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Chapter Author: Niles M. Hansen

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NILES M. HANSEN
University of
Texas, Austin

Future Regional Policy Alternatives

Whatever the political reasons for recent cutbacks in the budget of the Economic Development Administration, it might be maintained that an extension of the agency's life under "business as usual" terms would make economic sense. It seems to me, however, that there are potentially better approaches to problems of regional development in this country. In this paper I explore some directions that might be taken in this regard, without pretending to the knowledge or wisdom required to indicate which would be the best possible route.

THE NEED FOR A CHANGE

Before considering best routes it is of course necessary to have some clear notion of where one wishes to go. Regional policy questions in the United States have generated a great deal of writing about various policy tools, but the history of EDA illustrates an uncertain grasp of objectives.

EDA was charged essentially with aiding areas characterized by high unemployment and low income. As Chinitz (1969, p. 53) points out:

> Most economists regard high unemployment and low income as distinct problems, arising out of different sets of causes and requiring different policies and programmes for their solution. Low income is the classic problem of economic development as seen in the context of the underdeveloped nation: low levels of education, inadequate social overheads, anaemic entrepreneurship, too many re-

sources in agriculture and not enough in industry. By contrast, high unemployment is typically associated with technological and taste changes which result in a sharp reduction in the demand for labour in specific industries without compensating changes elsewhere in the labour market, either on the supply side or on the demand side. Senator Douglas, who pioneered federal legislation in this field, apparently intended that it should be addressed exclusively to this kind of problem.

Chinitz also made a useful distinction among seven kinds of "distressed areas" and argued that EDA should "determine an appropriate policy response to each of these types of distressed area problem. This task will demand not only considerable technical sophistication in delineating the correct policy weapons but a political strategy which is strong enough to prevent federal funds from being allocated to areas which have no potential for economic development" (p. 61). His classification, with relevant examples, was as follows: (1) "rich" and rapidly growing (California), (2) well-to-do mature (Pittsburgh), (3) not-so-poor rural (Upper Great Lakes), (4) poor depressed rural (southern areas), (5) Appalachia, (6) large-city ghetto, (7) Indian reservation.

If EDA ever did try to work out separate strategies for these or any other sets of distressed areas it is not clear from the record. Indeed, it is not apparent that EDA ever had a consistent strategy of any sort.

Early in its existence EDA found that areas just meeting, or a little over, the qualifying level for assistance also were the most likely ones to benefit from vigorous national economic growth. The economies of a number of these areas improved to a point where they no longer qualified for EDA assistance, and they improved without the benefit of any operating EDA projects. The first evidence of this pattern appeared in the agency's first annual review of area eligibility in the spring of 1966. In its first ten months of operations, EDA had approved 650 separate projects, and 324 eligible areas received one or more projects. However, nearly a third of these areas were terminated at the end of the first annual review because their unemployment rates had fallen below the 6 percent required for participation. This meant that they were terminated before any EDA projects had advanced sufficiently to be the cause of the economic improvement. Their economies had benefited from vigorous and sustained national growth. It was also found that areas in the unemployment range from 6 to 8 percent had a much greater probability of being terminated than areas with higher rates. The second annual review brought out a similar pattern. Of the 176 areas terminated, 165 were in the 6 to 8 percent group. In the light of these findings, EDA decided that it could best use its resources to aid places that failed to benefit from growing national prosperity or did not receive the full impact of expansion. These were the areas with the highest unemployment rates or the greatest proportion of low-income families (EDA 1967, pp. 22–23).

Thus was introduced EDA's experiment with a "worst-first" policy. The agency's 1967 annual report boldly stated (EDA 1967, p. 23):

> The "worst first" policy is the guiding principle for EDA in the use of its resources. It has moved the agency away from the selection of projects simply on the basis of their individual quality and general contribution to economic growth. Instead, EDA is now oriented toward meeting particular geographic objectives.
>
> That is, the goal is to improve the economies of specific places through a systematic application of specific solutions to specific problems, with stress on local planning, initiative, and support.

In so far as it was implemented, the worst-first approach was obviously inconsistent with the legislative admonition to invest in areas with significant growth potential, that is, with the notion of clustering investments in the growth centers of EDA multicounty districts. Toward the end of the 1960s EDA began giving more attention to growth centers, perhaps because of the lack of success of the worst-first flirtation. But here, too, positive results were elusive. EDA carried out an extensive in-house evaluation of its growth center strategy and was courageous enough to publish the results, with the following conclusion (EDA 1972, p. 5):

> EDA's experience in funding projects in economic development centers has not yet proven that the growth center strategy outlined in the Agency's legislation and clarified in EDA policy statements is workable. The Agency's approach to assisting distressed areas through projects in growth centers has resulted in minimal employment and service benefits to residents of depressed counties.

However, this lack of success does not necessarily mean that some form of growth center strategy would not be workable. Indeed, a recent joint Department of Commerce and Office of Management and Budget report reaffirms the notion that future economic adjustment efforts should give priority to areas with the greatest potential for providing higher-productivity jobs for the unemployed rather than attempting to create jobs in all areas of high underemployment. The same report correctly stresses that EDA's development efforts were not really concentrated in appropriate areas (Commerce-Budget 1974, p. 25):

> The policy of dispersing assistance rather than focusing on those [areas] with the greatest potential for self-sustaining growth has resulted in much of EDA's funds going to very small communities. Over a third of its public works funds have gone to towns with less than 2,500 people, and over a half to towns with less than 5,000 population. There are relatively few kinds of economic activities which can operate efficiently in such small communities, so the potential for economic development in the communities is relatively small.

Of course, in fairness to EDA it should be recognized that even if the agency had developed a well-defined, consistent strategy, or set of strategies, geared to the needs of particular areas, political pressures and very limited resources in relation to the vastness of its geographic coverage would have militated against its ability to change the economic destinies of large regions. It also should be emphasized that despite the very general criticisms made of EDA, its efforts no doubt have been beneficial in many specific cases. In the following section I briefly examine the forces which have been instrumental in the growth of nonmetropolitan regions that have grown recently after experiencing demographic and economic stagnation or decline. Although these forces have been largely spontaneous in nature, the activities of EDA (and the regional commissions) have been a positive factor in promoting and orchestrating some of that growth.

REVERSING NONMETROPOLITAN DECLINE: THE ROLES OF URBAN FIELDS AND MANUFACTURING DECENTRALIZATION

I recently completed a detailed analysis of six major nonmetropolitan "turnaround" regions: Vermont–New Hampshire, the Tennessee Valley (including all of Tennessee and large portions of some adjacent states), the Ozarks, central Wisconsin and Minnesota, the Colorado–New Mexico Rockies, and central Texas (Hansen 1973a). The growth of these areas may be attributed to the extension of "urban fields,"[1] manufacturing decentralization, or a combination of these forces, each of which I discuss in turn below.

The Extension of Urban Fields

The metropolitanization of the American population may be perfectly consistent with population growth in previously stagnant or declining nonmetropolitan counties. The fundamental reason is that for many people a metropolitan life means more than merely living and working in an SMSA. Just as the compact nineteenth-century city gave way to the metropolitan area, so today the SMSA is giving way to urban fields which may include whole regions within a two-hour driving radius of the central cities. Increased income, leisure, and accessibility have permitted a growing number of persons to avail themselves of opportunities and amenities throughout their respective urban fields. Thus, many persons who work in SMSAs may reside in nonmetropolitan areas where residential amenities are more agreeable, and many persons who live and work in SMSAs regularly go to nonmetropolitan areas for touring, recreation, a second home, and retirement. Indeed, this broader spatial framework has made it ever more difficult to distinguish "rural" from "urban." (The interstate highway system has helped to expand urban fields, but its primary role has been to reinforce processes already at work. Moreover, while the presence of interstate and other major highways may accelerate commuting or even the attraction of economic activity, they are neither necessary nor sufficient for economic development, and their lack does not preclude development.) Although many nonmetropolitan counties have benefited from the continuous extension of urban fields from SMSAs, other have grown on the basis of the leapfrogging of metropolitan demand for amenities conducive to recreation, tourism, retirement, and second homes.

Manufacturing Decentralization

In addition to the expansion of urban fields, the principal cause of reversal of nonmetropolitan decline or stagnation is the decentralization of manufacturing. Wilbur Thompson's hypothesis of industrial filtering in the national system of cities maintains that invention, or at least innovation, takes place more than proportionally in the larger metropolitan areas of industrially mature regions. However, as industries age and their technology matures, skill requirements fall and competition forces the industries to relocate to lower wage areas. The lower an urban area in the skill and wage hierarchy, the older the industry it tends to attract. Its national growth rate also slows. Intermediate-level places tend to develop growth rates somewhat above the national average by getting increasing shares of slow-growing industries. However, in smaller places, the positive change in shares weakens and may even erode to zero, leading to slower than average growth and net out-migration—even to absolute employment and population decline in the smallest places (see, for example, Thompson 1972).

The evidence I have gathered supports Thompson's hypothesis. With the exception of the Colorado-New Mexico and central Texas regions, all of the turnaround regions have benefited from industrial decentralization. In some instances, nonmetropolitan turnaround has resulted from a combination of extension and intensification of urban fields on the one hand and industrial decentralization on the other. However, in the two largest regions in terms of number of workers affected—the Tennessee Valley and the Ozarks—industrial decentralization has been the principal cause of growth. The growth of counties located at some distance from SMSAs depends most on industrial decentralization and least on the expansion of urban fields.

It remains true that these regions do not have the relative security that characterizes metropolitan areas with more diversified economic activities. Agricultural employment still is considerably above the national average, and the manufacturing sectors are frequently in the low-wage, slow-growth (and sometimes heavily subsidized) class. Yet regional development must begin somewhere. And there are indications that, despite deficiencies in public policies and programs, the process of industrial filtering eventually can lead to an upgrading of manpower qualifications, types of industry, and incomes. These phenomena are clearly in evidence in the South. The industrialization of the South was initiated in large measure by the movement of textile mills from New England and other northern areas into the Piedmont region of the central Carolinas. The textile mills in turn generated other activities, such as chemical plants and dye suppliers.

The growth of manufacturing in the Carolinas, and especially North Carolina, was followed by similar expansion into Georgia. Decentralization spread next to the Tennessee Valley, which has managed to achieve a higher degree of industrial diversification than either the Carolinas or Georgia. More recently, Mississippi and Arkansas have entered the lower rungs of the filtering process.

Although Georgia is actively recruiting northern industrial firms, it is not attempting to sell the state on the basis of a cheap labor force; that era has passed. Tennessee officials are proud that they no longer need to tempt firms with the kinds of subsidies available in Arkansas and Mississippi. Arkansas and Mississippi are gratified with industrial growth based on low-wage, slow-growth industries, though they are itching for something better.

It is significant that the turnaround regions lie wholly or mostly within the areas covered by the regional commissions created in 1965 by the Public Works and Economic Development Act and the Appalachian Regional Development Act; and they have profited in varying degree from the activities of the Economic Development Administration and from planning efforts carried out within the context of state-designated multicounty planning units. Although the presence of these activities has been a positive factor in inducing and orchestrating some of the economic growth that has taken place, few would claim that these federal and state initiatives have been responsible for the growth of the relevant regions; they have had too little money, too little time, and have lacked a consistent development strategy. Nevertheless, it will be argued that the experience of the turnaround regions provides numerous insights into problems of regional development. However, these must be considered within the more general context of the major issues involved in the formulation of future regional policy.

ELEMENTS OF A NEW REGIONAL POLICY

In this section, I raise a number of issues that should be dealt with in the context of a national regional policy. The degree of their relevance to specific local or regional situations varies; I give more detailed attention to this consideration at the end of the paper, when I discuss institutional means for formulating and implementing regional policies.

Regions, Minorities, and Poverty

According to Bureau of the Census estimates, 12.5 percent of the national population was living in poverty in 1971. In nonmetropolitan areas the corresponding figure was 17.2 percent (Census 1972a, p. 58). However, over half (51.7 percent) of the blacks in the nonmetropolitan South were living in poverty conditions. (The South accounted for all but 57,000 of the nation's nonmetropolitan black poor.)

It is clear that neither regional policy nor spontaneous industrial decentralization are significantly benefiting nonmetropolitan blacks. The southern turnaround counties, discussed above, have indeed experienced considerable manufacturing growth. But they are overwhelmingly white in racial composition. The largest block of turnaround counties in the nation is in the Ozarks. The remarkable industrial growth taking place in Mississippi is concentrated in a few counties in the northeastern part of the state. Similar expansion is occurring in northern Alabama. Some of the most impressive manufacturing growth in the nation is in Tennessee (apart from some southwestern counties), northern Georgia, and the Piedmont. However, even more striking than the industrial expansion of these southern counties is that they have proportionally fewer blacks than the nation as a whole.

This lack of extension of employment opportunities to areas with a high proportion of blacks has been rationalized on a number of grounds. Many employers believe that blacks are less productive and more easily organized by unions. A prominent local official in northeastern Mississippi, commenting on the failure of the industrial growth characteristic of his area to spread to the Black Belt, stated that firms seeking a large pool of relatively cheap labor may need to go as far south as northeastern Mississippi, but no farther. Whatever superficial merit these arguments may have, it cannot be denied that racial discrimination plays a part in the failure of firms to locate in black areas.

However, overt racism by potential employers is not the only cause. Past and present discrimination against blacks in the provision of manpower services and health, education, and other human resource investments has created a labor force that may really be relatively less productive. Marginal firms in particular cannot affort experiments based on social concern. In view of the continuing migration of large numbers of blacks from the rural South, it clearly would be in the national interest to upgrade substantially the development of the region's black human resources.

The same argument can be made with respect to Spanish heritage and Indian populations in nonmetropolitan areas. According to estimates from the most recent census, 33.4 percent of the former were below the poverty level in 1969, and 44.9 percent had incomes less than 125 percent of the poverty level (Census 1970, Table 129). Comparable data on Indians have not yet been published. However, the Bureau of Indian Affairs estimates that unemployment on reservations averages about 40 percent, though it may run as high as 90 percent on some reservations during the winter months. Average annual family income of reservation Indians is estimated to be about $1,500, and there is evidence that Indians living off reservations experience considerable difficulty in achieving stable employment (Manpower Report 1973, p. 40).

John Cumberland (1971) concluded his perceptive book on regional policy in the United States with the following observation (p. 145):

> despite efforts to justify it [i.e., regional policy] on the basis of poverty alleviation, [it] has benefitted primarily the affluent and the established, leaving behind too many victims of discrimination, members of minority groups, alienated sub-cultures, and young persons who assign social justice, human values, and the quality of life priority over economic development. The major future challenge of regional and urban development will be to relate economic development more effectively to improvements in the quality of life for man in his total environment.

Although he somehow failed to mention sexual discrimination explicitly—perhaps because women are not technically a minority—the essential argument rings true. In the future it may be hoped that policies initiated to affect the spatial allocation of resources will concentrate not only on *regional* development, but also on the plight of those disadvantaged *persons* whose economic status remains deplorably low even by the most modest standards of equity.

While few people would admit to being for poverty, there is far from universal agreement concerning how it should be eliminated or at least significantly reduced. Recent regional policy, and particularly that represented by EDA, has been preoccupied with reducing unemployment, which would presumably also reduce poverty. This approach may be well taken in the context of a mature industrial region experiencing a cyclical downturn or even longer-run problems of sectoral conversion. However, in nonmetropolitan areas low incomes are more a consequence of underemployment and low hourly wages than of total absence of work. In 1971, for example, the unemployment rate in metropolitan areas was 6.3 percent, whereas in nonmetropolitan areas it was 5.3 percent (Census 1972b, p. 2230). (The corresponding rates for blacks were 10.2 percent and 8.8 percent. Before 1861 the black unemployment rate in the South was virtually zero, though few enlightened people rejoiced in the fact.)

It was shown earlier that EDA's early concern with lowering unemployment rates led to its unfortunate worst-first experiment. Part of the difficulty arose from the agency's involvement in the " 'rich' and rapidly growing"—using Chinitz's classification—areas of California, where per capita income is high and growth is rapid. However, as Chinitz (1969, p. 56) pointed out, "the rate of unemployment is also high, thus providing a basis for eligibility. The average citizen would probably be shocked to learn that the benefits of a programme which is directed at areas in Appalachia are also available to the richest areas in the nation." The problem, of course, was that in-migration was outstripping employment growth. Although this particular phenomenon is now much less in evidence, because in-migration has fallen, it nevertheless appears that emphasis on unemployment and even more so the means for reducing it have been misplaced.

Employment Subsidies

If the aim of regional policy has been to increase employment opportunities, it is indeed peculiar that so much emphasis has been placed on subsidies to capital and infrastructure projects, chiefly water and sewer systems.

Interest in marginal employment subsidies as a tool of regional policy has increased in some other countries. In the United Kingdom labor cost subsidies now are equivalent to the subsidies given to capital. In Sweden the principal goal of regional policy in the short run is to equalize wages and employment in different regions. Ake Andersson (1973, p. 17) has argued that employment subsidies should be used to simultaneously achieve full employment in all regions and regional equality in wages:

> The main advantage of a scheme of employment subsidies is the quick effects from such an instrument in comparison with subsidies to capital which have to work through a necessarily slow investment process, and which also tend to give very small employment effects as a result of the lowered price of capital, inducing the firms to overmechanize. Swedish forest industries are examples where the subsidization has led to excessive mechanization and severe unemployment of old workers specialized in the old techniques.

Andersson also cites a Norwegian econometric study of the relative advantages of labor and capital subsides in short- and medium-term regional wage and employment equalization policy. That study indicated that labor subsidies were three to fifteen times more efficient than capital subsidies, with the relative efficiency depending on the character of the production functions of individual manufacturing sectors.

Thompson (1972, p. 101) has speculated that one reason fewer persons live in small towns and rural areas than would be indicated by location preference polls is that workers implicitly have given up whatever influence they might have had on where they live and work because they have set themselves a spatially invariant wage through their unions:

> If it is unlikely that organized labour would be willing to experiment with geographical wage differentials sufficient to induce the relocation of industry, the national

> public policy issue would seem to be whether alternative ways might be found to register labour cost differentials that would guide production into locational patterns that would better reflect household living preferences (i.e., raise real wages). How much money (after taxes) would various groups of workers trade for the objective and subjective gains from living in smaller places, if a stable way of accomplishing this could be found—[and] cut-throat competition in wages prevented?

Of course the allocative distortions of union wage rates also are present in legislated minimum wages. Buchanan and Moes (1960, pp. 434–438) have argued that subsidies can be used to get around such impediments to regional development and, in effect, to buy jobs for labor surplus regions. They would tax away the amount by which the legal minimum wage exceeds the equilibrium wage received by covered workers in low-income regions and pay this amount back to employers as a wage subsidy. Such a scheme would be particularly relevant to the South, where a larger proportion of persons would be maintained above a South-related poverty line; it would counter the downward push that a minimum wage based on northern conditions would exert on southern employment as well as on wages in activities not covered in the South.

On the basis of her experience in eastern Kentucky, Mary Jean Bowman (1969, p. 101) has maintained that attempts to develop low-wage jobs for workers in the region have foundered on the rock of minimum wages. She poses the following questions: "Is there a way of bringing jobs to these men, so that they may take home pay enough to support their families, however modestly, instead of going to the local welfare office for a dole? And can't this be done in a way that would avoid major economic maladjustments or open up a political grabbag?"

In response she proposes, on the assumption that minimum wage legislation is here to stay, that payroll subsidies be granted to persons who are very likely to be immobile. In particular, she would set age restrictions high enough and schooling restrictions low enough to keep the national cost modest and avoid creating a false perspective among younger persons with respect to what schooling means for job opportunities. The subsidies would not depend on wages the firm is paying, but rather would be a flat rate per eligible employee. Bowman's scheme has the advantage that "there would be no need to fuss around with distinctions between new or additional versus prior employees or to select out those who are poor. Those over 40 with little schooling are a category of men with a very high incidence of poverty" (p. 102). Finally, such a program could be given national scope or be applied only to certain depressed regions. In the latter instance, the usual criticisms of special area constraints would have relatively little weight because of the immobile nature of the workers concerned.

Income Maintenance

Yet another approach to the poverty problem would be to abolish minimum wages altogether and introduce a program of minimum income maintenance. Whatever the variant, Tweeten (n.d., p. 7) is correct in pointing out the following:

> It would be a tremendous boon to rural people and would add substantially to the economic base of rural communities. It is now becoming clear that the cost as measured by reduced output of goods and services under a comprehensive income maintenance program is small, probably less than one percent of national income.
>
> Communities lagging in economic growth often rely on intergovernment transfers to support local services. Categorical grants to communities are inefficient means to help low income people—few dollars trickle down. Target efficiency is much greater if welfare assistance is provided *families* rather than *communities*. An adequate income maintenance program allows people to decide whether to spend their income for food, housing or a community water system—a nonexisting option if only a water grant is available. Grants to communities to improve utilities and other services for the purpose of making them more attractive to industry have low target efficiency (many funds go to communities that are unsuccessful in getting new jobs) and should be terminated.

Without dwelling on the significance of the last remark for EDA, it may be noted that a negative income tax would not bring, say, southern minimim income up to that in the North. For example, a family of four might be guaranteed $2,400, with 50 cents deducted from that amount for every dollar earned by the family up to $4,800. Families in regions with relatively little economic opportunity would on average have incomes closer to the guaranteed minimum than would families elsewhere. In addition, there would be some loss of incentive to migrate, but again the persons affected frequently would not be mobile in any case.

Manpower Policies

One need not insist at length on the value of upgrading workers' education and skills, especially in regions with relatively underdeveloped human resources. Rural manpower programs have been hampered by scarcity of manpower experts, low population densities, limited training facilities, and an urban bias in manpower legislation and programs. For example, it is estimated that while rural areas accounted for 31 percent of the national population and an even larger proportion of all poor persons in 1971, they received only 23 percent of manpower outlays. In addition, rural employment service personnel amounted to only 16 percent of the national total. The Rural Manpower Service is attempting to obtain a greater share of manpower funds for rural areas and to be an advocate for rural manpower within the Department of Labor, but it still must contend with its poor image among many rural workers and with employer-oriented influences that often permeate its field operations (Marshall 1973, pp. 116, 185-186).

The development of black human resources in the rural South continues to be plagued by educational difficulties that amount to a national scandal. Over half of all black men displaced from agriculture in the South between 1950 and 1969 had less than four years of schooling, and 75 percent of the blacks over twenty-five years old who remained on southern farms in 1970 had eight years or less (Agriculture 1969). The disadvantage at which the black finds himself in competition for jobs in nonfarm labor markets is apparent. Moreover, too many vocational schools in rural areas still continue to give disproportionate emphasis to agriculture skills, for which the need is decreasing.

This is not to suggest that manpower and related programs would be a panacea for the problems of rural blacks or other groups concentrated in economically lagging regions, e.g., Mexican Americans in southern Texas, Appalachians in eastern Kentucky, and Indians on the reservations, and especially not for those who choose to remain in these regions. Nevertheless, the case for coordinating training in rural areas with local economic development activities is strong where such areas are benefiting from manufacturing decentralization. A study of relocation projects in Michigan and Wisconsin, for example, indicated that while migrants apparently received little benefit from training, workers who remained at home were helped considerably (Somers 1972). South Carolina's efforts to integrate a manpower inventory system and worker training program with industrial expansion have proved quite successful. When a firm demonstrates an interest in a given locale, the recruitment, selection, classification, and training of the local labor force are carried out to meet the specific requirements of the firm. On the other hand, it would be more feasible to locate the training in urban areas when training facilities and employment opportunities are lacking in rural areas.

Labor Mobility

In any case, it must be recognized that in areas that have been the concern of regional development policy, out-migration tends to siphon off the young, the better educated, and the better trained. Of course this phenomenon is not exceptional; few of us—whether or not we fall into these categories—now reside in the places where we were born or reared. The reason larger cities have relatively few problems in this regard is that churning gross migration activity does not on balance tend to deplete their human resources. In contrast, small towns and rural areas often have difficulty replacing their losses, both quantitatively and qualitatively. Even in the turnaround areas discussed previously, out-migrants improved their economic status in relation to nonmigrants; and in-migrants to these areas had little if any economic gain.

A study of a sample of 1,413 rural households in one of the turnaround regions, the Ozarks, has shown that once poverty becomes concentrated in a region, the whole national system operates to generate still more poverty rather than self-correction. As better-educated young people move out of the region the residual local population becomes ever more poverty prone. Thirty-four percent of the household heads in the Ozarks sample were over 65 years old; 14 percent were under 65 but disabled; 4 percent were women under 65; and 2 percent were able persons under 65 with limited schooling. Thus 54 percent were limited in their ability to work. "Add to this the selective in-migration of people with values, aspirations, attitudes, and training similar to the native population, and the result is an increasingly limited labor force which attracts only low-wage, labor-intensive industry. When this happens, the syndrome is only reinforced (Bender, Green, and Campbell 1973, p. 14).

The authors of the Ozarks study believe that such prescriptions as manpower programs and the promotion of migration to areas with better economic opportunities are of little value for those who cannot or will not move. But they also are not very specific about goals and policies for people in poor rural areas, and they admit that "what these people are willing to trade off for possible improvement hasn't been determined yet" (Bender, Green, and Campbell, p. 15). They also acknowledge that "most current residents could move out to gain higher incomes but, for a variety of reasons, don't." One reason they do not may be the lack of any comprehensive program of assisted migration. Although such a program would be applicable to only a limited number of people, to them at least it could provide a feasible alternative to poverty.

Assisted Migration and Growth Centers

Without subsidies on a scale not likely to be politically feasible, lagging rural areas with large concentrations of minority groups will remain poor. Yet many of the *people* of these areas can be given the option of employment in viable urban "growth centers," preferably not too big or too distant from the regions where those who relocate feel they have their roots. If a federal subsidy can accelerate growth in a center that is already growing, and if this subsidy is made conditional on providing opportunities for residents of lagging areas, then it would be more efficient to try to tie into the growing area than to attempt to create growth in stagnant areas that are basically unattractive economically. It should be emphasized that this approach has little to do with the prevalent notion that a growth center should, for policy purposes, be a generator of beneficial "spread effects" to its hinterland; there is little evidence that such a policy really works in large lagging rural regions. It might be preferable to refer to the growth centers as migration centers linking external economies of urban growth to human resource development in lagging areas (Hansen 1972). Assisted labor mobility also would have an important role in such a strategy. The issue is not one of "moving people out"—in our market system, however modified it may be, it is no more possible to compel people from lagging regions to leave than it is to compel industry to move to lagging regions. The real issue is giving people viable alternatives and thus the possibility of genuine choice.

The lack of a permanent program of comprehensive worker relocation assistance represents one of the greatest deficiencies in public policies directly affecting spatial resource allocation (Hansen 1973b). The estimated relative public cost associated with the creation of each new job for rural workers by public employment ($5,000 per year for ten years with 40 percent productivity) is $30,000; by industry location through tax write-offs, $10,000; through the JOBS program ($2,000 per job, with a two-thirds retention rate), $3,000; and by subsidized migration ($500 direct payment plus $500 for administration and counseling), $1,000 (Tweeten 1972, p. 13). The first two alternatives are clearly very expensive. The JOBS program is supposed to combine the efficiency of private industry with incentives provided by the public. However, its value in rural areas is very limited simply because there are not enough jobs available. The figure of $1,000 per job for subsidized migration is somewhat above the norm for pilot labor mobility projects sponsored by the Department of Labor (Fairchild 1970, p. 105), and it apparently fails to take account of unsuccessful moves. Despite the lack of hard evidence concerning the rate of success in these projects, a reasonable estimate of 50 percent would imply that subsidized migration is relatively efficient.[2]

The Rural Development Act of 1972

On the strength of much of the rhetoric surrounding the Rural Development Act it might have been supposed that it would have more than taken up the slack left by the reduction of EDA activities. The RDA is primarily oriented toward rural job creation and the expansion of business activity and income in rural areas. It provides for loans and grants for rural industrialization, business development, and community infrastructure facilities. Xut it also goes beyond an essentially EDA-type orientation by providing for housing, education, research, and environmental protection. The act authorizes up to $10 million for planning similar to that undertaken under HUD's 701 planning grants, as well as funds to reimburse multicounty planning districts for A-95 project reviews. Control over rural development is given to the Secretary of Agriculture, and the act creates the post of Assistant Secretary for Rural Development to coordinate these matters.

For all this it is noteworthy that the RDA does not embody any real strategy for nonmetropolitan development. It is essentially an extension of the commitment made by Congress in Title IX of the Agricultural Act of 1970 to "a sound balance between rural and urban America. The Congress considers this balance so essential to the peace, prosperity and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas." Thus, the Secretary of Agriculture maintains that "the result should improve rural America, bolster agriculture and help relieve urban congestion by reducing migration from farms to city and by encouraging a more balanced national growth" (quoted in NADA 1972, p. 1).

Although the notion of spatially "balanced growth" is in vogue with rural development advocates, its precise meaning is not specified in concrete terms. Should equality of per capita income, public overhead capital, education and health, or economic activity (however defined) be a national goal? What effects would the induced location of economic activity in a given region have on other regions? How might conflicts between attempts to maximize regional and national welfare be resolved or at least ameliorated? Until we are willing to face up to questions of this nature, it is not operationally feasible to appeal to "balanced growth."

The notion that cities can be bribed to support rural development because their congestion problems will thereby be alleviated is not convincing. Only a small fraction of metropolitan growth is attributable to net migration inflows from nonmetropolitan areas. Hence, while out-migration does have important consequences for many rural areas it is not the major source of metropolitan ills. (Perhaps the biggest problem of the major metropolitan areas is one of internal restructuring to give central-city minorities greater access to residential and employment opportunities.)

Whatever the merits of special development assistance for rural areas, one may also question why the Secretary of Agriculture should be made, in effect, the President's rural development director. In 1970, not one rural resident in five was in the farm population, and about half the total income of the farm population was derived from nonfarm sources (Agriculture 1971, p. 33). To be sure, the Department of Agriculture has tended to take a broader view of its responsibilities in recent years, but if rural development is really to benefit the poor and disadvantaged, a much greater initiative will be required than has heretofore been the case.

Tax Incentives

Inadequate investment in human resources has occurred in many rural areas not only because of inadequate local funds, but also because available funds have been squandered on attempts to attract industry. Instead of building better schools and using public amenities to attract firms, many communities have extended direct financial inducements. It has been estimated that in the scramble to attract industry some 15,000 industrial development organizations have come into being to compete for approximately 1,000 new plant locations per year (Tweeten n.d., p. 10). Many communities have even gone so far as to grant tax moratoriums to new firms, thereby sacrificing many of the gains that industrial development was supposed to bring. Firms attracted by tax incentives often tend to be labor-intensive (employing mostly women) and slow-growing and to pay low wages. Frequently they pull out when other communities offer more favorable tax concessions.

State legislatures have also been prone to single out manufacturing plants for special tax breaks. However, as one examination of this phenomenon points out:[3]

> The practice of making special tax concessions to new industry can have baneful effects on our federal system by setting in motion a self-defeating cycle of competitive tax undercutting and irrational discriminations among business firms. Therefore, states should avoid policies calculated to provide special tax advantages or concessions to selected groups of business firms, and frame their business tax policies along general rather than special benefit lines.

On the other hand, reasonable cases have been made for federal tax incentives for rural development. One of the more thoughtful proposals of this kind is contained in an article by Neil Singer (1971), who suggests a regional variant of the national 7 percent investment tax credit. He argues that such a credit would have the advantage of relative familiarity to Congress and to tax administrators and that it would be consistent with other tax devices such as credits for training expenses. The credit should be restricted to increasing a region's productive base so that it may have the maximum impact on increasing regional employment. It is important that the investment should result in increased employment and labor income because that is more likely to be retained within the region than capital income, which frequently flows quickly to other regions. A credit of this kind also eliminates windfalls from replacement investment and the substitution of capital for labor.

Singer estimates new investment per new job at $17,000. He also estimates that to avoid windfall gains, the investment tax credit should apply only to investment in excess of $4 billion in Appalachia and the Title V commission areas. (That sum represents the annual amount that would be invested in the absence of any tax incentive.) Counting indirect effects (regional multipliers), the range of the dollar cost of the tax credit would be $120 million–$160 million, which would lead to an increase of 7,000 to 20,000 jobs; the budgetary cost per job would be between $8,000 and $17,000. Of course, to the economist the government's outlay for a tax credit program does not measure the resource cost, which is the best forgone alternative use of the investible funds.

However, Singer finds that the net resource cost of the regional investment tax credit should be close to zero.

There are at least two difficulties with Singer's approach. First, he assumes full employment in nonregional commission areas; if so, investment in those areas would create some inflation. There is in fact considerable unemployment in those areas and to assume it away unduly biases the case for subsidies to commission areas. Second, as in so many discussions it is assumed in effect that there are only two kinds of areas: lagging rural regions and congested cities with external diseconomies. In fact, there is a whole range of intermediate-size cities big enough to have more economies of agglomeration than rural areas but not so big as to suffer the same degree of diseconomy as large, congested metropolitan areas.

In any case, several of the regional commissions have proposed tax credit schemes and the establishment of rural credit banks on the ground that adequate capital for rural development will have to come from the private sector. Although none of these proposals has been implemented, and although there is some question of the effect of such programs on efficient resource allocation from a national viewpoint, it would seem that they merit more careful consideration than they have heretofore received.

TOWARD A NATIONAL REGIONAL POLICY

In the immediate future the very existence of programs for lagging regions will depend on the degree to which such programs can be subsumed under a national regional policy which appeals to a wide range of the population. Yet given cutbacks in categorical grants, the uncertain future of revenue sharing, and the lack of effective coordinating mechanisms, it is difficult to foresee the future context of a national regional policy. In any case, it is unlikely that either a narrow focus on distressed areas or a broad but operationally meaningless attempt to achieve "balanced growth" can be sold to Congress. Rather, what would be more reasonable and more effective would be a national policy that would permit flexible approaches to a wide variety of regional situations. Moreover, while the stimulation of economic growth may be a feasible policy for some areas with genuine growth potential, other situations may call for measures to adapt to stagnation or even decline; and still other situations may call for better control or management of growth. Because we are primarily concerned here with alternatives to EDA the previous section was oriented toward possible measures for dealing with the problems of poor regions. However, the time may have come for giving equal attention to measures for controlling and managing growth. In this matter we have relatively little knowledge concerning key policy variables, much less relevant policy tools.

It seems to me that a flexible regional growth policy might best be implemented through a comprehensive system of multistate regional commissions, incorporating the substate multicounty planning areas that most states now have delineated for the A-95 review process.[4] The nation's first real revenue-sharing experience was represented by the block federal appropriations made to the existing regional commissions. The money was for policy uses jointly agreed upon by the federal government and the participating states and for state-determined action programs. The sharing effect was extended to the local level through projects formulated in multicounty planning areas. The principal objection to revenue sharing has been that many state and local governments have not demonstrated that they are capable of dealing with local economic and social problems, and the fear is justified in all too many cases. However, it is possible, through the vehicle of regional commissions, to have state and local officials and leaders prepare programs that would be federally financed, but to preserve at the same time a federal veto over programs and projects that would be contrary to efficient resource allocation from a national perspective. Of course, some modifications of the latter stipulation would have to be made because regional policies often are the product of grievances, real or imagined, whose satisfaction is not amenable to solutions based solely on arguments of national economic efficiency. Still it would be undesirable to abandon economic efficiency altogether when confronted with goals of a largely sociopolitical nature. Gordon C. Cameron's points are correct (n.d., pp. 2–3):

> . . . although political pressures give regional policy its main justification and its ever-changing vitality, *efficiency arguments* are never far beneath the surface. There are two possible meanings of efficiency in this context. The first is concerned with questions of how to devise regional policies which maximize the growth in real G.N.P., probably with a long-term perspective in mind. The second is concerned with using public resources and public policies in such a way that the goals of regional policy are achieved efficiently. This might imply a rule of minimum social costs for the achievement of a given "quantum" of regional goals. [Emphasis is Cameron's.]

In conclusion, it should be emphasized that many of EDA's difficulties arose because the agency was more or less compelled by Congress to focus its attention on nonmetropolitan areas. In the future, public policy on the spatial distribution of population and economic activity should be formulated within the context of the nation's system of cities, though broadly defined to include urban fields. Moreover, the very notion of improving spatial resource allocation implies that we are, in some sense, trying to increase the aggregate level of welfare. But this in turn implies that we know a good deal about the locational preferences of people; in fact we know very little.

NOTES

1. This term is borrowed from Friedmann and Miller (1965). See also Berry (1970).
2. Fairchild's review (1970, p. 12) of the pilot projects found that three-fourths of relocated workers remained in the area in which they were placed, if not in the same jobs, during the standard two-month follow-up period. Similar results are reported in Marshall (1971, p. 26). An investigation of one of the larger projects indicated a "success" rate of 48 percent after a six-month follow-up survey (Pfrommer 1973, p. 13).
3. *State and Local Finances* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, 1968), p. 104-1.
4. Detailed development of this argument is beyond the scope of this paper. However, the interested reader is referred to a number of unpublished papers by John Whisman, the States' Representative to the Appalachian Regional Commission. These represent the best recent thought on the subject. See also Sundquist (1969).

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