalf of the already advantaged as can be made. This is a policy of favoring the favored. It is not, however, a rural "development" policy. It is better described as a rural "restructuring" policy.

The Bush Administration has by no means endorsed this view, but it has done little or nothing to separate itself from it, either. Secretary of Agriculture Clayton Yeutter is thoroughly committed to reducing government involvement in agriculture as part of a global trade policy aimed at reducing all public interventions that distort trade relationships. That may free money now committed to commodity programs for rural development, but there are no Administration proposals to use that money in such a way. Reducing the budget deficit is likely a higher priority. The only rural initiative to be sounded by the Administration is a proposal to lure businesses to locate in rural areas using tax incentives in a "rural enterprise zone."

Congress may be the source of more new initiatives in the rural development area. One proposal passed the Senate in 1989. It offers substantial support for business development revolving loan funds in low-income rural areas, and gets the Rural Electrification Administration into rural economic development by offering incentives for REA cooperatives to set up business incubators, provide grants to schools for telecommunications programs, lend money for rural waste disposal services, and invest in community economic development projects. There was no similar bill in the House, however, and the milder measure offered there failed to clear the Agriculture Committee in 1989. And even if these proposals eventually

become law, they will not yet constitute a comprehensive rural development policy for the nation.

Given the absence of a genuine federal rural development policy, the failure of Congress to enact meaningful rural development legislation, and the widely circulated sentiments expressed by USDA economists, state officials concerned about development might conclude that the de facto federal rural policy is this: Abandon agriculture as a source of rural development, re-tool rural people for life in metropolitan areas or regional growth centers, and most important, don't ask the federal government to make up for people's error in judgement about where to live.

C. The Competitiveness Paradigm

The most important common thread running through the fabric of development policy in the region is the competitiveness paradigm. Broadly speaking, this reflects the national preoccupation with global competition, but in the Middle Border, competitiveness has a particular interpretation. Competitiveness is widely promoted by private consultants who have cropped up around the growing field of state economic development, especially SRI International, which houses a Center for Economic Competitiveness. SRI International is frequently employed to develop an ad hoc, "consensual" economic development strategy for a state.

SRI has prepared or is preparing development strategies in four of the six states under consideration. In three of them -- Iowa, Nebraska, and North Dakota -- the plan is sponsored by a private body. In Iowa and Nebraska, the sponsor is the state's press association, in North Dakota, it is the state's chamber of commerce, the Greater North Dakota Association. In Minnesota, SRI was retained by the state's new quasi-public corporation, the Greater Minnesota Corporation, to prepare a plan for its own operation. The plan was developed in a way similar to that used in the other states.

When SRI International undertakes a development plan, it usually involves extensive attempts to involve a broad cross-section of the public in a limited participatory process. Sometimes, the development planning process competes with and overshadows, or displaces participatory planning efforts of state agencies.

Not surprisingly, there is a certain sameness to the products produced by SRI International for its various clients, and some have worried that they are being provided something less than fresh, individual thinking about their state's future. This "cookie cutter" image of these projects is reflected in the similarity of their names: The Nebraska Futures Project, the Iowa Future Project, and the North Dakota Vision 2000 Project.

If there is an underlying unity in these reports, it is their preoccupation with competitiveness as the driving force of development policy. And we have found this particular construction of competitiveness reflected more generally in the implicit policies of the states themselves.

The SRI view of competitiveness and its implications for state rural development policy is nicely summarized in a report it prepared for the

Western Governor's Association (SRI International 1988).

SRI's analysis is that the rural economy of the farm belt is experiencing difficulty in adapting to "new global realities." The reality they perceive is that worldwide commodity markets are permanently depressed and that resource-based economies face long term stagnancy if they do not diversify into emerging economic sectors (including the telecommunications and service sectors), adapt new technologies that increase productivity in agriculture, shift from debt financing to equity financing, and find ways to add value to agricultural products before exporting them to increasingly sophisticated consumers who demand specialized, customized products.

Central to SRI's view of the conditions faced by rural communities is the idea that the metropolitan areas of the Middle Border states are no longer economically connected to the rural areas. Instead, the metropolitan areas are vibrant and dynamic, growing in service and technology-based sectors, and independent of the areas that once served as their hinterland source of economic growth. The rural areas, by contrast, are not equipped -- in terms of human skills or infrastructure -- to compete in the new, urban-based economies.

Deregulation is intrinsically good in the long run, according to SRI's analysis, largely for theoretical reasons. It increases competition and ultimately reduces costs. In the short run, SRI admits, deregulation in banking, telecommunications, and transportation has hurt sparsely populated areas by increasing the cost of services.

In this pejorative view, the quest of state governments should be to reconnect the rural economy with the rest of the state by correcting for deficiencies in the rural people, places, and industries. To become competitive, the rural sector must develop a new economic infrastructure that provides access to technology, workers skilled in the demands of new industries, risk capital, and an "entrepreneurial environment."

With respect to agriculture, SRI recommends increased diversification and value-added processing, and spurns federal commodity price support policies because they have perpetuated the status quo rather than help farmers diversify, market, or adopt new technologies and management practices.

How does this relate to state policy toward small agricultural communities? SRI argues that states should not provide bailouts to troubled industries, but should provide appropriate levels of assistance to such communities depending on their readiness to move toward a more competitive economy. States should encourage and reward local initiatives rather than predetermining winners and losers among communities.

But while SRI does not prescribe picking winners and losers, it does recommend that states single out communities that have above-average infrastructure, special advantages, and a history of innovation, and favor those communities with economic "expansion" strategies. Those strategies include customized job training for people hoping to work for a new business requiring skills not readily available in the community, making state equity

investments in new enterprises in targeted industries, enterprise zones intended to attract investment in targeted areas through tax incentives or relaxed regulation, and increased investment in physical infrastructure in communities preparing for a major new business.

For other communities -- those that "need substantial assistance to understand their competitiveness problems, prospects, and options..." or those that already understand and are organized to help themselves, but don't have the favorable features of the "above average" communities -- SRI recommends "readiness" and "adaptation" strategies.

Readiness strategies are those that develop local leadership, re-tool the local work force, deregulate the economy, and provide technical assistance. **Adaptation** strategies are those that offer more sophisticated technical assistance to industries (including research and development of new technologies, marketing information, and management systems), and that help community leaders marshall new resources, (especially capital and technical resources from outside the community).

In effect, although claiming not to pick winners and losers, this scheme of shaping policy responses to communities on the basis of their level of "readiness" may have the same effect. It seems most likely that the most "ready" communities will be the regional growth centers with more diverse economies, and that the least "ready" will be the most rural and the most agricultural. If the state does little to help these communities develop leadership and planning skills, beyond giving them guidelines to "prepare themselves" for economic development, they are not part of the state development process on their own terms.

It is not surprising that given this competitivness paradigm, there is almost no evidence of interstate cooperation in the Middle Border. Instead, the states are busy competing with each other as well as the world for business. Thus, states may maintain separate export enhancement offices in the same European and Asian cities, promoting sales for companies in their state while lavishing those footloose businesses with tax incentives, financial assistance, and other favors to prevent them from crossing the border to locate in another Middle Border state.

But setting aside for the moment such critiques of this paradigm, let's just keep it in mind as we review the economic development policies of the states of the Middle Border.

D. State Personality Profiles

In effect, each state has its own development "personality" as revealed in its mix of pronouncements, policies, and programs. Like people, states can exhibit varied, sometimes even conflicting personality traits. These inconsistencies derive in part from willful attempts to be all things to all people, in part because several competitive political forces within state government successfully vie for differing policy objectives, and in part because of overlapping time frames within which apparently conflicting policies were developed.

Despite these internal personality conflicts, there are dominant personality characteristics evident in each state. These are the development policies and programs that stand above the wide array of conventional (and politically "necessary") programs to reveal the state's leading development strategy. It is these dominant personality features that we want to identify in this section of our report.

We commissioned an inventory of development statutes and programs by Economic Research Associates, a private consulting firm based in Lincoln, Nebraska. This inventory included all statutory enactments through the 1987 legislative session in the six states and all programs in operation in 1988 (ERA 1988). We updated the inventory at the conclusion of the 1989 legislative session.

We also reviewed statutorily-mandated state development plans where they existed: Iowa, Kansas Minnesota, and Nebraska (although in the latter case, the statutory plan has not been updated by the current administration and has clearly been overshadowed by other development planning and policy making activity). We also reviewed various strategic planning documents commissioned by the governors in the absence of legislative directive.

The range of formal and informal documents that constitute development planning is significant. For each state, we reviewed documents sent to us by the lead agency for economic development when asked what documents they considered key to economic development planning. Table 3.1 identifies the leading documents we reviewed.

In addition to the items listed in Table 3.1 we reviewed a wide range of promotional literature from the states, the state's self-description contained in development advertisements and in the Directory of Incentives for Business Investment and Development in the United States published by the National Association of State Development Agencies.

From these data, we were able to draw a development personality profile for each state.

Iowa: Direct Business Subsidies

Iowa believes in itself, and thinks the world should, too. Its avowed economic development policy is to offer businesses that might locate in Iowa the very things that have made the state the paradise that it is. What has made Iowa great? Good people, good education, and good government.

Accordingly, the state of Iowa believes that government can make the world see the state as a place where "mobile capital and labor" will find its highest return. To do so, according to its 1987 economic development plan, the state needs to perform six functions:

1. increase the value of public services relative to taxes on mobile resources -- make government a "better buy" in Iowa;
2. change business perceptions of the returns from locating in Iowa through advertising, recruitment, and other image-building activities;

Table 3.1 Leading Development Policy Documents

State	Document Name	Prepared By	Authorized By	Date
IA	Directions for Iowa's Economic Future	Dept. of Economic Development	Governor	1987
	Come Back With Iowa -- The Time Is Right (Five-Year Economic Development Plan	Dept. of Economic Development	Governor	1989
KS	1989 State Economic Development Plan	Dept. of Commerce	Statute	1988
	Recommendations of the Gov's Task Force on the Future of Rural Communities	Dept. of Commerce	Governor	1988
	Rural Development Action Plan	Kansas, Inc.	Legislature	1989
NE	Building Prosperity: NE Economic Development Strategy	Dept. of Economic Development	Statute	1987
	A State For All Ages: Report of the First Phase, New Horizons for Nebraska	Legislative Research Division	Legislature	1988
MN	Report of the Governor's Commission on the Economic Future of Minnesota	The Governor's Commission on the Economic Future of MN	Governor	1987
	Economic Report to the Governor	MN Council of Economic Advisors	Governor	1988 1989
	The Rural and Economic Development Act	MN Legislature	Legislature	1987
ND	1989 Strategic Marketing Plan	Economic Development Commission	Governor	1988
	1989 Work Plan	Economic Development Commission	Governor	1989
SD	Economic Development Programs	Office of Economic Development	Governor	no date
	Summary of Target Industry and Development Infrastructure Recommendations	The Fantus Co.	Governor	1988
	Guide to Opportunities for Local Development	Office of Economic Development	Governor	no date

3. provide financial, technical, and job training assistance to businesses;

4. deregulate and simplify regulation compliance .

5. make state policies, especially tax policies, stable and predictable.

The purpose to be served by these means is to expand and diversify the economic base. Particular industries should be targeted for financial assistance, primarily those that increase exports, reduce imports, buy local products, and pay higher than average wages. Businesses that are captive to the state -- that can't function elsewhere anyway, especially retailers -- are not to be assisted.

Retaining other existing businesses and expanding employment in economic sectors that are already a big part of the state's economy are a much lower priority than diversifying with new businesses. The best way for government to encourage the retention of existing businesses is to provide good general government services.

There is no beating around the bush in Iowa. Sure, Iowa has created some fancy new venture capital, research-and-development-investing entities, just like the other states. But the way to attract business quickly is to subsidize it, at least in the shortrun, and in 1988 Iowa did, to the tune of $14 million. That was far more in direct outlays for industrial development than any other state in the region.

The subsidies in Iowa are direct, in the form of loans, forgiveable loans, interest rate buydowns, and outright grants, usually matched by local government as a sign of confidence in the business project. Across-the-board tax concessions, as used in neighboring Nebraska, are "blunt instruments" to be avoided. And in keeping with that philosophy, Iowa resisted most of the temptation to alter its tax code to compete with Nebraska's lavish package of business tax incentives passed in 1986.

In addition to these subsidies, Iowa also spends more than any state in the region of its own money -- as well as federal funds -- for customized job training subsidies to businesses.

Iowa may believe in itself, but not enough to tax itself for the sake of economic development. Instead, its most ambitious development programs are funded through a state lottery which in 1989 generated $36.7 million for various state programs, 29% ($10.6 million) of which is used for direct subsidies to business.

This strategy has largely worked, according to the state's 1989 economic development plan: job growth has been impressive, unemployment is near an historic low, and two thirds of the new jobs are in new firms or in companies doing business in Iowa for the first time. As a consequence, some attention can now shift to improving standard of living in the state, although Iowans should not be complacent about job growth, especially in the rural areas and in several cities.

Top priorities now involve:

1. Improving human capital retraining Iowa's work force for modern job requirements, and improving all levels of education to better prepare your for work (Iowa is the only state among the six that recognizes basic education as a fundamental economic development strategy);

2. More emphasis on technology-based development, especially the Henry A. Wallace Science and Technology Foundation designed to commercialize research results from the state's universities;

3. Continuing business subsidies using lottery proceeds;

4. Greater emphasis on fostering new sources of financial capital.

Iowa is visibly sensitive to its small agricultural communities, although it does not have a particularly clear idea of what to do for or with them and community development is among those issues which is "afforded somewhat less emphasis." Still, aided by substantial sums available from the state lottery, there are some new rural initiatives.

Most of these are too new to evaluate, but are worth noting here for their content because they differ in some sharp ways from what other states are doing as well as from what Iowa has done in the past. We'll have to stay tuned to know if these efforts are successful or worth mentioning a few years from now.

** Rural Community 2000 -- a grant or low/no-interest loan program to assist rural communities in improving their "development and governmental responsibilities." Housing, traditional infrastructure, and "new infrastructure" are included. "New infrastructure," which gets from 15% to 45% of the funds includes communications systems, day care, technology transfer adaptation, medical decision-support systems, special transportation services, emergency medical services, and other items. At least one-third of the money goes to towns of 5,000 or less. Most of the funds went to traditional infrastructure to aid communities affected by the drought in the first year of the program.

** Rural Enterprise Fund -- grants of up to $50,000 to help rural communities plan and implement development activities, with emphasis placed on innovative planning models, cooperative efforts among groups of rural communities, and groups who've been excluded from other development activities, especially youth, elderly, home-based businesses, and the disadvantaged. Seven pilot projects have been funded, including one in which twelve communities are developing plans to share certain governmental services, including police, utility billing, management of recreation facilities, and transportation; and another to improve child care services and expand the number of trained home care workers. In 1989-90, $400,000 is available.

** Rural Revitalization Program -- grants of up to $125,000 to clusters of rural communities or counties who work together and with private businesses to develop strategies for marketing Iowa-grown agricultural products. Emphasis is places on "alternative and value-added" products, and applicants are advised that their project should focus on "a given region with an emphasis on rural areas including producers of agricultural products, agri-businesses, and the community in general. In 1989-90, $450,000 in such grants will be made.

Iowa is also providing small grants to local councils of government for the first time to support local planning and grant writing, is funding an Institute for Decision Making at Northern Iowa State University to help communities with strategic planning, and has increased its contribution to the state's network of federally funded Small Business Development Centers in order to increase service to rural areas.

Moreover, Iowa does far more to foster self-employment in rural areas, including offering "self-employment loans" of up to $5,000 at low interest rates to low-income Iowans. Although the program is open to all low-income Iowans, small town people, it seems, are more likely than urban people to be self-employed or seek self-employment opportunities.

The state is also one of five participating in a national self-employment demonstration project sponsored by the non-profit Corporation for Enterprise Development. Under that program, welfare recipients are provided special assistance in developing self-employment jobs and given waivers from welfare regulations that might force them off public assistance (such as those prohibiting recipients from acquiring too many capital assets, such as tools of a trade). These and some other self-employment initiatives in Iowa are described in some more detail later.

Iowa also targets some federal assistance to rural communities, setting aside a sizeable portion of its federal Community Development Block Grant funds to counties and communities of under 50,000, and offering special loans to small businesses in towns of under 20,000.

And the state is planning a statewide educational fiber optic telecommunications network, a rural fiber optic telephone network, and a centralized digital switch (Iowa Network Services) that will make rural areas more competitive in the global marketplace and improve distance learning -- i.e., learning in locations that are remote from universities.

At least one other initiative in Iowa bears special notice. Kirkwood Community College in Cedar Rapids operates a Rural Diversified Enterprise Center to provide business assistance to microenterprises in small communities.

And Iowa has not forgotten its agricultural base, either. The state established an Agricultural Development Authority in 1982 that has made 645 loans totalling $50 million (as of May 30, 1989) to young and beginning farmers (Muhm 1989). The state also operates a "linked deposit" program by

which it will deposit funds in a local bank at below market interest rates provided the bank will lend it to a farmer to diversify the farming operation at stipulated interest rates.

Perhaps most important, the state imposes an excise tax on agricultural chemicals and fertilizer and uses the revenue to fund the Leopold Center for Sustainable Agriculture, a special research center at Iowa State University that works on input-reducing farm management practices.

Iowa is also the only state in the region to explicitly suggest in official documents (its 1987 economic development plan) that county governments and schools should at least consider consolidation, lowering the cost of local government and minimizing the tax burden that new businesses face. It goes no further than to recommend that the state pave the way by eliminating any statutory barriers to consolidation. That, of course, went far enough to produce strong political reaction. The 1989 economic development plan softens the blow by talking about

And finally, Iowa at least acknowledges the contradictions in its own policy of recruiting businesses with subsidies. Such interstate competition merely results in bidding wars for business, and while Iowa maintains that it must play that game in the shortrun, it's strategic plan also says that the state should work for "...interstate coordination of tax, expenditure, and economic development policies so self-defeating competition for industry is minimized."

Iowa brags that it has "one of the most complete [economic development] efforts in the nation," and it's a fair boast. But all said and done, Iowa still depends heavily on basic business subsidies to stimulate job development. Its economic development program, while becoming more dynamic, remains basic in its emphasis.

Kansas: The Wizard of Oz

Kansas is the prince of state venture capitalism in the Middle Border, investing heavily in carefully targeted and innovative businesses through high-technology research and development grants and equity financing of seed and venture capital funds. It is strategic development at its best, or at least its most intense, since Kansas has laid so many eggs in this one basket. Development policy has become so exotic in Kansas that the average Kansan might reflect, like Dorothy in Oz, that "I don't think we're in Kansas anymore, Toto."

Kansas is so bent on venture capitalism because, like Iowa, it believes in itself, but not necessarily in its government agencies. At least not as far as economic development is concerned. Nearly everything Kansas does in this area is through quasi-public corporations dominated by the private sector. In fact, even in its showcase venture capital corporation, the state's own investment is in the form of non-voting stock. Kansas is so enamored of private savvy that the annual development plan prepared by the Department of Commerce is submitted, not to the governor or the legislature, but to Kansas, Inc., a publicly sanctioned corporation governed by persons from the private sector and commissioned to serve as master development

coordinator for the state. Kansas, Inc. reviews and evaluates the plan and passes it along to the governor and legislature.

To its credit, that plan is precise, detailed, and filled with measurable management objectives. More important, planning in general is taken seriously in Kansas, where earlier plans have lead to policy decisions, investment of state resources, and the development of real programs.

The current plan says that the ultimate public purpose of state development activities is "to create or retain jobs and improve wealth in the state." There are six goals with related objectives:

1. improve the entrepreneurial/business climate in Kansas by reforming regulations that inhibit business, developing a tax system that is more favorable to business, and encourage birth, growth, diversification and retention of basic industry;

2. improve capital markets to enhance investment in business expansion, modernization, and innovation by filling financial gaps, increasing the rate of capital formation in the private sector, helping business locate capital, and providing state capital where needs are not met by the private sector.

3. stimulate technological innovation, application, and development by helping to commercialize innovations, improving product development research, and encouraging use of Kansas products by Kansas businesses;

4. increase investment in human capital, education, and training, and improve self-image by reforming both education and training systems to prepare Kansans for a changing economy, improve the quality of education at all levels, and promote the image of Kansas;

5. upgrade infrastructure at both local and non-local levels;

6. increase capacity and coordinate the state's development system by eliminating duplication among agencies.

There is little doubt that marshalling risk capital for business innovation and technology development are the top priorities of Kansas, and in this area, the affection for quasi-public corporations rather than public agencies is especially evident.

A series of measures enacted in recent years deeply commits the state to the role of development banker. Three kinds of quasi-public entities, controlled largely by people from the private sector, have been established with state authority and in some cases with state capital, to develop new products and businesses and to channel risk capital into them. In the process, the state serves primarily as a funnel for collecting pools of capital from the general public, either directly through tax collections or indirectly through tax-credited investments. Once in the hands of the

sanctioned corporations, those funds are invested as equity in Kansas businesses with very little public oversight.

Rural development has been somewhat slower in getting off the ground in Kansas. A Governor's Task Force on the Future of Rural Communities was commissioned in 1988 and reported a series of recommendations in September, including a state small business loan guarantee program, incubators, a grant program to modernize small town physical infrastructure, and a sister city program linking small towns and larger cities. The small business loan program was approved by the legislature in 1989, but was not yet operating at this writing, and a loan (not grant) program was funded for infrastructure, but limited to communities in which a specific business prospect requires infrastructure improvement as a precondition for locating in the community. A number of important rural health initiatives also recommended by the task force were adopted by the legislature, but they are beyond the scope of this report.

The 1989 Legislature did create a Rural Assistance Center in the state Department of Commerce to help determine the needs of rural communities, coordinate the state response to those needs, and inform rural people about services available to meet those needs.

Another new venture, the Kansas Center for Rural Initiatives, was established in Kansas State University with grants from foundations (primarily Kellogg) as well as state appropriations. The Center provides student workers for communities which apply for help with specific summer projects and encourages "lateral learning" in which leaders from small communities learn from each other. The Center is also preparing an inventory of self-development efforts in Kansas communities and will institute a "training the trainers" project to help people recognize effective community development decision-making. Finally, the Center hopes to involve university researchers in local community development projects in which their research may be of benefit.

Finally, in 1989 Kansas established a unique rural development coordinator post -- a joint appointment of the Department of Commerce and Kansas State University's Huck Boyd Institute for Rural Development. The position was being filled as this report war going to print, and it is not yet clear what the effect of this new position will be on rural development policy in the state.

Perhaps as important than any of these measures, however, the legislature's Joint Economic Development Committee asked Kansas, Inc. to prepare a rural development "action plan." The report, issued in August, 1989, recommends that the state provide direct financial assistance to rural communities to engage in an extended planning process intended to result in sub-state regional development plans. The 1990 Legislature will consider the proposal, which we'll discuss in more detail later.

Finally, a general observation about Kansas. With respect to economic development policy, it differs from the other five states in one significant way. In Kansas, much of the initiative for development policies has come from the legislature. Although it is difficult to generalize too

much in this regard, it seems apparent that in the other states, the Governors have been prime movers. In Kansas, the House and Senate economic development committees have merged into a joint committee, and the Governor, a former legislative leader himself, has been able to work with that committee toward some common ends. It isn't yet clear, however, that those ends have served rural Kansas any better than the ends achieved in other states.

Minnesota: The Research and Technology Development State

Upbeat, progressive, eager to move ahead, and optimistic -- more than anything, Minnesota stands out as a state that brims with enthusiam about its economy. No state in the region works harder than Minnesota to intervene in as many strategic ways in its economy. No state in the region spends more of its own tax revenue on economic development, or creates more new initiatives than Minnesota, although Iowa has been vying for honors lately. But according to the most recently available published data, Minnesota spends nearly three times as much per capita ($8.49) in state appropriations for economic development as its nearest competitor in the Middle Border, Iowa ($2.93) (NASDA 1988).

There has been a veritable flood of new programs beginning with the Rural and Economic Development Act of 1987. For most, it is far too soon to evaluate results. But it is not too soon to describe the general direction and style of Minnesota state activism.

Research, education, and quality of life are the economic development themes of Minnesota's activism. The state's policy is as well articulated -- or at least as well documented -- as any. Minnesota believes that its strong base in technology, especially computer technology, and the strong presence of multinational corporations that have long traded in foreign markets will help the state overcome its difficulties in the the declining natural resource sectors -- agriculture, mining, and forestry. But, the state will have to cope with growing shortages of highly-skilled labor appropriately trained for the industries of the new age. To do so, the state government must perform three functions:

1. Help transform research into viable products by maximizing the interaction between the scientific and commercial communities.

2. Re-tool Minnesota's work force for new kinds of highly skilled jobs.

3. Maintain high levels of public services that contribute to the quality of life in Minnesota, making it an attractive place from which to recruit the increasingly mobile, highly-skilled work force of the future.

Minnesota's development programs are pretty well built around these three functions.

To support development programs, Minnesota taxes its people and its corporations' income more than any state in the Middle Border (and more than most in the nation). As a result, the state has suffered a very divisive

"business climate" debate for many years.

Rural development policy is weaker than general economic development policy in Minnesota, but Minnesota is the only state among the six to have a statutorily based rural development policy. Perhaps that is because it is both the most metropolitan state in the region as well as the state with the numerically largest rural minority population.

Minnesota established an explicit rural development program in 1973, when the Governor's Rural Development Council was formed and endowed with access to the state's Rural Rehabilitation Trust Fund, a capital fund provided by the federal government for the benefit of the rural poor during the depression.

Current rural policy is embodied in the Rural and Economic Development Act of 1987, which according to its sponsors, emphasized "...overall community needs rather than direct business assistance" (Moe 1987). Loans to big businesses were replaced with loans made through local governments to smaller businesses and with financing for public facilities. Private development funding is to be leveraged by a challenge grant program operated through local and regional non-profit organizations.

To further these purposes, the act established three major new entities:

1. A Rural Development Board consisting of public officials from the executive branch, the educational sector, local government, and farm, labor, and business sectors. The Board is intended to guide state agency investments in rural communities and give rural communities a voice in the executive branch of state government. It has access to $6.5 million of the Rural Rehabilitation Trust Fund for several purposes. One is to make challenge grants ($6 million in state funds matched by private foundation funds) to regional non-profit organizations to establish revolving accounts from which to make loans of up to $100,000 to rural businesses, both independently and through local governments. Another is to make grants of up to $500,000 under a "Pilot Project" for farm-related development efforts aimed at low-income people.

2. A Public Facilities Authority, financed by general obligation bonds to provide grants and low-interest, long-term loans to municipalities primarily for waste water treatment.

3. The Greater Minnesota Corporation (GMC), a quasi-public corporation charged with many duties, but primarily to link research with product development. The GMC is the high-stakes part of the act, heavily funded with $15 million in direct appropriations, a transfer of $3.5 million from the Rural Rehabilitation Trust Fund, and $2 million from oil overcharge funds, and scheduled to receive up to $65 million more per year for the next five years from the new state lottery established in 1989.

The GMC, which is governed by a twelve person board composed primarily of business executives (one labor representative and one farmer), is the largest and most broadly authorized of the quasi-public corporations that

now dot the development landscape in the region. It has freewheeling authority to make grants, loans, or equity investments to further its purposes. Those purposes include:

a. financing research in the private or public sector, including a major technology research grants program

b. operating research facilities, including four regional research institutes operated under the auspicies of the GMC's Agricultural Utilization Research Institute (AURI)

c. private business development

GMC's activities are so broad as to defy easy classification. It has established a non-profit subsidiary, the Minnesota Advanced Manufacturing Technology Center (MAMTC), and established locally based business innovation centers, as well as several regional seed capital funds. In fact, its move into the field of providing direct assistance to small business prompted such concern that there were legislative proposals in 1989 to tighten its authorization and increase its reporting requirements. The legislation failed, however.

The AURI, which has its own board of directors appointed by GMC and consisting primarily of commodity group representatives, is specifically charged with making or expanding markets for new or existing commodities, reducing resource consumption, and finding ways to add value to Minnesota crops. It sponsors research, product development, and technology transfer activities.

AURI has chosen to allocate $1 million of its $3.5 million budget for applied research grants focused on non-food uses of agricultural commodities on the rationale that such uses present the greatest market potential. And it has received $2 million from oil overcharge funds to be spent on grants to reduce energy consumption in agriculture, the first eight of which were made in April, 1989.

Implementing this ambitious program has proven to be challenging for the state, and none of the programs have gotten far enough along in two years time to warrant evaluation. However, critics contend that too many resources have been placed in the GMC at the expense of other, more grassroots approaches. For example, the $3.5 million the GMC has been given from the Rural Rehabilitation Trust Fund to spend for current programs has provoked some criticism that a permanent trust for the benefit of the rural poor is being converted into a spending binge for a glamorous but high-risk program that hasn't even a proven record of concern for the rural poor. And as of June, 1989, GMC had amassed a capital fund of over $20 million.

Meantime, the Rural Development Board's efforts have languished. The challenge grant program did finally lift off in the spring of 1989. But the Board's special advisory panel charged with implementing the Pilot Project for farm-related development hadn't even met, 18 months after passage of the act.

Finally, apparently not all Minnesotan's thirst for the quasi-public corporation as an economic development approach was satisfied by establishing the GMC and its non-profit subsidiaries, the AURI and the MAMTC. The 1989 legislature considered a bill to create a Minnesota Project Outreach Corporation (to offer technological advice to small and midsized businesses), and another to establish Minnesota Marketplace, Inc. (to link Minnesota firms with products and services they can use that are produced in Minnesota). Both bills passed.

Minnesota also provides over a half-dozen grant, technical assistance and other support programs for distressed communities, doing more in the field of community development planning than any other state in the region. Its area development program is extensive by comparison with the others, and it is the only state in the region with a special development program targeted to a specific distressed region within the state, the Iron Range. Minnesota also has the largest tourism promotion budget in the region.

The boom in rural development activity in Minnesota has prompted the formation of a news service for people interested in rural economic development. Rural Resources Watch is written and produced by the Minnesota Project, a non-profit organization, in cooperation with a coalition of groups that call themselves the Rural Issues Discussion Group. It's the best effort to track rural economic policy at a state level that we encountered in our study of state policies.

Nebraska: Fiscal Mercantilism

The business climate debate that has held on so long in Minnesota didn't last long in Nebraska.

In late 1986, the Omaha business community, led by ConAgra and coordinated by the Omaha Chamber of Commerce, made strident attacks on the state's tax structure, arguing that it taxed successful people too much and discouraged business expansion and attraction. ConAgra threatened to build a new research and development center elsewhere and to take its headquarters with it if things weren't changed. In whirlwind fashion, this attack overwhelmed state government. A report by a special legislative committee on economic development was abandoned without discussion, the state's first strategic development plan shelved without action, and an unfinished $350,000 legislatively commissioned study of the state's tax system by Syracuse University forgotten.

By May, 1987, a series of sweeping tax changes accommodating the business community had been implemented.

These initiatives, discussed in greater detail later, are vintage supply-side economic policy. Designed to stimulate investment by reducing the after-tax cost of doing business, they rely entirely on the theory that state tax policy is a major factor in locational decisions of companies. When targeted to big businesses, as Nebraska's are (the most lavish subsidies are reserved for projects involving a minimum qualifying

investment of $3 million, and 30 new jobs), they serve growth primarily in the metro centers, unmistakably reinforcing deteriorating trends already underway in rural economies. They constitute what economist Leslie E. Papke's terms "fiscal mercantilism" (Papke 1985).

Evaluating the effectiveness of supply side strategies has never been easy, largely because estimating tax expenditures -- the amount of revenue that would have been collected if not for the tax credits and exemptions -- is never precise. In Nebraska's case, however, this measurement may be facilitated by the fact that qualifying businesses must sign contracts with the state and document performance (although one of the most important benefits -- the privilege of making immediate use of a new corporate income tax formula being phased in -- is not contingent upon performance).

And, of course, tax expenditures are not very visible, either. For example, Nebraska reports to the National Association of State Development Agencies that it "spent" less than $2.4 million in state appropriations for economic development in 1988. But its Department of Revenue has reported to the legislature that in fiscal year 1988, the state lost $10 million in tax revenue due to the new business subsidies enacted in 1987.

Whatever else Nebraska may claim about its development policy, one fact now stands out: Nebraska now spends more in tax expenditures for business subsidies than for all other job development purposes combined. In essence, the state's Department of Revenue is its lead development agency.

Nebraska's next largest expenditure is for promotion of commodities and subsidies to the ethanol industry. Funds for these purposes are raised by dedicated, voluntary taxes or "check-offs" on commodities. The ethanol subsidies are accumulating in unspent capital funds because of industry indifference to the opportunity to brew ethanol in Nebraska.

But Nebraska is also building a commitment to development-related technology research. There are three elements:

1. A five-year Research Initiative at the University of Nebraska to help the state participate in the "new global marketplace," with emphasis on molecular biology, electro-optics, materials science, water science, and decision science. The program began in 1988 with $4 million in new research funds. Another $8 million was added in 1989, and annual appropriations for the Research Initiative is scheduled to increase in $4 million increments over each of the next three years, for a total of $60 million.

2. The Nebraska Research and Development Authority, a quasi-public corporation charged with investing in the commercialization of technology-based products and services. It has a nine-member board, one from the University, one from the Department of Economic Development, and seven from the business sector. The NRDA does not make grants or loans, but takes an equity position or royalty in a business venture. By June, 1988, it had invested over $1.2 million in four Nebraska companies, and unlike many similar quasi-public institutions, publishes a detailed report of its investments.

3. The Nebraska Food Processing Center, located in the University of Nebraska, was established in 1983 to provide technical assistance to start-up food processors in the state and technical and research assistance to larger companies. The former service is provided by Center staff, the latter by both staff and University faculty. The Center makes almost a fetish of protecting the proprietary interests of the businesses it provides research services to, and stresses that these companies pay the costs of the research through grants. The Center operates a pilot plant and laboratory facility financed by $5.5 million each from federal and state funds.

Not everything Nebraska does is grand scale, high technology, or aimed at big business. It has two small but important initiatives aimed at people in need in small places, both of which have gotten good reviews from participants.

One is the Managing Main Street Program offered by the Cooperative Extension Service. It helps new and established business people in clusters of two to five neighboring communities, each under 1,500 in population, work together to support indigenous business development. Six weekly workshops help these business people develop survival and growth strategies, analyze markets, evaluate advertising, improve employee management and customer relations, and review finances, with follow-up service provided through eight Small Business Development Centers.

The other innovative Nebraska program is a nationally acclaimed program designed to help people dislocated by the farm crisis. The Agriculture in Transition Program is a project of the Greater Nebraska Private Industry Council (GNPIC), yet another quasi-public corporation which implements the federally funded Job Partnership Training Act in nonmetropolitan Nebraska.

The GNPIC is governed by a board of businesspersons selected by a committee of five locally-elected officials in the 88 nonmetropolitan counties in Nebraska. The five elected officials are chosen for staggered terms by the Governor. The GNPIC receives funds from the federal government, then contracts with whom it pleases to operate a job training program in rural Nebraska. It contracts with the state Department of Labor, whose employees report under the terms of the contract to the GNPIC.

The GNPIC's Agriculture in Transition Program was funded separately, however, under special grant funds first from the U. S. Department of Labor, and subsequently from the U. S. Department of Agriculture, to establish "Agricultural Action Centers" in community colleges. These centers provide services to farmers or others dislocated by the farm crisis. Services are wide ranging and include financial counseling, apptitude assessment, career counseling, wage subsidies to employers who hire or train them, and even books and tuition for college courses. This program has been a model for similar ones in Colorado, Idaho, Illinois, Iowa, Kansas, and Missouri.

A special Rural Development Demonstration Project also sponsored by the

GNPIC makes grants to consortia of small communities to help them develop strategic plans and leadership. This modest program (five grants averaging $20,000) is one of the few in the region that offer direct financial assistance to small communities (under 5,000) that agree to cooperate in designing a development strategy.

The entire Agriculture in Transition concept is premised on the existence of a farm crisis and is threatened by a perception that the crisis is "over." Ironically, however, as national attention turns from the farm crisis to the more upbeat "rural development" theme, the GNPIC's rural development demonstration project seems unlikely to be expanded, and may not even be continued.

Despite the existence of these two innovative programs for small communities, Nebraska's economic development policy, although implicit, is clear: subsidize big business and invest in university based high-tech research and development. There is no rural policy.

North Dakota: The Basics

Buoyed by repeated ranking (by the Grant Thornton Index) as the top business climate state for manufacturing, North Dakota has for years placed a lot of emphasis on industrial recruitment. But that's changing somewhat in recent years, as more attention has been given to home-grown approaches to economic development. The state's Strategic Marketing Plan sets out the following directions:

1. diversify the economy by attracting basic sector and service-exporting industries from outside the state by concentrating on a score of targeted industries representing the best prospects for each of the state's eight planning regions;

2. exploit the strengths of core industries -- agriculture and energy -- by diversifying crops, increasing commodity processing, and marketing internationally;

3. promote tourism by targeting television advertising to tourists (especially women who make most vacation destination decisions) from nearby regions wanting short (weekend) vacations;

4. help businesses start up, expand, and remain in North Dakota by sponsoring state support services through university programs, including establishment of an Industrial/Manufacturing Extension Service to help manufacturers reduce costs, develop new products, and adopt new processes;

5. improve educational quality by reforming curriculums to meet the needs of target industries, provide entrepreneurial training, and expand commitment to foreign languages and exposure to foreign cultures.

North Dakota still places considerable attention on manufacturing recruitment, placing it first among the states in the region as a potential

smokestack chaser. Although much of its nearly $1 million budget for industrial development is actually spent on such purposes as helping North Dakota businesses procure government contracts and supporting regional planning councils, there is a lot of effort to attract manufacturers. In fact, North Dakota reports spending four times more money promoting foreign business investments in the state than it spent promoting foreign exports of North Dakota products in 1988 (NASDA 1989).

The plain fact is, however, that North Dakota just doesn't spend much on economic development. In 1988, it reported total expenditures of $2.7 million, making it the smallest development budget in the nation, although on a per capita basis the disparity between it and several others isn't large (NASDA 1989).

The reality is that North Dakota faces a fiscal crisis that threatens the capacity of government to provide many basic services, let alone invest in development programs. The state was hard hit by both agricultural and energy industry recessions in the 1980s, and it lost considerable tax revenue to federal tax reform because its own income tax is pegged to the federal tax. When the legislature and the governor tried to raise revenue in 1989 with sales, income, and highway fuel tax increases, all three measures were referred to the voters by petition (along with five other unpopular non-tax measures) and soundly repealed in November, 1989.

Despite its woes, North Dakota has some rural development efforts going for it. It has established a rural community development coordinator in the state Economic Development Commission and has recently increased state funding for its eight regional development planning councils. It's made some creative use of federal JTPA funds, supporting an arts and crafts marketing cooperative for the several Indian reservations in the state; and has a coordinator for that project within its Economic Development Commission.

The state's Small Business Development Centers have also established an impressive Home-Based Business Development program that provides technical assistance and marketing services to people who start businesses in their homes. Seventy North Dakotans have been certified by the program as "market ready," meaning the state will help market their products. The program will soon be adding a Marketing Alliance to its repertoire of services. Under this initiative, "pods" of craftspersons with similar skills will be given the opportunity to help fill national orders generated by the SBDC. Finally, the North Dakota SBDC is one of four SBDCs in the nation participating in a one-year pilot project to transfer federal technology to North Dakota businesses by linking them with scientists and engineers in federal labs across the country.

North Dakota is also the only state in the nation with a state-owned bank, a throwback to the Populist era. The bank has not traditionally played a large role in development financing, but in 1987 it was authorized to establish a Risk Loan Pool from which to make loans of up to $500,000 in participation with private lenders, and usually in conjunction with federal CDBG funds. In a year, $3 of the $5 million committed to the program for its first five years were lent, but it is too soon to evaluate the program.

Yet when the state determined that it needed to join the crowd of state governments playing a direct role in business finance, it established two new quasi-public corporations.

A venture capital corporation, the Myron Nelson Fund, was established with $1.3 million from the state and another $1.2 from the Bank of North Dakota to make equity investments in businesses. It hopes to raise more funds from the private sector for a $10 million equity fund. It is too new to have made any investments.

In 1989, the legislature also created a non-profit corporation to make small equity investments in product development. The Roughrider Equity Corporation works closely with the state's universities and will probably invest in products -- patents -- rather than in companies. The equity corporation will also manage the state's small business innovation program to help develop products from technology. It has $440,000 to invest and a budget of $200,000 for operations -- a modest program.

North Dakota has added to the growing list of roles played by such hybrid public-private corporations. Three years ago, the state established a non-profit corporation, World Trade, Inc., designed to promote North Dakota products abroad, primarily in Japan where it operates an office. World Trade, Inc., receives funding from the state and private companies, primarily transportation and utility companies, and is directed by a board appointed by the Governor and the private contributors. It is staffed by public employees.

As in the case of most states, these quasi-public corporations have broadly defined missions, semi-autonomous boards, and few reporting or accountability standards to live up to.

In agriculture, North Dakota is the only state to have commissioned a special task force report on the role of alternative agriculture in economic development. The **Alternatives for Agriculture Project** report discusses two strategies: developing alternative agricultural production enterprises, and increasing value-added processing. Detailed recommendations are made in each area. We don't know how well these recommendations have been received or whether any will be implemented.

North Dakota's community development work is based partly in a Center for Rural Revitalization run by the Cooperative Extension Service at North Dakota State University. This is one of the most spirited programs in the region reaching out to smaller communities with development planning services. The program provides community leadership training, workshops on home-based businesses, assistance to communities trying to start new home-grown businesses or retain existing firms, and support in preparing detailed business development plans. Most important, the program provides for follow-up activities using telecommunications and video technologies.

It may be that the keenest competition in North Dakota is among development agencies. The Economic Development Commission, appointed by the Governor, is the lead state agency for development. But both North Dakota

State University with its Center for Rural Revitalization and the University of North Dakota, with a host of "centers" (one for Aerospace, one for Innovation and Business Development, another for Energy Research, and several others) compete for the legislature's favors. Then there is the Greater North Dakota Association's development planning process being facilitated by SRI International. A consultant for the Economic Development Commission recommended in 1988 that the EDC become the lead agency for all development efforts, but that recommendation hasn't yet born fruit.

It's not that this sort of competition is all bad, or even unusual. Indeed, it exists in all states. It's just that there is so little to go around in North Dakota right now. It seems a particular shame.

South Dakota: Tourism, Industrial Recruitment, and a Little Something for Rural Places

Although Minnesota spends far more on tourism, South Dakota is the state that devotes a higher proportion of its development budget to attracting tourists to its majestic landscapes and unique geologic features than any state in the Middle Border. Over half the state's development resources are spent promoting things to see in South Dakota: See the Badlands, See Mt. Rushmore, See the Black Hills, See the Passion Play. You can fish, you can camp, you can hike for centuries in South Dakota, but most of all, you can see things.

Beyond that, South Dakota's economic development strategy is pretty basic. Implicitly, its policy is reflected in its industrial development budget, which is largely devoted to efforts to pirate business from neighboring states. It has targeted Minnesota and Nebraska in particular.

The state is divided into five "recruitment council districts" to advance this purpose. The Fantus Company, a Chicago-based development consultant, was hired to identify five targeted industries to recruit for each of the state's three largest communities and for communities of above and below 5,000 in population in each of the five recruitment districts. A list of nineteen industries resulted, and that is where the recruitment is targeted.

There is a limited community development program in South Dakota. The state provides a very handy manual (**Guide to Opportunities for Local Development** -- "GOLD") that teaches local communities how to prepare their own development plan. When they complete the process, they are officially designated as "GOLD" communities, and described by the state as "ready for economic and community development." Direct financial support for community development and small business assistance rests very heavily on federal funding, even more than in other states.

South Dakota also participates in the new wave of interest in linking business with universities to foster innovation. It sports a modest series of Centers for Innovative Technology and Enterprise (CITE), units within institutions of higher education that help businesses discover new uses of technology. The CITE's are supported by grants from the South Dakota Future Fund. These grants must be matched by funds from the private sector.

Two innovative business financing programs, both designed to reach small communities and to build on the state's agricultural base, are directly operated by state agencies.

The Agricultural Loan Participation Program operated by the State Department of Agriculture's Rural Development Office (the only one in the region) provides loans at a maximum 10 percent interest rate for up to ten years covering as much as 80 percent of the cost of an innovative, farm-based enterprise. Applicants must be farmers who depend on farm income. Loans are serviced by local banks which must participate in making the loan as well. The program is small but not insignificant -- $2.8 million in loans are outstanding to 27 new farm-related business ventures. Though loans can be made for up to $300,000, most are around $100,000. A related program is being developed to finance agricultural processing and export businesses located in small communities.

The other innovative program is the Revolving Economic Development and Initiative Fund (REDI), directed by a gubernatorially appointed Board of Economic Development and housed in the Governor's Office of Economic Development. REDI is financed by a special, one-year, 1 percent sales tax that generated a swift $40 million for development financing. It offers up to 45 percent of the cost of a project (75% in an enterprise zone), with the applicant required to put up as little as 10 percent in equity. Interest rates are only 3 percent, but the loans are due in five years.

For riskier borrowers, the state also has an option involving federal loan guarantees. REDI loaned $3,000,000 to the South Dakota Finance Authority (SDFA), which in turn participates in a National Nonprofit Corporation (NNC) supported by the federal Farmers Home Administration (FmHA). That $3,000,000 plus $750,000 in FmHA funds are available to be lent by the NNC to South Dakota businesses with an 80% FmHA guarantee and a ten year term (instead of five). The interest rate is 4 percent instead of 3 percent. No loans have yet been made under this program.

By September, 1989, 73 REDI loans totaling $22 million had been made, primarily to South Dakota-based expanding businesses.

State officials are trying to use the REDI Fund to leverage funds from the Farmers Home Administration for small agricultural communities. REDI has lent $1,000,000 to the SDFA to match a prospective $2,500,000 loan from the FmHA to be used for loans to processing and exporting (i.e., "exporting" out of South Dakota, not necessarily out of the United States) businesses. Loans of up to $150,000 will be made at 5-7% interest for ten years. Significantly, only businesses in communities of under 2,000 will qualify. State officials envision home-grown "Ma and Pa" operations wanting to expand as the main participants in this program.

But there is a problem. FmHA says it wants the full faith and credit of the SDFA pledge against the loans, and South Dakota officials say they can't do that. The program may never get off the ground.

We'll consider the impact of REDI Fund loans on small communities in

more detail in a subsequent section of this report.

South Dakota's economic development policy may be pretty much rooted in pedestrian industrial recruitment and tourism strategies. But at least these two deep-subsidy loan programs, which build on the agricultural base and support home-grown industries, are among the most appropriate in the region to the needs of the Middle Border.

IV. PATTERNS IN STATE DEVELOPMENT POLICY

In this section of the report, we look for patterns in the approaches taken by the Middle Border states. We identify four strategies present in varying degrees in all the states. The strategies are:

** Competing for Business: All states offer a range of programs designed to make them attractive for business. These programs may be extremely interventionist, involving large transfers of resources, but they involve the state in an essentially passive, accommodating, and generally undiscriminating role. There may be "private/public partnerships" involved in these programs, but the partnership is not really two-sided. Investment decisions are made by the private sector on its terms, with little attempt by government to target particular industries, types of jobs, or other development variables. Generally, states seek not to alter or influence markets but to enhance them, furthering current market trends while encouraging a bigger share of the market for the state. Tax abatements to lure relocating businesses are the easy example.

** Strategic Development: The states sometimes seek to influence the direction of the market for the benefit of the state, playing a more active role in investment and resource allocation decisions based on strategic plans that suit the state. Here, "private/public partnerships" may be more balanced, and the state may sometimes swim against the tide in a sector of the economy where it has much at stake. Innovation in products or processes, and targeting (by industry, sector, or business characteristics) new businesses where none existed before, are typical of strategic development. It's the bright and aggressive face of state development approaches -- equity financing of research and development businesses, for example.

** People and Places: All states still concern themselves with the people and the places that constitute their body politic, and some development programs are designed to help people and places, notwithstanding the interests of business. Here the focus is on coping, capacity building, or viability. These approaches are for those who'd rather think of people as "resources" than "capital," if they have to be thought of as fodder for the economy at all. Emphasis in on creating options, developing leadership and talent, strengthening community process and interaction. Some but not all programs termed "community development" programs fit this strategy.

** Restructuring Industries: Some development policies are better described as restructuring policies; that is, they are designed to change the technology base, financial structure, or other characteristics of an established industry in the state, usually one that is experiencing stress. The goal is frequently to salvage capital, prevent population loss, or otherwise arrest decline. Restructuring policies are prevalent in the Middle

Border region in the wake of sectoral problems in agriculture.

These approaches are not mutually exclusive. To the contrary, all the states use each of them in varying degrees. We'll look briefly across the region as a whole at the status of each of these broad program approaches.

A. Competing for Business

All Middle Border states appropriate funds to retain or recruit businesses. Most of the funds are used for two purposes: to hire staff to contact, cajole, and woo firms to move to the state or to stay there; and to place advertisements in business and trade publications or on television. Table 4.1 summarizes these expenditures for 1988.

Overall, the six states spent over $20.1 million on industrial recruitment and retention strategies in 1988, nearly triple the amount spent just two years ago (NASDA 1989). However, all the increase was attributable to Iowa, where a state lottery provided a pool of funds for industrial development. In fact, Kansas, Nebraska, and South Dakota actually reduced expenditures in this area, and industrial recruitment/retention ranked first as a development spending strategy only in Iowa and Nebraska (the latter due to tax expenditures, not direct outlays for recruitment and retention).

Although Middle Border states spend on average about 12 percent of their industrial recruitment/retention budgets on advertising, that percent varies from a high of 46 percent (Nebraska) to 4 percent (Iowa). In absolute levels of expenditures, the top spenders are Iowa and Minnesota, the two Middle Border states in closest competition with the more industrial areas of the Midwest -- Wisconsin, Illinois, Indiana, and Missouri.

The advertising campaigns stress several factors. All the states claim high worker productivity, relatively low wages, few unions, fewer work stoppages, and right-to-work laws. They also emphasize the overall educational level of the state's work force, the availability of customized job training services, tax incentives, and central location. There is some emphasis placed on "streamlined political structure that welcomes business" (Nebraska), access to government, minimization of red tape, and fiscal responsibility. There appears to be relatively little strategic targeting of these advertisements to specific industries.

There is, however, a tendency to deny dependence on agriculture and to create an image of an already-diversified economy. Nebraska's advertising emphasizes that service businesses are now the state's largest and fastest growing source of employment, and Kansas points out that manufacturing is its biggest sector. The Iowa Development Commission was surprised when its advertisement marketing survey revealed that most people had no image of the state, and decided to neither play up nor down its agricultural character.

Perhaps Nebraska went as far as any to shed its agricultural image when, in a special advertising section in a national business news magazine, it said of its own geographical and cultural diversity: "There's no shortage of preconceived notions. The people who think it's a farm state are probably equally certain the state is as boring as it is flat."

Table 4.1 Industrial Recruitmant/Retention Expenditures, 1988

State	Total Expenditure	Percent for Recruitment	Retention	Advertising Amount	% Total	Dom/Int
IA	$14,000,000	3	97	$580,000	4	94/6
KS	991,450	42	58	381,542	38	90/10
MN	3,179,000	NA	NA	657,994	21	100/0
NE	650,000	50	50	300,000	46	90/10
ND	947,984	60	40	75,000	8	100/0
SD	341,709	75	25	NA	NA	NA

Source: NASDA 1989.

Note: NASDA data is voluntarily supplied by the states' lead development agencies. Industrial recruitment data may be taken with a grain of salt as most states don't like to acknowledge their zealousness in this area.

But the effort doesn't end with such awkward attempts at image building. Some of the inducements are tangible. There are three central offerings made by recruiters to prospective business ventures:

1. Customized job training
2. Direct financial assistance (including infrastructure accommodations and utility-rate breaks)
3. Tax incentives

These offerings have the same underlying objective: To reduce the relative cost of doing business in the state. To the extent that all states adopt these strategies in similar measure, they neutralize each other and have no effect on location decisions. We'll treat them each in turn.

1. Customized Job Training.

The private sector has increasingly come to expect the public sector to assure that there is a workforce trained to meet the needs of a changing economy. Current federal legislation, the Job Training Partnership Act, reflects this view. Unlike most previous federal job-training legislation which targeted the vocational needs of the people to be trained or the distressed communities in which they live, the JTPA is designed to train workers for specific industries, or even specific firms. For the most part. state job-training programs mirror this approach.

Middle Border states have supported institutionally based vocational training through secondary schools and technical schools for decades, but their experience with job-specific training programs is much shorter.

Nebraska, North Dakota, and South Dakota (along with Montana and Wyoming) cooperated in a state funded pre-employment training program sponsored by the Old West Regional Commission in 1979, but when the Commission faded in the 1980s, and the JTPA altered the federal job training climate, the states retreated to individual, competitively designed programs aimed at accommodating businesses. Since states administer the JTPA, the program is often used to accommodate the industrial recruitment strategies of the states. Under typical conditions, employers promising to create new jobs may receive funds from the state to offset training costs, primarily by subsidizing the wages of new workers until they learn their jobs.

Moreover, under the JTPA, the states designate a "private industry council" composed of business persons who actually administer the program. The PIC may contract with a state agency to administer the program, or it may contract with some other entity. While PICs usually contract with a state agency, the "privatization" dynamic is effective in tailoring the program to industry needs.

There are some differences in how the states approach customized job training they provide beyond the JTPA. Iowa, for example, has no eligibility requirement regarding minimum number of new jobs created to qualify for their state-supported program, and it does not require that the new job holders meet any particular eligibility criteria. Minnesota, by contrast, offers tax credits and wage subsidies for companies who hire unemployed people or those from nine disadvantaged social and demographic groups. North Dakota, ever eager to recruit new businesses from elsewhere, will go so far as to provide company-customized training in public facilities or in rented space, as well as in existing company plants.

And there is some creativity. Nebraska's "Farmer in Transition" program, noted earlier, is an example.

While school-based vocational and technical training programs are geographically dispersed and available to residents throughout the state, including unemployed residents seeking to develop skills that might make them marketable to a number of employers, the new customized job training benefits only people who have gotten a job from a specific company, and only those communities where the new jobs are located. It is possible that such training, which provides short-term benefits to the employer, may provide longer term benefits to the worker and the community, especially if the labor market for that skill becomes locally more competitive over time.

While the federal JTPA programs are targeted to low-income or otherwise disadvantaged people, most states eschew such restrictions when designing customized job training programs with their own funds. Instead, they favor a more generalized re-tooling of the work force in pursuit of new businesses. Of course, if the customized job training happens to prepare people for jobs that pay minimum of near-minimum wages, the program will implicitly benefit people who are most likely to come from the ranks of the unemployed or the working poor.

Finally, these programs seem inherently biased in favor of larger businesses, and therefore toward urban areas. Setting up job-training

programs that qualify for state reimbursement requires certain firm capacities usually not available in smaller companies. Iowa is alone among the states in offering a low-interest loan of up to $50,000 for small companies that want to design specialized training programs.

2. Direct Financial Assistance.

These programs are generally the most transparent subsidies to businesses, and they represent some of the oldest and crudest -- but also some of the newest -- forms of business subsidies, including many which are pirating strategies. Iowa, the leader in direct financial assistance, publishes a booklet outlining 13 separate subsidy programs for businesses. A sampling demonstrates the diversity of approaches:

____ Any city or county in the state can issue tax-exempt industrial development bonds to finance eligible businesses for land, buildings, improvements and equipment.

-- 25 percent of the federal funds for Community Development Block Grants to counties under 50,000 is set aside for loans and grants to businesses.

-- Nearly $10 million in proceeds from the state's lottery are used to make loans, forgiveable loans, equity investments, or principal or interest buydowns on commercial loans for businesses.

-- An Iowa Business Development Finance Corporation offers letters of credit, guarantees, equity investments, or direct loans to small businesses that cannot get credit elsewhere.

-- A self-employment loan program makes loans of up to $5,000 to low-income Iowans for self-employment ventures.

-- A program called Financing Rural Economic Development makes loans to small businesses in towns of under 20,000 for operations engaged in light manufacturing, value-added processing, or other activities which reduce dependence on agriculture.

Iowa, Minnesota, and South Dakota stand out as the states that use their own funds to subsidize business. The other states use primarily federal funds available through federal tax breaks and the Community Development Block Grant program.

a. Using Federal Funds to Subsidize Business

States use federal funds to subsidize business in several ways. For example, all Middle Border states offer industrial development bonds (IDB's) and use Community Development Block Grant funds for business subsidies. All also have a state-level investment finance authority that issues bonds and makes loans, usually to provide over-the-top financing (after most of the rest of the money is in hand) where new jobs are involved, or a privately sponsored development credit corporation that provides the same service.

The IDB's are federally tax-exempt bonds. In 1986, the Tax Reform Act capped the states' authority to issue such bonds, and unless reauthorized, their use will terminate completely in 1990. Most of the Middle Border states have had little problem with the cap (which applies to all federally tax-exempt bonds, including those for housing and student loans). South Dakota has expressed concern that the cap may become a problem there because of the success of its own major economic development loan program, which is generating yet more demand for bond financing.

IDB's have been used sparingly for economic development purposes since the Tax Reform Act of 1986 because the local banks that frequently bought the bonds lost the tax advantages of doing so. Larger development projects, housing and student loans have continued to make use of IDB's because bonds for those purposes are still attractive to investors in the national money markets. The smaller development projects typical of rural areas are harder to sell because they are riskier and appeal to a narrower range of investors. State governments can play a role by packaging small community IDB's for resale to investors on national money markets.

The CDBG funds may be federally appropriated, but states and local governments have nearly unlimited discretion in their use. They can be used as loans or grants and can be given directly to businesses or to communities who can use the money for public facilities, development projects, or for redistribution to private businesses as grants or loans. Repaid loan funds are kept in revolving accounts at the local or state government level.

While 70 percent of CDBG funds go to large cities and counties, 30 percent is allocated to states for distribution to counties or communities of under 50,000 in population. In Iowa, the state purposely sets aside 25 percent of these funds for communities of under 20,000. Overall in the Middle Border states, the use of these funds in small communities seems to be highly variable.

Up to one half of the state CDBG funds may be used for economic development (at least one half must be used for community development). We analyzed the CDBG funds used for economic development in rural Nebraska from 1984 to 1987 and found them skewed heavily in favor of larger rural counties (Table 4.2). Grants to counties with under 15,000 in population provided less than one half as much assistance, on a per capita basis, than grants to larger counties.

Among the grants to rural counties of over 15,000, the benefits were heavily weighted to the regional growth centers in the Platte River Valley. Half the grant funds went to three of the 16 counties in this category -- Platte, Dawson, and Scotts Bluff -- with per capita assistance from four to seven times the level received in rural counties with under 15,000 in population. Platte County alone received nine times as much assistance as all 32 counties with less than 5,000 population, nearly seven times as much as these counties on a per capita basis.

Among the smaller rural counties, CDBG assistance was weighted in favor of medium sized counties (5,000 to 10,000 population). But even in this

group the favors were heavily skewed: Two of the 30 counties, Sheridan and Wayne, received half the assistance. Ironically, both companies benefited in Sheridan County are now defunct.

This four-year track record suggests a continuing bias in the administration of the program, not merely an incidental imbalance. Moreover, to the extent that these funds are used as business loans to be repaid to local governments, the imbalance will be cumulative over time as repaid loans are added to new grants. In part, the problem may be a lack of viable proposals coming from rural areas. In 1989, Nebraska voluntarily transferred over $4,000,000 of CDBG funds from economic development to community development for lack of fundable proposals.

South Dakota has not had as much trouble getting CDBG economic development projects funded in rural areas (Table 4.3). Assistance to businesses in counties over 15,000 was only 20 percent higher on a per capita basis than in smaller counties. Among the smaller counties, the size bias is apparent, however, with counties receiving progressively more per capita assistance in higher size categories.

Interestingly, when CDBG grants for public facilities are factored into the analysis, South Dakota shows higher per capita assistance in counties of under 15,000 ($40.51 versus $29.65 in the larger counties). And among the

Table 4.2 Nebraska CDBG Economic Development Grants to Rural Counties, by Demographic Group, 1984-87.

County Size (No. Cos.)	Total Population	CDBG Total	Amount Per Capita	Number of Grants
Less than 5,000 (32)	75,573	$266,721	$3.53	4
5,000 - 10,000 (30)	227,146	4,634,076	20.40	15
10,000 - 15,000 (11)	137,014	777,875	5.68	13
Total, Counties Less than 15,000 (73)	439,362	5,678,672	12.91	32
Counties Over 15,000 (16)	433,362	11,328,033	26.14	39

Table 4.3 South Dakota CDBG Economic Development Grants to Rural Counties, By Demographic Group, 1985-88

County Size (No. Cos.)	Total Population	CDBG Total	Amount Per Capita
Less than 5,000 (24)	74,682	$318,000	$4.26
5,000 - 10,000 (25)	171,859	1,908,500	11.10
10,000 - 15,000 (7)	85,193	1,314,605	15.43
Total, Counties Less than 15,000 (56)	331,734	3,541,105	10.67
Counties Over 15,000 (10)	275,427	3,400,928	12.34

smaller counties, assistance is inversely related to community size. This probably reflects a larger minimum threshold for public facilities grants, with a few larger grants in smaller communities weighting the distribution in their favor. It may not represent a very wide distribution of grant funds among many small rural communities. But it does suggest that more funds go to small places when invested in infrastructure than when given as grants and loans to private businesses.

b. Using State-State Funds to Subsidize Business

Using state funds to subsidize business is probably a better reflection of a state's priorities than how it uses federal funds. In this area, Minnesota and Iowa are very creative in their competition to offer the widest array of direct financing programs. Many of these programs are restricted in scope, however, and constitute a state strategic development action, rather than an indiscriminate competition for business. But some are quite indiscriminate with respect to type of business served, and quite generous.

We looked closely at the two direct financing programs that constitute the largest development activity in Iowa and South Dakota. The programs are different in several respects. Iowa's Community Betterment Account (CEBA) offers both loans and grants while South Dakota's Revolving Economic Development and Initiative Fund (REDI) offers only loans. Iowa's CEBA is funded by the state's lottery, while South Dakota's REDI Fund was generated by a one-time sales tax increase.

But both loan funds operate statewide, offer direct financial assistance to start-up, existing, and relocating businesses, and have been in operation for two years or more.

CEBA was established in 1986 and is administered directly by the state's Department of Economic Development, with the help of a development board consisting of some agency officials and some private sector representatives. They can make loans, offer outright grants, buydown outstanding loan principal or interest rates, or, increasingly, make loans which are "forgiveable" -- a strategy designed to give a little more leverage over a company's performance than can be achieved by an outright grant.

CEBA has been a source of some controversy (Fogarty 1988). Some of the early projects supported by CEBA failed to produce the jobs promised (the overall record as of December, 1989 was 75 percent), and several projects failed almost before the state's check cleared. From the very beginning, CEBA supported projects of doubtful value. One of the first projects in 1986 was a $738,000 grant to IBP, Inc., for a pork slaughtering operation in Council Bluffs. The company's sour labor relations history and its record of violating state laws, as well as the competitive threat it posed to smaller packers already located in Iowa, raised immediate questions about CEBA's direction. Some legislative amendments were imposed in 1988 requiring that projects supported by CEBA:

** Not have a significant adverse effect on Iowa competitors

** Not be sponsored by a company with a record of violating state laws regarding worker safety, environmental protection, or truck weights

** Create "quality" jobs, which the Department of Economic Development has ruled means that they pay at least 75 percent of the average wage in the county.

As of May, 1989, CEBA had loaned or granted over $26 million to 204 businesses that promised to create 11,335 new jobs and retain another 7,151 jobs that otherwise would have been terminated. The legislature awarded the CEBA program another $4.65 million in 1989 to do more of the same.

Does this program, easily the most lavish direct subsidy program available in the Middle Border, serve small agricultural communities? Interestingly, some critics have suggested that the officials running the program have tried too hard to satisfy political demands for local financing, and as a result, have tried to reach into every nook and cranny of Iowa with some form of assistance.

We analyzed the CEBA record to determine the distribution of its activities among four demographic groups of counties:

-- Rural Farm Counties -- 49 counties with 23.1 percent of Iowa's population, all with at least 30 percent of their primary employment in farming and no community of 20,000 or more.

-- Rural Non-Farm Counties -- 30 counties with 19.2 percent of the state's population, with less than 30 percent of the primary employment in farming but with no community of 20,000.

-- Urban Counties -- 9 counties with 14.8 percent of the population, all outside metropolitan areas, and all with a community of 20,000 or more.

-- Metropolitan Counties -- 11 counties with 42.8 percent of the population, the most urbanized in the state, all are in federally determined "standard metropolitan statistical areas."

The results of our analysis is presented in Tables 4.4 and 4.5. Overall, there is considerable balance in the distribution of CEBA benefits, certainly more than we found in the case of Nebraska's tax incentive programs (see next Section). Rural farm counties and urban counties received slightly more than their per capita share of CEBA investments, while rural non-farm and metropolitan areas received slightly less. But with jobs, the metropolitan and rural non-farm counties received a somewhat higher disproportion of benefits while the rural farm counties received considerably less than per capita share. The case was worse among retained jobs.

South Dakota's **REDI** Fund was established by a 1% sales tax increase imposed for ten months in 1987-88 that generated over $40 million. REDI is administered by the state's Board of Economic Development and has made 73

Table 4.4 CEBA Investments by Demographic Area

	PROJECTS		INVESTMENT		JOBS: NEW		JOBS: RETAINED		JOBS: TOTAL	
	NO.	%	AMOUNT	%	NO.	%	NO.	%	NO.	%
FARM-BASED	47	23.0	$5,504,753	21.1	2,074	18.3	734	10.3	2,808	15.2
NON-FARM RURAL	61	29.9	6,772,549	25.9	3,086	27.2	1,330	18.6	4,416	23.9
URBAN	23	11.3	2,264,000	8.7	864	7.6	766	10.7	1,630	8.8
METRO	73	35.8	11,558,500	44.3	5,311	46.9	4,321	60.4	9,632	52.1
TOTAL	204	100.0	26,099,802	100.0	11,335	100.0	7,151	100.0	18,486	100.0

Table 4.5 CEBA Investments by Type of Assistance and Demographic Area

	MIXED		GRANT		FORGIVEN LOAN		LOAN		BUYDOWN		TOTAL	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
FARM-BASED	2	$250,000	14	$1,580,000	13	$1,874,863	18	$1,799,890	0	$ 0	47	$5,504,753
NON-FARM RURAL	3	284,960	20	3,387,500	16	1,829,000	20	2,146,089	2	125,000	61	6,772,549
URBAN	0	0	9	985,000	7	793,000	6	473,000	1	13,000	23	2,264,000
METRO	5	1,159,000	25	4,929,000	18	3,061,500	22	2,001,500	3	407,500	73	11,477,500
TOTAL	10	1,693,960	68	9,881,500	54	7,558,363	66	6,420,479	6	545,500	204	26,099,802

loans worth over $22 million in its first two years, projecting to produce over 4,100 new full-time jobs and over 300 part-time jobs.

The Board of Economic Development reports after two years of REDI loan-making some significant accomplishments:

** REDI has **not** been used primarily as a business attraction tool, as many thought it would. Instead, 60% of the loans have gone for expansion of existing businesses, and another 20% to start-up companies.

** By financing relatively small firms, REDI has helped shrink the share of the state's manufacturing jobs provided by the top ten manufacturers from a high of 37% in 1984 to 27% in 1988.

** Although not targeted specifically to rural areas, 14.7 percent of all REDI-created jobs are in towns of under 2,000 and 31% of the REDI loan funds have gone to businesses located in counties that rely more heavily on farm income than the state as a whole.

Despite these claims, REDI has come under some criticism from rural advocates within South Dakota, especially Dakota Rural Action, a grassroots group whose analysis indicates that 37 counties (out of 67 in the state) have received no REDI loans and another 17 have received loans from REDI that are worth less than half the amount they contributed in sales taxes to the fund (Dakota Rural Action 1989).

Using data supplied by the Board of Economic Development and Dakota Rural Action, we applied our county demographic analysis to the REDI program. The results are presented in Tables 4.6 and 4.7.

South Dakota is one of the most rural states in our region, with only one metropolitan and two urban counties. Businesses in all three of the urban and metro counties have participated in REDI loans, but both the amount of these loans and the number of prospective jobs created are roughly proportional to the metro/urban share of the state's population.

The real difference in participation levels is between farm-based and rural non-farm counties. The 18 non-farm rural counties are clustered in the Black Hills region of the state and the southeast corner new Sioux City, Iowa and South Dakota State University, as well as scattered in growth centers across the state. These 18 counties account for about one third of the population, but businesses in these counties have received 57% of the loan funds and will prospectively enjoy 59% of the job growth, and 14 of the 18 counties have benefitted from the REDI loans.

By contrast, businesses in the 46 farm-based counties with just under one third of the state's population have received only 12% of the REDI loan funds and will get 13% of the jobs, and proportionally far more of those jobs (14%) will be part-time than in the other counties (6%).

The number of new jobs per 1,000 population in non-farm rural counties is over four times that of the farm-based counties (and much higher than in

Table 4.6 REDI Fund Investments by Demographic Area, South Dakota

County type/ (No. of Counties)	Number of Projects	Amount of Loans	JOBS Full-Time	JOBS Part-Time	1986 Population	Jobs/ 1,000
Farm (46)	17	$2,234,041	476	79	225,646	2.46
Non-Farm Rural (18)	38	10,396,351	2,462	142	246,078	10.58
Urban (2)	7	2,140,000	414	23	113,581	3.85
Metro (1)	12	3,457,600	751	63	122,668	6.64
Statewide Projects	2	4,000,000	-	-	707,973	-
Total (67)	76	$22,227,992	4,103	307	707,973	6.23

Table 4.7 REDI Cost/Benefit Analysis by Type of County

County Type	Sales Tax Contribution To REDI (000's)	Loans Made by REDI (000's)	Loan Cost Per Job	COUNTIES With Loans	COUNTIES Without Loans
Farm	$17,266.5	$2,234.0	$4,025	13	33
Non-Farm Rural	10,286.5	10,396.4	3,992	14	4
Urban	3,026.0	2,140.0	4,897	2	0
Metro	8,410.5	3,457.6	4,247	1	0
Statewide (1)	$38,989.5	$18,228.0	$4,133	30	37

(1) Excludes loans of $4,000,000 made to two statewide re-loan programs which have not yet re-made loans to businesses.

urban or metro counties). And of the 18 non-farm rural counties, 14 have businesses that have received loans, while in 33 of the 46 farm-based counties, there are no loans.

Only the non-farm rural counties have gotten back from the REDI program as much as they have put in, so far. The farm-based counties lag the most in participation, having received in loans only about 13% of the amount they have invested in the program.

It is significant that the "cost" of generating a new job -- the total value of loans divided by the number of jobs created -- isn't much different between non-farm rural counties ($3,992) and farm-based counties ($4,025). This figure is not quite as close if only full-time jobs are considered ($4,223 versus $4,693).

Two statewide programs may level the imbalances between non-farm and farm-based counties, but neither offers much promise of doing so at this time. The REDI Fund has made a $1,000,000 loan to the South Dakota Finance Authority (SDFA) to cooperate with the federal Farmers Home Administration (FmHA) in an Agricultural Processing and Export Program (APEX). Under this program, loans will be made to businesses in communities of under 2,000 to engage in processing and exporting (outside the state, not necessarily the country) of South Dakota products. As described above, this program is stymied by differences between the state and FmHA over the extent of SDFA liability for the loans.

REDI has also loaned $3,000,000 to the South Dakota Finance Authority to participate in another FmHA program, the National Nonprofit Corporation (NNC). Under this program, NNC borrows REDI funds and reloans them at four percent interest for 10 years, with an FmHA guarantee on 80% of the funds. Additional NNC funds are loaned to the business as well. These loans are not targeted to smaller communities, however, and there is no particular reason to believe that they will be demographically distributed any differently from other REDI Fund loans.

Both South Dakota's REDI Fund and Iowa's CEBA program are too new to fully evaluate, and these data are reflections of early efforts to use state funds to finance businesses directly.

3. Tax Incentives

There has been a nationwide surge of interstate competition either to lure industries or, in the alternative, to keep them from being lured away. In many cases, the bait has been the state tax code. This reflects the fact that taxation is one of the policy arenas in which state governments have real affect. Using tax policy for economic development purposes is also popular among public officials because the "cost" of foregone taxes and the shift of burden to other taxpayers is often difficult to measure. In short, tax concessions make good economic development politics for states because they are easy to do and difficult to be held accountable for having done.

Recent major changes in federal income tax policy had significant impact on state tax policy and created a political environment in which many

policy changes were made in the name of economic development.

There are two approaches. One is to alter the basic tax structure of the state to accommodate business interests; the other is to offer special incentives in the form of credits, deductions, and abatements.

a. The Basic Tax Code

Middle Border states generally have per capita incomes below the national average (only Minnesota was above in 1987), and they also tend to tax less, five of the six imposing a lower effective tax rate on personal income than the national average in 1987. Only South Dakota is above (Table 4.8).

The Middle Border states rely more heavily on sales and property taxes and less on income tax than states do on the average. Five of six collect more state and local property taxes per $1,000 of personal income than the national average (only North Dakota is below average), while four of the six collect more sales tax per $1,000 of personal income than the national average (Nebraska and Kansas collect less). The property tax is the primary source of local tax revenue in all the states, and is the primary source of revenue for primary and secondary education throughout the region.

Meantime, only Minnesota and Iowa collect more than the national average individual income tax per $1,000 of personal income. South Dakota is one of only six states in the nation that impose no income tax at all.

The income tax burden placed on corporations in the Middle Border is especially light. Only Minnesota imposes on corporations more than the national average income tax per $1000 of personal income, while Nebraska and South Dakota impose less than half the national average.

b. Tax Incentives as Economic Development

Business tax incentives -- special credits, deductions, and exemptions for qualifying businesses -- are widespread in the Middle Border, as they are in the nation as a whole. In three states -- Iowa, Kansas, and Minnesota -- these tax incentives are larger in certain distressed areas of the state called "enterprise" zones. These tax favors are summarized in Table 4.9.

1. **Property Tax Exemptions and Abatements.** All Middle Border states impose property taxes for the support of local government. Among the six, only South Dakota also uses property taxes to support state government. Most states exempt business inventory from property taxation, as well as some forms of alternative energy equipment and industrial machinery. Half exempt pollution control equipment.

In addition, at least Iowa, Minnesota, North Dakota, and South Dakota provide some form of property tax exemption or abatement for business development. These vary greatly. Most abatement programs give local officials and qualifying companies some bargaining room to negotiate some relief from a portion of the taxes on the improved value of property and

Table 4.8 Relative Tax Burden in the Middle Border

	Per Capita Personal Income, 1987		Tax Collections per $1,000 of Personal Income								Percent of Personal Income Left After State and Local Taxes	
			State Sales Tax		State & Local Property		Individual Income		Corporate Income			
	Amt.	Rank	Amt.	Rank	Amt.	Rank	Amt.	Rank	Amt.	Rank	Percent	Rank
IA	$14,236	29	$21.71	27	$43.07	14	$25.10	17	$3.71	31	89.3	31
KS	15,126	21	20.17	34	38.69	18	17.60	31	3.66	32	90.0	17
MN	15,927	13	23.24	23	38.47	19	36.59	5	6.26	12	88.0	44
NE	14,328	25	17.79	39	46.19	8	16.39	35	2.95	43	89.8	20
ND	13,004	35	22.88	25	32.08	26	9.46	39	3.83	28	90.2	14
SD	12,550	39	24.57	19	41.97	16	0.00	45(1)	2.72	44	90.5	9
U.S.	15,481		21.63		34.35		23.41		6.05		89.2	

(1) Tied with five other states for highest ranking.

Source: Nebraska Tax Research Council, Inc.

TABLE 4.9 State Tax Incentives for Business, 1988

Type of Business Tax Incentive	IA	KS	MN	NE	ND	SD
Tax Credits						
Job Creation	x	x		x	x	
Investment		x		x		
Enterprise Zones	x	x	x			
Research & Development	x	x	x			
Venture Capital Investments		x				
Sales and Use Tax Exemptions						
For Qualifying Investments		x	x	x		
Goods in Transit		x	x	x		
Industrial Fuels and Raw Materials	x	x		x	x	x
Property Tax Exemptions						
Credits or Abatements	x	x	x		x	x
Business Inventory Exemption	x	x	x	x	x	x
Goods in Transit	x	x			x	x
Industrial Machinery and Equipment	x	x		x		x
Pollution Control Equipment	x		x	x		
Alternative Energy	x	x	x	x	x	x

Source: NASDA Business Incentive Directory, various state publications, interviews with state officials.

provide some phaseing out of the abatement over time. Sometimes the options are better in enterprise zones.

2. **Income tax credits.** Businesses that make new investments or create new jobs are frequently allowed tax credits -- part of the income tax they owe to the state is forgiven.

All Middle Border states with an income tax system offer tax credits for job development or capital investments, or for both. In most cases, the credit is very modest -- $50 to $100 per job created or $50 to $100 per $100,000 of investment is common. In cases, the value of the credit is greater if the jobs are created and/or the investment is made in enterprise zones. In other cases, the credit is available only in enterprise zones.

For example, Kansas offers credits of $350 per new employee ($500 if the employee is a member of a targeted group of disadvantaged people) and $350 for each $100,000 invested if the business is located in any one of 123 Kansas cities designated as enterprise zones.

Minnesota's enterprise zone income tax credits are particularly generous and particularly aimed at competition with neighboring states. Income tax credits of $3,000 are available for each new employee in an enterprise zone, <u>and</u> another $1,500 for each existing employee in an enterprise zone located on the border of a neighboring state. This is the quintessential counter-pirating strategy.

Three states stand out with more generous tax credits that are not limited to enterprise zones.

The most unusual is Kansas, the only state to offer an investment tax credit of 25 percent for investments made in authorized venture-capital companies. The legislature authorized credits on a total of $24 million in investments (at a 25% credit rate, that is a treasury loss of $6 million) in 1986. By 1989, the credits had been fully subscribed and the legislature authorized credits on an additional investment of $26 million.

In Iowa, a company that enters into a job training agreement with the state to increase its number of employees by 10 percent, or a new firm that creates new jobs, can get a credit equal to 6 percent of the taxable wages paid on these new jobs, up to a maximum credit of $690 per new job, more than seven times higher than most Middle Border states.

This pales in comparison with Nebraska, however. Nebraska allows a tax credit equal to 5 percent of wages paid to new employees for seven years, plus a 10 percent investment tax credit for companies investing three million dollars and creating 30 new jobs in any basic industry (agriculture is excluded). Such companies do not pay sales taxes on depreciable property purchased in connection with the expansion, and are accorded the right to use a new formula for calculating taxable income, one based on sales only rather than property or profit. The new formula is a special feature for headquarters operations with most sales outside Nebraska.

Companies in Nebraska that don't create any new jobs but invest $20

million get immediate use of the new sales-only income formula and sales tax refunds on the investment (although the legislature amended LB 775 to reduce the effectiveness of this provision after it was used by several companies to eliminate jobs).

Finally, those companies that invest $10 million and create 100 new jobs are exempt from personal property taxation on certain aircraft, computers, and agricultural processing equipment.

With those very limited exceptions, there are no restrictions on the kinds of basic industry businesses that are eligible for these tax incentives. Businesses that compete against established firms or businesses that are "captive" to the state by the very nature of their business (e.g. local utility service), for example, are eligible. The only requirement is that the business be big enough to invest three million dollars and create 30 jobs.

While these "big ticket" tax subsidies are clearly aimed at big businesses, Nebraska also offers a package for the smaller enterprise, and even these "small ticket" tax credits outsparkle other Middle Border states. Companies that invest at least $100,000 and create at least two new jobs get a $1,000 tax credit for each new job and each $100,000 of new investment, a rate nearly 50% above Iowa, its nearest competitor, and ten times higher than any other Middle Border state.

c. The Cost of Tax Incentives.

It is extremely difficult to measure the cost of these tax incentives because they are largely phantom costs -- tax revenues never collected. In the language of public finance, such foregone taxes are referred to as "tax expenditures," meaning that the state is essentially spending money by making an exception to its collection rules.

Tax expenditures are difficult to measure. When the audit arm of the state of Kansas took account of tax expenditures in 1986, it identified 132 business-tax-reducing measures, only 50 of which could be cost-estimated. The cost of those 50 items was estimated for 1985 at between $550 and $580 million. The same measurement difficulties exist in all the states.

Only nineteen states in the nation make a regular, systematic effort to account for the impact of tax expenditures on state revenues, and only two of them are in the Middle Border (Minnesota and Nebraska). Unfortunately, there is no uniform accounting method for tax expenditures, and the figures these states report are not necessarily comparable. No state makes any attempt to determine the impact of local property tax exclusions and abatements.

We made an attempt to determine state estimates of tax expenditures for economic development tax incentives in the Middle Border by interviewing state tax and revenue officials but could not get reliable or comparable results. We conclude that at this juncture, tax expenditures are a growing but unaccountable means of promoting economic development in the Middle Border. We'll consider the issue further in a case study of Nebraska, by

far the leader in using tax expenditures for economic development.

d. The Nebraska River Boat Gamble.

Nebraska's substantial package of business tax incentives was adopted in 1987 in response to open threats from established headquarters businesses, especially ConAgra, Inc., to move out of the state if the tax incentives and other pro-business tax reforms were not passed. Titled the Employment and Investment Growth Act, the bill (LB 775) was touted as necessary to retain and attract businesses and to encourage business expansion. The bill is archetypical of supply side economic development measures.

Such tax measures are intended to pay for themselves by generating jobs and income that, in the long run, produce personal income tax revenue to the state that exceeds the corporate income tax and sales tax revenue foregone under the various credits and deductions. In discussing proposed federal legislation based on the same principle in 1981, then-Senate Speaker Howard Baker referred to it as a "river boat gamble."

LB 775 is quite indiscriminate with respect to the types of businesses it assists. In fact, several projects have been approved that seem either unrelated or counterproductive to the purpose of increasing jobs and investment in the state. One project qualifying for limited tax breaks under LB 775 involved investment in equipment that resulted in a reduction of workforce in the company. A railroad qualified for tax assistance by simply making routine maintenance investments in its track, a "captive" business (i.e., unable to move out of state) if there ever was one.

Nebraska's tax incentive system is so lavish that it might be regarded as less a gamble than a giveaway. Fortunately, companies that seek the benefits of the program must sign a contract with the state, and the impact of the claimed credits on state revenue can be estimated by the Department of Revenue on the basis of those contracts.

The response to the program was so strong in the first two years that the Nebraska Department of Revenue has estimated that LB 775 will cost the state an average of $25.2 million per year in foregone revenue over twenty years -- an annual loss equal to nearly five percent of the FY1989 state budget. According to the Department, these annual loses will be partially offset by new income tax revenues collected from the new job holders, but these new revenues will not exceed treasury loses in any year before the year 2000. By 2008, the state will still have an aggregate twenty-year net loss of $18.4 billion, not including interest (Nebraska Department of Revenue 1989).

In fact, tax expenditures under LB 775 exceed all other expenditures for economic development in Nebraska.

Who will benefit from this considerable state investment in economic development? In short, the evidence is that the main beneficiaries are already established, big and expanding businesses in urban areas and in selected growth centers in the rest of the state.

An analysis of the impact of LB 775 based on the first 170 projects that applied for tax credits was done by Economic Research Associates of Lincoln Nebraska (ERA 1989). These 170 projects represented $2,105.45 million in investment and 17,755 proposed new jobs. Among ERA's findings:

** Twenty-five companies capture over 50 percent of the tax benefits awarded to the first 170 projects, 10 companies over one-third, and three companies alone will take 15 percent of those benefits;

** Twenty-nine percent of the projects encompassing over 34 percent of the jobs and nearly 47 percent of the investment were proposed and planned prior to enactment of LB 775; only seven percent of the projects, with five percent of the jobs and two percent of the investment were clearly influenced by passage of LB 775.

** Over half the projects, investment, and jobs were in the manufacturing sector; 37 percent of the new jobs were in two industries -- telemarketing and meat packing -- with below average compensation and higher turnover rates;

** One-fourth of the proposed investment was in the transportation, communications and utilities sector but these projects would create fewer than 10 percent of the proposed jobs, most of the investment going for updating or maintaining facilities that are "captive" to Nebraska -- i.e., the investments could not have been made elsewhere anyway;

** Only five percent of the investment, but nearly one-fifth of the new jobs were in the telemarketing sector which pays on average in Nebraska $5.18 per hour;

** Twenty-three percent of the jobs to be created will pay less than $15,000 per year; 78 percent less than $21,287.

** Even considering the positive impact on state revenues of the "multiplier" effect -- new jobs create additional new jobs as the added income ripples through the economy -- the state treasury won't break-even on LB 775 for at least 17 years.

We are particularly interested in LB 775's impact with respect to Middle Border communities. How many jobs and what kind of jobs are supported by LB 775 in small agricultural communities?

ERA analyzed this issue with respect to demographic definitions established by the Nebraska Legislature's Special Committee on Economic Development. It found that 61 percent of the investment and 75 percent of the jobs qualifying for credits under LB 775 were located in metropolitan areas of the state. Another 13 percent of the investment and 18 percent of the jobs were in "urban" areas of the state, while the more rural areas of the state received only 6 percent of the investment and jobs. The remaining jobs and investment were in projects deemed to be of a statewide nature, mainly in the transportation and communications sector.

Importantly, ERA found that metropolitan areas would experience a net fiscal gain (LB 775 tax expenditures less their pro rata share of state taxes necessary to pay for these expenditures) of $47 million. Urban areas would lose $15 million, and other areas would lose $38 million.

We used ERA's analysis of LB 775 investment and job structure to further assess the impact of these tax incentives on agricultural communities using our demographic definition of farm-based counties (at least 30 percent of non-retail and service sector employment in production agriculture), trade centers (nonmetropolitan counties that do not meet that farm employment standard), and metropolitan areas.

Overall, projects qualifying for LB 775 credits furthered the concentration of jobs in metropolitan areas of Nebraska (Table 4.10).

** Metropolitan areas with 46 percent of the population have received 72 percent of the LB 775-related investment and 60 percent of the jobs. Trade centers with 32 percent of the population have received 25 percent of the jobs and 18% of investment. Farm-based communities with 22 percent of population have received only 3 percent of jobs (535 jobs) and 4 percent of investment.

** These proposed jobs totaled 1.2 percent of Nebraska's population, but the metro jobs were 1.9 percent of the metro population, while in trade centers that ratio was .9 percent and in farm-based counties it was only .2 percent. The LB 775 "population enhancement factor" was thus twice as high in metro areas as in trade centers and nine times higher than in farm-based communities.

TABLE 4.10 Impact of LB 775 by Demographic Area (as of April, 1989)

	ALL PROJECTS						Percent	Jobs per
	Employment		Investment		Projects		Total	1,000
	# jobs	%	$	%	#	%	Pop	population
Metropolitan	13,627	72	1,334	60	154	59	46	18.6
Trade Center	4,765	25	403	18	72	28	32	9.3
Farm-based	536	3	81	4	27	10	22	1.5
Statewide	70	0(1)	408	18	7	3	100	11.9
TOTAL:	18,998	100	2,226	100	260	100	100	12.7

(1) Less than .5%

This relative concentration of LB 775 jobs and investment in more densely settled areas is exacerbated by the fact that the relatively few benefits to farm-based communities are further concentrated among those communities.

** There were only 535 jobs qualifying for LB 775 tax benefits established in farm-based counties, and one-fourth of those jobs and the related investments were associated with only one project in one county. Five counties will receive 91 percent of the new investment and 82 percent of those 536 new jobs in farm-based counties.

Interestingly, much of the rest of the LB 775 jobs and investments in farm-based communities are related to a proposal by a rural bank chain to establish a credit card operation which may well be headquartered in one of the metropolitan areas.

And significantly, none of these farm-based community projects was significantly influenced by the LB 775 tax incentives, according to analysis of investment motivation of individual firms, based on public statements and other public record of intentions tabulated by ERA. In effect, farm-based communities are paying for metropolitan development through tax expenditures and receiving nothing in return that they would not have had anyway.

We also estimated the quality of jobs created and the local income impacts of LB 775 in these demographic regions, using data from the ERA study. This approach is not appropriate as a measure of the absolute benefits of LB 775 in the shortrun because actual starting wage levels in a firm will be significantly lower than the industry average. However, this approach does permit relative comparisons across demographic regions (Tables 4.11 - 4.14).

On average, the expected wage levels for LB 775-related jobs did not vary by demographic region in Nebraska. Total income generated from those jobs is therefore distributed among regions in proportion to the jobs themselves. But there were important differences, nonetheless.

Generally, the metropolitan areas have received both the best and the worst jobs. All of the lowest paying jobs in LB 775 projects are in telemarketing firms locating in metropolitan areas. On the other hand, 70% of the jobs created in metropolitan areas were in higher-than-average wage industries. Excluding the extremely low-paying telemarketing jobs, the average wage level for LB 775 jobs in metropolitan counties is $10.07, about 9 percent higher than the average for all LB 775 jobs and about 7-8 percent higher than the average wage for LB 775 jobs in the other demographic regions.

The metropolitan areas also get the most diversity in new jobs, getting some jobs in every sector.

Most of the jobs qualifying for LB 775 credits in both trade centers and farm-based communities were in meat or other food processing and manufacturing. In trade centers, half the jobs were above, half below average wage rates, while in farm-based counties 60 percent were at above-average levels, due to the absence of telemarketing jobs.

TABLE 4.11 LB 775 Local Impact - Metropolitan Area

Sector	No.Jobs	Metro Share of LB 775 jobs: This Sector, All Areas	Metro Share of LB 775 jobs: Metro Area	Metro Share of LB 775 jobs: All Areas, All Jobs	Income Impact: Ave. Wage	Income Impact: Est. Annual Income	% of all LB775 Area Income
Construction	300	100	2	2	$9.61	$5,996,640	2
Meat Packing	1,207	37	9	6	8.73	21,917,189	8
Other Food Processing	565	48	4	3	8.17	9,601,384	4
Other Manufacturing	3,226	65	24	17	9.80	65,758,784	25
Finance, Insur., Real Estate	1,739	86	13	9	10.21	36,930,795	14
Trans., Communic., Utilities	1,365	80	10	7	12.22	34,695,024	13
Trade	894	78	7	5	9.87	18,353,462	7
Telemarketing	2,374	100	17	12	5.18	25,578,426	10
Other Services	1,956	97	14	10	10.40	42,312,192	16
TOTAL:	13,626	72	100	72	9.21	261,143,896	100

* Employment and Wages, Annual Averages, 1986.
Bureau of Labor Statistics, U.S. Dept. of Labor, Annual Bulletin 2297, compiled by ERA Associates, Lincoln, NE.

TABLE 4.12 LB 775 Local Impact - Trade Center Area

Sector	No. Jobs	Trade Center Share of LB 775 Jobs: This Sector, All Areas	Trade Center Share of LB 775 Jobs: Trade C. Area	Trade Center Share of LB 775 Jobs: All Areas, All Jobs	Income Impact: Ave. Wage	Income Impact: Est. Annual Income	% of all LB775 Arc Income
Construction	0	0	0	0	$9.61	$ 0	0
Meat Packing	1,992	61	42	10	8.73	36,171,533	39
Other Food Processing	439	35	9	2	8.17	7,460,190	8
Other Manufacturing	1,597	32	33	8	9.80	32,553,248	35
Finance, Insur., Real Estate	200	10	4	1	10.21	4,247,360	5
Trans., Communic., Utilities	311	18	7	2	12.22	7,904,874	9
Trade	226	20	5	1	9.87	4,639,690	5
Telemarketing	0	0	0	0	5.18	0	0
Other Services	0	0	0	0	10.40	0	0
TOTAL:	4,765	25%	100%	25%	9.38	92,976,894	100%

* Employment and Wages, Annual Averages, 1986.
Bureau of Labor Statistics, U.S. Dept. of Labor, Annual Bulletin 2297. Compiled by ERS Associates, Lincoln, Ne.

Table 4.13 LB 775 Local Impact - Farm-Based Area

Sector	No. Jobs	Farm-Based Share of LB 775 Jobs: This Sector, All Areas	Frm-Bsd Area	All Areas, All Jobs	Income Impact: Ave. Wage	Est. Annual Income	% of all LB775 Area Income
Construction	0	0	0	0	$9.61	$ 0	0
Meat Packing	50	2	9	0	8.73	907,920	9
Other Food Processing	166	14	31	1	8.17	2,820,938	27
Other Manufacturing	174	3	33	1	9.80	3,546,816	34
Finance, Insur., Real Estate	75	4	14	0	10.21	1,592,760	15
Trans., Communic., Utilities	0	0	0	0	12.22	0	0
Trade	0	0	0	0	9.87	0	0
Telemarketing	0	0	0	0	5.18	0	0
Other Services	70	3	13	0	10.40	1,514,240	15
TOTAL:	535	3	100	3	9.33	10,382,674	100

* Employment and Wages, Annual Averages, 1986.
Bureau of Labor Statistics, U.S. Dept. of Labor, Annual Bulletin 2297. Compiled by ERA Associates, Lincoln, NE.

TABLE 4.14 LB 775 Impact - Statewide Projects

Sector	No. Jobs	Statewide Projects' Share of Jobs: This Sector, All Areas	Statewide Projects	All Areas, All Jobs	Income Impact: Ave. Wage	Est. Annual Income	% of all LB775 Area Income
Construction	0	0	0	0	$9.61	$ 0	0
Meat Packing	0	0	0	0	8.73	0	0
Other Food Processing	0	0	0	0	8.17	0	0
Other Manufacturing	0	0	0	0	9.80	0	0
Finance, Insur., Real Estate	0	0	0	0	10.21	0	0
Trans., Communic., Utilities	40	2	57	0	12.22	1,016,704	62
Trade	30	3	43	0	9.87	615,888	38
Telemarketing	0	0	0	0	5.18	0	0
Other Services	0	0	0	0	10.40	0	0
TOTAL:	70	0	100	0	11.21	1,632,592	100

* Employment and Wages, Annual Averages 1986.
Bureau of Labor Statistics, U.S. Dept. of Labor, Annual Bulletin 2297. Compiled by ERA Associates, Lincoln, NE.

The use of tax incentives for meat packing in the trade centers seems especially inappropriate because Nebraska is widely regarded as already having a significant and increasing competitive advantage in that sector.

In sum, LB 775 only furthers unhealthy trends already underway in the Nebraska economy -- the concentration of jobs in urban areas, the development of low-paying jobs in the service sector, especially telemarketing, and the dependence of selected rural growth centers on a few jobs from a few companies in the highly concentrated meat packing industry. It will substantially shift the tax burdens of the state from large corporations who qualify for the credits to small business who do not, from urban areas with higher income to rural areas with lower income.

If taxes are not raised to make up for the revenue lost on these tax credits, basic state services will likely fade. Long-term investment in education and infrastructure will probably suffer most, worsening both the business climate and quality of life in Nebraska.

e. Summary Comments on the Impact of Business Tax Incentives on Rural Agricultural Communities

Business tax incentive programs generally work against the development interests and potential of rural agricultural communities.

Most of these tax inducements are either geographically neutral or, if biased, biased toward urban areas. Although the enterprise zones are broadly defined and in many cases officially cover many small cities and larger towns, they are primarily reflections of federal programs and are designed to emphasize blighted urban areas. For the most part, they are not in place or in use in the most farm-dependent areas of Middle Border states.

Interestingly, enterprise zones have been most widely adopted in Middle Border states that share metropolitan areas with competing industrial states: Kansas (with Missouri), Iowa (with Illinois, Missouri, Wisconsin, and Minnesota), and Minnesota (with Wisconsin, Iowa). That these enterprise zones are perceived largely as border measures to attract footloose industries or to discourage potential wayward industries is further suggested by the explicit inclusion in Minnesota of special additional tax incentives in "border" cities.

Naturally, there is pressure to include as many places as possible among the select communities eligible for enterprise zone status. Kansas established criteria so loose that 123 communities have been designated. Since no local contribution to the tax exemptions given to business is required, there is little incentive for locales not to seek designation.

Generally, then, absent significant efforts to channel, limit, or target tax incentives for business development, they tend to reflect and reinforce trends already underway in a state's economy. Without specific policies to the contrary, most tax incentives favor existing, well established businesses for whom taxes are relatively high and to whom tax relief is important. Moreover, while tax incentives may influence the final

selection of a location for a business from among several equally preferred spots, they are not likely to alter the fundamental underlying appeal of a community as a location. As such, they may alter the fortune of competing growth centers within a state or between neighboring states, but they won't reverse the fortunes of the overwhelming majority of declining communities.

In fact, such tax incentives may accelerate that decline by shifting the tax burden within jurisdictions from businesses that qualify for the tax breaks to those who do not, thus hastening the decline of existing businesses. Since the investment thresholds and other qualifying criteria often exclude small businesses, the tax burden is frequently shifted from large to small businesses. Worse, these tax concessions may also result in reduced revenue and reduced services essential to a good overall business climate.

There are some state policies in place in the Middle Border to offset the negative effects of tax incentives. Minnesota, for example, has an economic diversification program for "distressed" counties. A distressed county is one that is at least 20 percent dependent on agriculture and has had an average unemployment rate for the past year that is either at least 10 percent, or, if the state average is below 10 percent, then at least 10 percent higher than the state average. Manufacturing or telemarketing/mail order firms that locate in distressed counties are eligible to receive reimbursement for property and sales taxes in an amount equal to 20 percent of total capital investment or $20,000 for each permanent job created. Some of these incentives have however, been extended to all counties.

North Dakota is the only state in the region that imposes constraints on the use of property tax abatements by local governments. They can't be used for businesses that would compete unfairly with established businesses in the state, they must meet pollution-control guidelines, and they must not create a burden for other property owners.

Minnesota and North Dakota also have special tax programs for new businesses. In Minnesota, small and start-up businesses are exempt from the minimum income tax, and in North Dakota special tax credits are available for the sale or lease of a revenue-producing enterprise to a person who has less than $100,000 in net worth and receives most of his or her income from the enterprise.

These concessions to equity goals do not alter the basic conclusion, however: Tax breaks are of greatest benefit to the already-established business and to the already-preferred communities trying to lure them.

B. Strategic Development

Not all state economic development strategies are broadly-based efforts to subsidize business in order to gain a comparative advantage over other states as a location for business activity. Some strategies are carefully targeted to specific products, sectors, or industries, and involve more focused initiatives on the part of the state. There are three broadly defined areas in which strategic development strategies are used: captured industries, small business, and technology-based innovation.

1. Captured industries

These strategies focus on economic activity that by its nature must locate in the state because it involves services to the people of the state or uses the natural resources of the state. Public utilities and tourism are good examples. So is agriculture, although we address it as a restructuring industry elsewhere in this report.

Among the captured industries, tourism is by far the most important as a development strategy for most states in the nation. And although it might seem that there isn't a great deal to say about tourism in the plainest part of the nation, all Middle Border states have significant tourism promotion budgets. Together, they spent about $15 million in 1988.

The biggest tourism budget is in Minnesota ($5.8 million), where tourism revolves around lakes in the summer and winter sports, followed by Iowa ($3.5 million), whose tourism budget has quadrupled since passage of the state lottery in 1986. On a per capita basis, however, tourism is biggest by far in South Dakota ($2.2 million in 1986 -- latest figures not available), because of the Black Hills and associated visual delights. The most practical approach, given its natural limitations, may be North Dakota's, with its careful targeting of advertisements aimed at women (who make vacation decisions, says the state's consultants) from adjoining states looking for a long weekend holiday for the family.

Other than South Dakota and Minnesota, Middle Border states rely primarily on their own residents to support local tourism (rather than take their vacations somewhere else), or on those passing through from the east on their way to the Rockies. Interstate highways bring more people through these states than ever, but they stay for less time than they did when they travelled the old blue highways. Getting those people to stop a while on their way somewhere else for their vacation is the heart of the tourism strategy in states like Iowa, Nebraska, and Kansas.

The Middle Border states are involved primarily in promoting tourism through advertising, not in developing tourism facilities. All have state parks, of course, and most provide small grants to help local areas develop and initiate visitor events, but none have statutory-based tourism development policies other than local option dedicated lodging taxes.

2. Small Business

Small business is the engine of the economy, creating most net new jobs and introducing most innovation. The Middle Border states do not perform well in most measures of small business vitality (although there may be a demographic bias in the data bases used to make these measures). Table 4.15 indicates that they rest in the lower half of the states in most variables, especially in measures of new companies and fast growing companies.

The best rankings are for formation of jobs in new enterprises in Nebraska (ranked 5th in the nation) and South Dakota (ranked 10th), but significantly, these are metro jobs.

All Middle Border states provide services intended to support the establishment, retention or expansion of small firms. Their primary service

area is technical assistance in business planning, marketing and management. The main delivery mechanisms are publications, one-on-one consulting, seminars/workshops and courses. These programs usually are located within state departments of economic development and the Small Business Development Centers, supported by the federal Small Business Administration (SBA). The Cooperative Extension Service and community colleges in most of the Middle Border states also have small business programs, primarily through seminars and workshops.

The definition of a "small" business varies across programs. The most commonly used definition is that of the Small Business Administration: less than 500 employees, or for some industries, less than $3.5 million in sales. In the Middle Border region, that is a very large firm. Only one percent of Iowa firms and two percent of South Dakota firms are not considered "small businesses" under the SBA criteria.

Table 4.15 Measures of Small Business Strength in the Middle Border

--- How the Middle Border States Rank in the U.S. ---

State	Business Failure per 10,000 Cos.	New Cos. per 10,000 Workers	Fast Growing Companies	Job Growth in New Enterprises NonMetro	Job Growth in New Enterprises Metro
	-----Rank-----				
Iowa	27	48	43	40	41
Kansas	39	19	34	22	32
Minnesota	14	38	22	40	25
Nebraska	41	48	37	40	5
North Dakota	13	40	50	28	41
South Dakota	40	44	46	28	10

Source: Corporation for Enterprise Development, 1989 Development Report Card for the States

State departments of economic development in the Middle Border maintain some programs to assist small businesses. They provide technical assistance in exporting and federal contract procurement, and assist businesses with financial packaging. These programs primarily serve a minority of larger-scale firms, especially in manufacturing and processing, and not the large majority of small retail and service establishments. The area in which most small businesses could utilize their services is licensing and other regulatory processes. "One-Stop" centers for processing these requirements have been set up in a number of states.

But most small business assistance is provided through Small Business Development Centers (SBDCs) which are supported by the federal SBA with matching funds from the states. The SBDCs are usually located outside the state department of economic development (North Dakota is the one exception in the Middle Border). SBA sets an upper limit of financial support based on population and area (from about $200,000 to $600,000 in the Middle Border). States must provide a dollar-for-dollar match to the federal funding, of which half can be "in-kind" facilities and services rather than direct appropriations. All of the Middle Border states have such centers, but they are a fairly recent development.

SBDCs are usually headquartered at a state university with branches in state or community colleges across the state. Some states also have limited-service "associate centers" to increase access. Table 4.16 shows the available information on the number of SBDCs, the types of services and the numbers of clients served in 1987 or 1988 for each Middle Border state.

Minnesota, Iowa and Kansas maintain the most number of offices, which may reflect, in part, their larger population base. Although North Dakota and South Dakota both had five offices, North Dakota served almost twice as many clients and has recently opened a sixth office.

Recent studies of new, rural businesses in Iowa and North Dakota found very low rates of participation in business assistance programs (Popovich and Buss, 1987; Buss and Popovich, 1988). In the North Dakota survey, one fourth of the participants were unaware of these assistance programs or their local availability. Thirty-seven percent, however, felt they didn't need such assistance.

The available evidence suggests that most clients of small business assistance programs are satisfied with the services they receive. The Nebraska Business Development Center (NBDC) conducted a survey of clients receiving in-depth consulting services in 1986 (NBDC, 1988). More than two thirds of the respondents implemented some or all of the recommendations, and three fourths of those felt they were effective. Ninety-six percent of the respondents reported they would recommend NBDC's services to other small businesses. A South Dakota Business Development Center survey of 1986 and 1987 clients also found fairly high levels of satisfaction: 83 percent of the respondents would recommend the SBDC to others and 79 percent rated the consulting services as good, very good or excellent.

Small business assistance programs appear to work for clients who have developed a clear business idea and seek technical and financial assistance

Table 4.16 Small Business Development Centers in the Middle Border

State	Year	No. of Centers		No. of Clients		Clients Per Center	
		Main	Branch	Consulting	Seminars	Consulting	Seminars
Iowa	1988	12	2	5,014	6,104	358	436
Kansas	1988	8	13	2,018	6,256	96	298
Minnesota	1988	10	22	NA	NA	NA	NA
Nebraska	1987	8	0	1,323	3,173	165	397
N. Dakota	87/88	5*	0	845	1,927	169	385
S. Dakota	1988	5	0	542	909	108	182

* An additional Center opened at the end of the 1987/88 reporting year.

Sources: Information provided by Small Business Development Centers in each state

in getting the business started, or who have an established business and are either struggling to keep it going or who wish to expand it. In each of these cases, the client seeks assistance for a clearly defined problem. Although the requests for assistance are quite low, the level of satisfaction with the services appears to be quite high.

State programs to **promote new enterprises** are not as well established as those to support existing small businesses. In particular, there are few programs aimed at increasing the number of small business startups.

Bernier and McKemey (1987) describe one such process as entrepreneurial "excavating," and propose that it is more suited to the needs of rural communities than more traditional enterprise development approaches. They note that high business start-up rates rather than high survival rates are correlated positively with job growth.

Most enterprise development approaches rely on high-technology research and transfer programs which are unlikely to generate new enterprises in remote, rural communities (see next Section). Small business incubators, another popular enterprise development approach, may or may not improve the survival rate for small businesses, but they are not likely to have a significant impact on new business starts.

By contrast, the "excavation" approach attempts to create a community environment that encourages people to bring forth even the most poorly conceived ideas for new businesses and then helps as many of the ideas through a screening and development process as is feasible.

Bernier and McKemey (1987) describe an experimental program sponsored by the Nebraska Business Development Center to promote new enterprise development in one small Nebraska community. Although the project met with limited success, it has not been replicated in other communities, nor has the entrepreneurial "excavation" program become institutionalized in any existing small business development program in Nebraska.

In other states, there are similar new enterprise promotion projects that are also isolated examples, sometimes outside state government, rather than widely implemented programs. One of the more ambitious programs is the Iowa Rural Diversified Enterprise Center at Kirkwood Community College. The Center has an outreach program to rural families in the region to encourage the formation of micro-enterprises to supplement farm and non-farm incomes. To date, more than 4,000 rural families have participated through workshops and consulting in this program.

The resources that state governments spend on industrial recruitment, retention and market development are intended to create new wealth through companies that market goods and services to out-of-state customers. Many small, non-farming businesses don't meet these criteria. Small businesses, especially in rural communities, are primarily retail and service establishments. A study of new businesses, successfully formed between 1980 and 1987 in rural counties of North Dakota, found that two thirds were retail or service enterprises (Buss and Popovitch, 1988). The average number of employees was found to be 3.8 and the majority had two or fewer

employees. Seventy-eight percent of these businesses reported that they rely on in-state trade, primarily serving very local, rural markets, with most customers lying within a fifty-mile radius of their location. Studies of rural enterprises in Iowa and Minnesota found similar characteristics among new, small businesses (Popovitch, 1988).

Job creation, the other major goal of state economic development policies, also brings a large-scale orientation to development programs. Despite considerable evidence that the establishment and expansion of small firms (those with less than 20 employees) are the primary source of employment growth, states do not appear to be pursuing small business development as a job creation strategy. The apparent reasons for their reluctance are the bureaucratic and political advantages of focusing on a few large firms rather than many small ones. The attraction or retention of large firms employing hundreds of workers makes for good publicity and showy ribbon-cutting ceremonies for state officials. The efforts to establish or retain hundreds of small firms are likely to be much harder and less acclaimed.

Furthermore, retail and service businesses in small rural communities are in direct competition with their larger-scale counterparts in regional trade centers. A number of recent rural economic policy studies (USDA, 1987; SRI International, 1987) have proposed that economic resources be targeted to the larger, regional trade centers. This would fuel the already devastating leakage of economic activity from small communities to more urban centers. A recent study of taxable retail sales in Nebraska, showed that rural, farm dependent counties averaged only 60 percent of 1987 state percapita retail trade, a decline from the 1970 rate of 72 percent (Johnson and Young 1988).

In sum, all Middle Border state support small business, but primarily aid existing businesses. The support is delivered through assistance centers that vary widely in number and accessibility to remote places. Compared to other development strategies, small business assistance recieves only modest attention, and if the federal government didn't help fund the small business centers, we wonder if the states would support them at all.

3. Technology-Based Innovation

The Middle Border states have truly discovered the new age of state economic development activism, what Eisinger calls the "entrepreneurial state" (1988). Each state has adopted at least the jargon of strategic development strategies: competitiveness, entrepreneurism, innovation, technology transfer, and private-public partnership. In doing so, they have ushered in complex new relationships with the private sector and placed significant resources at risk in these relationships.

There are two general strategies:

** Use state funds to correct for imperfections in the risk capital markets, i.e., to invest state funds directly in new enterprises and to lure private risk capital into new enterprises in the state.

** Invest state funds in significant research and development activity, usually linking specific firms with state universities in pursuit of new products which can be manufactured in the state primarily for sale elsewhere, the state having a royalty interest in the product.

In pursuit of some of the more glamorous applications of these strategies, some of the Middle Border states have largely ignored plainer, more home-spun approaches involving small business, innovation, and research. For while these state-entrepreneurial strategies may be "small business" strategies in principle, in fact they are extremely limited investment strategies which hope to launch a few small, but fast growing companies. This is not a broadly based small business strategy.

Instead, the state selects sectors of the economy and/or specific businesses to make investments in, and takes an equity position in these companies or their products, investing either in conventional stock or in royalty interests. These are high-risk, potentially high-reward strategies. Usually, there is a provision for the company to buy back the investment within a medium-length time period. In effect, by using state funds to execute venture capital strategies, the state lowers the risk of private venture capitalists with whom it is in partnership.

To execute these strategies, the states rely heavily on new institutional arrangements with the private sector that place public resources under the direction of institutions largely controlled or influenced by private individuals or firms, with staff who are not public employees. Every state in the Middle Border region has adopted one or more of these new institutional arrangements. Prime examples are shown in Table 4.17.

Kansas is the exemplar of this approach among the Middle Border states, although Minnesota is reaching fast to catch up and Iowa is not far behind.

In Kansas, a host of quasi-public corporations has been formed since 1986 to promote entrepreneurism in the name of, and with the assets of, the state. A technology commercialization company, complete with its own subsidiary for making limited partnership investments, a statewide venture capital company that serves as flagship for a fleet of 11 localized venture capital companies, and a seed capital company, all financed with state funds and/or heavily tax-subsidized investments. Together, these entities are authorized to absorb over $20 million in state funds and can lure another $15 million or more in private, tax-subsidized investment.

The efforts of these corporations, as well as the other economic development strategies of the state, are coordinated by yet another publicly sanctioned corporation named simply, Kansas, Inc. Kansas Inc., whose board is appointed by the Governor, not only coordinates economic development activities, but also oversees preparation and implementation of an economic development plan by the state, provides oversight to the other quasi-public corporations, and beginning in 1993, will evaluate the effectiveness of the economic development effort and report to the legislature.

Kansas is so bent on privatising its state-funded economic development

Table 4.17 SOME EXAMPLES OF NEW STATE INITIATIVES IN TECHNOLOGY BASED ECONOMIC DEVELOPMENT

IOWA

Product Dev. Corp. (1983)

To help launch new ventures based on innovation and new products, offering seed capital investments to transform a prototype into a new product. Payback from royalties on sales of new product. Has invested $4.8 million in 33 new ventures in first five years.

Iowa Business Development Finance Corp (1988)

To make participating loans, letters of credit, or equity investments in small businesses unable to get venture capital. Has $4.65 million from state and sells stock to private companies.

Economic & Research Development Grants (1985)

To make research grants to Iowa universities to enhance the economy, especially to create jobs. Over $19 million awarded since 1985, $8.5 for agricultural biotech, over $10 million for competitive grants mostly in high-tech.

Wallace Technology Transfer Foundation (1989)

To make matching grants to universities in cooperation with private companies for the purpose of commercializing research. Will organize in 1990, begin making grants of $7-10 million per year in 1991.

KANSAS

Kansas Venture Capital Inc. (1976)

To make loans or equity investments for seed or venture capital in basic industries, wholesaling, and services. Capitalized with $10 million from state and supported by a 25% investment tax credit on private investments.

Kansas Venture Capital Cos. & Local Seed Capital Pools (1986)

Investors are allowed a 25% investment tax credit to invest in local venture capital companies with a minimum of $1.5 million in capital. Ten venture capital companies and one local seed capital pool have formed.

Kansas Technology Technology Corp. (1986)

To foster innovation in existing and developing businesses by financing basic and applied research at Kansas educational institutions, awarding matching grants to those institutions and private companies to commercialize innovations, make seed capital investments in new technology, and to provide technical assistance to businesses. Kansas has invested $5 million in state funds (matched with $6.9 million private and $1.1 million federal).

MINNESOTA

Greater Minnesota Corp. (1987)

To make grants, loans, or investments in a wide variety of ventures, including new products, product development, technology innovation, basic and applied research.

NEBRASKA

Research and Develop Authority. (1986)

To make equity investments in businesses that have major growing markets outside state and a potential to create jobs; has invested in six businesses in two years and is now establishing a Medigenics subsidiary to invest in medical technology. Takes proprietary interest in new products through royalties.

Food Processing Center (1986)

To undertake proprietary applied research on food processing with grants from private or public sector.

Research Initiative (1988)

To undertake research in molecular biology, electro-optics, telecommunications, water, and molecular materials with $60 million for the University of Nebraska over five years.

NORTH DAKOTA

Myron G. Nelson Fund (1987)

To take equity positions in new or existing businesses in North Dakota. State to capitalize with $1.3 million, private investments to raise another $8.7 million.

Roughrider Equity Corp. (1989)

To take equity positions in new and existing firms engaged in development or expansion of primary sector business, and to encourage commercialization of new and existing technologies. Initial capital, $440,000.

SOUTH DAKOTA

Future Fund (1987)

To make matching grants to Centers for Innovation Technology and Enterprise located in each state-supported universities to undertake research and development work in partnership with the private sector. 80 research grants totalling $.6 million and $1 million in grants to update research facilities have been made. Another $3 million has gone to special projects, $2 million of which went to South Dakota's Community Foundation.

strategy that the state's $10 million equity investment in one of its entrepreneurial agents, Kansas Venture Capital, Inc., is in the form of non-voting stock. Other states have followed Kansas' lead in this respect. North Dakota's new Myron Nelson Fund has seven board members, none representing the state's $1.3 million investment. Other states have more balanced boards with private and public representatives, and in some cases the Governor appoints them all.

The rationale for minimizing the role of the public sector seems to be that this frees these new institutions from "politics," enables them to attract more talented people (i.e., pay larger salaries), and provides for better continuity and therefore better accountability (Gov. Commission on the Future of Minnesota 1987).

At the center of this strategy is research and development. Kansas leads the field in this area as well. All the Middle Border states now make grants to match private grants made to institutes of higher education in the state to do applied research in the development or commercialization of new products or innovative processes.

To protect proprietary interests of the state or the companies with which it is in partnership, the state discloses relatively little about these investments or businesses. In most cases, an annual report is published listing companies in which the state has invested, with some showcase profiles discussed in a paragraph or two. These reports have the appearance, tone, and superficiality of an annual report from a major corporation. Standards do vary, however. Kansas' KTEC publishes an audited financial statement, but Kansas Venture Capital Inc. will not even disclose the names of many of the 10 companies in which it has invested in its first two years.

In some cases, this kind of secrecy extends to university agencies as well as quasi-public corporations in the states. The University of Nebraska's Food Processing Center does not disclose the companies for which it is contracted to conduct research and does not report to either the Legislature or to the University Board of Regents.

The states have simply not yet developed disclosure and accountability standards in these new strategic development instruments. The issue is festering in Kansas and Minnesota, however, and is likely to become a larger issue throughout the region.

How do these new-age development entities relate to small agricultural communities? Generally, they do not. In some cases, they are prohibited from investing in agricultural enterprises (although despite such a ban, the Kansas Venture Capital Inc. invested in a cattle feeding venture). But such restrictions aside, these just aren't small town operations. Of the 10 local venture capital companies formed in Kansas with tax-subsidized private investment, six are in Wichita and two each in Lawrence and Topeka, three of the four largest cities in the state, all in its eastern third. The only local seed capital pool is also in Wichita.

By the same token, five of the first six investments made by Nebraska's

Research and Development Authority were in Omaha and Lincoln, the two largest cities in the state. The sixth was a relatively small investment of $100,000 for development of milkweed fiber as an alternative to goose and duck down in pillows and insulated outerwear in a smaller Nebraska community. Most of the others are simply too new to have a record, although the Greater Minnesota Corporation has a legislative mission to build on the state's rural economy, and it may bring high-tech development to small towns.

In addition to the institutional arrangements identified in Table 4.17, several Middle Border states now permit state investment agencies to invest state funds (including pension funds) in venture capital companies. At least South Dakota and Kansas allow state funds to be invested in venture capital deals.

And the fever for development entrepreneurism isn't limited to state governments, either. At least one local community program has been launched in the "Siouxland" area where Iowa, Nebraska, and South Dakota converge. The Siouxland Initiative has raised $2.7 million to promote accelerated economic growth in the area, $300,000 of which has been set aside for venture capital investments. The first investment -- $20,000 -- was made in a pork rind processing plant in Sargeant Bluff, Iowa in July, 1989 (Sioux City Journal 1989). The project was inspired by a meeting of the governors of the states, although none of the states invested in the initiative.

Most of these entities are too new to have much of a track record, and given the paucity of information they disclose about their activities, it is impossible to reach a judgment about their effectiveness as agents of economic development. Time will tell, perhaps. But we can conclude now, however, that the states are engaged in high-glamor, high-risk investing, spurning the capabilities of their own development agencies and laying the reputations and possibly the integrity of their educational institutions on the line.

C. People and Places

Increased competition for business and growing emphasis on dramatic strategic development programs have overshadowed more traditional development approaches that focus on people in the places where they live and work. Community development, and in particular, state services and funds to support community or area planning and leadership training, has faltered in the Middle Border states. There is some hopeful evidence, however, that this is changing in some of the states.

The prevailing view among state policy makers we interviewed is that it is not the state's responsibility to assure the survival of specific communities, but that it is only the state's duty to help these communities help themselves prepare for economic development.

While these officials generally say that all communities should receive equal access to state community development services, the fact is that most of them will acknowledge that that really isn't possible. Places that are

large enough to hire professional development staff, for example, have better access to state services and funds than other, generally smaller places. No state believes it can afford to staff a program that delivers direct services to the hundreds of small communities that dot its highways.

Implicitly, therefore, the states have a policy toward places -- it is a regional growth center policy, deeply rooted in the logic of central place theory, which is to community economics what economies of scale is to production economics. Communities at the center of regions will grow, and state resources will be focused in those places, and smaller communities will have to try to find a place in the orbit of these growth centers. Development initiatives based on indiscriminate subsidizing large-scale job creation, (such as Nebraska's LB 775) are effective, if tacit, regional growth center policies. Most direct subsidy programs and technology-based innovation programs are, as well, unless intentionally directed otherwise. Iowa's CEBA program seems to make that effort, and South Dakota's REDI Fund may yet.

Enterprise zones, which are designated regions where special tax breaks apply to businesses that create new jobs, usually reflect a growth center strategy as well. Although these zones may be designated for rural as well as urban areas, they seem to work best in urban areas because they appeal to established businesses which have tax liabilities which can be offset by the tax breaks -- beginning, small businesses more likely to be part of rural development rarely do. Enterprise zones are thus recruitment or retention strategies aimed at already successful businesses, and those are not located in small, agricultural communities.

1. The Demise of Regional Planning

The reduced emphasis on community development reflects the reduced role of the federal government in funding rural infrastructure and regional planning agencies, and, with some significant new exceptions, the failure of the states to assume greater responsibility in that role.

Through the 1960s and 1970s, local, area-wide (i.e., multi-county) planning agencies grew as the federal government provided direct funding and required all federal funding decisions to be coordinated through these agencies. States passed interlocal cooperation acts and encouraged counties and villages to form cooperative units to plan, coordinate, and sometimes administer federal programs. These agencies were critical to the capacity of small, dispersed communities to compete for federal funds.

With the shrinkage of the federal role in social programs in the 1980s, these agencies withered on the vine, many never having established a sufficient base of support among the local governments they were supposed to serve. Most had little or no local source of tax revenue, and while some survived through membership dues and by charging fees for brokering or administering grants, most were whittled down to skeletal operations.

Today, these agencies exist in most states, but not in all areas of the states, and generally, without the benefit of either state or federal basic support (they can sometimes charge administrative fees to federal grants

they administer for local governments).

In the absence of such on-going, locally-based planning, the states try to get transient planning assistance to rural communities, but this is a very spotty effort. Kansas offers a technical assistance program that dispatches 3-4 staff and volunteers to conduct a week-long study of the community or county, presents an oral report and makes recommendations at the end of the week. Other states offer very similar programs, and a number of private consultants offer similar services for a fee. The emphasis is on the planning process itself rather than on community-specific development ideas, and there is very little, if any, follow-up.

The important exception is Minnesota, where most of the state is covered by a dozen Regional Development Commissions, all funded by the state's planning agency. Minnesota is also the only state with a targeted program of assistance to a distressed region -- the Iron Range, a rural area in Northeastern Minnesota hard hit by the recession in the mining industry.

Job Training of Greater Nebraska has also launched a demonstration project that provides six consortia of small rural communities with funds to support strategic planning efforts for a one-year period. While somewhat more likely to produce action than a one-time infusion of outside talent, the six projects are sparingly funded and the federal grant that supports it might not be renewed.

But there are hopeful signs that the states will do more in this area in the future. Both Iowa and North Dakota moved in 1989 to increase funding for regional planning organizations.

Besides the $400,000 to be awarded from its Rural Enterprise Fund to clusters of communities who work together for economic development, Iowa has allocated $300,000 to distribute among regionally based councils of governments for planning and proposal-writing assistance. That's the first time Iowa has directly funded councils of governments. The state's five-year development plan says it explicitly: as far as infrastructure and community development in small places is concerned, "the only workable strategies will involve encouraging regional cooperation, sharing and targeting of limited resources."

Likewise, North Dakota funded its eight regional planning councils for the first time in the 1987-88 biennium (about $30,000 each, requiring a dollar-for-dollar match), and then increased that funding by a third for the 1989-90 biennium.

Those are modest, but significant steps forward for small communities. None of the other Middle Border states provide direct funding assistance to interlocal regional planning for their rural communities.

Kansas, however, is now considering ambitious legislation in this area proposed by Kansas, Inc., in a "Rural Action Plan" prepared at the request of the legislature's Joint Economic Development Committee. Under the terms of the bill introduced for the 1990 session, the state would embark on a four-year planning process aimed at preparing regional economic plans from

the grassroots up. During each of the first three years, $50,000 would be granted on a competitive basis to each of 20 countywide planning groups spread out among the state's six planning regions. The planning region itself would be staffed with the aid of a $50,000 grant as well.

The objective is development of a countywide plan. Over the three-year term, 60 local plans would thus be developed. Clustering of two or more counties into a single planning unit would be encouraged by the competitive grant criteria. In this way, the state would hope to include all of the 100-plus rural counties in the 60 plans, although it would expect some to simply choose not to participate.

During the fourth year, another round of grants to the regional groups would support a participatory process in which the county plans are forged into a regional plan.

By putting the money in the hands of local groups, supported by a funded regional group, the state would be challenging and empowering the rural areas to prepare development plans on their own terms. Use of consultants would be permitted, of course, and there are several university-based "centers" in the state that might offer such services, as well as the usual array of private consultants that clutter this field. Whether the local groups rely on these consultants or carve out their own staffing strategy would be up to them.

But in four years, Kansas would have invested $4,000,000 in locally-based rural development planning. That would be an important first for the region.

2. The Standard Community Development Programs

There is a standard array of community assistance programs which reach some rural communities in each of the six states.

All states have a "community improvement" program, usually involving some cooperation between the lead state agency and cooperative extension or a department within the state university. These programs encourage communities to organize, assess their needs, and implement improvement projects. An annual competition offers honors and cash prizes and recognizes key volunteers. The focus is frequently on cosmetic improvements and is implicitly designed to make the community attractive to outside business prospects or shoppers. Kansas, probably the leader in this field, reaches about two-thirds of its communities with its program. Other states reach far fewer. North Dakota's GOLD program stands out as a program that gets communities moving on the self-help method.

Four of the six states (excluding North Dakota and Nebraska) also have a "Main Street" program operated in cooperation with the National Trust for Historic Preservation. It links communities with architects and other design experts who use the restoration of historic properties as a springboard to developing the main business district.

Because the Main Street program, which now operates in 30 states

nationally, requires a full-time staff person be supported from local resources, it is effectively limited to communities of 5,000 or more. However, Iowa Main Street is about to develop a Rural Main Street pilot project which will provide some funds to regional groups of smaller towns that work together. Kansas also has a pilot "small cities" project that has drawn several smaller communities into the Main Street program.

There are also some efforts underway to ease the difficulties small communities experience in getting through the bureaucracy to get development assistance. Kansas, which probably tries as hard as any state in the region to reach small communities with development assistance, has recently established a Rural Assistance Center in the Department of Commerce, and Kansas State University has established a Kansas Center for Rural Initiatives designed to help small communities learn from each other, tap university resources, and develop leadership skills on an on-going basis. The North Dakota State University Center for Rural Revitalization also stands out in this field, helping rural communities with applied research staff and leadership development training. And Minnesota now offers a streamlined, one-form application process that makes applying for any state program assistance much simpler for communities that can't afford to hire development staff or consultants.

But when it comes to direct community development assistance, the field still depends heavily on dwindling federal resources. Community facilities, such as housing, water and sewer systems, solid waste handling, community centers, and other infrastructure are largely still supported with federal funds from three sources -- Community Facilities Block Grants, the Farmers Home Administration (housing, water and sewer facilities, and community facilities) and the Environmental Protection Agency (wastewater treatment).

The states provide some matching funds, but not much in most cases. Iowa and Minnesota, however, have major new initiatives in this area. Iowa uses lottery money to provide low or no-interest loans to improve or modernize infrastructure, much of it going during the recent droughts to improve water systems. Minnesota's Public Facilities Authority leverages federal funds through the bond market to finance wastewater treatment facilities. Kansas has a newer, and smaller program as well.

In the most dynamic area of community infrastructure needs -- telecommunications -- the states do even less to help communities modernize. Iowa stands out as the exception. It is developing a statewide fiber optic telecommunications network, including a rural fiber optic telephone network and centralized digital switching (Iowa Network Services). It has also set aside about $600,000 from the lottery funds to be used for "new" infrastructure, such as communications systems, although the drought-induced need for investment in water systems has delayed.

Five of the six states regulate telephone service, but none have established minimum standards of service that include such contemporary development essentials as single party service and digital switching equipment. The sixth, Nebraska, has deregulated telecommunications entirely, appealing to the telemarketing industry to locate in Nebraska. The rate of growth in telemarketing jobs in the state has been significant, with most of

the activity in Omaha. There have been spillovers in rural areas, with telemarketing operations now established in such small communities as Broken Bow, Gibbon, Peru, and Stanton. Significantly, however, the Gibbon operation was forced to expand in Grand Island, the third largest city in Nebraska, because the telecommunications infrastructure in Gibbon could not accommodate it.

Meantime, while public utility commissions in eight of the 11 states served by U.S. West (the "baby" Bell company in the region) have ordered lower rates in the past several years, Nebraska is the only state in the region which no longer regulates such rates. For the most part, rural communities in Nebraska got rate increases, not better service or more jobs out of the telecommunications industry after telephone deregulation.

3. Investing in People

The most important way in which states invest in people is through public primary, secondary, and higher education. Education should perhaps be viewed as the most important development activity undertaken by the states. Nonetheless, we are concerned here with a much narrower and more explicitly **economic** development strategy engaged in by some states that have tried to invest in the self-development of jobs by poor people.

Several small but very important initiatives in Iowa and Minnesota deserve notice. In both cases, the programs are essentially rural in character and are part of a broader national demonstration project conceived by the non-profit Corporation for Enterprise Development (CfED).

CfED is a leader in promoting self-employment and other indigenous development strategies. Its Self-Employment Investment Demonstration (SEID) operates in Middle Border states Iowa and Minnesota, as well as Maryland, Michigan, and Mississippi. The premise is that if encouraged and supported, welfare recipients can become self-sufficient by developing their own small businesses, many of them "microenterprises" requiring little capital. The challenge is to encourage them to do so, provide support services and perhaps some financing, and as important, remove barriers, including some welfare regulations, that currently discourage them from such initiative.

To cooperate in the project, states exercise their option to waive or modify certain federal regulations that restrict welfare eligibility, especially those that limit income and assets of recipients. In both Iowa and Minnesota, these waivers take place in selected multi-county areas where a pilot project is operated.

Under the pilot project, a local non-profit "program operator" (in Iowa, the Institute for Social and Economic Development and in Minnesota the Tri-County Community Action Program) recruits, screens, provides entrepreneurial training and technical assistance to welfare recipients (specifically, those who receive Aid to Dependent Children) who want to start small businesses.

The CfED provides consultants to the states and to the program operator to help in program design and staff training, and to help secure federal

approval for the regulation waiver. The whole effort is being independently evaluated by the Manpower Development Research Corporation.

In Iowa, two related initiatives broaden this self-employment initiative beyond welfare participants.

One is called Business Assistance for the Self-Employed (BASE). BASE provides technical assistance to low-income people (not necessarily welfare recipients) establish or expand small businesses.

The other is a Self Employment Loan Program that lends up to $5,000 at not more than five percent interest with monthly repayment installments for not more than five years to low-income Iowans whether on welfare or not. That program had 81 borrowers through June, 1989, with an average loan of $4,400. Iowa's Small Business Development Centers and the SEID pilot project help originate the loans. There are no data yet available on the project participants, but state staff report that most of these self-employment enterprises are the sole source of income for the borrowers and that they are disproportionately rural people.

Finally, Iowa is developing yet another program aimed at promoting self-employment strategies. The Iowa Home Based Business Program will initially identify and study the service needs of home-based businesses in the Hawkeye state, then develop services to meet those needs. It is early in development stages, spurred in part by a study of home-based business in Iowa by the state's Small Business Development Center that found that 79 percent of the businesses surveyed were located in towns under 5,000 and that 46 percent of them were run from a farm.

These programs are very modestly funded and really do not constitute a full commitment to develop the self-employment base of these Middle Border states. But they are significant example of "bottom up" development that invests in people where they are and where they want to be, at home or in their own community, independently employed.

4. Some Conclusions

States offer short-term, piecemeal, catch-as-catch-can assistance to rural communities. The response of these communities to these efforts depends on local leadership, and usually less than one-third of the towns participate even in those programs that are almost entirely "self-help" in nature -- i.e., where there is no direct state staff assistance. For programs where temporary "one-shot" assistance is given to develop a strategic plan for a community, the participation level is much lower, especially among smaller communities, and the implementation of the plan left largely to chance. Extensive assistance from the state over long periods for small communities has been very rare, but there are some hopeful signs that it is becoming more common. Regional planning agencies that once served to give small communities collectively greater access to state (and federal) services have been essentially abandoned by the federal government, but half the states of the Middle Border are trying to do more to fill the gap.

But given these limitations, the result of community assistance efforts is usually a prettier town, and maybe a more "prepared" town, but rarely one that is economically or socially different. Preliminary results of a survey of participating communities in the Nebraska Community Improvement Program show that the value of the program declines as community size increases.

There are some hopeful signs that at least two Middle Border states have discovered some of the most salient positive features of their rural population -- the will to be self-employed and the gumption to go for it. Iowa and Minnesota are making mild but measureable commitments to self-employment job creation strategies based on the will of their people to make it on their own.

D. Restructuring Industries

The competitiveness paradigm takes very seriously the need to consciously restructure basic industries that suffer chronic excess capacity, longterm decline, or technological obsolescence. In the Middle Border, several industries are considered to be in this class by most development practitioners, but of course, the principal concern is directed at natural resource industries. While mining and forestry are important in the region, especially in Minnesota, our special interest in small agricultural communities places our attention on agriculture.

One of the most important differentiating features of the Middle Border states is the sharp dependence of their rural areas on agriculture. Most of the counties in the nation that meet our definition of "farm-based" are in these six states. More important, the kind of agriculture practiced here -- especially wheat, feed grains, and dairy -- is the kind that is most influenced by federal farm programs. Since these programs constitute the only real national industrial sector policy, the Middle Border is the only region in the nation whose economy is shaped largely by national policy.

The overbearance of federal farm programs in the rural economy of the region may explain why state agricultural policy has lagged. There has been historically little farm policy innovation from the state departments of agriculture in the region. In the past ten years, most of the growth in state agricultural policy activism has come from states with sufficient population and domestic economies to warrant increased emphasis on direct marketing, or from states with sufficient urban pressure on farm land to warrant efforts to preserve open space.

But in recent years, the farm financial crisis, the burst of new genetic technologies, the growing environmental problems associated with farm chemicals and soil erosion, and the pressure to reduce the role of federal programs in favor of global free trade in agriculture have inspired more activity among even sparsely populated farm states.

In many ways like federal farm policy, state policies in the region have been fragmented, sometimes internally inconsistent, and highly political. For the most part, the policies treat agriculture as an industrial sector of the economy, one composed of special interest segments, and its role in community development is largely overlooked. But there are

important exceptions in five policy areas.

1. Import Substitution/Input Reduction.

By now, all the states in the Middle Border are active in finding ways to reduce the dependence of commercial agriculture on inputs that must be imported to the region. Energy, and fossil-fuel derived farm chemicals are the principal targets of import substitution in agriculture.

All the states have land-grant university-based programs in "low-input" or sustainable agricultural research; some, notably Nebraska and Iowa, have extension programs as well. For the most part, the new activity in this area is a product of federal research funds recently made available for such research under the Agricultural Productivity Act, but there are major state initiatives from within the region as well.

The University of Nebraska began research in this field as early as 1976, and the Assistant Director of the Experiment Station has played a major role in national and international organizations devoted to resource-conserving farming practices. Nebraska was also one of the first land grant universities to establish an extension program in the field.

Iowa leads the pack in creative and enthusiastic financing of sustainable agriculture research. In 1986 the legislature enacted an excise tax on agricultural chemical sales and used the revenue to establish the Aldo Leopold Center for Sustainable Agriculture at Iowa State University. The Leopold Center conducts and sponsors research and provides extension type information on low-input and sustainable agriculture.

Minnesota also has an outstanding program in this field, including a competitive grants program operated by the Greater Minnesota Corporation with funds from the oil overcharge settlement (Stripper Well). Non-profit organizations and universities can receive up to $100,000 to develop and demonstrate practical ways to reduce energy use on Minnesota farms.

All the other land grant universities in the region have similar, although somewhat less ambitious efforts to reduce inputs.

Minnesota has also recently established a state program to lend money to farmers trying to convert to low-input farming systems.

2. On-Farm Innovation

All the states are also engaged in efforts to develop new crops, new farm-related enterprises, and other forms of on-farm innovation.

Iowa offers to deposit state investment funds at below-market interest rates in local banks that agree to use the funds to make loans to farmers who are diversifying into new crops, primarily horticultural crops. The loans must be at interest rates closely pegged to the rate the state receives from the bank.

South Dakota operates one of the most interesting programs in this area

because it involves the state Department of Agriculture as a loan participant. The Agricultural Loan Participation Program is designed to encourage local banks to make loans for on-farm innovations that add value to crops, produce new products or new markets. The state supplies up to 80 percent of the loan principal for loans of up to $300,000 for up to 10 years at interest rates of no more than 10 percent. To be eligible, a person must have been a South Dakota farmer, depending on the farm for 60 percent of his or her income. The average amount of the 27 loans made is $100,000.

Though state officials complain that the program hasn't generated as many innovations as they'd like, they've got some interesting projects underway, including bird seed processing, hunting preserves, and a cooperative storage and loading facility for farmer-owned grain elevator cooperatives wanting to market grain through large unit trains.

One of the most interesting loans provides venture capital for a farmer who has developed a "sonic spook." This predator control collar put on sheep uses a computer chip to trigger a strobe light and five different electronic signals operating at frequencies to which five different predators are sensitive. If the sheep startles, the "sonic spook" activates, causing the predator irritation.

While the program has had three failures and several loans restructured, most loans are performing well.

3. Ownership Structure

The Middle Border states have become increasingly concerned about the ownership structure of their agricultural sector. The region is sharply defined by its historic association with family farming. Both the farm financial crisis and the advent of technologies which make large scale farming possible in field crops and livestock have threatened the future of that structure. Here the states are less enthusiastic about restructuring the farm sector.

All the states in the Middle Border restrict the role of corporations in land ownership and in some aspects of farm operation. Most exempt family farms that incorporate, although the definition of "family farm corporation" varies considerably from state to state. Nebraska, with a constitutional prohibition on land ownership, farm operation, and even livestock ownership, and with a requirement that owners of a "family farm corporation" either live or work on the farm, is by far the most restrictive. But none of the states are considered friendly environment for corporate farms.

In addition, the states have all wrestled with farm debt settlement reform in an effort to salvage as many viable farming operations as possible. In the 1980s most adopted some form of mediation, homestead redemption, or other debt settlement reforms.

Initially, Iowa and Minnesota adopted the most vigorous farm mediation programs, requiring creditors to request mediation before foreclosure. Kansas and North Dakota chose a voluntary approach, which provided a program creditors could use if they wanted to, and South Dakota and Nebraska

provided no program at all. Iowa not only adopted mandatory mediation, but invoked its depression-era farm foreclosure moratorium as well.

A look at bankruptcy filings under Chapter 12 of the federal code in those states (Table 4.18) shows a higher number of bankruptcy filings and a higher percentage of farmers filing bankruptcy in the two states with no mediation program. Partly in response to these figures, South Dakota adopted a mandatory mediation program and Nebraska a voluntary one in 1988.

Minnesota went further in 1985 with an interest buy-down program. Private lenders who agreed to lower interest rates were partially compensated by the state for loans of up to $75,000 for farms with debts in excess of 50 percent of asset values. Kansas operated a similar program that placed below-market interest deposits of state funds in banks that lowered interest rates on operating loans. The program was not targeted to size of loan or need of borrower as the Minnesota program was, and was probably far less effective in stemming the tide of farm failures.

The states offer relatively little help for beginning farmers. Most provide access to federally-tax exempt bond-financed loan funds, but these programs do not offer much by way of an interest subsidy and they have been less enthusiastically received now that the federal government has put a cap on the total aggregate amount of tax-exempt financing a state can use under various federal authorities.

Table 4.18 Bankruptcy Filings in States with Alternative Approaches to Farm Debt Settlement Mediation Laws (as of January 5, 1988)

State	Number of Farmers*	Number of Chapter 12 Filings	Number of Farm Bankruptcies/1000 Farms	Type of Mediation
SD	36,000	460	12.8	None**
NE	57,000	617	10.8	None**
ND	33,000	154	4.7	Voluntary
KS	70,000	256***	3.7	Voluntary
IA	109,000	341	3.1	Mandatory
MN	93,000	145	1.6	Mandatory

* USDA Agricultural Statistics Service, 1986.

** South Dakota now has a mandatory mediation program and Nebraska a voluntary one.

*** Kansas filings are as of October 16, 1987.

Table 4.19 Commodity Checkoff Collections in Nebraska, 1984-87

Commodity Board or Authority	Amount	Checkoff Collections 1984-85	1985-86	1986-87
Corn Dev. Utilization, and Marketing Board	$.0025/bu	$848,578	$1,205,605	$1,194,853
Wheat Board	.0075/bu	608,541	664,084	591,851
Beef Board	.25/hc	1,785,937	1,733,467	1,714,989
Grain Sorghum Dev. Board	.50/cwt	299,284	407,027	396,908
Soybean Dev., Utilization, and Marketing Board	.01/bu	641,632	883,295	894,050
Total		$4,183,972	$4,893,478	$4,792,651

These are the major commodity checkoff boards in Nebraska. There are others for lesser crops, such as edible dry beans and eggs.

Source: Checkoff Board Reports

4. New Uses and New Markets for Old Crops

While the states talk robustly about new exotic crops and the importance of diversifying their agricultural economies, they devote far more to the development of new uses -- new products primarily -- and greater consumption in domestic and foreign markets of their traditional agricultural crops.

Much of this work is financed by a dedicated tax on producers, usually in the form of a contribution, or "checkoff," made on each unit of production of the crop to be benefited by the research and promotion activity. The contribution is collected by public sanction from the producer by the first purchaser of the commodity, and sent to a quasi-public entity governed largely by producers of the commodity. In some instances, a producer who doesn't want to contribute can ask for a refund later. Most do not.

While these commodity checkoff authorities exist at both state and national levels, they are omnipresent among the Middle Border states. Most of the major commodity groups in these states have sought and received state sanction to establish these checkoffs, and they collect and spend funds under state authority.

By way of example, Table 4.19 shows checkoffs in place at the state level in Nebraska and the funds collected from producers in the three most recent years for which data is available.

Such checkoffs can support various activities, from financing research

on production and marketing problems to supporting foreign trade offices in the Developing World, to funding research into new uses of the crop, to funding advertisements promoting the generic food products. Lately, there has been some controversy in Nebraska as well as nationally over the use of these funds for political lobbying.

The uses also vary somewhat from commodity to commodity. The beef checkoff funds are sent to national livestock and meat boards who spend the money largely on advertising and other consumer promotions aimed at increasing beef consumption. The largest expenditure for all the grain boards is for foreign marketing programs run largely through analogous national organizations such as the U.S. Feed Grains Council. Funds used for research into new products, new processes, or new production techniques are usually granted by the checkoff boards to Land Grant Universities in their respective states, where these boards have become a small but important source of research funding.

But these checkoffs can have specialized economic development purposes at state levels, as well, as demonstrated by the use of several checkoffs in Nebraska to develop the ethanol fuels industry. Ethanol, which can be produced from grains, can be blended with gasoline to produce a higher octane, higher efficiency, lower polluting motor fuel.

Nebraska's quest for economically viable ways to convert corn (and to a lesser extent, other major crops produced in the state) into ethanol has become a major state development strategy. The only development program that consumes more resources in Nebraska is the corporate tax incentives it recently adopted.

The technical feasibility of grain ethanol is well-established. The development problems have centered on the distillation cost and consumer acceptance.

Gasohol has remained a viable commercial product in part due to major subsidies. It receives a a 6-cent federal and, in Nebraska, a 3-cent state gasoline highway fuel tax reduction. It has also benefitted from the special status which corn glutin, its main by-product, has as a non-tariff import in Europe where it is used as a protein supplement in livestock feed. The demise of any of these public policy features could threaten the viability of Nebraska's domestic gasohol industry.

Nebraska first promoted ethanol fuels as early as 1935 when the legislature exempted them from motor fuel taxes. The oil embargo and growing environmental concerns sparked a substantial increase in interest in ethanol fuels, generally called gasohol, and in 1971 Nebraska established a Gasohol Committee (it was called the Agricultural Products Industrialization Utilization Committee, until mercifully renamed in 1981). The Gasohol Committee was funded by a $.0025 cent per gallon tax on gasoline use for non-highway purposes (mainly farming) to sponsor research, develop marketing strategies, promote gasohol to consumers, and help establish ethanol plants in Nebraska. In 1983, the tax was raised to $.0075 per gallon.

Then in 1986, the Nebraska Legislature took an even bigger step in

investing in the development of gasohol and fructose, a corn-derived sweetner. It provided for establishment of the Ethanol Authority and Development Board, consisting primarily of representatives of the existing commodity and gasohol boards, and authorized an additional $.015/bu checkoff for eighteen months on corn, wheat, and grain sorghum. Although the act provided the usual option for producers to request a refund of their checkoff, only about one-fourth of the funds collected were refunded. In the eighteen months, the Gasohol Committee amassed over $16 million for gasohol development.

The funds are to be used to make grants, loans, or investments in gasohol or fructose development, but so far, there are no new ethanol plants operating in Nebraska as a result, and a surplus fund of over $17 million is now lying idle. The Gasohol Committee has invested in one private company, buying 49 percent of the stock in American Eagle Fuels, Inc., a subsidiary of BioCom USA in Atlanta, GA.

American Eagle Fuels is developing two products. One is ETBE, an ethanol derivative that is expected to burn cleaner and more efficiently than ethanol and importantly, unlike ethanol does not separate from gasoline when water is introduced. This allows pipeline shipping, reducing cost of transport. The other product is a bacteria that can produce more alcohol from corn than can yeast, increasing distillation efficiency (Share 1989).

To further promote gasohol, Nebraska also established in 1986 an Engine Technology Center at the University of Nebraska largely to address technical problems encountered in using gasohol in internal combustion engines.

Gasohol is not really "high-technology" development, but it has proven to be large-scale development. While it is possible to produce ethanol in small, even farm-sized plants, quality control and other problems have prevented it from being widely produced at that scale. Instead, a handful of plants produce most of the ethanol in the nation, and one company (Archer Daniels Midlands) produces 60 percent of the nation's output. Local, and even statewide benefits of economic development based on ethanol production will be limited to the price-enhancing effect it might have in the corn market. One industry-sponsored study found that corn use in ethanol production might raise corn prices by as much as 9 cents per bushel for every 100,000,000 bushels converted to ethanol.

And there remain critics, including those within the U.S. Department of Agriculture, who argue that ethanol production requires more energy than it produces. And others are concerned about the impact on soil and water resources of using corn to feed the nation's energy hunger.

Despite the emphasis given new uses of established crops through these checkoff programs, there are some smaller state initiatives aimed at promoting diversification of crops. Iowa provides a linked-deposit program to encourage commercial lenders to make loans to farmers diversifying into new crops, and it also make competitive grants of up to $125,000 to clusters of rural communities who, in cooperation with private business, plan strategies to market agricultural crops, including alternative crops. The

funds for this Rural Revitalization Program are from the state's lottery; there is only $450,000 available for grants in 1989-90, however.

5. Resource Conservation

The states have long supported federal soil conservation programs with matching funds usually generated from local property taxes by soil and water conservation districts. Beyond that, the states do relatively little in this field.

Minnesota has an important initiative, however. Under the Reinvest in Minnesota (RIM) program, adopted in 1986, the state buys long term cropping rights -- either 10-year set-asides or permanent conservation easements -- on low-productivity lands that are environmentally sensitive. Lands highly susceptible to erosion and good for wildlife cover are targeted for the program, and local conservation districts identify eligible parcels. The program is financed by state bonds, with $29 million authorized to date. A major part of the rationale for the program is that the state needs to invest in its wildlife habitat and environmental quality because both are critical to its tourism industry.

V. STATE ECONOMIC DEVELOPMENT POLICIES AND THE MIDDLE BORDER

This report describes how state economic development activities relate to the problems of small agricultural communities in six North Central states. We have tried to highlight those policies and programs that dominate the landscape of state government, measure them against the needs of the smallest agricultural communities, and look for any special initiatives serving those communities. We have not attempted a comprehensive description of the development policies and programs of the states.

We would now like to sum up our view of these policies taken as a whole, offer some constructive criticism, and suggest some policy changes or additions. Our recommendations are directed primarily to the states themselves, their citizens and public officials. Several are aimed at the federal government. We hope they spark some meaningful discussion over the future of small agricultural communities.

In Section VI, we'll address ourselves to people who live in small agricultural communities.

A. The Middle Border as a Region

The small agricultural communities that form the Middle Border in America constitute a "region" in the most important sense of the term. On three critical points, the counties we have analyzed in this report are joined:

** They share a one-dimensional, agricultural economy which is shaped primarily by federal economic policies;

** They are depressed, relative to the conditions that prevail in other counties in the states in which they are located, particularly the urban and metropolitan counties.

** They are not coherently governed -- instead, they are politically balkanized among several states, constituting a demographic minority in each of them.

We identified 277 counties, (of 503) checkerboarded throughout six states, that are essentially agricultural in character. In each of these counties, at least 30% of the people engaged in either primary employment or government service are involved in production agriculture. These "farm-based" counties are home to 2.1 million people, 17 percent of the population of these six states, a small but significant minority. By way of summary (see Section II for details), these facts among others separate farm-based counties from their sister counties in the six states:

** They have lost nearly 6 percent of their population since 1969, while all other types of counties in these states have gained population. The majority of the population in these six states now live in metropolitan areas, and in the most rural states -- North Dakota and South Dakota -- less than one-third of the population

lives in farm-based counties.

** They are twice as dependent on production agriculture for employment than other rural counties in these states. As farm employment continues to decline, so does population. On average, farm-based counties' population fell .9 percent between 1969 and 1986 for each 1 percent drop in the ratio of farm employment to non-service/non-retail employment (Figure 2.2).

** They have higher poverty rates (17%) than other counties (11%), including other rural counties (12%), lower and more erratic income (Figure 2.3) and less evenly distributed income than other counties in these states (Figures 2.5 and 2.6). Thirty-six percent of the households in farm-based counties had income below $15,000 in 1986, compared to 23 percent in metro counties.

** They are remarkably "entrepreneurial" in character. Over two-fifths of all workers in these counties are self-employed, double the rate in the region as a whole and triple the metropolitan rate (Table 2.5). This feature is not merely a reflection of the farm economy either. Over one-fourth of all non-farm workers in these counties are self employed, also nearly double the rate for all other counties in the region. For every farm operator in these counties, there is another self-employed non-farmer. In these 277 counties, just under half the total earned income is from self employment (Table 2.6).

** A greater portion of the total income in these farm-based counties is from unearned income (41% compared to 31% in other counties). In fact, unearned income contributes twice the level of income to these counties as farm income (Table 2.3).

These small agricultural communities saturate these six states, and they are remarkably homogeneous in appearance, demographics, and character. They are substantial communities with strong traditions and values, and they suffer from the same development problems. But it is important to recognize that those problems are fundamentally different from the problems of the urban communities and trade centers in these states. Like Appalachia, they constitute a region in distress, but one with unique and important characteristics. They are a resource these states share, but one that presents a special challenge and a special opportunity to the states.

Recommendation 1. The states should collaborate to establish a common development policy for small communities.

The competitive paradigm that currently drives many state development policies and programs simply will not serve these communities. Their potential lies in the strength and character of their people, their land resources, and in their ability to cooperate. As parts of a region in distress, they have more to gain in either local or global markets from cooperating with each other than from competing with each other.

The states themselves need to help these communities by cooperating

with each other to develop a common policy toward small agricultural communities. Leadership for such an initiative should come from the Governors, but it could come from legislative leaders as well.

Recommendation 2. The objective of development policy toward small agricultural communities should be to sustain them.

Generally speaking, if small agricultural communities are comparatively disadvantaged, it is unrealistic to expect them to grow. Development policies that set that objective are likely to fail, furthering the forecasts of doom that pervade current discussion about these communities.

Fulfillment without growth may be a more realistic and more worthy policy objective for these communities. Of course, individual communities may find special opportunities that permit growth, but the majority will not. For most, population stabilization rather than expansion is more realistic. Concentrating on such a goal may lead to more rational and effective policies for the typical small community than a search for growth policies that will work for all of them.

Recommendation 3. The states, through their respective universities, should establish a cooperative institutional research capacity to address the needs of small communities.

A regional approach to the problems of small agricultural communities will require new institutions, and in particular, an improved capacity to undertake policy research on their behalf.

In the course of our work on this report, we discovered a number of rigorous professional researchers concerned about the economic and social issues that surround these communities, but they are generally housed in university departments or government agencies that provide only meager support for their research or are concerned primarily with production agriculture. Furthermore, these researchers are fragmented along discipline lines that frustrate collaboration. And they are almost always forced to address issues within the boundaries of the states in which they work. None of this encourages much attention to be directed toward small communities.

If the scattered researchers interested in small communities had an interstate forum, a mandate to address the research needs of small agricultural communities as a whole throughout the region, and a slightly enhanced research budget funded by a consortia of the states, they could do much more to define problems, analyze the effectiveness of alternative strategies, and propose practical solutions. As a stimulant to such a process, we have laid out a laundry list of research questions in Appendix A. It's only a beginning, and a modest one.

The research community could set out a comprehensive agenda that could be cooperatively addressed, if the states provided the coordinative capacity and modest financial support for such a mandate.

B. The Role of the State in Economic Development.

Economic development policies are dynamic, energetic, and diverse in the six North Central states we have reviewed -- Iowa, Kansas, Minnesota, Nebraska, North Dakota, and South Dakota. All of them have produced a blitz of development programs in recent years. Indeed, these states sometimes seem preoccupied to obsession with economic development strategies.

That is probably because they have been buffered by recessions in the 1980s in agriculture, energy, mining, and forestry. By mid-decade, the region found itself lagging behind a national recovery, increasingly poor, and plainly troubled. It was desperate for change. In desperate times, desperate measures are sometimes taken.

In such an environment, some extraordinary economic development programs were enacted. Four powerful examples stand out, all adopted in 1986 or 1987:

** Nebraska's swift adoption of lavish tax subsidies designed to prevent big businesses from leaving the state.

** Iowa's adoption of a state lottery and use of millions of dollars per year in direct business subsidies.

** Kansas' bold reach into the unchartered waters of state venture capitalism.

** Minnesota's grand design for high-technology-based development through the Greater Minnesota Corporation, slated for investment of hundreds of millions of dollars for research and development.

These radical policies reflect the central theme of "competitiveness." Faced with a rapidly changing economy which is more technological, more global, and less resource-based, these heavily agricultural states are pursuing strategies which they believe will diversify their economies and reduce their vulnerability. Primary emphasis is on improving the business climate for investment in industries that will employ people in producing new products for sale outside the state, and encouraging the formation of new businesses based on innovation and technology.

Nearly all of this activity is directed at business development -- job creation. Two broad strategies are used: those that amplify market trends, and those that seek to alter market conditions. The role of state government in these two strategies is sharply different.

1. Market-Amplifying Competition for Business.

One role is more traditional, passive, and pervasive. It involves the state as the suitor of business, offering gifts and inducements, primping itself and its communities to appeal to business, luring them to come or to stay at home. While all states in the region seem to be ashamed of this strategy and prefer to talk about what they are doing to grow businesses from within their borders, most spend more on strategies designed to lure or

retain existing businesses.

While the quest for competitiveness may be global, the states that govern the Middle Border find themselves primarily in competition with each other. Each wants to offer everything the others offer, plus something more that differentiates it, eliminating any perceived comparative advantage its neighbors enjoy. Such "**competitive differentiation**" leads to a significant amount of policy innovation, followed by replication, followed by more innovation, followed by more replication.

There are two results. Policies proliferate, and they standardize. Generally, all the states now offer tax incentives, customized job training services or cost-sharing, development bond financing, and other business subsidies. All states use them, some more aggressively than others, and all states spend considerable amounts in advertising the availability of these inducements. Each points to its neighbors, accusing them of starting this price war. Many businesses encourage this competition by playing states off against one another.

These policies may actually have small marginal impact on the final, specific locational decisions of firms that have probably already decided to locate somewhere in the region for more compelling reasons such as wage rates, environmental factors, or energy costs. The region as a whole gains nothing from such policies, and loses a great deal from this self-defeating, beggar-thy-neighbor squandering of state resources in bidding wars.

The states have made some efforts in recent years to become more sophisticated in targeting these appeals to industries in which they believe they may have a comparative advantage. But the inducements themselves are usually indiscriminate with respect to business type. To the extent they are indiscriminate, these policies tend to reinforce rather than resist economic trends. As such, they tend to drain the hinterland communities of resources while concentrating growth in the already stronger areas. We describe these as "market-amplifying" strategies.

Within the region, there is a general east-to-west pattern to this game. The states to the east, which have enjoyed more diverse economies than those to the west, fear more the loss of business. They also face even more aggressive industrial recruitment from their neighbors further east. The western tier of states, which have depended most on agriculture, are hungriest to diversify by attracting business. Thus Nebraska, North Dakota, and South Dakota are most aggressive in offering inducements to relocating businesses, while Iowa leads the pack in direct subsidies aimed at business retention.

Recommendation 4. The states should eliminate wasteful bidding wars against each other for jobs.

Deep and indiscriminate subsidies, whether direct or cloaked as tax incentives, are counterproductive in the aggregate and unaffordable to the individual states that need to use their resources to enhance the skills of their people, improve their public infrastructure, and provide services essential to the social and economic life of their people. These deep

subsidies are particularly damaging when state incentives are used to leverage matching subsidies from local governments that impoverish their tax base.

Businesses who raid state and local treasuries for such subsidies only trade cash today for a weakened infrastructure, a troubled fiscal condition, and higher taxes or unacceptably lower services tomorrow. Businesses that plan to stay in a state won't make such a trade.

In the aggregate, such subsidies are the antithesis of a market economy. They only distort business decisions about where to locate, leading to a fundamental misallocation of resources, lower productivity, and reduced, not enhanced, competitiveness in global markets. Unless the subsidies are perpetual, they will not prevent eventual relocation of businesses, and they may not be enough in the final analysis even then.

The region as a whole is better off eschewing subsidies and ending bidding wars between the states. Their resources are better spent on improving their underlying economic advantages -- their people, their schools, and their good governments. The Southern Governor's Conference has recently reached just such a conclusion after years of engaging in bidding wars. The Middle Border states should not revisit their mistakes. The Council of Great Lakes Governors has also adopted a memorandum of understanding discouraging such behavior.

And the National Governors' Association's Task Force on Rural Development, with three Middle Border Governors (Iowa, Minnesota, and Nebraska) recently called for establishment of a "code of best practices" to guide business recruitment and relocation strategies and to discourage bidding wars (NGA 1988). The Governors of the Middle Border should take the lead in actually developing and implementing such a policy regionally.

Recommendation 5. Economic development expenditures should be explicit, and made from universally applied sources of revenue.

Everyone wants economic development, but no one wants to pay for it.

While it is too soon to evaluate the performance of many new state development strategies, it is not too soon to say that as state development policies have become more dynamic, they have also become less accountable. It is increasingly difficult to determine where the money comes from, where it goes, and how much good it does. This has long been a problem for economic development policies at all levels of government, but the new genre of state-level strategies has made this issue more troublesome.

Because the states are very budget conscious, development expenditures are increasingly either off-budget tax expenditures that shift the tax burden to other unfavored businesses and individuals, or financed by non-traditional revenue sources such as "voluntary" checkoffs, dedicated taxes or gambling proceeds. In the case of tax incentives, especially tax credits, the actual cost of this foregone tax revenue is inconsistently measured and vaguely reported, if at all. Who carries these revenue burdens and how much expenditure is involved are open questions.

This is not a suitable basis for a development program that is broad-based, enduring, and intended to benefit the entire state. Depending on such sources of revenue makes development program funding a hostage to the weak, the willing, or the unwitting. Moreover, it makes development increasingly unaccountable to the general public. When the source of development revenue is either hidden or explicitly placed on others, the true "cost" of the program is obscured from the general public.

This is luring to policy makers and makes good politics. And of course, it is not a problem that is limited to development financing, but one that troubles the entire public sector. But in development it makes particularly bad policy because such revenue approaches only harden the distinction between winners and losers, weaken the general tax base, widen inequities, and create resentments -- all of which are, or should be, contrary to the purpose of development programs. If the public wants development so badly, it should pay for it.

2. Market-Altering Strategic Development.

The other role the states have played is far more interventionist, contemporary, and venturesome. The emphasis is on direct state participation as investor, innovator, and technology commercializer in the market economy. This is the "entrepreneurial state" (Eisinger 1988). And increasingly, this is where the action is in state economic development policy, nationally, and in the region.

All six states sport a research fund aimed at development and commercialization of new technologies, and all try to identify and invest in businesses with rapid job-growth potential. We have identified over a dozen capital funds which collectively have over $100 million to invest in these purposes (see Table 4.17).

a. Quasi-Public Corporations

Sometimes, these initiatives are focused on specific industries by legislative action. Thus, in Minnesota, Iowa, and Nebraska, special research institutes are concerned with technology commercialization and innovation in agriculture or food processing. The extreme in this respect is Nebraska's gasohol program which has spent millions of dollars on research and technology commercialization, and has stockpiled $17 million to invest directly in private ethanol production.

As often, however, these initiatives are "free agents" in the economy, instructed by legislative authority only to find opportunities that promise jobs through technology and innovation. But while each state now has the capacity to make high-risk strategic investments anywhere in the private sector, they have relatively little capacity to conduct the kind of intensive research typical of private sector venture capitalists.

As a substitute for such research capacity, some states have sought private-public partnerships to manage these public investment portfolios. A wide range of complex new institutions and new arrangements among old

institutions has resulted. A raft of quasi-public corporations imbued with a wide variety of responsibilities has been chartered. They conduct, sponsor, or fund proprietary research, invest public equity in private enterprises, plan, implement, and evaluate public development programs, float bonds to finance public facilities, and promote foreign trade.

In most instances, these corporations are governed by boards consisting primarily of persons from the private sector. In one instance where the capital in the corporation is a mixture of public and private investment, the public equity investment is in the form of non-voting stock.

The idea of state venture capitalism -- the use of public funds to make equity investments in risky, high-growth potential private businesses -- raises especially important questions about the role of the state in development. Venture capital investing is traditionally among the most sensitive roles of private capital, where the high risk is highly rewarded when the business succeeds. The rationale for state involvement in this field must be that the venture capital market has failed to perform -- that is, that venture capitalists have failed to recognize the value of businesses in which the state has a comparative advantage.

But can the states be effective risk-takers? Political agents and agencies like to pick sure winners, and it seems to us likely that state venture capital will be invested in projects sure enough of success to be unlikely to meet the private venture capital criteria of high-risk, high reward. In that case, the state would have thwarted the main purpose of strategic development -- to alter market conditions to the advantage of the state -- and acted merely to reinforce trends already at work in the economy.

Even when inclined to invest in high-risk, high-reward ventures, the states are rarely equipped to know a good risk when they see it. Absent a stronger strategic planning capacity, this seems beyond the capacity of most states. That is precisely why they depend so heavily on quasi-public institutions heavily guided by the private sector.

But then, who is to determine when the public reward is worth the public risk? What standards guide the custodians of these public venture capital funds? How is the public to be assured that its funds are not merely converted to private purposes? And most ironically, if the states participate in joint ventures with private venture capitalists, does the presence of the state financing lower the risk and dull the edge of the private venture capitalist's judgment. In short, can the state participate as a venture capitalist without weakening the institution of venture capital itself?

Moreover, the quasi-public corporations formed throughout the region (and the nation) to pursue these strategic investment roles, including venture and seed capital investing, product development, and research commercialization, are not necessarily subject to the same standards of accountability as public agencies. Because they are involved in proprietary research and equity investments in private businesses, they resist disclosure of their activities in order to protect their private interests.

We found wide variations in their willingness to reveal their business. Some of these corporations will not disclose where they have made public investments, and some report to neither the executive nor the legislative branches of government, let alone to the general public.

We have not made an exhaustive review of all authorizing statutes or executive orders establishing these entities, but a scan convinces us that the states are not now able to hold them accountable to measureable performance standards, and with the important exception of Kansas, have not planned to systematically evaluate their role in economic development. In some cases, that role is virtually a covert mission.

The state auditors and financial officers are increasingly concerned with these issues because they see firsthand the revenue impact of development programs and must account for the use of the funds. Proposals for uniform tax expenditure reporting and for improved disclosure and accountability by quasi-public corporations have been discussed by national associations of these state officials (Regan 1988).

Recommendation 6. The states should establish more rigorous standards of accountability and disclosure to monitor the performance of the quasi-public corporations they have chartered to do development work and to invest state resources.

The move toward use of quasi-public corporations seems firmly in place, but there is a reasonable balance between the proprietary interests of the quasi-public corporation and the public's right to know how and how well its resources are being used. For the most part, the states have weighed too heavily on the side of corporate secrecy. At the least, the states should establish statutory standards against which to measure the performance of these quasi-public corporations, and uniform standards of reporting and accounting for their activities. This applies to university-based, technology-development focused research as well, particularly when it is linked to private contracts and private investments.

b. Strategic Planning

Strategic development, especially the investment of public resources in private businesses, requires strategic planning. Only an ongoing strategic planning process can result in reviewable policy decisions . Without it, there is no basis for evaluating the performance of many development programs simply because there is no plan indicating the rationale for and expectations of the programs.

Kansas, Minnesota, and Iowa seem to take this mission quite seriously, while North Dakota, South Dakota, and Nebraska, the most rural states, do not. This division is also roughly in proportion to the extent of state involvement in strategic development initiatives.

Elevating the role of the private sector in development decision-making has also diminished the role of public agencies in planning. In Kansas, planning is now largely undertaken by Kansas, Inc., a quasi-public

corporation. Even where state agencies engage in planning it is often inadequately funded, and meagerly staffed development departments rely heavily on consultants whose quick analysis and frosted recommendations vary little from state to state. In other cases, business interests have inaugurated consultant-led planning processes designed to develop support for economic development strategies, and these "studies" are sometimes conducted in competition with legislatively mandated but less well-funded state planning by public agencies. Plans thus lack continuity, are not supported by follow-up, and worse, do not result in the formation of a permanent strategic planning capacity within the state government.

Thus there is a paradox: The growing role of state government in economic development policy has resulted in a reduced role for public agencies in directing that policy.

Recommendation 7. Participatory planning activities should be significantly increased, with emphasis on improving the planning capacity of rural regions.

A publicly observable and accountable on-going planning process is essential to the development of a true and durable consensus about development goals and initiatives. Minnesota, Iowa, and Kansas have made significant efforts in this area, and Kansas is considering a very ambitious participatory planning effort aimed specifically at rural communities. The other states lag, although with very limited resources, North Dakota is doing more.

At a minimum, all the states should increase their support for regional planning agencies and encourage local governments to strengthen their own involvement in those agencies.

C. Small Agricultural Communities and State Development Policies.

Small agricultural communities are not yet on the development agenda of the states of the Middle Border. None of the states have achieved an explicit policy response to their special needs. Indeed, the states seem bewildered about what to do with these scattered, small communities. Many seem to be afraid that nothing can be done, and even more afraid to say so. We see some encouraging signs that this is changing, but not very fast and not everywhere.

In all states, the emphasis remains too much on business development through recruitment and subsidy, and on strategic investment in research, commercialization, and venture capital financing. These approaches have diverted attention from community development, basic public services, and the self-employment of people in their own communities. As development strategies, they tend to exclude small agricultural communities, although they may be of value to some rural trade and growth centers.

Among the states, only Minnesota has an explicit, statutorily-based rural development program. But even here the promise for small communities has been greater than the performance. The state has moved much more quickly to implement the flashier technology-based research, development,

and venture capital aspects of the 1987 legislation than the rural rehabilitation grants, the rural investment guide, or the rural challenge grants. Moreover, it dismantled the state's 50-year old $10 million rural rehabilitation fund in order to help capitalize the Greater Minnesota Corporation. Whether this will produce benefits for rural communities remains to be seen.

Much of the community development activity in all the states is largely rudimentary and unimaginative, and probably ineffective. It is not that the states do not have community development programs. They all have community improvement competitions and grants or low-interest loans for public facilities. But these programs either depend heavily on federal funds, or are sparingly funded. Increasingly, due to federal budget cuts of 63% in rural programs since 1980 (John and Norris 1989), they are both.

Rural communities fare particularly poorly in this circumstance because they do not have professional staff to pursue or manage competitive grants and because their dispersed location and large numbers make it difficult to reach many communities with direct assistance. On-going technical planning assistance to these small communities is truly scarce.

Instead, there seems to be an implicit triage policy that concentrates efforts on the "potentially viable" larger rural communities while offering development placebos to smaller places. Development consultants have mastered the art of couching such policies in terms that place the burden and the blame on the most deeply wounded communities because they are not yet "ready" for development.

None of the states acknowledge an explicit policy about "places," although in interviews, officials in several states told us that their state does not consider it to be its responsibility to assure the survival of specific communities.

Instead, the states promote "self-help" strategies designed to "prepare" communities for economic development. In effect, these turn out to be more style than substance -- helping communities understand theoretical development process. They frequently involve short, intensive episodes of professional attention from state agency staff or consultants, and sometimes result in a report and frequently in some attempt to improve the appearance or amenities of the community. Or they are designed to train community leaders in hosting techniques to help them fulfill industrial recruitment goals.

More attention is placed on larger regional trade centers that are less dependent on agriculture and are conduits for rural people who are abandoning or commuting from their smaller communities. These communities might become something other than agricultural communities. Here the available labor supply is larger, the tax base more substantial and therefore more stable and more available as a source of inducements. Tax incentives, enterprise zones, and other measures may be effective in helping these regional growth centers attract and retain businesses.

Regional trade centers also get the lion's share of the federal block

grant funds administered by the states we analyzed (Tables 4.4 and 4.5). Tax subsidies are also likely to favor metropolitan, urban, or growth centers, as demonstrated by Nebraska's case (Tables 4.10 - 4.14). Direct state subsidies do somewhat better in Iowa (Tables 4.4 and 4.5), but are especially rural-growth-center oriented in South Dakota (Tables 4.6 and 4.7) These rural growth centers are also usually the communities through which regional state services, such as business development centers, are located.

The growth of these regional centers becomes in part a self-fulfilling prophecy, and state development policy becomes little more than the accurate prediction, reflection, and reinforcement of trends underway in the economy. This leaves smaller communities with little but warnings about the need to adapt to the realities of new global competitiveness, advice on how to pretty up, bump, and grind, and a waiting list for grants for wastewater treatment facilities. Despite disclaimers, these constitute implicit place policies.

The evidence is strong. The states don't know how to help small agricultural communities and their policies and practices, by default if not design, tend to drain them gradually of resources in favor of pockets of prosperity in rural areas. This comes much closer to an informal demographic restructuring policy than it does to a formal economic development policy.

Despite this pessimistic note, we see important signs of change in the states.

Minnesota stands out as an example of an effort to build its business development program on a foundation of community development. It (as well as several other states) has used federal block grant funds to capitalize local revolving loan funds for small business development, and it has established a public finance authority to improve financing of infrastructure improvements. Its Rural and Economic Development Act of 1987 provides numerous commitments to rural community development, although as noted, implementation has been slow.

Several states, especially Iowa and Kansas, are placing greater emphasis on regional cooperation among small communities, and putting money into supporting innovative inter-local cooperation. Likewise, North Dakota has increased its support for regional planning groups within the state.

Modest but innovative new programs have sprung up in the past year or so in all of the states. Some support self-employment (Iowa and Minnesota), home-based businesses (North Dakota and Iowa), others small business formation (Nebraska), and yet others agriculturally related small businesses (Iowa and South Dakota). More efforts are also being made to break down the paperwork burden and bureaucratic hurdles that distance small communities from state assistance. Minnesota's consolidated, single application process makes it possible for small communities without professional staff to prepare a single set of documents for all state assistance programs. Kansas' Rural Assistance Center is mandated to help small communities identify and use the state programs they are eligible for. And there are now some excellent step-by-step, "do-it-yourself" community planning guides,

such as South Dakota's Guide to Opportunities for Local Development (GOLD).

In short, every state has at least one relatively new approach aimed at smaller communities (see Table 5.1). Individually, within the states, these efforts seem meager. But taken together, they suggest what is possible, and provide some good ideas upon which to base a region-wide common policy toward small communities. If the small agricultural community is not yet on the development agenda of the states, perhaps at least it is getting there.

Recommendation 8. Small communities would be better served by reorienting the state development paradigm from "competitiveness" to "cooperation."

Significantly, most of these new ideas have some element of cooperation in them -- cooperation among communities, cooperation within the community, or cooperation between state agencies. Perhaps the bigger barrier to helping small agricultural communities is not their size or their remoteness, but the fact that the development paradigm that serves them best is based on cooperation, not competition. Indeed, the antidote for places that are comparatively disadvantaged has long been cooperation. The remarkable accomplishments of the European Community in the past 30 years is testimonial to that fact. The states and their small communities have something to gain from cooperation, too.

Recommendation 9. The states should strengthen programs aimed at improving the development capacity of small communities through inter-local cooperation.

All the states offer some development planning assistance to small communities, but usually in textbook form, or through community improvement competition aimed at making every place equally attractive to prospective businesses. Though of some value, this isn't enough.

If small communities are expected to "ready" themselves for development, or to gain access to state and federal funds available on a competitive basis, they need on-going, staff-based, professional planning and development assistance. Cooperative or "clustering" arrangements between small communities to achieve this level of professionalism should be encouraged with direct matching state aid. Such an approach has been experimented with in Nebraska, is being more aggressively experimented with in Iowa, and is the subject of a major proposal in Kansas. It will be especially effective if other forms of state development assistance are linked to or enhanced by evidence of inter-local cooperative efforts.

But it is important that "clustering" and "cooperative planning" not become mere code words for subservience of small communities to the interests of regional growth centers. To the contrary, what we are proposing is a deliberate clustering of small communities into groups that can anticipate and advocate their own interests, independent of the interests of the regional growth centers that might dominate regional planning bodies. The purpose is not to separate small communities from the larger central places that influence their economies -- that would be folly -- but to place those small communities on a par with central places in pursuing services, opportunities, and resources.

Table 5.1 Good Ideas for Small Agricultural Communities

These are some of the better policy ideas that we have been able to identify for small agricultural communities in six Middle Border states. Many of the programs are too new to have been evaluated, but they are intended to reach small agricultural communities with the kind of assistance that reflects their special development needs.

IOWA

Rural Revitalization Program -- Provides grants of up to $125,000 for private/public pilot projects in clusters of rural communities that cooperate to promote and market Iowa crops, especially alternative and value-added crops. Contact: William H. Greiner, Iowa Department of Agriculture and Land Stewardship (515) 281-6444.

Self-Employment Loan Program -- Low-interest loans of up to $5,000 to low-income Iowans for self-employment ventures. Contact: Burt Powley, SELP Director, Department of Economic Development (515) 281-7237.

Rural Enterprise Fund -- Provides grants of up to $50,000 to clusters of small communities that cooperatively plan and implement economic development strategies, with special emphasis on involving groups not previously engaged in development activity (youth, elderly, small and home-based businesses, and disadvantaged). Contact: Kathy Beery, Rural Development Coordinator, Department of Economic Development (515) 281-7269.

KANSAS

Rural Assistance Center -- Provides a toll-free hotline referral service for small communities seeking assistance, a data base on available assistance, and in cooperation with Kansas State University, coordination for new and exisiting development programs for rural communities. Contact: Nancy E. McCabe, Department of Commerce, (913) 296-2686.

Center for Rural Initiatives -- Provides opportunities for "lateral learning" as leaders from small communities exchange experiences and learn from each other about development. Highlights self-development efforts of communities and provides training for decision-makers. Contact: Carol Peak, Assistant Director, (913) 532-6868.

MINNESOTA

The Community Development Application -- A consolidated, user-firendly, single application for 11 programs administrered by the Community Development Division -- applicants don't need to know which program fits their needs. Contact: David J. Speer, Commissioner, Department of Trade and Economic Development, (612) 296-6424.

Agricultural Energy Savings Program -- Provides grants of up to $100,000 to support research and demonstration of energy-saving techniques that can be used on Minnesota farms. Contact: Cindy Sullivan, Greater Minnesota Corporation, (612) 338-6666.

Rural Rehabilitation Challenge Grant Program -- Provides grants to regional non-profit organizations to establish revolving loan accounts from which to make loans of up to $100,000 to rural businesses. Contact: Mark Lofthus, Director Rural Development Board, (612) 296-9090.

NEBRASKA

Rural Development Demonstration Project -- Provides competitive grants to clusters of communities that cooperate in a development program. Emphasizes the need to provide on-going professional staff assistance to these projects. Part of the Agriculture in Transition Program which helps farmers and others dislocated by the farm crisis find ways to stay in or near their community. Sponsored by the Greater Nebraska Private Industry Council and Job Training of Greater Nebraska, which administer the JTPA program for the state. Contact: Mollie Anderson, Director, JTGN, (402) 471-3181.

Managing Main Street -- A six-week series of workshops offering practical planning and management training for business people from clusters of communities under 1,500 in population. Co-sponsored by the Lincoln and Omaha campuses of the University of Nebraska. Contact: Larry B. Swain, UN-L Cooperative Extention, (402) 472-1870.

NORTH DAKOTA

Home-Based Manufacturing and Marketing Program -- Provides technical assistance across a wide variety of areas, especially marketing, to home-based businesses through Small Business Development Centers. Contact: Carole Bordenkircher, SBDC Director, (701) 224-2810.

Center for Rural Revitalization -- Provides community development planning services to small communities, with an emphasis on strong follow-up after initial contacts. Contact: Ron Anderson, Director, (701) 237-7375.

SOUTH DAKOTA

Agricultural Loan Participation Program -- Provides 10-year, low-interest loans (in cooperation with local participating lenders) to farmers who establish innovative enterprises that add-value or create new uses for crops or develop new agricultural products. Contact: Randy Englund, Rural Development Office, Department of Agriculture, (605) 773-3375.

Guide to Opportunities for Local Development -- Offers a step-by-step process for planning and implementing an economic and community development program at the local level. Contact: Loriee Steever, Governor's Office of Economic Development, (605) 773-5032.

Recommendation 10. The states could sponsor interchanges of ideas about small community development strategies, including a regional fair of development ideas aimed specifically at small communities.

Once in a while, development officials, practitioners, volunteers, and public officials from small communities should be invited to share ideas, evaluate experiences, and discuss their common problems. Word about good ideas spreads quickly on the flashier, more exotic, and more expensive development programs. That may be because they are competitively designed: programs that challenge neighbors to replicate. To the extent that the good ideas for small communities are based on cooperative, not competitive strategies, news does not travel as fast. It has to be helped. The states should do so.

Recommendation 11. State technical assistance to communities should be focussed at the community level, not the program level.

Too much technical assistance is program-based. If what you need is what the program offers, and if you know that's what you need, this kind of assistance can be valuable.

But it can also be bureaucratic, narrow, and inappropriate to the most important needs of the community. Technical assistance that is community-centered, responsive to ill-defined needs, and versatile (familiar with all the programs offered by the states) is much better.

Recommendation 12. States should consolidate application processes and forms so that all assistance can be requested with a single set of documents.

Minnesota's approach is a model. It's simple, and state officials feel that it works for them as well as for small communities.

Recommendation 13. The states should collaborate to provide small communities with technical assistance in specialized program areas such as water and wastewater treatment services, solid waste disposal, and housing assistance.

Infrastructure needs remain serious, and in areas where both technologies and federal environmental regulations are changing fast, the states could benefit from consolidating their technical services to small communities. The needs of these communities in these areas are different from those of larger communities, not only because the scale and demographic characteristics of these communities present special problems, but because the new infrastructure technologies (especially telecommunications) remain obtuse in design and application to many rural community leaders.

In some cases, specialized assistance can be provided by private, non-profit organizations, such as is now provided to small communities

throughout the region by the Midwest Assistance Program in the area of water and wastewater treatment planning. Such interstate collaborations would accomplish economies of scale in the provision of technical assistance, especially in new and emerging technology areas.

Where federal funds might be available, the benefits of collaboration could be stretched even further. With federal approval, Community Development Block Grant funds could be pooled by the states to provide such specialized services to their small communities in other areas of technical assistance.

D. Agricultural Reform and Economic Development

Commercial agriculture has developed in a way that damages the small agricultural communities that were founded to support it. The expansion in farm size has meant more product output, but fewer people on farms. And it is clear that the viability of small agricultural communities depends more on the number of people than on the quantity of commodities they produce. As Figure 2.2 demonstrates, there is a strong relationship between the loss of farm population and the loss of population in farm-based counties.

For its part, the federal government has focussed its attention on commercial agriculture as a source of increased food production efficiency, not as a source of rural economic development. Its resources have been applied to agricultural technology development and adoption, income support for farmers, and structural adjustment in farm size -- all policies that diminish agriculture as a source of jobs.

The federal role here is so pervasive that states have understandably come to regard production agriculture as a federal responsibility, and as far as economic development is concerned, as an industry unable to support the level of population in rural areas that it has supported in the past. They tend to accept as inevitable the trend toward fewer and larger and more technologically complex farms. And if that trend is inevitable, then agriculture cannot be a meaningful part of rural economic development strategies.

The states therefore run agricultural programs in parallel with economic development programs, focusing on "loss-cutting" strategies such as input reduction (import substitution), and family farm preservation (debt settlement and land ownership policies), or on industrial development opportunities related to agriculture such as food processing and, especially in Nebraska's case, alcohol fuels.

The family farm preservation policies stand out as among the few public economic policies passionately urged on the states by their rural citizens. They exist in all six states, despite repeated attempts to weaken or do away with them in the name of economic development.

It is in this area, therefore, that the states have had to wrestle most with the vexing question of "development for whom?" Farmers are an established part of the social and economic landscape of each of these states, the most numerous and dispersed occupational class. Many of them

are clearly among the losers in the structural changes taking place in agriculture. The states are therefore ambivalent about the transformation of agriculture, and squeamish with respect to the policy issues it raises.

All have therefore enacted laws restricting corporate farming and generally refused to weaken or repeal them (in fact, they have been strengthened in the past three years in most of the states), and some have adopted more debtor-friendly lending laws.

But these are essentially rear guard actions, and they are (properly) defensive reactions against the assumption that "progress" in agriculture is alien to rural development, and that the small agricultural community can only tread water while ways are invented to dissolve its ties to agriculture.

Along this path treads some weary logic. One argument heard increasingly in the Middle Border, is that small, depressed agricultural communities are "disconnected" from the prosperous metropolitan areas that share their state boundaries, and that something needs to be done to "reconnect" them.

But nothing could be further from the truth than this "disconnectedness" notion. In fact, agricultural communities are more connected than ever to the rest of the economy.

For forty years, the agricultural economy has been rapidly integrated with the industrial economy through the markets for farm inputs such as tractors, fertilizer, chemicals, and especially credit. Between 1940 and 1986, as real gross farm income doubled nationally due to increased output (despite lower commodity prices), real net income fell 10 percent. Why? Because of increased purchases of industrial inputs from other sectors of the economy. After adjustments for inflation, expenditures for fertilizer, pesticides, and other intermediate products have tripled, while expenditures for capital items like tractors and buildings have quadrupled. Interest payments on loans to pay for these purchases has multiplied sevenfold. As these inputs have enabled and induced farm enlargement, the number of farms has fallen by two-thirds over the same period (Strange 1988). With this shrinkage in farm population, the population of farm-based counties has fallen as well (Figure 2.2)

And in the past 20 years, the farm economy has been increasingly connected to the global economy as well through increasing trade.

The problem for small agricultural communities therefore is not that they are "disconnected" from the rest of society, but that they are connected by means of an agricultural drain tube. Assuming a continuous, unidirectional change in the structure of agriculture toward fewer and larger, more industrially structured farms, small towns must become continuously less viable. In this context, the tendency to focus economic development policy on regional growth centers serves primarily to redefine how big a town has to be to serve as a funnel to drain the rural economy into the larger economy. Suggesting that small communities are "disconnected" only obscures the true, less benign nature of their

relationship with the larger society.

The question for the states has therefore become whether to consider agricultural reform as a source of economic development for rural communities. If agriculture has developed in a way that jeopardizes small communities, can it be changed in ways that make it more supportive of rural communities? Can reducing purchased inputs while maintaining output levels improve the efficiency of farms, increase returns to farm operators, retain more of the value of farm output in the local economy, and maintain levels of farm population? Can such strategies even reduce the costs of starting a new farm, and will new, related non-farm business opportunities be established in the wake of these reforms? Do strategies for reducing pest control inputs through increased crop rotation and diversification open opportunities for adding value to new crops?

The movement for sustainable agriculture raises all these questions. Concern about the environmental impacts of agriculture, especially groundwater pollution from agricultural chemicals and fertilizer, adds to the impulse for such reforms.

All the states have therefore made modest but important steps in the direction of supporting these reforms. All now have sustainable agriculture research programs in their land grant universities. Iowa supports a major effort in this area (the Aldo Leopold Center) with a tax on agricultural chemicals. In addition, Minnesota makes loans to farmers adopting sustainable practices and has funded on-farm research aimed at reducing energy consumption; North Dakota has developed an "alternatives for agriculture" plan focussing on these issues; Iowa has a linked-deposit program encouraging loans to diversify farms into new crops and is funding local projects that aim to promote and market alternative crops; and South Dakota is making loans to farmers who add agriculturally related secondary enterprises to their operations.

All these efforts suggest that the states recognize that agricultural reform is a viable development strategy. Unfortunately, these remain fledgling efforts, and in the case of sustainable agriculture research, they remain heavily dependent on federal funding. And the potential of sustainable agriculture to produce secondary enterprises in the rural community -- everything from solar collector manufacture to composting services, to crop consulting -- remains largely ignored, or left to the market.

Recommendation 14. States should expand efforts to reduce purchased inputs and conserve resources in agriculture.

The states of the Middle Border are doing more in recent years to wean agriculture, their most basic industry, from its excessive dependence on imported energy for fertilizer and pesticides.

These efforts to achieve a more sustainable agriculture are worthy, but they currently depend heavily on federal research funds earmarked for that purpose. There are notable exceptions -- Iowa's Leopold Center is supported by a tax on agricultural inputs, and Minnesota's Agricultural Utilization

and Research Institute is supported in part by funds the state receives from an oil industry overcharge lawsuit.

Such efforts ought to be replicated in all the states, and major programs launched to improve agricultural productivity by maintaining output levels while reducing the use of these expensive inputs. Small communities will be major beneficiaries of these increases in productivity because they are the primary victims of the environmental damage done by these inputs, and because improved productivity through reduced expenditure for these commercial products will be reflected in greater aggregate buying power at the farm level.

The states as a whole will be winners as well, because (except North Dakota) they are major energy importers, and ultimately, change in the energy base of agriculture from stock to flow (fossil fuels to solar) will be both necessary and desirable for energy importers.

There will be losers, of course. The national companies that sell the products will be the principle losers. In small communities, the dealers who handle their products will lose, unless they adapt by converting their businesses to the products and services needed by sustainable farmers. But they will be outnumbered by the winners, including those in the retail sector who benefit from increased or stabilized population, those who find new non-farm business opportunities in the changing structure of agriculture, and those whose farming operations yield more net income.

Recommendation 15. States should support efforts to develop non-farm businesses and secondary farm enterprises that spring from import substitution strategies being employed by farmers.

Iowa, Minnesota, and Nebraska have given significant attention to new agricultural product development, and most of the states have adopted some policy measures intended to increase value-added manufacturing and marketing of agricultural products. But relatively little attention has been given to the potential for new, small-scale enterprises to be developed from import substitution (input reduction) strategies being encouraged by states and being adopted on many farms. South Dakota's Agricultural Participation Loan Program comes the closest to this purpose.

Fundamental to the notion of import substitution is that purchased inputs will be replaced with something, so that production levels remain high (or fall proportionally less than inputs). In some cases, the replacement is simply better management, as when crops are rotated to reduce pesticide requirements. But in other cases, the substitutes involve new enterprises.

Many kinds of opportunities are created. New enterprises may be established on the farm, such as manure composting for fertilizer substitute. In this case, the management and labor of the farmer are more fully employed. New enterprises may also be established off the farm, such as a local lumber yard establishing a solar collector design and construction service to retrofit livestock buildings for solar heat or solar

hot water systems. In yet other cases, new opportunities may be created by the interaction of new systems on and off the farm. The case of the South Dakota rancher who is marketing a computer activated predator control collar that substitutes for predator poisons is exemplary. And of course, there is the increased potential for crop and soil consultants to advise farmers on sustainable management practices.

The states should explore ways to identify and encourage these new entrepreneurial activities in small communities. Most of these enterprises will be located on or near farms. Most will be small scale, and many will fit nicely with other already existing enterprises. While not likely to produce ceremonial grand openings, they are likely to utilize the skills and entrepreneurial attributes of people in small places.

Recommendation 16. States should establish or strengthen programs to aid beginning farmers, focusing on opportunities available in the disposal of land from federal agencies and capitalizing on the shift to sustainable agriculture.

A farm is a business, and a new farm is a new business for small communities. The number of farms associated with a community, not the volume of commodity produced on those farms, is the key developmental characteristic.

In these six states, significant opportunities now exist to promote the establishment of new farms. Over 380,000 acres of farmland suitable for family-sized farms are held by the Farmers Home Administration (FmHA) which acquired them in these states as part of the debt settlement process. Much more land is likely to be acquired by FmHA in the next few years. Under federal law, this land must be sold to family-sized farmers under favorable terms. This presents a rare opportunity for the states to maximize the potential of beginning farmer programs, especially where promoting sustainable agriculture is also a state objective. Sustainable agriculture should aid beginning farmers by optimizing the economic return to their management skills and their labor while minimizing their capital and cash flow requirements.

It would be possible, for example, to provide supplemental transition assistance to beginning farmers who acquire federal property and agree to convert the farm to a low-input or sustainable operation. Additional funds could be provided to those who cooperate with state-sponsored research programs by establishing a farming operation that employs the most practicable sustainable farming systems and keeping detailed records for the use of scientists. Several states now sponsor beginning farm loan programs. These programs could be better linked to FmHA land disposal and to sustainable agriculture initiatives.

E. The Entrepreneurial Character of Small Places: Small Businesses and Micro-enterprises

The salient feature of small agricultural communities is small-scale enterprise, both on the farm and off. In farm-based counties, over two-

fifths of all working people are self-employed (Table 2.5), and just under half of all earned income is from self-employment (Table 2.6). Excluding the farm population, over one-fourth of the people and over one-fourth of the income earned in these counties is from self-employment. People in these places are used to finding their own ways to make a living, making their own opportunities with limited resources. "Ownership," not just of capital, but of their own fate, is highly valued in small places.

Many of these small businesses are big enough to hire a few employees. Many more are "micro-enterprises," not even big enough to fully employ the proprietor. The importance of such small businesses and microenterprises in rural communities lies not only in the generation of employment and income, but also in the wider distribution of economic opportunity, greater local retention of wealth and better rural access to goods and services.

Unfortunately, the states have done relatively little to build on this important entrepreneurial characteristic. Entrepreneurship is too often seen only as an opportunity to rapidly create many new jobs through high-risk technological innovation and the introduction of exotic processes or products. By concentrating on more exotic kinds of entrepreneurship -- over $100 million invested in product development, commercialization, seed capital and venture capital funds -- the state may be overlooking the plainer and more widespread entrepreneurial character that is the underlying strength of their most rural communities.

Entrepreneurship can be a strategy for these communities, too, if programs are matched to the scale of the enterprises and the capital of the entrepreneurs. This entrepreneurial spirit is especially important when times are hard, as they have been, and when basic industries are changing, as agriculture is. New opportunities are created in just these circumstances.

Unfortunately, the creation and retention of small businesses in rural communities receives a relatively low priority in state economic development programs. In fact, if the federal government didn't require matching funds for its contribution to small business centers in the states, we wonder if the states would support them at all.

Iowa's decision to increase its support for these centers beyond the amount required to match federal funds is a welcome development. So too, are the new programs supporting self-employment, agricultural innovation, and home-based businesses in Iowa, Minnesota, and North Dakota.

Recommendation 17. States should develop programs that build on the self-employment sector, both farm and non-farm.

These modest new programs for the self-employed in Iowa and Minnesota, and for home-based businesses in Iowa and North Dakota, and the loan programs encouraging agricultural innovations in Minnesota and South Dakota are important innovations in state policy. Such programs produce many small development victories, although not many ribbon-cutting ceremonies. That makes them as plain and unimpressive politically as small communities are, politically. All the more appropriate. The states should invest more in

self-employment programs, cooperate with each other to find out what works and what doesn't.

Recommendation 18. States should expand their small business development centers for the specific purpose of encouraging new business formation in small rural communities.

The available evidence indicates that clients who seek assistance from the small business development centers are satisfied with the help they get, but that these programs have difficulty reaching people in remote places and are primarily of benefit to those with established small businesses or with clear business plans and specific problems (see Section IV B). Greater emphasis needs to be placed on "excavating" (Bernier and McKemey 1987) new businesses by creating an environment in rural communities that encourages and nourishes new ideas from new entrepreneurs. More accessible and continuous support services are needed that aim not just at the would-be entrepreneur, but at the whole business infrastructure of the community. Nebraska's Managing Main Street program is a good start in this direction.

Recommendation 19. Self-employment and small business strategies should be designed to tap the potential role of local banks and locally owned capital in financing the self development of people.

Farm-based counties have 24 percent more income per capita from passive investments than metropolitan areas in these six states. We do not know where this money is currently invested, but there is little doubt but that much of it leaves the community. Development strategies for these communities should consider ways to encourage the local redeployment of this capital. Linked deposit programs in Iowa now encourage local banks to lend funds for agricultural diversification. A similar approach might be tried to encourage loans to other home-based businesses or self-employment enterprises. On the same terms, local investors could be encouraged to make "development deposits" in local banks.

Recommendation 20. States should develop the capacity to provide small communities with technical assistance to determine the viability of cooperative or employee ownership strategies for business retention and start-up.

Other distressed regions and economic sectors have also found hope at the community level in cooperatively owned, or employee-owned enterprises. These group forms of self-employment may hold promise for farm-based communities as well. We have a long tradition of cooperation in the farm sector, but less experience in employee ownership. The states should consider programs of technical assistance to communities in which cooperative or employee ownership might be a viable alternative to the loss of a business, or might provide the impetus for formation of a new business.

F. The Need for Federal Policy

While the Middle Border states need to cooperate to meet the needs of their small agricultural communities, the federal government has a

responsibility as well. This responsibility derives both from the multistate nature of this region and from the long term role the federal government has played in shaping the path of agricultural development that has so damaged these communities. The fact that these communities now constitute a depressed demographic and political minority within their respective states heightens the need for federal intervention.

But the federal government has retreated from rural development policy generally, and has buried the needs of these communities under a heap of narrowly designed farm commodity programs. This is not an attack on the need for farm programs, but a rejection of the notion that they substitute for rural development policy.

The federal government can direct federal assistance to smaller communities, provide better technical assistance to small communities facing difficulties associated with deteriorating infrastructure and housing stock, and strengthen programs to finance small business development, including self-employment, in small communities. All of these objectives can be accomplished under the mantle of two fundamental roles of the federal government: to redistribute resources to distressed regions, and to establish national standards.

Recommendation 21. The federal government should increase rural development assistance to states that use such assistance in collaboration with other states to address the special needs of small communities affected by long term structural changes in agriculture.

The federal government should encourage the states to cooperate by supporting the formation of interstate compacts to deal with the problems of small agricultural communities. These compacts might be narrower in purpose and function than similar compacts formed to support development in Appalachia, and more recently, in the Mississippi Delta region. The Middle Border is not analogous to these regions in every way -- not yet. It certainly does not have the incidence of abject poverty, illiteracy and low educational achievement, or racial division.

But the Middle Border states deserve the support of the federal government in dealing with the special problems of small agricultural communities because the long term decline they have experienced is largely a product of federal agricultural policies. And they need the encouragement to cooperate with each other. At the very least, Community Development Block Grant funds should be expanded and pooled for matching funds for this purpose.

Recommendation 22. The federal government should establish a regionally based national rural development policy.

Rural America is a diverse collection of communities with many different characteristics and problems. Agricultural communities are but one part of the tapestry of cultures that populate the landscape of rural America. This diversity has, in some ways, frustrated the development of a

national policy. What comprehensive policy is appropriate to them all? None.

Instead, the federal government should develop a regionally based rural development policy that responds to all the needs of its rural population. There may, of course, be some common elements to these policies. But the special needs of rural New England, the South, Appalachia, and the Middle Border, to name a few, require regional approaches.

The states of the Middle Border should support formation of such a policy despite fears that even poorer rural regions will be favored by such policies. If the federal government continues to ignore national rural development needs, or worse, continues to subsume them under agricultural policy, the small agricultural communities of the Middle Border will continue to suffer. On the other hand, if resources are diverted from agricultural programs to non-regionally based rural development programs on the rationale that agricultural areas have already been well-served by federal assistance, small agricultural communities of the Middle Border will have gained nothing.

VI. A FINAL WORD FOR SMALL COMMUNITIES

This report has focused on the policies and programs of six states, and its tone has been critical. We've found the states to be bewildered about what to do for small communities. Sometimes, we've found cynicism and bias against small communities. In passing, we've also chastised the federal government for failing to provide a meaningful policy framework within which the states might shape rural development policies.

However, we've also found some basis for optimism -- some good programs, some helpful approaches, some new thinking. It doesn't satisfy us that small communities are yet truly on the development agenda of the states, but it convinces us that appropriate policy responses are within reach. The political challenge for small communities is to command the attention of their fellow citizens.

These findings come from an organization headquartered in Walthill, Nebraska (population, 850). Its staff are for the most part from Middle Border communities like Hartington (1,730), Lyons (1,214), Niobrara (419), and Platte Center (367), in Nebraska; New Virginia (512), in Iowa; Dante (104) in South Dakota; and Roundup (2,119) in Montana. The members of its Board of Directors are farmers and ranchers, school teachers and business people, social workers, students and retired people from Nebraska communities like Anselmo (187), Bassett (1,009), Bloomfield (1,393), Burwell (1,383), Cody (177), Hickman (687), Meadow Grove (400), and Winnebago (902).

In other words, we're not abstractly interested in small places. They are our homes and our places of work.

So our final comments are addressed directly to our fellow citizens of small places. They boil down to this: We should take more responsibility for ourselves and for each other.

It isn't up to the states and the federal government to "decide" what should be done to help small places. The burden is on those of us who live in those places to be full participants in making development policy.

This is a political process, not a beauty queen contest. Being "ready" for development, as we are so often admonished to be, doesn't mean having a clean main street and an industrial recruitment committee trained to host prospective business representatives. Who are we, children who have to be told to wash our hands because guests are coming to dinner?

"Being ready" for development means being there, organized and articulate, when the development decisions are being made, whether it is in the state capital, in the corporate board room, or in the regional planning commission offices forty miles down the road in your area trade center. For far too long we have behaved as passive recipients of development policy.

The truth is, though, that in some ways many of us deserve to be treated like development orphans. Too many of us have let our community pride and our civic responsibilities sag. We don't support local business, we don't involve our churches in community affairs, we've given up control

of our cooperatives, we treat our local history as if it were no more important than the geneology of a few prominent people, and all we know about the school is the basketball team's record.

Worst of all, many of us have allowed the community to be divided along "farm" and "town" lines while resisting cooperative efforts with other communities out of fear that we'll lose our identity.

How could wonderful places of sterling character with names like Bowbells, Broken Bow, Pretty Prairie, Protection, Sleepy Eye, Weeping Water, What Cheer, Winner, and Zap lose their identity?

If we are to survive in a meaningful way as whole communities that provide opportunities, nurture children, and protect the future, we will have to learn to work together better than we have. We'll have to learn to turn inward and toward each other for solutions. When we support and strengthen local institutions and businesses, when we participate in local government, when we celebrate our cultural heritage, and when we get organized with each other to shape political decisions that affect us, we'll be ready for development on our own terms.

Then the states won't have to feel bewildered about what to do for places that seem destined to die.

This report then, while about what the states are doing or should do, is really a challenge to small communities. If in a democracy you get what you deserve, then it's up to us to work our way on to the development agenda of the states.

VII. COMMENTS FROM THE GOVERNORS

We sent an early draft of the foregoing report to the governors of the six states whose policies we have reviewed and asked them to comment on it. Based on the comments we received from five governors or their staffs, we made some revisions in the reports. The comments were extremely helpful, and had considerable impact on the final report.

We then sent the final version of the report to the governors again, asking for their comments and promising to publish them. Those comments appear on the following pages.

STATE OF KANSAS

OFFICE OF THE GOVERNOR
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Topeka 66612-1590
(913) 296-3232

February 12, 1990

Mike Hayden *Governor*

Marty Strange
Program Director
Center for Rural Affairs
Post Office Box 405
Walthill, Nebraska 68067

Dear Mr. Strange:

Thank you for the opportunity to review and respond to your final draft of the report entitled, **Half a Glass of Water.** Kansas, like Iowa, Minnesota, Nebraska, North Dakota and South Dakota is a rural state. The importance of our rural areas, both farm and non-farm based, cannot be overlooked in the development of state policy.

Your report looks at each state's economic development programs and policies in relationship to the needs of counties where 30% of non-service, non-retail jobs were in production agriculture. Over the six state region, these farm based rural counties were determined to be more economically distressed than their non-farm rural or urban counterparts.

Rather than respond in detail to the comprehensive review provided in **Half a glass of Water**, I would like to make several general observations. The report notes Kansas' efforts in the areas of strategic planning, venture capital, and our most recent efforts targeting rural development needs, such as the Task Force on the Future of Rural Communities, and Kansas Inc.'s Rural Action Plan. All of these activities have proved valuable to Kansas.

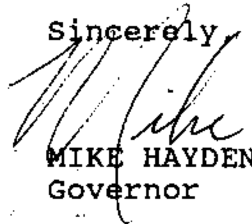
The Rural Action Plan rated the economic condition of Kansas counties based on a composite of employment, income, age, population, and welfare participation factors. Counties which you designated as farm based, range from the least to the most distressed. As a group, non-farm rural counties suffer from the most economic distress in this state. This does not negate the needs of our agriculturally based rural communities. However, it does point out the complexity of identifying and meeting economic development needs of all areas, rural and urban.

To create an environment more responsive to the wide-ranging economic goals of rural Kansans I established the Rural Assistance Center at the Department of Commerce. This Center acts as a single point of contact, assisting rural communities, businesses, and individuals in assessing their needs and accessing the appropriate sources of government assistance. In about six months the Center has responded to nearly 500 requests for assistance, linking rural Kansans with over 75 programs and services.

We are continually striving to find ways to assure the future of rural Kansas. Copies of your report have been provided to Harland Priddle, Secretary of Commerce, and Secretary of Agriculture Sam Brownback. The recommendations contained within your report will be taken into consideration. Like you, we prefer to think of the glass as half full, rather than half empty.

Again, thank you for the opportunity to respond to your report.

Sincerely,



MIKE HAYDEN
Governor

MH:NEM:nem

STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

RUDY PERPICH
GOVERNOR

February 16, 1990

Mr. Marty Strange
Program Director
Center for Rural Affairs
P. O. Box 405
Walthill, Nebraska 68067

Dear Mr. Strange:

Thank you for the opportunity to review the report, "Half a Glass of Water." I am pleased that the report details Minnesota's many initiatives to encourage development in our rural economy.

Our state, more than the others you studied, shows strong differences between healthy metro areas and struggling rural sectors. The gulf between these "two Minnesotas" reinforces the need to examine whether economic opportunity is available to all our citizens. Continuing review of current state initiatives will, I hope, keep Minnesota among the leaders in innovative and community-based assistance for rural areas.

Sincerely,

RUDY PERPICH
Governor

AN EQUAL OPPORTUNITY EMPLOYER

GEORGE A. SINNER
GOVERNOR

State of North Dakota

OFFICE OF THE GOVERNOR
BISMARCK, NORTH DAKOTA 58505
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February 9, 1990

Marty Strange
Program Director
Center for Rural Affairs
P.O. Box 405
Walthill, Nebraska 68067

Dear Mr. Strange:

Congratulations to you and your staff upon completion of the final draft of "Half a Glass of Water" and thanks for the opportunity to provide comments concerning North Dakota economic development policies.

Your comparison of economic development policy and programs of the six middle border states is interesting and thought-provocative. The report is the first I've seen that studies and compares individual state economic development policy and its effect on targeted rural and agricultural dependent counties.

Although I question your characterization of some of North Dakota's economic development activities, it provides some fresh new insight into the needs and aspirations of geographic areas that traditionally have had little input into state economic policy.

Historically, North Dakota's resources and programs for economic development have favored the larger cities' demand for recruitment activities. However, in recent years, much has been done to diversify economic development activities and to make them more accessible and responsive to all geographic locations of the state. We now have eight active regional planning and development councils who receive partial state financing and serve as a focal point for the delivery of economic development programs and technical assistance to rural communities and counties.

As you so clearly point out in "Half a Glass of Water," the recruitment of industry from outside (or smokestack chasing) is only one of several potential economic development strategies, and it is probably not a very realistic and effective one for the rural areas your study targets. My administration has realized this and has supported a state economic development effort whereby the state resources utilized in recruitment activities are becoming a smaller and smaller percentage of North Dakota's total economic development budget.

As your study points out, in the last few years North Dakota has undertaken several initiatives to diversify state economic development programs and strengthen their delivery system.

One new initiative, that you did not mention that I'm very supportive of, is the "Dakota Spirit" program. This program is a comprehensive community economic development education and training program targeted toward the rural areas of the state. This program is somewhat unique because it has combined several public and private resource providers such as the universities, utilities and several state and local agencies in the design and delivery of the "Dakota Spirit" program. This new state initiative is especially important because oftentimes federal and state programs don't reach and/or are under-utilized by rural communities because local leaders do not know of their existence or do not know how they may be used to improve local economic conditions.

Finally, I have recently appointed a twelve-person committee with representatives for the state executive and legislative branches as well as the private sector to explore and make recommendations for rural economic development policy for our state. I have asked this group to include "Half a Glass of Water" and its recommendations in their discussions.

Once again, thank you for your fine effort and concern for our rural areas.

Sincerely,

George A. Sinner
Governor

GAS:dlb

STATE OF SOUTH DAKOTA

GEORGE S. MICKELSON
GOVERNOR

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January 29, 1990

Marty Strange
Center for Rural Affairs
P.O. Box 405
Walthill, NE 68067

Dear Marty:

Thank you for the opportunity to comment on your center's report "Half a Glass of Water." As Governor of one of your "Middle Border" states, I believe the late 1980s and, especially, the 1990s are years not just of challenge, but also opportunity. Our future remains with the partnership effort we put forth.

That is why economic development programs in South Dakota have, in my administration, been based on community and individual involvement. Only through use of such a process, can we expect to maintain our current level and see real improvement in economic conditions of our people.

While South Dakota's community focused programs do not promise prosperity for all, they do offer communities the means to realistically assess current conditions, strengthen any inconsistencies and then set a course, with measurable goals, for the future. Through the entire process, there is technical and financial assistance available.

Many of your recommendations are in agreement with what we are doing in South Dakota to help rural communities help themselves. We, at the regional, state and local levels, must seize the opportunities before us so the way of life which we so highly prize will endure through time.

Very truly yours,

GEORGE S. MICKELSON

GSM:dbl

Appendix A

Research Questions for the Middle Border

Our brief profile of the Middle Border in section II raises many questions about the condition of small agricultural communities, and our analysis of state economic development policies suggests that much more research is needed to inform policymakers about the their needs. We hope that professional researchers, policy analysts, and development practitioners will focus substantial intellectual energy on developing a comprehensive research agenda and implementing a rigorous research program on the needs of these communities.

We offer a list of ten areas in which research can inform Middle Border development policy. This agenda is far from exhaustive, but it is a beginning. In each area, we suggest the kinds of questions that need to be answered.

1. Socio-economic characteristics that shape community development opportunities

Our profile of small, agricultural communities is the first step in understanding patterns of change in the Middle Border. To design a comprehensive and targeted development strategy, we need a much sharper and deeper analysis that sheds light on factors associated with stability in some communities and decline in others. What explains this and other variabilities in these communities? How has the level, source, and distribution of income changed over time? How have migration patterns affected these communities in the wke of the farm crisis?

2. Use of human and capital resources

Regions suffering from chronic economic stress frequently have two underutilized resources -- people who are unemployed or underemployed and capital that is passively invested in low-yielding but safe investments outside the region (most likely because investors expect low rates of return from local investments). Are there underutilized human and financial resources in the Middle Border, and if so, can they be redeployed to support development in small agricultural communities? What are the sources of the high level of unearned income from rents, interest, and dividendns we have identified in the Middle Border? How much capital owned by rural people is now invested in conventional securities and debt instruments, and under what terms would that capital be invested in local business and job development? Who is acquiring agricultural land as a consequence of the farm crisis and do changes in land ownership patterns suggest long term changes in the flow of capital and income in the region? What is happening to the people who have been forced to leave farming or scale down their farm?

3. Self-employment as a development strategy

Our profile of small, agricultural communities in the Middle Border, as well as our own experience in the region, strongly suggests that residents

are not as fatalistic about their future as some policymakers and analysts are. In fact, evidence suggests that many people have dug in their heels so they can stay in the community of their choice. In particular, our research shows that small agricultural communities exhibit persistent and relatively high levels of self-employment in the non-farm (as well, of course, as the farm) sector.

Although the subject of self-employment in rural areas is beginning to attract attention from the research community, there remain basic gaps in our knowledge. To design development programs that capitalize on the tradition of self-reliance, we need to know who the self-employed are, how much they earn from their self-employment, what their aspirations are, whether self-employment is desired or merely required of them, what kinds of work they do, what secondary effects self-employment has on the rest of the local economy, and why the level of self employment has increased even as income per self-employed job has declined.

4. The impact of agriculture on community viability

Walter Goldschmidt first examined the impact of farm scale on community life in 1946. Since his classic study, analysts from many disciplines have re-visited Goldschmidt's hypothesis that the scale of business enterprise affects our social, cultural, and economic environment.

We would like to take a broader and more dynamic approach to the subject by placing Goldschmidt's work in the context of the 1980s and '90s. That is, we would like to know how preferred changes in the structure, conduct, and performance of agriculture might affect community viability. For example, if states succeed in redirecting agriculture toward more conserving and sustainable practices, will small communities become more or less viable? Can businesses now based on other practices adapt to a new mix of agricultural inputs, will new opportuities be created, and if so, are these opportunities likely to be captured locally? Will gross and net income levels in the community change and will that income be distributed differently?

5. Opportunities for cooperation and flexibility in the private sector

If the antedote for competitively disadvantaged regions is cooperation, can local businesses cooperate in ways that enhance their collective viability? Are European experiences with flexible manufacturing in which regionally based companies adapt their management and production plans to each others' needs relevant to rural communities in the United States? Are certain businesses critical to the viability of communities? What community-level economies of scope and articulation may enahnce local business and offset the competing economies of agglomeration that attract business away from small communities?

6. Public sector economics

Conventional wisdom about the public sector in rural communities is

that local governments are often inefficient and top heavy. We wonder, however, if the public sector shouldn't be viewed as a positive force that contributes to economic well- being. For example, what complement of public facilities can be supported at different population levels? Are there certain "indicator" services, such as the post office, school, court house, hospital, regional or district subdivisions of state government that determine the relative viability of communities?

A closely related and politically charged set of questions relate to school finance. Schools are the largest, locally financed public facilities in most small communities. How economically important to the community is the school? To what extent do farm-based counties subsidize nonfarm counties through property tax financed education of children who live, earn their income, and pay their taxes as adults in other communities? How will the viability of small schools (including educational quality) and of the communities in which they are located be altered by school finance reform? Many of these issues are state-specific, as school finance policy varies considerably within the Middle Border.

Finally, we need to know how the public sector can function more efficiently at the interlocal level. What are the barriers to effective delivery of local services interlocally? Can the viability of local communities be enhanced by better interlocal cooperation?

7. Uneven development in the Middle Border

Our research shows that in a handful of farm-based counties, both total population and the proportion of primary employment in agriculture have increased since 1969. By studying these counties, we might gain insight into rural development in the Middle Border. Is their recent growth part of a long term trend likely to survive the farm crisis? Are they more agricuturally competitive, and if so, why? Does the structure, conduct, and performance of agriculture in these communities vary from that of the rest of the farm-based counties in the region?

8. The impact of state economic development programs on agricultural communities

Despite the proliferation of state economic development programs in recent years, neither researchers nor policy makers have made any systematic effort to evaluate the impact of these programs. We argue that the programs should be evaluated in terms of who benefits and at what cost. Because, in some cases, various states have adopted similar programs, we suggest that interstate cooperation in the evaluation process might be particularly valuable.

Because we are especially concerned about farm-based communities, we believe that certain programs are particularly important to evaluate. The Iowa self-employment loan program for low-income people, the South Dakota Agricultural Loan Participation Program, and the community development and small business assistance programs that are present in all the states are good examples. Equal attention should also be given to programs that may

have the tendency to drain resources from small agricultural communities. Based on our survey of state development policies, tax expenditure programs, especially business tax incentives, and public equity investment programs seem to be the best candidates.

9. The distribution of Federal funds to farm-based communities in the Middle Border

Our focus in this report has been on state-level economic development efforts in the Middle Border. But the Federal government also plays a major role in development. On one hand, it appropriates funds directly to the states (through the Community Development Block Grant program, for example,) and on the other, it makes transfer payments and direct loans to individuals and businesses. We suggest that more research is needed to evaluate how these Federal funds affect economic well-being in farm-based communities. Particular attention should be addressed to the impact of commodity programs on broader community economic indicators, such as the level and distribution of income.

10. Telecommunications and development

More research is needed on the states' role in providing access to telecommunications opportunities in small agricultural communities. States must be involved if communities are to take advantage of telecommunications opportunities in the public and private sectors because of the required investment in infrastructure. Have the states, through regulation or otherwise, provided for this investment in small agricultural communities? What impact will such investments, paid through the rate structure of current users, have on existing or new businesses? How will telecommunications deregulation affect the competitive position of smaller communities? Can certain state government functions, such as routine data processing, be decentralized to smaller communities through teleccomunications?

Finally, a word about data. Because these communities are small, they sometimes escape the sweep of standard data collection and reporting. Many of the most widely used data on social and economic conditions in the United States are reported only at the county level. This frustrates researchers interested in understanding problems at the commuity level. Collecting original, primary data is best, but it's also expensive. And sometimes, some of the best data is suppressed because, in small communities, it might violate the privacy of inidividuals. This is frequently the case with data available in state departments of revenue. There is a real opportunity here for the states (and the federal government) to cooperatively sponsor a research program that generates community-level information about small communities.

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