

Confessions of an Economic Impact Analyst

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Introduction

To I-O or not to I-O, that is the question. Whether 'tis nobler in the mind and career to suffer the rings and e-mails of outrageous requests for assistance, or to take arms against a sea developers, and by opposing end them?

Community economic development staff and directors have my number on speed dial and my email address at the top of their lists. I get calls from governor's and congressional aides, mayors, legislators, city managers, events promoters, college presidents, industry captains, and entrepreneur/investors. These folks know that I have a little tool that helps them to tell their story. They almost always have a political more so than an economic reason for calling me. Sometimes there's millions of dollars at stake, I'm told. Sometimes its no less than the future of Iowa. They are not quite sure how I do what I do, they probably really don't care. They're not always happy with what I write, but time and time again they come back for more. I'm not always happy with how they use the information that I give them, but time and time again I take their calls and answer their requests for assistance. I am an economic impact analyst. Someone has to do it. It's my job.

There are those for whom my name is an obscenity. I will not agree to study their cause, I will not buy their feasibility study, and I will not advance their agenda. Some are promoters of bad numbers. Others distorters of information and economic concepts. Many are simply schemers. Others, for lack of a better term, find me an obstacle to their obtaining their way with communities and the public purse. And others are academics who've gone over to the dark side – purveyors of promotional puff looking most to boost the commodity they study (and sponsored programs) rather than the fortunes of all. Evil-doers all. I am an economic impact analyst. I am champion of the oppressed and an arbiter of all things economic. The university administration be damned: these people need me.

Thoughtful men and women have been studying their economies and their possible economic fortunes. They require insight and intelligence on how their economy works. They want to know the comparative value of different types of growth or change scenarios. They want to know which industries are more important and which are less. They're interested in learning about regional linkages and the value of inter-industrial interdependencies in the economy. They want to know what's hot, and what's not. In short, they want to know how their economy ticks and what roles if any they can play in helping to guide regional growth and prosperity. I am an economic impact analyst, a humble and lovable educator and the willing servant to the needs of local leaders.

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Whoever I am – public servant (university drone), citizen advocate (Jedi warrior), or patient educator (Mr. Rogers) – when it comes to community and economic impact modeling, I’m one of the go-to guys in Iowa. My (non-faculty) position is the just about the only one of its kind in the state. My job is to help communities and community leaders to understand the causes and consequences of social and economic change. Much of what I do is the traditional plant closing or speculative plant opening kind of assessment. Those kinds of assessments are tailor-made for I-O models. Over the years, however, I have had to do a variety of small, one-time, sometimes quirky events and activities. They are, on the whole, a troublesome lot to assess.

One-Time or Short-Term Events: Big Bangs or Shooting Stars

Community and economic developers have become more and more sophisticated. They know that a large part of their justification for existence comes from not just chasing new jobs, but in promoting different aspects of the regional economy. Economic vitality is as much a state of mind as it is the regional bottom line. They tout their cultural, recreational, and educational assets. They promote their people and their events. This fact is true of large places and small, and always has been. We have been called upon to assess the potential localized economic gains that might accrue from or be attributed to

- Sporting events
 - Ladies’, seniors’, and men’s golf tournaments
 - State wrestling, basketball, and baseball tournaments
 - The Drake Relays
 - Sprint car nationals
 - Special Olympics
 - Minor league baseball franchises and expansions
- Art and cultural events
 - Annual art festivals & renaissance fairs
 - Touring Broadway shows and other kinds of entertainment
 - Music festivals
- New civic centers and stadiums
- Big trade shows
 - Farm Progress Show
 - National Pork Producers Congress
 - The venerable Iowa State Fair
 - Air shows
- And your run of the mill, garden variety local extravaganza
 - The Indianola Balloon Classic, Adair Sweet Corn Days, The Pella Tulip Festival
 - The annual Bix Beiderbach music festival
 - 99 County Fairs and at least a couple hundred community festivals

Not only do we have one-time or short-term events, that may or may not be comparatively small, we also have annual or quadrennial events that command economic impact scrutiny. We have something in Iowa called RAGBRAI – the Register’s Annual Great Bike Ride Across Iowa. This event draws thousands from the state and outside of the state to ride their bicycles from the western Missouri River border across the state to the eastern Mississippi River border stopping along the way in six communities for an overnight stay. A moving true economic impact whose route changes each year. You can bet good money that at least one town on the way will want to know what 12 thousand hungry, thirsty, tired, filthy and in dire need of a porta-potty bike riders will add to their local fortunes. Imagine it. Daily riders around 12,000. Average spending per rider per day about \$50, that’s \$600,000 to be dumped daily between two towns about 75 miles apart. That’s not chump change.

We famously have the quadrennial Iowa Caucuses, that may or may not be a big deal politically depending on the candidates and the year, but they do bring people and spending to the state that otherwise wouldn’t have come. Just where do you think Dean’s \$40 million got spent – heck, for the Deaniacs alone we shocked the pizza sector by \$10 million.

Not many people know this, but Britt, Iowa, is the home to the national Hobo Convention. It has been for years. Real hobos make their way to Britt annually to witness the coronation of the King and the Queen of the Hobos. It’s a heck of a deal. It ought to have one heck of a community economic impact; that is, until you think about it some. They’re hobos; they’re the real deal. Many actually hitch rides to Britt, sleep in tent cities (or hobo jungles), bring their own booze (and Château de Whatever it ain’t), and eat a communal mulligan stew. Some impact. What impact accrues comes from the folks that come to look at the hobos, folks from the surrounding communities and countryside, in the main, and news folks looking for a quirky story who come to look at the people looking at the hobos. Talk about a strange multiplier.

To finish the list we also get the occasional disaster. In 1993 we got a three-hundred year flood (and no flushing toilets in Des Moines for a week), and we of course get our garden variety agricultural crises of drought, hail, vermin, Franken-corn, and bad prices. Ever the opportunist, you’d never guess who’s working with the State Department of Disaster Services to analyze a terrorist-caused livestock bio-disaster scenario and concomitant economic impacts. The requests get stranger and stranger as the years go by.

In Iowa if it can happen, if it does happen, if anyone thinks it might happen, they ask for an economic impact assessment. This is especially true if public money is being chased. We do the studies when asked. As often as not we disappoint them.

One Time Events: But Will They Even Call You in the Morning?

It's my sense that most community leaders and economic developers have a pretty good idea of how their local economies work. Over the years we have had many opportunities to teach them about export production and about import substitution. They know that tourism in and of itself boosts local commerce and that events, fairs, activities, festivals, and the like have both economic and promotional value for a community. In fact, the verbal linkage of an economic impact is part and parcel of the promotion of an event, and by extension, the community. Development folks are fully aware that the appearance of progressiveness and prosperity are as important as the substance of progressiveness and prosperity.

So, if they suspect that the numbers might be impressive, they give us a call. They want to know the BIG numbers (I call them BFNs), the economic equivalents of grand slam home-runs or holes in one. We approach these studies with a variety of tools, limitations, and concerns:

- 1. The modeling software and data.** We usually will use IMPLAN to do the analysis. An input-output model that is configured to the local economy (county or region) is certainly superior than an alternative approach that would entail trying to make estimates using other kinds of multipliers or other kinds of economic impact assessments (i.e., base economy analyses). On the other hand, notwithstanding its currency, there are also fixed, inflexible, and out-of-date components to IMPLAN that require interpretation, caution, and, occasionally, manipulation.

In all, however, IMPLAN is a wonderful tool for assessing the potential value of change, *whether the change that is identified actually accrues to the region that we are studying*. How much of the effects are captured or leak away are always questionable, but we can give them an idea of the size of the change and the inter-industrial effects that would be expected. We can produce different multipliers, if necessary, for different kinds of economic effects and different kinds of economic outcomes. In regional economic analysis, this is no mean feat.

- 2. The quality of the information we are to assess.** The data that we work with range from non-existent, to feasible, to 'you gotta be kidding.' The organizations are often looking to us for guidance and suggestions on how to approach the assessment. They are hoping that we have access to surveys or factors that can be applied to their situation. In these cases we do what we can, we mine past research to come with reasonable estimates, or we look around to see how others might have approached the problem.

Data from promoters, in contrast, nearly always over-describe the potential attendance. They will assume, for example, that all visitors come from outside of the region or that, savvy promoters that they are, that all local attendance would have had to (and would have) gone to Kansas City or Omaha to enjoy themselves

so. Not only is attendance usually over-described, visitor spending is as well. They'll characterize their prototypical visitor to be Reginald and Amanda who zip into town in their Lexus, stay at the Comfort Suites, dine well while there, and certainly shop a little to take home a taste of the community with them. Right. Make it Al and Mildred who come to town in their 1995 Chevy Cavalier, share a number 2 value meal at McDonalds (two cheeseburgers, fries, and a soft drink), and stay at the Motel 6 using an AARP discount card (where, by the way they get their coffee and donut for free in the morning). The truth is somewhere between the two.

Each kind of event has a spatial and demographic draw. Local spending is a function of not only the event but also the kind of person attracted. The annual meeting of the Iowa Association of Certified Public Accountants has a different impact locally than the state wrestling tournament. Kids coming to the tournaments from all over the state sleep four to a motel room, make pilgrimages to area malls, eat tons of fast food, set off alarms, and spray fire extinguishers at each other in their hotels. They always leave town broke. Accountants rarely do any of this.

Frequently, there simply is no data on potential visitor sales for a one-time event. We calculate a range of potential visitor effects in these cases from, say \$10 per day spending per person (Dutch farmers) to \$100 or more per day per person visiting (drunken sailors).

A last point under this item. If I'm not comfortable with the information that the client has provided I say so. In those cases I will either substitute my own, and inevitably better numbers, or I will scale the assessment to represent some fractions representing a low, medium, and high estimate.

- 3. The uses to which the data will be put.** It is usually the case that the assessment fits into a 'gee whiz' category of good old fashioned community boosterism. It is also frequently the case, however, that the data that we provide are linked to an effort to secure local aid, state grants, or some other form of investment and promotional leverage.

One of the major pitfalls in conducting this analysis is that the users of the information may attempt to claim or convey project feasibility because of the economic impact assessment. A variation of that will be the attempted use of our economic impact assessments as assurances of substantial fiscal benefits to a community. Here, our research and our credentials may be potentially jeopardized as implying reasoned and measured support and justification for a particular project. It is very hard to control how a client uses the numbers that we provide. It, however, is not hard to make sure that reports and presentations make it clear that the economic impact assessments are simulations of the economy at a point in time and are not in any way measures of the feasibility, desirability, or the overall economic effectiveness of an activity.

As an aside, I always tell the clients exactly what I will tell a reporter or a political leader who calls me and asks for comment about the study. That candor usually gives them a sense of my (and my discipline's) boundaries about the uses of the information that has my name on it.

- 4. The regional economy.** How should we think about the regional economy? Should we assume that it is totally stagnant and fixed and that this one time event is just what it needs – a shot in the arm, a kick in the pants, a timely slap in the face? Or is our economy a dynamic and evolving one where there is a rich mixture of events, festivals, conventions, and fairs that ebb and flow from year to year but are always part of the stuff of what constitutes our local economy? The first characterization leads us to ascertain potential economic impacts; if they're not all home-runs, at least they're singles. And this might well be the territory for a lot of communities: they're open-mindedly (or stupidly) trying to do something new and different to shake things up economically.

The second, the notion of a rich and dynamic, ever-evolving economy, tells us that the mix of events is part of our existing economic accounts, part of the data already contained in our input-output model. We might be measuring economic impact, but in truth we're probably merely homing in on one aspect of the local economy worthy of study and mention. Part of the Des Moines economy is the Iowa State Fair. It happens every year. Attendance goes up and attendance goes down. It is part of the economy. We can measure its overall effect and potential impact value, but its impact means nothing conceptually. They're not going to do away with it, so what's the point? What's the economic impact?

If time permits and the clients are amenable we try to compile a broader assessment of the regional economy than a standard I-O run would necessarily demand. Every assessment of an event or an industry in a region is an opportunity for us to teach decision makers about their economy.

- 5. Managing expectations.** I often get asked, "How much does a dollar turn over in my town?" I tell them that it depends on how fast the wind is blowing. Tom Johnson would tell them that it could be an infinite number. The point is that many people have an unrealistic expectation for economic impacts or simply don't know what we're talking about. Tumbling dollars or infinite multipliers don't tell me or them much about the economy. When you tell a client, for example, that the income multiplier from a tourism event might be on the order of 1.3 or so, you are immediately confronted with, "the Chamber guy says its more like 4 or 5." I always ask them, "who're you going to believe? Me the honest but threadbare public servant, or the Chamber guy with his plaid suit and tasseled loafers?" They smile patiently, even knowingly, but they don't believe me. Someone out there has planted in the minds of otherwise reasonable men and women the notion that dollars spent locally simply breed like rabbits. It is very hard to convince them otherwise.

Here, again, is a wonderful public education opportunity. We don't need to use lots of tables and we don't need to use lots of numbers. We simply talk about the kinds of linkages that exist in an economy and the likelihood that local trade and service providers are buying their inputs from local suppliers. We tell them exactly what their mothers and fathers told them: money doesn't grow on trees. There's really no voodoo involved. We try to get them to understand that the economy isn't really all that dynamic and that it is very knowable.

- 6. Precision is not possible.** These are not audits, they're estimates. And even as estimates we're going to be a heck of a lot closer to reality than most of what passes as corporate audits now a days. Sometimes a regional economy is slack, sometimes taut. Sometimes economies are in the midst of change, up or down, and sometimes they're stable. The I-O doesn't know any of this. It just knows what last year's averages were.

The output indicates 10 jobs and \$220,000 in total income effects. Will they accrue locally? Who knows. What we've done is tell you what the inputs that were modeled *were supposed to be worth to the local economy*. Will there be 10 jobs? Maybe, maybe not. There's really no way of knowing just how much transacts and where it transacts at any given time.

- 7. Do they really matter?** I begin with the lesson of the 5 Bs. Everyone thinks their event is special (and, by extension, I suppose they think *they're* special too). In our area, we might get a three-day stand of the Joffrey Ballet. Good stuff, I suppose, if tutus turn you on. We might also get a WWF "Apocalypse and How" extravaganza for those that like quality entertainment featuring loud, steroidal men in tights and capes. We get professional bull riding rodeos (I always root for the bull), and we get an occasional Broadway show (Miss Saigon is coming in April!).

Community development types and other promoters think that ballet and Broadway have greater economic impacts than bull-riding or baseball. How could they not? They attract a better class of people don't they? Well, it all depends. Generally, we really can't tell one way or another. Ballet, Broadway, bull-riding, or baseball (the 5th B category you ask? Bulging bozos in boas (sorry Jesse 'the Bod' Ventura) and tights) – they're all part of the entertainment/recreation mix in the community and none are necessarily or intrinsically more enriching economically than the others.

So, do they (the impact statements) matter? My take on this is that economically they usually don't. They are usually part of the package of promotion associated with an event or an idea, but they are rarely the deal making piece of information. I base this on the simple fact that considering these types events, I cannot think of a single instance where someone has inquired about our estimates and whether or not they came true. We're never evaluated *ex post*.

Over the years some promotional groups simply don't call us as often as they used to for standard events. We historically helped them promote and hype their Senior PGA tournaments, their (5th best nationally, they tell us) art festival, and their extra-special Broadway-type shows. It's all over, and I am *Les Miserables*.

Why don't they call? If they don't pretend to precision, they can just call the Chamber guy, the tourism bureau, or the manager of the arts center instead. They've all got their own little multipliers that their associations have been using and the newspapers are more than happy to report their happy numbers whether they're feasible or not.

Take this example from Des Moines. After 451 performances attended by a total of 87,000 people, the locally popular comedy production of 'Triple Espresso' closed in February. The president and CEO of the Civic Center said of this show "... an area of downtown some considered undesirable is now vibrant" and that there was a lot to celebrate including, "... the resurgence of the downtown, the economic impact (more than \$5 million *by our estimates*)." All this from a three-man show. Just think of the possibilities.

They'll pitch their numbers irrespective of ours. We are, however, brought in more and more in recent years where the credibility of the organization or the campaign is important or where there is competition for state or local resources. In these cases, it is very important to the group to attach the patina of legitimacy and rigor to their promotion. It is equally important for us to take their request seriously and to give them the best information that we can.