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EDA and the Objectives of Regional Development Policy

The Public Works and Economic Development Act (EDA) was passed in 1965 to "help areas and regions of substantial and persistent unemployment and underemployment ... take effective steps in planning and financing their public works and economic development ..." The objective was to help depressed areas achieve "stable and diversified local economies" which it was hoped would enhance the nation's domestic prosperity.¹ Title IV, which deals with area and district eligibility, is somewhat ambiguous. This part of the act defines eligibility in terms of unemployment and income. It states that the size and boundaries of redevelopment areas are to be determined by the Secretary of Commerce. While a lower limit of at least 1,000 persons is specified, there is no upper limit. Technically, a redevelopment area can be anything from a small village to parts of major metropolitan areas.

This paper is concerned with a series of questions: First, given the nation's regional development objectives, was EDA the correct answer? Could the policy spelled out by the act work equally well in small rural areas and in the ghettos of large metropolitan areas? Was the emphasis on public works the correct one, that is, will investment in social capital spur local economic development?

NOTE — I would like to thank James Maday and Frank Giamataro for research assistance. A special note of thanks to the Government and Librarian, Institute of Public Administration, University of California, Berkeley, who made an exhaustive search for detailed employment and unemployment data on the Los Angeles area.

TABLE 1 Place of Work of Employed Oakland Residents, 1960-1970

Place of Work	—Number of Persons—			Percent Distribution		
	1960	1966	1970 ^a	1960	1966	1970
Total	147,340	151,330	140,097	100%	100%	100%
Oakland	101,640	91,860	70,931	69.0	60.7	50.6
Other Alameda county	27,470	32,070	28,386	18.7	21.2	20.3
San Francisco	11,960	17,640	13,565	8.1	11.7	9.7
ContraCosta county	3,300	5,840	3,835	2.2	3.9	2.7
Marin, San Mateo, Solano	1,140	2,040	NA	-	-	-
Outside SMSA	1,830	1,890	NA	-	-	-
Inside SMSA			117,998			84.2

NA = not available.

SOURCE: Nicholls (1968, p. 8) and U.S. Bureau of the Census, Population Characteristics (PC) Report 2 (1970) — 6D, Table 2.

^aCalculated by summing data, separately supplied in the source, for males, 16 and over; males, 14 and 15; females, 16 and over; and females, 14 and 15.

We may begin with the question, Was EDA the correct answer to the problem of ghetto unemployment and low income? In a detailed and incisive analysis of the experience of EDA in Oakland, California, Pressman and Wildavsky (1973) have answered with an unequivocal no.²

Unemployment was a serious problem in Oakland during the 1960s. The unemployment rate for men stood at 8 percent in 1960; it dipped to 6.6 percent by 1966, but had increased to 7.8 percent by 1970. Corresponding rates for women workers were 7.8 percent in 1960, 10.8 percent in 1966, and 8 percent in 1970.³

During the 1960s an increasing proportion of Oakland residents found jobs outside the community. In 1960, for example, 69 percent of all employed residents of Oakland worked in the city; by 1970, this had dropped to 50.6 percent. Most of those who found jobs outside Oakland were working in San Francisco, elsewhere in Alameda County, or in ContraCosta county. Details are given in Table 1.

As in other metropolitan areas, the problem of unemployment was particularly acute among young black men in Oakland. A successful attack on this problem would have involved more than simply creating job openings—although that, of course, was a necessary precondition. Many of the unemployed youth of Oakland were school dropouts who lacked even the most rudimentary skills. The Office of Economic Opportunity had recognized the complexity of the Oakland unemployment problem. It had launched a special program to assist unemployed young adults interested in transforming themselves from school dropouts into workers employed in the conventional labor

market. This program, called TIDE, was not notably successful (Wellman 1971). Indeed, in picking Oakland as the place to launch a concerted attack on ghetto unemployment and low income, EDA had selected a very difficult target with a low probability of success.

With the exception of the West Oakland Health Center, a relatively small project, the EDA experience in Oakland was judged a failure by Pressman and Wildavsky. If that was the case, it was a failure of substantial proportions since more than \$26 million had been spent on fifty-three projects by the end of calendar 1972 (EDA 1972, pp. 44-47).

According to Pressman and Wildavsky, too many agencies were involved in Oakland, and there were too many conflicting interest groups for EDA to deal with. This led to an inordinate number of decision points. There were too many objectives and constraints for a program of limited resources. The objectives included projects designed to stimulate growth, which implies that they were expected to have substantial employment multipliers. To be acceptable to EDA, the projects had to be administratively and financially sound. They were also supposed to provide jobs for a significant number of Oakland's unemployed black population. Few of the unemployed had the requisite skills for the projects planned; hence, effective training programs were essential if the projects were to succeed. As a result, the Department of Labor became involved in the overall policy design.

A special task force, made up primarily of young EDA staff members, was assigned to expedite the Oakland project. But the Washington staff of EDA apparently did not share the sense of urgency expressed by the Oakland task force, and there is no evidence that the existence of the task force actually speeded matters up. There were interminable delays and cost overruns, problems that have plagued innumerable public works programs, both in and out of EDA, in recent years. Therefore, Pressman and Wildavsky concluded that EDA is not the answer to the nation's urban economic problems.

The conclusion reached by Pressman and Wildavsky did not go unchallenged. Their book had been reviewed favorably by Harry Schwartz in the *New York Times*, and this spurred a letter to the editor by John H. Reading, the mayor of Oakland.⁴ The mayor read Schwartz's review "with both sorrow and indignation," and informed the reviewer that "the Port of Oakland has recently reported to me that in excess of 5,000 jobs (about 40% minority) have been created as a result of the Seventh Street Terminal and the industrial park."

It is difficult to make an objective evaluation of the claims and counterclaims involved in this dispute. Data are reported regularly for the San Francisco-Oakland labor market area, which includes Alameda, ContraCosta, Marin, San Francisco, and San Mateo counties. But because of the size of the area covered and of the labor force, it is impossible to deduce anything about labor force

changes in a specific part of that vast region. For what it is worth, however, the available data show that between 1965 and 1972 the unemployment rate in the labor market area had gone up from 5.0 to 5.7 percent.⁵

If EDA is not the answer to urban economic distress, is it the correct approach to the problems of smaller depressed industrial areas? These areas, which include such communities as Lawrence and Lowell in Massachusetts; Utica-Rome, New York; Asheville and Durham, North Carolina; Altoona and Erie, Pennsylvania; and Providence, Rhode Island, were the focus of the area development legislation that was introduced repeatedly but without success during the 1950s. To gain the political support necessary to insure passage, sponsors of the proposed legislation broadened its coverage to include rural areas. In this form a bill was signed into law on May 1, 1961, by President Kennedy as the first major act of his administration.⁶

The Area Redevelopment Act marked a turning point in American public policy. It represented a rejection of the free-market model of regional adjustment to structural change so highly regarded by conservatives. That model ignored the rigidities and immobilities that contributed to market failure in depressed areas. Sponsors and supporters of the act recognized the existence of market imperfections. The objective of the new area redevelopment effort was to get things moving again in depressed areas by reviving their private sectors. Heavy reliance was placed on loans and grants to private borrowers who intended to locate new facilities or expand their economic activities in eligible depressed areas, and this approach was generally regarded by the conservative press as a dangerous federal incursion into the private domain.

There are many reasons why the Area Redevelopment Act was not renewed in its original form (some of these are discussed in Levitan 1964). For one thing, it probably was not given enough time to work. Too much was expected of it too soon, and this led to early congressional disenchantment. It was evident by 1964 that a majority of congressmen would no longer support the program. And when ARA was replaced by EDA in 1965, there was a major shift in emphasis. This is indicated, among other things, by the title of the act that established the Economic Development Administration. It was called the Public Works and Economic Development Act of 1965. Although business loans—including working capital guarantees—were permitted by the new legislation, the overwhelming bulk of obligations, as indicated in Table 2, was committed to public works.

Between 1965 and June 30, 1973, more than \$1.9 billion had been committed by EDA. More than three-fourths of this amount went to some 3,000 public works projects. About 7 percent of the total outlay was for technical assistance and planning grants. Only 17 percent, or about \$327 million, of total obligations, went to private businesses in the form of loans and guarantees of

TABLE 2 Summary of EDA-obligated Projects by Program, Cumulative to June 30, 1973
(dollars in thousands)

	Projects		Amount	
	Number	Percent	Dollars ^b	Percent
Public works	3,008	45.3%	\$1,440,097	75.6%
Business development loans ^a	413	6.2	326,783	17.2
Technical assistance	2,302	34.7	93,803	4.9
Planning grants	914	13.8	44,196	2.3
Totals	6,637	100.0	1,904,884	100.0

SOURCE: Economic Development Administration, Office of Public Affairs.

^aIncludes seventy-seven working capital guarantees.

^bDetail does not add to total because of rounding.

working capital. It is evident that the administrators of EDA felt a strong commitment to the public works side of regional economic development. The rationale for investment in social overhead capital is that public works will improve an area's competitive position. This in turn is expected to stimulate growth in the private sector.

THE EVOLUTION OF A REGIONAL DEVELOPMENT STRATEGY

From a political point of view, investment in public works is less hazardous than private business loans and grants. It is hard to criticize the construction of sewers, airport improvements, or industrial park facilities on ideological grounds. Furthermore, there is physical evidence of accomplishment when the construction is completed. But will public works have the desired effect of stimulating expansion in the private sector of depressed areas? That is the question of prime interest to area development administrators.

Another question that had to be answered during the early days of EDA was how to choose among the large number of communities and development districts eligible for assistance. One option was to choose projects with a high probability of success. A community might approach EDA with a request for funds to expand its water supply, for example. The basis of this request might be evidence that a firm had already agreed to locate a plant in the community if the necessary volume of process water could be made available. If EDA would move quickly to help this community overcome its locational deficiency, EDA could take credit for the "creation" of the new jobs in this plant.

Another possible strategy was that of selecting the most seriously depressed communities for concentrated public investment. This is known as the "worst-first" strategy, and it is the one that gradually evolved in EDA.⁷ Unfortunately, a worst-first strategy has only a limited chance of success in the conditions under which EDA operated. With limited funds and a large number of designated eligible areas, it was impossible for EDA to make the kinds of massive investments that would have been required to turn around some of the seriously depressed areas chosen for assistance. EDA did not formally disavow its worst-first approach—a move that almost certainly would have had unfavorable political repercussions—but after 1968 there was a gradual shift in strategy.

Section 403 of the act authorized the Secretary of Commerce to designate appropriate "economic development districts" and "economic development centers." A number of grants were made to help planning organizations define district boundaries and identify growth centers. The economic advantages of concentrating investments in growth centers are fairly obvious. If an area is truly a growth center there must be some reason for expecting it to grow. A major improvement in transportation facilities might give a community locational advantages that had been denied it in the past. Public works investment in a community of this kind could result in a fairly large payoff. The strategy of concentrating public investment in growth centers is easy to defend, if the criterion for selection is the probability of success. To be successful, however, a growth center strategy would require a fairly high degree of selectivity. But selectivity has little appeal to members of Congress, each of whom is looking for benefits that will accrue to his or her district. The required degree of selectivity would no doubt be unacceptable to a majority of congressmen. Partly because of the political difficulties of pursuing an economically viable growth center strategy, EDA has been forced to spread its funds for investment in public works widely.

HOW EFFECTIVE ARE PUBLIC WORKS?

It is always easier to evaluate direct than indirect effects. The effects of a loan to an establishment to locate a new facility in a depressed area or expand an existing one can be evaluated in terms of jobs created and new income generated in the community. Similarly, the investment impact can be measured in cases where there is a direct link between a public facility investment and the location of one or more new plants in a community. In general, however, the connection between public facility investment and regional economic development is a more tenuous one. There may be little or no short-run impact, and it is not easy to measure long-run impacts.

The outstanding example in the United States of public facilities investment with a development objective is the Appalachian Regional Development Program; the definitive study is by Newman (1972). Unlike EDA, all of the Appalachian Regional Commission's (ARC) investments have been in public facilities, and the largest single investment has been in the Appalachian Development highways. Other investments have been in health and education facilities, and there have been relatively modest expenditures on land reclamation and erosion control. Under the ARC, however, there have been no direct investments comparable to the business loans and working capital guarantees of EDA.

Appalachia is generally regarded as the most seriously depressed region in the nation. But there is nothing in the Appalachian Regional Development program that is designed to provide immediate economic relief to the region's residents in need of assistance. The heavy emphasis on highway construction in Appalachia has been criticized on the grounds that the highway funds would have been put to a better purpose if they had been used to assist regional residents to relocate to other areas with better job opportunities. Some critics have mistakenly viewed the emphasis on highway construction as an attempt to provide employment for some of the region's unemployed coal miners. They argued, quite correctly, that the highway program would have relatively little direct employment impact since much of the construction work would be done by firms located outside the region. These firms would bring their own equipment and machine operators to the job sites. The critics were correct in their assessment of the minor employment impact the highway program would have, but they completely misconstrued the objectives of the program.

The decision to invest heavily in highways at the outset, rather than in human resources, was based on the view that this ordering of priorities would have the greatest economic impact on the region *in the long run*. Now that the highway system has been completely planned, and actual construction has reached the halfway mark, the commission has shifted its emphasis to investment in human resources. It is beginning to invest more heavily in health and education facilities. But these investments also are expected to yield economic benefits only in the long run.

It is only possible to evaluate the development impact of public works by using an appropriate time horizon. The regional problems that ARA, EDA, and ARC were designed to cope with appear to have been "discovered" rather suddenly. It was evidently impossible to get a majority of members of Congress to take them seriously before 1960. But these problems have been generations in the making. Is it reasonable to expect problems as complex as those of the nation's depressed areas to yield to sudden and dramatic solutions?

The Appalachian Development highways cannot be expected to have a major development payoff until they are finished. But as some of the segments linking interstate highways have been completed, they have already attracted

new enterprises to the region. This may be scant evidence to go on, but it is enough to convince me that the ARC's ordering of priorities was the correct one.

EDA PUBLIC WORKS DISBURSEMENTS

The public works projects that have been supported by EDA are far more diverse and more widely diffused than the Appalachian Regional Development Program.

By the end of 1972, EDA had participated in 2,750 public works projects. For the purposes of this paper, I classified EDA's investments in these projects according to the following categories: (1) a *direct link* to economic development, (2) an *indirect link* to economic development, or (3) an *amenity investment*.⁸

Direct Link

For the project to be included in this category, there had to be a clear indication that the EDA investment was tied to a particular economic activity which would not have located or expanded in the community unless that specific public works project was completed. In most cases, the type of plant involved was clearly identifiable. If the report on the project mentioned a firm by type or industry, the project was classified as direct.

Each of the 2,750 entries in EDA (1972) was checked for any reference to an industrial park, site, building, road, site improvement, rail spur, lighting installation, dock, ramp, or other indication that the investment could lead to a specific kind of economic activity. Initially, all entries mentioning facilities other than residential water or sewer construction or government buildings were checked. About 600 entries were obtained in this initial step. Additional detailed information on each entry was then sought in EDA's monthly publication, *Economic Development*. Details were available for about three-fourths of the entries. Each of the sample projects in the Boise Cascade and EDA Task Force evaluations of public works projects was also examined to obtain information about major projects not mentioned in *Economic Development*. In a number of cases the evaluation studies provided the only detailed information required for accurate classification; the Boise Cascade and EDA Task Force evaluations are discussed below.

Indirect Link

This category contains projects approved because they removed some barrier to industrial or commercial expansion, but which were not tied to a particular

firm. If a detailed account of a project mentioned in *Economic Development* or the evaluation studies did not refer to a specific firm or industry, and if there was not even a hint in the discussion that a given firm or industry was connected to the project, it was classified as indirect. Many of the projects in this category could be classified as speculative from the point of view of both the community involved and EDA. If, for example, an investment was made in an industrial site that might or might not be occupied, it was considered as an indirect link to economic development.

Amenity Investment

Projects approved because they served a community need or made the community a better place to live were included in this category. Such projects—which include many water and sewer systems—might make the community more attractive to a potential economic prospect. But if a project could not be linked even in an indirect way to a specific economic activity it was classified as an amenity. Such investments may have an economic impact, but there is no guarantee that they will contribute to local economic development. As indicated below, almost 79 percent of EDA public works disbursements through 1972 were classified as amenity investments; the data are from EDA (1972):

Direct link	\$ 60,460,000	7.0%
Indirect link	123,408,000	14.3
Amenity investments	<u>677,193,000</u>	<u>78.6</u>
Total	\$861,061,000	100.0%

The state distribution of EDA disbursements by type of investment and the percent distribution of population and income are given in Table 3. By and large, low-income states received more than their proportionate share of EDA disbursements, although the largest single amount went to California, a high-income state, with nearly one-third of that amount going to Oakland. Almost 45 percent of the funds allocated to California were for projects with direct or indirect links to economic development. By way of contrast, most of the funds that went to Alabama, a low-income state, were used for amenities. In general, states receiving substantial EDA public works grants were more likely than not to have used most of the funds for the improvement of local amenities. There were some exceptions. EDA expenditures in Alaska, for example, were used primarily for projects with direct or indirect links to economic development.

The classification of disbursements on the basis of links to local economic development is partly judgmental. Any bias in the classification, however, is probably in the direction of the direct and indirect categories. The concentration of EDA public works expenditures on the improvement of local amenities does not represent an improper use of public funds. There was a demonstrated

need for upgrading the water and sewer systems and other public facilities in communities that requested EDA support. One may legitimately ask, however, whether it was part of EDA's mission to provide such community support. From a development point of view, EDA would have had a more impressive record if its expenditures had been limited to public works that were at least indirectly linked to specific economic activities, and the record would have been improved further if EDA expenditures had been limited to actual or potential growth centers.⁹

INTERNAL AND EXTERNAL EVALUATIONS OF EDA

Between 1970 and 1973, EDA commissioned nineteen evaluative studies, each dealing with a specific aspect of the regional development effort.¹⁰ Seven of the evaluations were conducted by professional consultants; six, by the EDA staff; five, by EDA task forces; and two, by academic consultants. The studies most relevant to the theme of this paper are the two on business loans and two others on the analysis of selected samples of EDA's public works activities.¹¹

The commissioned studies vary widely in quality. Those focused on business loans are the least ambiguous. A three-part study conducted by Booz, Allen and Hamilton (1970), examined ten cases in depth, subjected a sample of forty-four firms assisted by EDA loans to less intensive study, and concluded with a national assessment of the business loan program. No attempt will be made to summarize the findings of the three bulky documents that make up the report. However, some of the benefit-cost findings may be mentioned briefly. BAH reported that during EDA's first four years, its business loans resulted in almost 25,000 direct and indirect jobs, with an average annual wage of \$5,335. Using a discount rate of 5 percent, the authors estimated the present value of the future income that would be generated by the direct and indirect jobs to be over \$1.3 billion (Booz, Allen and Hamilton 1970, p. 13).

An earlier study conducted jointly by Chilton Research Services and the CONSAD Research Corporation examined the experience of a sample of firms granted loans in excess of \$100,000 by the Area Redevelopment Administration or EDA prior to June 1968 (Chilton 1969). The forty firms examined had received more than \$23 million in loans. An estimated 1,800 new jobs were created of which 11 percent went to previously unemployed workers, and 12 percent to new entrants to the labor force. Among the previously employed hired by the sample firms there was an increase in average annual earnings of \$1,393. The authors felt that most of the benefits of the loan program accrued to workers above the "poverty line," but they also noted that in this sample of firms, 346 persons had been removed from unemployment or wel-

TABLE 3 Cumulative EDA Public Works Disbursement as of December 31, 1972, by State
(dollars in thousands)

	Direct		Indirect		Amenity		Total		Percent Distribution of Population and Income	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Pop.	Income
Alabama	509	2.8	563	3.1	17,068	94.1	18,140	2.1	1.7	1.28
Alaska	5,122	22.2	7,316	31.7	10,666	46.2	23,104	2.7	0.1	0.18
Arizona	1,049	7.0	5,030	33.5	8,950	59.5	15,029	1.7	0.9	0.89
Arkansas	706	1.9	3,744	10.0	33,004	88.1	37,454	4.3	0.9	0.71
California	8,761	11.3	26,097	33.6	42,824	55.1	77,682	9.0	9.8	10.77
Colorado	-	-	277	6.8	3,087	93.1	3,314	0.4	1.1	1.19
Connecticut	329	7.8	195	4.6	3,663	87.5	4,187	0.5	1.5	1.74
Delaware	-	-	145	12.4	1,022	87.6	1,167	0.1	0.3	0.31
D.C.	554	61.3	-	-	350	38.7	904	0.1	0.4	0.50
Florida	2,457	51.0	2,075	43.1	282	5.9	4,814	0.6	3.3	3.44
Georgia	1,287	4.3	3,554	11.8	25,216	83.9	30,057	3.5	2.3	1.98
Hawaii	-	-	-	-	797	100.0	797	0.1	0.4	0.43
Idaho	-	-	-	-	2,827	100.0	2,827	0.3	0.4	0.31
Illinois	841	3.1	193	0.7	25,631	96.1	26,665	3.1	5.5	6.22
Indiana	-	-	-	-	8,024	100.0	8,024	0.9	2.6	2.50
Iowa	-	-	105	27.8	273	72.2	378	0.4	1.4	1.36
Kansas	805	48.0	26	1.5	846	50.4	1,677	0.2	1.1	1.09
Kentucky	164	0.3	1,871	3.1	59,092	96.7	61,127	7.1	1.6	1.28
Louisiana	1,238	5.9	7,287	34.6	12,557	59.5	21,082	2.4	1.8	1.43

Maine	-	1,066	21.8	3,828	78.2	4,894	0.6	0.5	0.40
Maryland	-	-	-	1,590	100.0	1,590	0.2	1.9	2.10
Massachusetts	-	1,678	12.0	12,353	88.0	14,031	1.6	2.8	3.03
Michigan	322	3,332	13.2	21,599	85.5	25,253	2.9	4.4	4.79
Minnesota	1,798	2,575	12.3	16,472	78.8	20,845	2.4	1.9	1.81
Mississippi	3,002	5,630	14.4	30,570	78.0	39,202	4.5	1.1	0.76
Missouri	387	3,145	22.0	10,753	75.3	14,285	1.7	2.3	2.17
Montana	401	1,586	18.3	6,696	77.1	8,683	1.0	0.3	0.31
Nebraska	-	2,679	83.7	522	16.3	3,201	0.4	0.7	0.72
Nevada	-	250	15.4	1,376	84.6	1,626	0.2	0.2	0.29
New Hampshire	-	35	0.7	4,892	99.3	4,927	0.6	0.4	0.35
New Jersey	-	58	0.7	8,631	99.3	8,689	1.0	3.5	4.11
New Mexico	1,931	819	4.2	16,818	85.9	19,568	2.3	0.5	0.40
New York	195	1,772	21.1	6,439	76.6	8,406	1.0	9.0	10.19
North Carolina	9,691	3,780	11.0	20,727	60.6	34,198	4.0	2.5	2.11
North Dakota	-	-	-	6,551	100.0	6,551	0.8	0.3	0.27
Ohio	-	2,166	9.2	21,463	90.8	23,629	2.7	5.2	5.23
Oklahoma	747	5,312	16.6	25,847	81.0	31,906	3.7	1.3	1.06
Oregon	213	1,010	8.9	10,093	89.2	11,316	1.3	1.0	1.00
Pennsylvania	1,222	1,881	9.9	15,877	83.6	18,980	2.2	5.8	5.72
Rhode Island	340	721	5.0	13,463	92.7	14,524	1.7	0.5	0.46
South Carolina	1,491	1,031	7.8	10,700	80.9	13,222	1.5	1.3	0.99
South Dakota	35	547	17.2	2,588	81.6	3,170	0.4	0.3	0.28
Tennessee	1,486	7,295	18.1	31,500	78.2	40,281	4.7	1.9	1.59
Texas	1,404	3,975	10.1	33,821	86.3	39,200	4.5	5.5	4.93
Utah	-	255	2.5	9,799	97.5	10,054	1.2	0.5	0.45

TABLE 3 (concluded)

	Direct		Indirect		Amenity		Total		Percent Distribution of Population and Income	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Pop.	Income
Vermont	-	-	128	5.2	2,312	94.7	2,440	0.3	0.2	0.18
Virginia	-	-	1,392	21.4	5,119	78.6	6,511	0.7	2.3	2.19
Washington	8,542	32.6	4,131	15.8	13,489	51.6	26,162	3.0	1.7	1.64
West Virginia	-	-	2,788	6.8	38,153	93.2	40,941	4.7	0.9	0.68
Wisconsin	-	-	1,105	13.7	6,967	86.3	8,072	0.9	2.2	2.06
Wyoming	-	-	244	23.7	720	76.3	944	0.1	0.2	0.16
Amer. Samoa	-	-	-	-	-	-	-	-	0.01	-
Guam	-	-	60	100.0	-	-	60	-	0.04	-
Puerto Rico	3,431	22.5	2,554	16.7	9,286	60.8	15,271	1.8	1.33	-
	60,460	7.0	123,408	14.3	677,193	78.6	861,061			

NOTE: Percent details may not add to totals because of rounding.
 SOURCE: EDA (1972); Census of Population, 1970, vol. 1: U.S. Summary; Survey of Current Business, October 7, 1973, p. 19.
 *Less than 0.1 percent.

fare rolls. They concluded that the benefits of the loan program far exceeded its costs (Chilton 1969, pp. 2.4-2.6).

The evaluation of EDA public works projects is a less direct exercise than the evaluation of business loans. If a firm is given a loan to expand plant capacity, and following the new investment it employs thirty additional workers, few economists would challenge the conclusion that the new jobs were a direct result of the loan. If the capacity of a community's sewer system is expanded, and a local establishment adds thirty new workers to its force, the increase in employment may or may not be a direct result of the public works investment. Evaluation of the economic impact of public works is no doubt a more subjective process than the evaluation of loans. Yet efforts must be made to conduct such evaluations if public officials are to judge the effectiveness of regional development programs.

The Boise Cascade Center for Community Development and an EDA task force separately evaluated the EDA public works programs. The Boise Cascade study was based on evaluations of 149 projects. The sample of projects, in which EDA had invested more than \$51 million, was broadly representative of the various types to receive EDA support. Ten projects were eliminated from the Boise analysis on the grounds that they would "have been approvable under the Act solely on the basis of their anticipated service impact" (Boise Cascade 1970, p. 25). Of the remaining 139 projects, 68 percent had "realized job impact."¹² The report concluded that a grand total of 23,757 "job equivalents" resulted from the public works projects (EDA 1970, p. 5). The authors did not define a "job equivalent." Presumably, however, the term refers to the equivalent of a full-time job. The detailed project summaries provide more information about the projects; it is from those studies that the employment estimate given above was derived. In Table 3 and in the tabulation shown above in the section on amenity investment, the projects that generated "job equivalents" are included with those that are described as having either direct or indirect links to economic development.

One study, which was conducted by the General Accounting Office, is worth a comment. A report based on this study was submitted to Congress by the Comptroller General (U.S. Comptroller General 1972). Like the other evaluations discussed above, it was based on a sample survey. The GAO reviewed 150 projects for which grants and loans of \$77.7 million were awarded. About 14 percent of the sample projects were regarded as "questionable" by the GAO because the potential economic impact seemed "nonexistent or very low" (U.S. Comptroller General, p. 2). But the GAO, quite appropriately, did not question either the premises behind EDA legislation or the feasibility of economic development via the EDA route. It limited its assessment to administrative procedures, and recommended that the Secretary of Commerce require EDA to "effectively coordinate its public works financial assistance programs with those of other Federal agencies and to urge the adoption of

changes . . . to provide greater assurance that such agencies provide available funds for projects . . . before EDA provides any financial assistance" (U.S. Comptroller General, p. 2). The GAO also recommended that EDA adopt improved procedures for evaluating the potential economic impact of proposed projects, including benefit-cost analysis and appraisal of the timeliness of the economic impact (U.S. Comptroller General, p. 30).

AN ALTERNATIVE REGIONAL DEVELOPMENT STRATEGY

One reason for the failure of the Oakland experiment, in the view of Pressman and Wildavsky, was the divorce of policy and implementation. The emphasis in Oakland, they assert, was on "designing the program, obtaining initial agreement at the local level, and committing the funds. All this was done quickly, with fanfare and enthusiasm. . . . The later steps of implementation were felt to be 'technical questions' that would resolve themselves if the initial agreements were negotiated and commitments were made" (Pressman and Wildavsky 1973, p. 143). Implementation became bogged down in complexity, and the result was failure of the most important ventures planned for Oakland.

An important lesson may be learned from the Oakland experience, and it may apply to other communities where substantial EDA expenditures did not produce significant improvement in the local economy. The lesson is that simplicity can be a virtue. The simplest regional policy, of course, is that of *laissez faire*. But while this continues to be the policy advocated by staunch conservatives it has one defect. It does not work. This was the federal policy before 1961, and enough studies of depressed areas were made before that time to show that market forces did little if anything to improve conditions in depressed areas, whether industrial or rural.

One of the causes of the failure of the Oakland program, according to Pressman and Wildavsky, was a conceptual deficiency: "The economic theory was faulty because it aimed at the wrong target—subsidizing the capital of business enterprises rather than their wage bill. Instead of taking the direct path of paying the entire subsidy on wages after the companies had hired minority personnel, the EDA program expanded their capital on the promise that they would later hire the right people" (Pressman and Wildavsky, p. 147).

The idea of a direct wage subsidy is not a new one. It was suggested by John Kain, for example, to the Joint Economic Committee, as one way to stimulate employment of the hard-core urban unemployed. Kain suggested that the subsidy decline as the productivity of workers increased with training and on-the-job experience (Pressman and Wildavsky, p. 157).

There is a precedent for such a subsidy, although not in the United States. A Regional Employment Premium went into effect in Great Britain in September

1967. It provided a direct subsidy to all manufacturing employers located within development areas (the British counterparts of development districts in the United States). It is estimated that the subsidy amounted to about 7 percent of the wage bill of eligible firms; further details are given in Miernyk 1969, pp. 47-48. Unfortunately, the premium proved to be "a costly form of assistance because it is so unselective. . . . It is unlikely that REP has had any appreciable effect in bringing new industry to the development areas" (Wilson 1973). The principle weakness of REP, it seems clear, was its lack of selectivity. A highly selective wage subsidy could prove to be an important part of a successful regional development strategy in the United States.

Pressman and Wildavsky may have been too quick in writing off the development benefits of capital subsidies. Capital subsidies—generally in the form of state and local tax abatements—have been used extensively in the United States, and more recently in Canada, although without notable success.¹³ It is possible, however, that this has not been the right kind of capital subsidy. Since the early days of ARA, regional development administrators have been disappointed that large corporations have shown no interest in responding to the modest inducements that have been given them to locate in depressed areas. But why should the companies be interested? Marginal savings in interest costs mean little to firms that do not go into the market for expansion capital in any event. These firms might be induced to locate plants in depressed areas, however, if they were given a substantial capital subsidy.

Since 1963, Brazilian corporations have been offered a major capital subsidy if they invest in the severely depressed Brazilian Northeast. Under a law enacted in 1963, any Brazilian corporate entity may cut its income tax liability in half, provided the half that is saved is invested in Northeastern projects approved by SUDENE, the federal development agency for the Brazilian Northeast, created in December 1959 (Hirschman 1968, p. 5). The tax savings are deposited in blocked accounts and revert to the federal treasury, if they are not used within three years for specific, approved projects. The problems of the Brazilian Northeast have not been solved by this scheme, but Hirschman believes that the "industrialization drive brought underway by the [tax credit] mechanism is by far the most significant economic advance to take place in Brazil's Northeast for many decades. . ." (Hirschman, p. 25). The Brazilian approach to a capital subsidy is unique. And while it might not by itself guarantee the desired regional development consequences, a variant of this scheme could be a significant part of a future regional development strategy in the United States.

There is an important difference between the Brazilian and other tax incentive schemes. The Brazilian program allows firms to invest some share of their profits, which otherwise would be paid in taxes, in admittedly risky new enterprises. But the firm has nothing to lose and possibly something to gain from investing its tax credit. This is a far cry from the practice of granting new plants

local tax relief. Indeed, there are good reasons why new facilities located in depressed areas should *not* be exempted from state and local taxes. For one thing they are bound to add to the cost of running the local community, and the new firm should bear its share of these costs.

An effective regional development strategy could combine capital and labor subsidies. Corporations might be induced to locate new plants in designated areas if the entire amount of their investment could be deductible from their tax liability. Perhaps these firms could also be induced to hire more of the unemployed workers in designated areas if the firms were paid a temporary wage subsidy. The combination of a capital and wage subsidy would be a far stronger inducement to going firms to locate expansion facilities in designated depressed areas than anything that has been tried up to now in the United States. By limiting the wage subsidy to unemployed workers, some of the problems encountered by the British REP would be avoided. And it is not hard to imagine that at least some corporations in the United States would respond to the opportunity to invest money that they would otherwise pay in the form of corporate income taxes.

This policy would have the strong advantage, recommended by Pressman and Wildavsky, of welding policy to implementation. It would have the further advantage of simplicity. A policy of joint capital-labor subsidies would minimize the number of decision points in the regional development process. It would make maximum use of the market mechanism and require a relatively small number of government decisions. But, one might ask, What role would a federal regional development agency play in such a scheme?

The most important task for an agency such as EDA under a scheme such as that suggested above would be to designate eligible areas. The determination would be based, as in the past, on a demonstrated need for economic development. Technical assistance and planning grants would have to be awarded and administered, as they have been under EDA. And it would be necessary to continue a substantial program of public works, since many areas now eligible for federal assistance still lack basic amenities.

The strategy outlined above would work only if a federal regional development agency could be more selective in the designation of eligible areas than it has been in the past. If two-thirds of the nation is declared eligible for regional development assistance, there is no conceivable regional development program that is going to do much good. Insofar as possible, eligibility for regional development subsidies should be limited to rather stringently defined growth centers. This means, essentially, a narrow definition of the "hinterland," with emphasis on the movement of resources toward the center. There need not be much feedback to the hinterland for a growth center strategy to work. As long as we recognize the existence of economies, both internal and external, it is unreasonable to believe that limited regional development resources can be spread liberally over a nation as large as the United States.

It is not likely that this strategy would "solve" the nation's depressed area problem. But as Newman pointed out in his study of Appalachia, perhaps it is time we stopped talking about solving complex economic problems in the sense of achieving a textbook equilibrium. It is possible, however, that a new approach to regional development could do much to reduce present inequities in the geographic distribution of income and employment opportunities. Perhaps that is as much as we can realistically hope to achieve.

NOTES

1. The quotations are from the Statement of Purpose, Public Law 89-136, 89th Cong., 1st sess., S. 1648 (August 26, 1965).
2. The subtitle of this short but interesting volume is worth giving in full. It is: "How Great Expectations in Washington are Dashed in Oakland: or, Why It's Amazing that Federal Programs Work at All, This Being a Saga of the Economic Development Administration as Told by Two Sympathetic Observers Who Seek to Build Morals on a Foundation of Ruined Hopes."
3. The unemployment rates for 1960 and 1966 are from Nicholls and Bobbie (1969, p. 130) and U.S. Bureau of the Census, PC (1)-C6, Table 85, p. 6-506.
4. I am not aware that the letter was actually published. A copy of it, dated December 3, 1973, was made available to me by the EDA staff.
5. *Manpower Report of the President* (March 1973), p. 209. There were more than 18,000 unemployed workers in the labor market area in 1972.
6. The legislative history and a description of the Area Redevelopment Administration are given in Levitan (1964). This book also contains a detailed evaluation of ARA's first two years of experience.
7. The evolution of EDA's strategy has been discussed by Cameron (1970) especially pp. 92-110.
8. The demanding task of making this classification was carried out by James Maddy with the assistance of Lorena Goodson.
9. I realize that these are facile conclusions which ignore political realities. But as the report of the General Accounting Office, discussed below, has suggested (U.S. Comptroller General 1972), some of the amenity projects funded by EDA might have been supported by other federal agencies.
10. In addition, EDA commissioned a separate evaluation of its research program covering the period 1966-1971. A report on this evaluation was prepared by EDA's Program Analysis Division for internal circulation. A panel of twenty-one academic authorities evaluated 138 studies supported by EDA. The research projects were evaluated on the basis of both substance and analytical methods. Because of the sensitive nature of this document, in which a peer group evaluated the work of other researchers who were also primarily from the academic community, it was not made available for general circulation. It is an outstanding evaluative study, however, which could serve as a model for other government agencies funding extensive research programs.
11. Four of the evaluations dealt with planning grants and technical assistance, three with growth centers, three with rural areas, and seven with a variety of specialized activities. For a useful summary of the business loan and public works studies, as well as other selected evaluations, see EDA (1970).

12. "Job impact" was defined as "the number of saved, new, and discounted future jobs equivalent to jobs providing an annual salary of \$6,500 per year, classified by structural grade" (EDA 1970, p. 5).
13. Income tax abatement, in particular, has been a weak inducement to locate in depressed areas. Business spokesmen have pointed out that the profits earned by new plants are low or nonexistent during the early years of operation. Hence, they pay little tax in any event.

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