



EDA and U.S. Economic Distress 1965–2000

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A Message from David A. Sampson, Assistant Secretary for Economic Development, U.S. Department of Commerce

The bottom line of economic development today is about building prosperity—a high and rising standard of living. Productivity and productivity growth are the fundamental drivers of prosperity and innovation is the key driver of productivity. The focus of economic development should be on supporting innovation, increasing prosperity for American businesses and ensuring American workers have the skills to remain the most productive workforce in the world. Innovation will drive the growth of American industry by fostering new ideas, technologies and processes that lead to better jobs and higher wages—and, as a result, a higher standard of living. America’s capacity to innovate will serve as its most critical element in sustaining economic growth.

The dominant reality of economic development today is that we live and operate in a worldwide economy. Worldwide commerce means that American businesses must operate and cooperate with countries around the world. Consequently, we must think regionally, avoid isolationist practices and build a strong economic platform for growth. Thinking regionally should be the key point of departure for defining economic development needs and goals.

The Economic Development Administration (EDA) was established to work with states and localities to generate new jobs, retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas and regions of the United States. The purpose of its program investments is to provide economically distressed communities with a source of funding for planning, infrastructure development, and business financing that will induce private investment in the types of business activities that contribute to long-term economic stability and growth. EDA’s investments are strategically targeted to increase local competitiveness and strengthen the local and regional economic base.

Over the course of its history, EDA has adapted to changing regional and national economic conditions and to the changing understanding of the process of economic development. But the fundamental belief that economic development is a local process has not changed. The economic growth of an area depends on the development of strategies that focus on the community’s unique strengths that are market-based and can leverage private, community, and public resources.

This volume examines and documents how EDA has fulfilled its mission.

David A. Sampson

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EXECUTIVE SUMMARY

1. INTRODUCTION

The Economic Development Administration (EDA) was established under the Public Works and Economic Development Act of 1965 (PWEDA) (Public Law 89-136). EDA's mission as set forth in PWEDA is to work with states and localities to generate jobs, retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas and regions of the United States.

EDA's policy goals, program design, funding levels, and administrative structure have changed over the years since the adoption of PWEDA. These changes have occurred in response to shifting national and regional economic conditions, swings in the political ideology of successive presidential administrations and congressional leaders, and changing understandings of the process and problems of local economic development.

Although EDA undertakes periodic evaluations of its specific programs, the agency has never assembled a comprehensive assessment of its operations in the context of changing economic and political circumstances over the course of its nearly four-decade-long history. Such an assessment—a history of EDA in the context of its times—is the purpose of this report. A stock-taking is appropriate given the scale of public investment at stake and the consequences of inaction for America's economically distressed communities.

Study Objectives

The study has five major objectives:

1. To document and analyze changes in the character, distribution, and causes of economic distress across the United States between 1965 and 2000.
2. To construct a legislative history leading to the establishment of EDA in 1965 and to trace the changing policies toward the agency of successive presidential administrations.
3. To describe and evaluate EDA's current programs and to examine how these programs have adjusted over time in response to changes in national and regional economic conditions.
4. To describe EDA's internal administrative structure and how it has evolved over time.
5. To critically analyze the evolution of EDA in the context of changing economic conditions and to identify emerging policy issues confronting the agency.

Outline of the Report

Chapter 1 provides an introduction to and synopsis of the report. It presents an overview of the study's rationale and objectives, situates the history of EDA in the context of major economic and political events during the period from 1965 to 2000, summarizes key research findings, and identifies emerging policy issues confronting EDA as the agency looks to the future.

Chapter 2 traces changes in regional patterns of economic distress in the United States between 1965 and 2000. The chapter examines the geographic distribution of economic distress as defined by EDA's criteria for designating counties eligible for development assistance. It compares the pattern of EDA-defined distress with maps based on a broader index of economic

health compiled by the authors. The exercise examines the changing determinants of economic distress through a county-level statistical analysis for the 1965–2000 period, and assesses EDA's efficacy in targeting resources to economically distressed communities.

Chapter 3 presents a history of congressional legislation and debate leading to EDA's establishment in 1965 and reviews changes since that time in presidential and congressional approaches to the agency's mission, policy mandate, and level of funding support. This history surveys the policy positions of successive presidential administrations regarding distressed-area legislation in general and EDA in particular. The focus is on changing understandings of the federal role in assisting the process of local economic development and the best means for achieving this objective.

Chapter 4 describes the operation of EDA's eight principal current programs. The historical narrative highlights the economic and political context within which each program was established and traces principal changes in program operations and funding over time. The chapter not only summarizes the operation of individual programs but also considers their integration within EDA's overall approach to local economic development.

Chapter 5 examines changes in EDA's internal organizational structure over time, and relates the agency's periodic administrative reorganization to changes in its internal and external environment.

Chapter 6 offers a critical summary of EDA's history and identifies emerging policy issues confronting the agency as it continues to evolve in response to changing political and economic conditions.

EDA has been remarkably successful in pursuing the mission set forth in PWEDA in 1965, as documented in numerous internal and external program evaluations summarized in this report. This success reflects the agency's ability to recognize and respond to challenges and opportunities presented by substantial transformations in the economic and political environment and to adjust its programs accordingly. EDA continues to play a critical role in the national dialogue about new economic development challenges and solutions for the nation's distressed communities.

This report examines EDA's history for the thirty-five years from 1965 to 2000. As such, it does not address changes that have occurred both within and outside the agency since 2000. These changes including marked economic fluctuations, uncertainties attributable to global political events, unprecedented federal budget deficits and shifting federal spending priorities, expanded free-trade initiatives, and other developments have no doubt affected the environment influencing EDA's policies and programs. An assessment of EDA's policy environment and program responses since 2000, however, is beyond the scope of the present report.

2. THE CHANGING GEOGRAPHY OF ECONOMIC DISTRESS

The character, regional distribution, and causes of economic distress have varied widely across the United States since EDA's inception in 1965. Our analysis focuses on three closely related issues: (1) the geographic distribution of economic distress based on EDA's criteria for designating areas as eligible for EDA assistance; (2) the spatial pattern of distress based on a broader national index of economic health; and (3) the changing regional determinants of economic distress. The analysis yielded the following principal findings.

Changes in the criteria for designating areas eligible for EDA assistance have increased the number of economically distressed areas over time.

- EDA's predecessor agency, the Area Redevelopment Administration (ARA), defined economic distress based on job loss and unemployment and this legacy influenced EDA's area designation criteria.
- EDA's original designation criteria included high unemployment (above the national average) and low family income (less than 40 percent of median). Additional qualifying areas included Indian reservations, areas previously designated by ARA, and the area most nearly qualifying in states that otherwise would contain no designated area.
- Designation criteria expanded through the 1970s to include urban areas, areas of short-term unemployment, and areas with family income less than 50 percent of the national median.
- By the mid-1970s, more than half of U.S. counties qualified for EDA assistance.
- Under the 1998 EDA reauthorization act, areas qualify for EDA assistance that (1) have an unemployment rate at least one percentage point greater than the national average; (2) have per capita income that is 80 percent or less than the national average; or (3) have a "special need ... resulting from severe short-term or long-term changes in economic conditions."

Economic distress has generally persisted over time, with relatively few counties leaving the distressed category between 1960 and 1990.

- Based on 1998 designation criteria, 80 percent of the counties that qualified as economically distressed in 1960 still qualified in 1990 (1,754 counties). Only 20 percent (437 counties) left the distressed category between 1960 and 1990.
- 290 counties that were not economically distressed in 1960, based on 1998 criteria, entered the distressed category by 1990.
- Using the 1998 criteria, between 64 percent and 71 percent of counties in the contiguous United States qualified for EDA assistance at each decade between 1960 and 1990.
- In 1960, the top ten states, with 92 percent or more of their counties qualified for EDA assistance, were in the South (AL, AR, GA, KY, LA, MS, NC, SC, TN, WV).
- The top ten states in 1990, with 86 percent or more of their counties qualified for EDA assistance, now included states in other regions (AZ, AL, AR, ID, KY, LA, MI, MO, MS, UT, WV).
- Unemployment adds little to the designation of economic distress; nearly 90 percent of qualifying counties qualify on the basis of income alone. Locations that qualify on the basis of unemployment are more likely to be urban areas; rural areas qualify on the basis of income.

A broad national Index of Economic Health, originally prepared for and adopted by the Appalachian Regional Commission, reveals that county economic health has been declining gradually but steadily over time (1960 to 1997).

- The research team calculated an Index of Economic Health (the Index) for counties based on per capita income, unemployment, labor-force participation, and transfer payments.
- Based on the Index, the number of distressed counties reached a low point in the mid-1970s, when federal expenditures for social programs were at a post-World War II high. Conditions worsened steadily through the 1980s and 1990s, suggesting the important role of federal transfer payments in alleviating economic distress.
- The number of counties rated in poor or very poor economic health equaled 518 in 1960, remained stable in 1970, declined to 445 in 1980, rose again to 647 in 1990, and reached 774 in 1997.

Economic conditions in America's primarily rural counties have deteriorated over the 1960 to 1997 period, based on the Index of Economic Health.

- A core set of 383 counties has remained economically distressed over the 1960–1997 period.
- Counties in persistently poor economic health are concentrated in Appalachia, the Mississippi delta, Oklahoma, the U.S.-Mexico border region, the Southwest, the Upper Peninsula of Michigan, and the plains region of Montana.
- Counties that entered the distressed category over the period are located in the Mexico border region, the southwestern Indian reservations, southeastern Ohio, northern Michigan, and the northern timber and agricultural counties of California.

The set of counties described as economically distressed by the Index is consistently smaller than the set of counties eligible for assistance based on EDA criteria.

- In 1960, 2,191 counties qualified for EDA assistance based on 1998 criteria, but only 518 counties were classified in poor or very poor economic health based on the Index.
- By 1990, 2,044 counties qualified for EDA assistance based on 1998 criteria, but only 647 were classified in poor or very poor economic health based on the Index.
- Nearly three-fourths of the counties qualified for EDA funds in 1960 would have been rated in good or very good economic health according to the Index.

Reflecting the persistence of economic distress, past economic performance is by far the strongest predictor of current economic performance.

- Prior economic health, measured as a county's Index score from ten years previous, is the best predictor of current economic health.
- Employment in agriculture and in manufacturing has a strong positive association with economic health.
- Lack of educational attainment is an especially strong predictor of poor economic health.
- A large dependent population and a large minority population have a strong negative association with economic health over time.

3. EDA'S LEGISLATIVE HISTORY

Federal activity in regional economic development dates to the 1930s and 1940s, a history marked by frequent and abrupt changes in perspectives, goals, methods, and funding levels. EDA was strongly influenced by its predecessor agencies, by shifts in the policy positions of subsequent presidential administrations, and by a consistent foundation of congressional support.

Early federal initiatives shifted the focus of remedial action for rural underdevelopment from worker mobility (moving people to jobs) to the expansion of employment (bringing jobs to people).

- Federal programs created through New Deal legislation influenced the evolution of regional economic development policy, including the Public Works Administration (1933), the National Resources Planning Board (1934), and the Tennessee Valley Authority.
- Concern that dismantling the war industry at the close of World War II would create economically depressed areas prompted several congressional proposals. The Full Employment Act of 1946 explicitly stated an obligation to assist economically underdeveloped

areas. The Hays–Bailey bill, submitted in September 1945, was the first to focus on employment expansion as a means to assist distressed areas. The Murray–Sparkman bill, introduced in 1949 but not passed by Congress, was the first comprehensive area redevelopment legislation proposed in the United States.

- The Eisenhower administration, skeptical that locally individualized programs could coalesce into a national economic policy, favored technical assistance to small businesses and emphasized the role of state and local governments and civic organizations. Hearings conducted in 1955 by Illinois Senator Paul Douglas pointed to chronic unemployment in the coal, textile, and durable-goods industries and expressed the urgency of federal assistance to economically distressed areas.

The Area Redevelopment Administration (ARA), EDA’s predecessor agency established during the Kennedy administration in 1961, strongly influenced the subsequent formation, mission, and organization of EDA.

- One-third of ARA appropriations were allocated for business loans, reflecting the belief that lack of capital was the principal factor impeding business expansion in economically depressed areas.
- Other ARA programs included loans and grants for public facility development, vocational retraining, technical assistance to small businesses, and research.
- Criticisms of ARA claimed, *inter alia*, that funds were too widely dispersed, that the program did not alleviate chronic unemployment, and that government should not subsidize area redevelopment.

The Public Works and Economic Development Act (PWEDA) of 1965, establishing EDA, improved on the ARA.

- In his transmittal letter to Congress, President Johnson stated that PWEDA “rests on the assumption that there is little hope of establishing new industry in an area which does not have the public works and development facilities necessary to support industrial growth.”
- PWEDA established EDA in the Department of Commerce with more than \$500 million in annual spending, primarily for construction grants for public works projects designed to attract industry and create jobs and for capacity-building assistance to encourage economic development planning and coordination.
- EDA’s primary objectives, established under PWEDA, included self-sustained economic development, increased local and regional planning capacity, and rural economic development designed to curtail rural-to-urban migration.

Amendments to PWEDA during the 1970s under Presidents Nixon, Ford, and Carter extended EDA assistance to urban areas and areas affected by natural disasters, and expanded the agency’s countercyclical and anti-recessionary programs.

- Amendments to PWEDA in 1974 added Title IX, increasing the variety and quality of EDA assistance to urban areas.
- The Public Works Impact Program stressed the need for EDA to assist communities experiencing both long- and short-term unemployment.
- The Local Public Works program (1976-77) provided \$6 billion in countercyclical grants to help local jurisdictions develop facilities to attract new businesses and capital investment.
- In one of its final acts, the Carter administration signed legislation in 1980 extending EDA through fiscal year 1982, the last reauthorization of PWEDA before 1998.

The Reagan administration sought to terminate EDA by the end of 1982 and drastically reduced the agency's budget but congressional support prevented EDA's elimination.

- Repeating arguments surrounding adoption of PWEDA in 1965, the Reagan administration claimed that EDA assistance was too widely dispersed; that there was little evidence that EDA expenditures had induced development in distressed areas; that the government should not create jobs by moving resources from the private to the public sector; and that EDA programs were inefficient because they locked people and resources into areas that had lost their economic viability.
- Reagan asserted that economic expansion and job creation would be stimulated through his overall economic recovery program based on tax, spending, and regulatory reduction.
- The Reagan administration reduced EDA's budget by more than two-thirds and eliminated several programs, including the Public Works Impact Program, the Business Loan Program, and the Trade Adjustment Assistance Program (transferred to Commerce's International Trade Administration).

The Economic Development Administration and Appalachian Regional Development Reform Act of 1998 authorized fiscal year 1999 to 2003 appropriations for and revision of EDA programs.

- EDA's survival through annual congressional appropriations between 1980 and 1998, and its reauthorization in 1998 by a Republican-controlled Congress reflect the agency's strong and continuing bipartisan congressional support.
- The 1998 reauthorization streamlined EDA programs, standardized criteria for funding eligibility, and required a fifty percent non-federal match for most EDA grants (excluding research grants and grants to Native American communities).
- EDA's mandate evolved and expanded over time, moving from a regional to a national focus; encompassing both rural and urban areas; including countercyclical policy measures; and alleviating both short-term economic dislocation and long-term structural change.

4. EDA'S CURRENT PROGRAMS

EDA pursues its mission through a core set of programs—Planning, Public Works, and Research/Technical Assistance—that have been in place since the agency was established. In addition to these core programs, a few carefully selected functions have been added incrementally over the intervening period—Economic Adjustment, Trade Adjustment, Defense Adjustment, and Disaster Recovery Assistance—in response to emergent problems and new understandings of the economic development process. The agency has been remarkably adept at inaugurating new programs and modifying existing ones to meet changing economic and political needs over the past thirty-five years.

Our overview of EDA's current programs identifies each program's objectives; outlines the economic and political context in which the program was established; describes the program's design and operation; traces its funding level over time; and summarizes program impacts as reported in available evaluations and assessments.

Planning Program for Districts, Indian Tribes, States, Substate Regions, and Urban Areas.

- The Planning Program constitutes one of EDA's fundamental contributions to local communities and to the overall process of regional economic development.

- In the 1970s, EDA began to emphasize long-term, continuous, and comprehensive planning over short-term problem solving. The program's premise is that comprehensive planning is an essential prerequisite, guiding local economic development and ensuring the effectiveness of EDA-funded development projects.
- Funding for the Planning Program ranged from \$20 million to \$30 million annually (in constant 2000 dollars) until 1975, increased to nearly \$80 million in the late 1970s, was cut dramatically after 1980, and has leveled out at around \$24 million or 6 percent of EDA's total budget. The nominal value of the average planning grant to Economic Development Districts (EDDs) is approximately \$54,000, which in inflation-adjusted real terms equals about 20 percent of the average planning grant awarded in 1966.
- Because EDA views planning as a continuous activity, funding priority is given to existing grantees and more than twenty EDDs that have been designated as eligible for the Partnership Planning Program have never received funding due to insufficient resources.
- EDA's planning assistance is integral to the success of subsequent EDA investments. As noted in a 1997 evaluation of EDA's Public Works Program, "EDA planning assistance is the building block for the ultimate implementation of a project."

Technical Assistance Program: Local Technical Assistance, National Technical Assistance, and University Centers

- Technical assistance has been a core part of EDA's economic development efforts since the establishment of the agency. The Technical Assistance Program (TAP) includes Local Technical Assistance (disseminates information to support current projects and to build local capacity for economic development); National Technical Assistance (supports the generation and sharing of knowledge regarding the practice of economic development); and University Centers (provide distressed communities with access to applied research and training resources).
- The TAP has been funded continuously but at a very low level since 1965, was cut substantially after 1981, and has received annual appropriations of \$10 million or less since that time. In fiscal year 1998, the average grant under the Local TA Program was \$28,000 (nominal dollars) and the average National TA grant was \$92,000. The University Center Program is currently funded at \$6.5 million annually, or \$102,000 per Center. Only one Center has been established since 1997 due to lack of additional funding.
- The Local TA Program provides funds to enhance the capacity of local areas to undertake economic development activities. Examples include needs assessments, feasibility studies, project planning, demonstration projects, and operational support; the program no longer provides direct assistance to private firms.
- The sixty-nine University Centers provide applied research and technical assistance to clients (economic development organizations, private-sector firms, local governments, and/or nonprofit organizations) seeking to mitigate economic problems or identify development opportunities. Examples include business planning, financial management, marketing research, feasibility studies, training seminars and workshops, and planning and data analysis assistance.
- A 2001 evaluation of the University Center Program found that a large proportion of clients give their Centers high ratings for being responsive to needs and for the quality and timeliness of the work product. Clients are often repeat customers and most clients took some action as a follow-up to the Center's assistance.

Public Works and Development Facilities Program

- The Public Works and Development Facilities Program, one of three charter programs authorized by PWEDA in 1965, is the core of EDA's activities and is central to EDA's identity

and mission, accounting for just over 50 percent of EDA's total cumulative appropriations (in constant dollars).

- Early activities focused on provision of basic infrastructure, understood as necessary to make economically distressed areas attractive for private investment and job creation. More recent activities have funded the construction of distance learning, telemedicine, and specialized training facilities, as well as the deployment of telecommunications infrastructure such as fiber-optic cable and high-speed Internet connections.
- Annual appropriations for Public Works have fluctuated considerably over time, averaging between \$500 million and \$700 million from 1967 to 1973 but dropping to \$100 million to \$200 million since 1981.
- A 1997 evaluation of the Public Works Program found that 96 percent of EDA-funded projects created or retained permanent jobs. Projects produced 327 direct permanent jobs, on average, for every \$1 million of EDA funding, and 84 percent of projects leveraged additional private-sector investment, at an average rate of \$10.08 in private investment for every \$1 in EDA funding.

Economic Adjustment Program

- EDA's Economic Adjustment Program (EAP), created in 1974 as an amendment to Title IX of PWEDA, provides assistance to communities experiencing either long-term (i.e., structural) deterioration or sudden and severe economic dislocation.
- The development tools available to EAP are the resources provided through EDA's Public Works, Planning, and Technical Assistance programs, as well as authority to fund locally administered revolving loan funds (RLFs).
- RLF grants, a concept pioneered by EDA, are used to capitalize a locally administered loan fund that provides "bridge" or "gap" loans to local businesses. By 2000, EDA had made 597 initial capitalization grants and 199 recapitalization grants through EAP.
- Funding appropriations for EAP, which began in fiscal year 1975, account for just under 5 percent of EDA's cumulative real appropriations. In constant dollar terms, the program reached its highest funding level in 1976 and then decreased sharply, reaching a low point in 1981; appropriations have been relatively stable since 1995, averaging about \$32 million annually in constant (year 2000) dollars.
- A 1997 program evaluation concluded that 90 percent of RLF projects had produced permanent jobs within six years after project initiation. In aggregate, across all projects, every \$1 of EDA funding leveraged an additional \$1.20 in matching public grants and loans.

Defense Economic Adjustment and Post-Disaster Economic Recovery

- Congress has directed EDA to perform special functions at various times in the agency's history, most notably assistance to communities affected by the closure of military facilities and by natural disasters such as floods and hurricanes. Funds for these purposes are usually administered through EDA's Economic Adjustment Program.
- The severity of job losses associated with military base closures and realignments since 1992 prompted Congress to provide additional funds for defense economic adjustment. Funds have been used to modernize infrastructure on former military installations and for conversion of facilities to business incubators and training and technology centers.
- Destruction caused by Hurricane Camille in 1969 and Tropical Storm Agnes in 1972 led to the addition of Title VIII to PWEDA in 1974, giving EDA specific authority to provide economic aid in areas affected by natural disasters. For affected communities, EDA assistance smoothes the transition between short-term emergency disaster relief (provided by the Federal Emergency Management Agency and other groups) and longer-term economic redevelopment.

- Once immediate health and safety needs are addressed, EDA provides planning and technical assistance grants to help communities develop recovery strategies, and can provide public works and EAP grants to help restore basic infrastructure and investment capital for devastated local firms.

Trade Adjustment Assistance Program

- EDA's Trade Adjustment Assistance (TAA) Program, initiated in 1974, helps firms injured by international trade develop and implement an adjustment plan to guide their economic recovery and provided business loans and technical assistance to trade-impacted industries.
- The TAA funds twelve Trade Adjustment Assistance Centers (TAACs), serving all fifty states, that assist firms in obtaining certification that they have been harmed by international trade. TAACs also assist certified firms to develop and implement Adjustment Proposals (APs) that map out strategies for meeting foreign competition.
- Program assessments conducted by the Urban Institute in 1998 and by the General Accounting Office in 2000 concluded that the TAA program has successfully helped trade-injured firms become more competitive.

Research and National Technical Assistance

- The Research and National Technical Assistance (RNTA) Program administers three types of projects: (1) research exploring emerging or important issues in local and regional economic development; (2) information dissemination projects making information about development programs and projects available to practitioners; and (3) evaluations of the effectiveness of EDA programs.
- Between 1965 and 2001, EDA-sponsored research has generated 1,119 catalogued research reports and evaluations. Studies have addressed changing economic, demographic, and political conditions affecting economic development; formulation and use of analytical tools to assess policy and program options; specification of data needs, sources, and applications; development of program evaluation and assessment techniques; and other topics.
- Research has always been a very small program within EDA, accounting for less than one-half of one percent of the agency's cumulative funding allocation in real dollars.

5. EDA'S ORGANIZATIONAL STRUCTURE

EDA's administrative and organizational structure have evolved over time in step with changes in the agency's political support, funding stream, and programmatic approach. At times, these internal adjustments have improved administrative efficiency, productivity, and performance, especially when organizational changes implement recommendations made by program evaluations and agency self-assessments. At other times, internal reorganization simply reflects the agency's best response to external shocks in the political and funding environment.

- Organizational changes adopted between 1967 and 1978 progressively decentralized program responsibilities to the regional offices (currently Atlanta, Philadelphia, Chicago, Austin, Denver, and Seattle). Program oversight, policy formulation, strategy development, and basic administration are performed in Washington, DC.
- Staffing levels have fluctuated widely over time, undermining program continuity and disrupting institutional memory. The current appropriation for salaries and administrative expenses is less than half the level attained in the 1960s, in constant dollars, despite considerable expansion in the agency's programs and in the number of eligible areas.

- EDA faced a severe challenge under the Reagan administration, which reduced the agency's budget by 68 percent between fiscal year 1981 and 1983, in current-year dollars. The drastic budget reductions prompted sweeping changes within the agency, including elimination of several organizational units, consolidation of agency functions, realignment and recentralization of agency operations, and termination of a large portion of the agency's staff.
- Lacking congressional reauthorization between 1983 and 1998, EDA was sustained solely through the annual appropriation process and was kept alive due only to bipartisan congressional support.
- EDA formalized an annual program performance review under the Clinton administration's government reorganization initiative in 1993. The annual review continued EDA's longstanding practice of internal program evaluation and forward strategic planning.
- Under the National Performance Review (NPR), EDA has substantially streamlined its regulations, simplified funding applications, reduced application processing time, improved customer satisfaction, and refocused resources on areas of highest economic need.

6. CONCLUSION: EDA'S RESPONSE TO DOMESTIC DISTRESS

EDA has been strikingly successful in addressing the mission set forth in PWEDA in 1965, as documented in frequent internal and external evaluations examining both individual programs and the agency's overall performance. That success has been achieved despite severe funding limitations, uncertainty and fluctuations in funding levels from year to year, and a wide range of legislative, political, and administrative constraints on program operations.

Accomplishments

- EDA has been highly successful in helping to provide or upgrade the basic infrastructure of economically distressed communities throughout the United States.
- The agency has also succeeded in assisting relatively industrialized communities that are temporarily distressed due to a sudden or acute shock, such as a major plant closing or a natural disaster, or are negatively affected by longer-term structural changes influencing the U.S. economy, such as international competition or reductions in defense spending.
- EDA's successes reflect the soundness of its two-track approach in responding to domestic economic distress. On the one hand, the Public Works, Planning, and Technical Assistance programs have formed consistent building blocks of EDA's approach, reflecting the belief that basic infrastructure is a prerequisite for attracting the private investment necessary for self-sustaining economic growth. At the same time, EDA has maintained the flexibility necessary to identify and respond to short-term, emergent shocks that, if left unaddressed, have the potential to undermine previously vibrant communities.
- Within this overall success story, EDA's programs have not, in general, addressed economic conditions in the nation's worst-off communities marked by chronic long-term distress. This is not a contradictory finding. EDA has been highly successful at catalyzing economic growth in both urban and rural areas but has never had the resources necessary to eliminate the impediments to growth burdening the nation's most chronically impoverished communities. This gap does not reflect a failure of the agency but rather highlights the need for additional programmatic approaches backed by sufficient resources to address the nation's most severely economically distressed areas.

Competing Priorities

- The parallel dynamics of persistent economic distress and sudden economic dislocation present considerably different sets of conditions that require substantially different policy

responses. The political environment, funding limitations, and a market-oriented development strategy aimed at stimulating private-sector investment are more conducive to responding to short-term dislocation than to long-term distress.

- The problems faced by communities marked by long-term economic distress extend beyond the need for infrastructure to attract private-sector business investment, including the need to better integrate such communities into regional and national economies, strengthening civil society, revitalizing essential institutions, improving living conditions, and integrating economic development and social-service activities.

Funding Levels

- Funding levels for EDA programs and agency operations represent a persistent challenge confronting the agency. Key issues include overall funding levels, volatility of funding over time, and uncertainty regarding funding needed to sustain program viability.
- Overall funding levels have dropped dramatically and consistently in real terms since EDA's formation. Measured in constant (inflation-adjusted) dollars, EDA's fiscal year 2000 appropriation was only one-fourth the size of its appropriation in 1966, despite a significant expansion in both the number of programs and the geographic area served.
- Significant funding increases through special appropriations for countercyclical Local Public Works in the 1970s disrupted agency operations, diverted staff from other programs, and tended to serve communities most ready to implement projects rather than those most in need.
- Significant funding reductions in the 1980s terminated successful programs, accelerated staff turnover, and severely challenged the agency's ability to fulfill its legislative mandate.

Economic Development Strategies

- EDA's emphasis on job creation as the principal route to economic development has its roots in memories of the Great Depression, fears of cyclical decline after World War II, and concerns over structural mass migration out of agricultural and extractive regions. Political support in Congress focused policy on job creation through private-sector business retention and attraction. This policy favored communities experiencing short-term economic dislocation over those lacking the location, resources, factor endowments, or institutional capacity needed to make them development-ready.
- Economic transformations aligned with globalization, product innovation, and the rise of the information economy pose new challenges for rural areas and remote communities least well integrated into emerging systems of business and wealth creation. EDA can play a crucial role in identifying and implementing viable solutions.
- EDA has been remarkably responsive to changes in the economic and political environment throughout its thirty-five year history. As the nation once again enters a time of significant change, EDA should be given the resources and authority to continue its essential mission in support of the nation's most distressed communities.

1

INTRODUCTION AND OVERVIEW

The Economic Development Administration (EDA) was established under the Public Works and Economic Development Act of 1965 (PWEDA) (Public Law 89-136). As set forth by PWEDA (as amended), EDA's mission is to work with states and localities to generate jobs, retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas and regions of the United States. EDA provides grants for infrastructure development, local capacity building, and business development to help communities alleviate severe economic distress, a condition characterized by substantial and persistent unemployment and underemployment and low income levels.

In the nearly four decades since EDA's inception, the nation has experienced periods of both change and continuity in the causes, characteristics, and regional distribution of economic distress. EDA's policy goals, program design, funding levels, and administrative structure have changed over the period to respond to shifting national and regional economic trends, swings in the political ideology of successive presidential administrations and members of congress, and changing understandings of the process and problems of economic development.

Although EDA undertakes periodic evaluations of its specific program areas, the agency has never initiated a comprehensive assessment of its overall program in the context of changing economic circumstances over its history. Such an assessment is appropriate given the scale of public investment at stake and the consequences of inaction for America's most distressed communities.

RESEARCH OBJECTIVES

This study has five major objectives: (1) to document and analyze changes in the character, distribution, and causes of economic distress across the United States between 1965 and 2000; (2) to construct a legislative history leading to the establishment of EDA and to trace the changing policies toward the agency of successive presidential administrations; (3) to describe and evaluate EDA's current programs and to examine

how these programs have adjusted over time in response to changes in national and regional economic conditions; (4) to describe EDA's internal administrative structure and how it has evolved over time; and (5) to critically analyze the evolution of EDA in the context of changing economic conditions and to identify emerging policy issues confronting the agency.

The first objective, documentation of patterns of distress, is addressed in chapter 2. The chapter describes changes over time in regional patterns of economic distress across U.S. counties, using both EDA's definition of distress and a broader index of economic health. Causes of distress are examined through a statistical analysis of the changing determinants of county-level distress. The analysis is based on data obtained from EDA and other sources, including the Bureau of Economic Analysis, the Bureau of the Census, and the Bureau of Labor Statistics.

Chapter 3 presents the history of congressional legislation and debate pertaining to the establishment of EDA in 1965 and reviews changes since that time in the agency's mission, policy mandate, and level of funding support. Special attention is paid to the policy position of successive presidential administrations and the impact of those positions on the evolution of distressed-area legislation in general and on EDA in particular. The construction of EDA's legislative history is based on a detailed review of the congressional record, transcripts of congressional testimony, EDA documents, and other federal agency reports, and on information obtained through interviews with individuals both within and outside EDA who played a role in the formation and subsequent operation of the agency. These individuals include current and retired EDA management and staff, political leaders who first championed the idea of EDA, and members of the academic and practitioner communities whose professional careers were contemporaneous with adoption of PWEDA in 1965.

Chapter 4 provides an overview and assessment of EDA's programs, with particular emphasis on their evolution over time. For each of EDA's current programs, the analysis identifies program objectives; summarizes the economic and political context within which the program was established; traces principal changes in program objectives and funding over time; describes the program's operation; and reviews program impacts as assessed in evaluations that have been completed over the life of the program. Information for this task was gathered through examination of EDA documents, interviews with the directors of each major EDA program area, and review and synthesis of all available program evaluations conducted over the history of the agency.

Chapter 5 examines and assesses changes in EDA's internal organizational structure over time and considers EDA's recent management initiatives. Data for the chapter were gathered through interviews with key individuals at EDA's national headquarters and at a selection of regional offices, and through review of internal documents.

Chapter 6 offers a critical summary of EDA's history and identifies emerging policy issues.

SITUATING THE HISTORY OF EDA

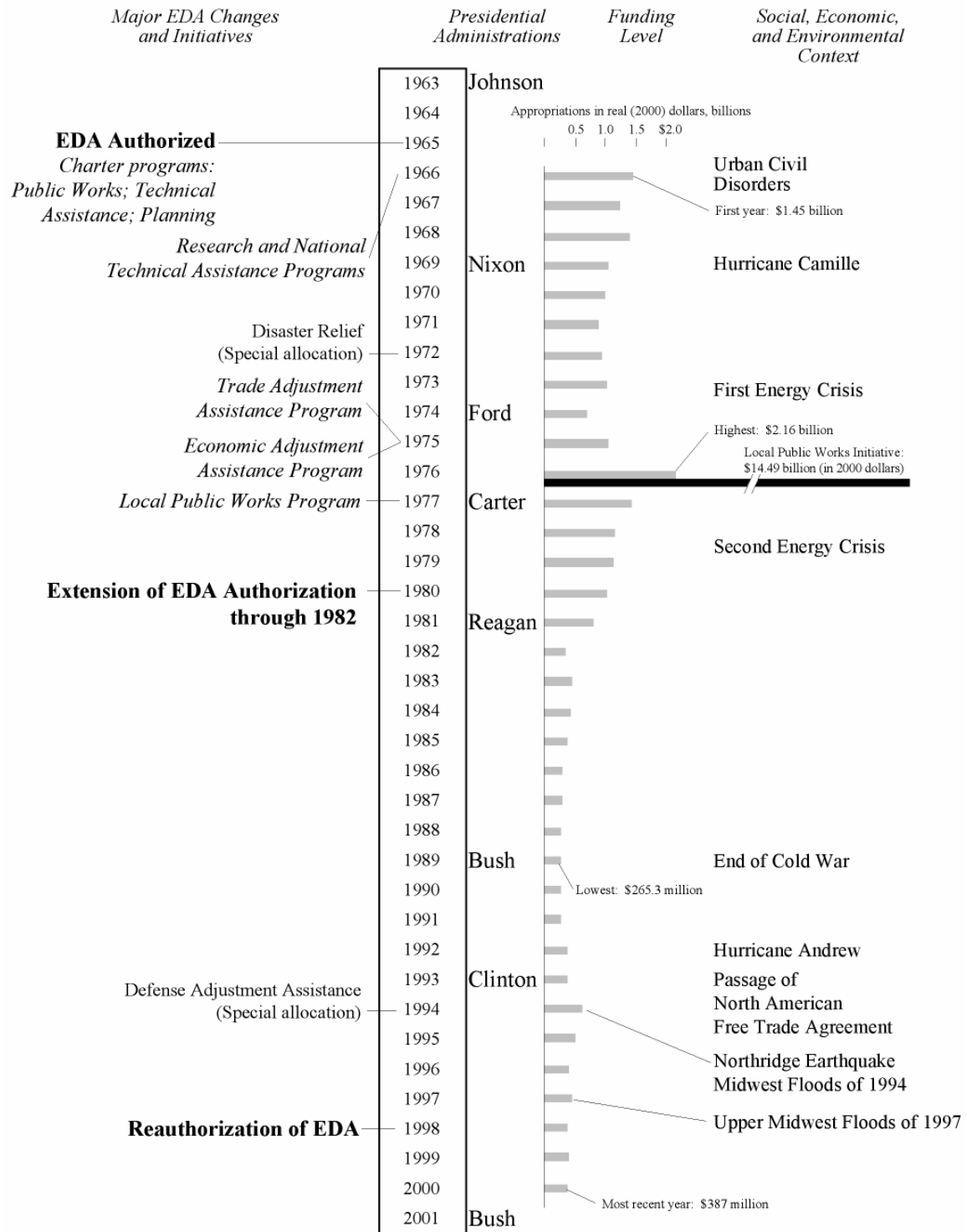
The purpose of this report is to document EDA's history and to trace the ways in which the agency has developed and implemented programs that respond to the changing economic development needs of the nation's distressed communities. To achieve this objective, the analysis situates EDA's activities within the context of the broader political and economic changes that have affected the nation over the past thirty-seven years (fig. 1.1).

The period between 1965 and 2000 witnessed changes in political, economic, and social conditions at a rate that is perhaps unprecedented in the nation's history. In the economic sphere (see chapter 2), the nation experienced a massive transformation from a materials-oriented economy to an information-oriented economy. The relative decline of agriculture, mining, and manufacturing as a source of jobs and income exerted a particularly significant effect on the economies of rural and nonmetropolitan areas throughout the country. Continuing inter- and intraregional shifts in population and jobs resulted in rapid growth in some areas, substantial depopulation in others, and the ever-increasing marginalization of locations not integrated into the economic system. Many urban areas experienced deindustrialization, job loss, and the multiple effects of concentrated poverty and unemployment. Rural areas that were not the target of immigration and new investment risked being left even further behind. Well-worn strategies and solutions that had boosted generations of families out of poverty were becoming increasingly outmoded and ineffective given the changing labor, resource, and locational needs of the "new economy." All of these changes presented formidable challenges to meeting EDA's mandate of helping communities alleviate severe economic distress.

Simultaneous with the economic transformations, the nation witnessed dramatic swings in the political and ideological spheres (see chapter 3). These swings included dramatic shifts in understanding of the federal role in responding to economic distress; in the relationship between the public and private sectors; in the potential for federal programs to address local and regional problems; and in federal spending priorities. New issues demanded the nation's attention, including recurrent energy crises, economic recessions, the end of the Cold War, and realignments associated with free trade and globalization. As a result of the shifts in ideological positions and competing demands for resources, presidential and congressional support for EDA and its mission fluctuated over time.

The establishment and evolution of EDA reflect the agency's ability to pursue its mission in the context of substantial transformations in the external environment. EDA has continually reevaluated its policy and approach, refining successful strategies and adopting new initiatives in response to new problems and new understandings of the process of economic development.

Figure 1.1. Economic Development Administration Timeline



At the time of the adoption of PWEDA in 1965, economic distress was primarily attributed to the lack of adequate basic infrastructure, and public-sector support for infrastructure development was seen as a prerequisite to the private investment that would alleviate distress (see chapter 3). Based on that understanding, the formative EDA programs under PWEDA included Planning, Public Works, and Technical Assistance. Planning articulated strategies for local development; Public Works funded the capital costs of infrastructure development; and Technical Assistance aided communities in implementing development strategies. This successful formula has endured throughout EDA's thirty-seven year history.

EDA has built on the foundation of its formative programs through the judicious adoption of new programs and approaches that expand the agency's toolbox but maintain its central focus. By the mid-1970s, it was increasingly recognized that a focus on infrastructure alone was not sufficient to address either long-term economic deterioration associated with structural change or sudden and severe economic dislocation caused by closure of a major employer, closure of a military base, or a natural disaster. Two new programs—Economic Adjustment Assistance and Trade Adjustment Assistance—were initiated in response. Congress also provided special allocations for Defense Adjustment and for Disaster Recovery, which were grafted onto the Economic Adjustment Assistance program.

Changes in EDA Funding Levels over Time

Congressional funding for EDA largely dictates the agency's capacity to develop and implement its programs. Presidential and congressional support for EDA has fluctuated substantially since the agency's inception, and these fluctuations are reflected in EDA's congressional appropriation levels. Funding appropriations for EDA were substantially higher during the early years of the agency than at the present time. Measured in inflation-adjusted (year 2000) dollars, EDA's 1966 appropriation of approximately \$1.45 billion was nearly four times the \$387 million the agency received in 2000.¹ Although agency funding levels began to fall in the late 1970s, the key turning point occurred at the beginning of the Reagan administration (between 1981 and 1982), when EDA funding was slashed nearly in half. Before 1982, average annual appropriations for the agency were \$1.15 billion (in inflation-adjusted year 2000 dollars). After 1982, EDA appropriations averaged \$380 million in constant dollars.

Measured in cumulative, constant (2000) dollar terms, congressional appropriations for EDA since its inception total \$40.2 billion. Of that amount, fully 82 percent—more than \$33 billion—was allocated during the first fifteen years of the agency's existence, between 1966 and 1981. Since 1982, EDA's cumulative funding has totaled only \$7.2 billion (in constant year 2000 dollars). These broad fluctuations and the long-term decline in funding support have decisively influenced the agency's overall effectiveness, the structure and functioning of individual EDA programs, and the

¹ Inflation-adjusted dollars are calculated using a GDP deflator developed by the U.S. Department of Commerce, Bureau of Economic Analysis (<http://www.bea.doc.gov/bea/dn/gdplev.htm>).

allocation and distribution of staff and administrative resources within the agency (see chapters 5 and 6).

KEY RESEARCH FINDINGS

EDA has been remarkably successful in achieving the mission set forth in PWEDA. This success has depended largely on the agency's ability to recognize and respond to challenges and opportunities presented in the thirty-seven years since its inception. These challenges include changes in EDA's external environment, such as changes in the understanding and measurement of distress, differing approaches to economic development, and widely fluctuating levels of funding and political support. Challenges have also been posed by EDA's internal environment, including reduced staffing levels, staff turnover, and changes in the geographic and administrative organization of the agency.

Our evaluation of EDA's response to challenges over the course of its history suggests a number of key findings:

- EDA has made substantial progress in carrying out its central mission of providing and upgrading the basic infrastructure of economically distressed communities throughout the United States.
- EDA has been successful in designing and implementing programs to help relatively industrialized places respond to long-term structural economic change, as well as to short-term dislocation such as that caused by natural disasters.
- The inauguration of economic development planning in economically distressed communities represents one of EDA's most notable successes.
- Notwithstanding this overall success story, EDA's programs have not, in general, addressed economic conditions in the worst-off places—those marked by extremes of long-term, persistent, chronic distress. Rather than indicating a failure on the part of EDA, the persistence of extraordinary chronic economic distress suggests the need for additional programmatic approaches to meet the needs of those places that, for various reasons, are not “development ready.”
- EDA's inability to address high chronic distress stems, in part, from ideological shifts and conflicts over time in both the White House and Congress. EDA has frequently had to adjust its development goals and program priorities in the face of political pressure. As a consequence, the multifaceted problems underlying chronic economic distress have been reduced to a definition for which there is the greatest degree of political agreement—the need for jobs. External political pressure has also resulted in a shift in agency emphasis from “worst first” to “most likely to succeed,” further diverting the agency's focus away from very chronically distressed areas.

- Fluctuations in congressional funding for EDA have presented a serious impediment to agency functioning. The inadequacy of overall funding support has been a continual problem, but the volatility of funding and uncertainty about future funding have also affected the agency's ability to carry out its mission.
- A substantial discrepancy persists between staff and workload at the agency. This discrepancy is a consequence of large-scale budget-related reductions in staff that occurred even as the agency's responsibilities expanded in number and scope. The staffing inadequacy compromises the remaining staff's efficacy and efficiency and affects the quality of program delivery. Lack of sufficient intermediate-level program staff also inhibits the agency's ability to develop policy and to engage in forward-thinking planning.

EMERGING POLICY ISSUES

The economic, political, and policy changes marking EDA's first thirty-five years are merely prelude to the continuing and accelerated pace of change in the foreseeable future. We identify here only a few of the principal emerging issues that EDA will need to address in continuing to pursue its mission.

First, there is a need to come to grips with the meaning and nature of distress in the nation's most troubled communities. The problems faced by such communities include but also extend significantly beyond the need for infrastructure to attract private business investment. In many cases, communities lack far more basic elements, including a location conducive to integration with wider economic systems, a competitive natural advantage, effective civic capacity, adequate housing and municipal services, and effective schools. In numerous ways, these communities can be described as lacking elements that would make them "development ready," but providing those elements requires substantially greater resources than those currently available in EDA's budget. The price of not doing so is to relegate the country's most severely distressed communities to irreversible poverty.

Second, in designing programs to counter persistent economic stagnation, EDA must go beyond an infrastructure approach and include greater emphasis on issues such as strengthening civil society, revitalizing essential institutions, and improving living conditions, all of which are prerequisite to ensuring development. One avenue toward addressing these issues is to broaden EDA's definition of infrastructure to include not only the physical systems but also the human, social, and institutional infrastructure of distressed areas.

Third, there is a need to reconsider EDA's focus on job creation as a means of alleviating distress. Contemporary circumstances characterized by low rates of unemployment raise serious questions about the viability of retaining a singular focus on job creation as the guiding principle of the agency. Even though EDA received an early mandate to use policy tools such as employment training to help enhance local capacity,

ambiguity in EDA's authority to expend funds beyond its narrowly delineated purview diminished those opportunities. The necessity to link expenditures to actual job creation also limited EDA's ability to make capacity-building investments in the most troubled places.

Finally, the rise of the information economy and growing international competition associated with economic globalization present important challenges to rural and remote areas. These areas are the least well connected to broader economic systems and the most likely to be left behind as changes in the meaning and value of information forever alter the practices of business and wealth creation. Rural and remote areas are also home to many of the nation's low-wage, low-skill workers, who are likely to bear the brunt of broad economic restructuring. EDA has a critical role to play in opening a dialogue about new economic development challenges facing the nation's distressed communities. In addressing these challenges, EDA should focus both on creating new economic development practices and on making existing activities more viable.

2

THE CHANGING REGIONAL DISTRIBUTION OF ECONOMIC DISTRESS

EDA was created at a time in U.S. economic history in which regional income disparity was both starkly evident and increasing in scale and severity. As the successor to the Area Redevelopment Administration (ARA), a prior experiment in regional development, EDA focused its core mission on the creation of jobs in distressed areas. Among the prime targets of assistance were traditional industrial regions experiencing the effects of technological change, degraded agricultural regions, and depleted mining locations. In order to maintain sufficient support in Congress, EDA's eligibility criteria were broad and, over time, led to designation of more than half of all counties in the United States. Given limited resources, this encompassing locational mandate, a creature of political exigencies, has been a continual challenge for the agency.

The origins of EDA's public-works emphasis also can be traced to earlier policy experiments of the 1960s. At the agency's inception, policy makers thought that the lack of available capital was the root cause of uneven regional development and economic distress. Based on little hard evidence, the presumption was that distressed locations needed business capital to attract and retain private-sector investment; therefore, the early ARA programs emphasized the availability of capital. With passage of the Public Works Acceleration Act of 1962, communities successfully argued that the problem was not insufficient capital but rather a lack of basic infrastructure. Thus was born EDA's enduring emphasis on public works as the key strategy to make communities attractive for business development.

Debates over the causes of economic distress and its appropriate remedy rest in part on the definition of distress and its regional distribution. The character and distribution of economic distress have varied widely across the United States since EDA's inception. This chapter describes and analyzes the level, characteristics, and distribution of distress throughout the United States for the period between 1960 and 1997. The chapter proceeds through a three-part analysis. The first presents an analysis of the spatial distribution of economic distress based on EDA's 1998 criteria, which

emphasize unemployment and income levels. The second reexamines the distribution of distress based on an index of economic health developed by Glasmeier and Fuellhart for the Appalachian Regional Commission (ARC).² The final spatial analysis considers the regional determinants of economic distress and evaluates whether and how these determinants have changed throughout the history of the agency.

The distress analysis presented in this chapter sets the stage for the remainder of this report. An assessment of EDA's role in addressing economic distress requires careful specification of the nature and distribution of distress in the United States. That task is the purpose of this chapter. Before turning to the examination of distress, however, it is important to understand the legacy of ARA and, particularly, ARA's criteria for the designation of distressed areas.

THE LEGACY OF ARA

The creation of EDA and many of its organizational features cannot be understood outside the context of ARA, its predecessor agency. EDA's distressed-area designation largely followed the criteria originally used by ARA. According to an early evaluation of the policy context of EDA, ARA "focused on creating jobs in depressed areas."³

The economic distress that provided the impetus for the creation of ARA was rooted in the changing employment experiences of many regions of the country. First, there was a concern, dating back to the Depression and the effects of demobilization after World War II, about the need for programs to facilitate full employment. Policy makers also recognized that there were places facing long-term severe unemployment and that technological change was rendering commodity-based industrial economies obsolete. There was a grave concern that a downward spiral would result from high unemployment and would prohibit communities from making effective recoveries from processes of economic change. References to the "downward cycle of development induced by high levels of unemployment" are evident throughout the early legislative history surrounding the creation of ARA and its successor, EDA.⁴

During most of the life of ARA, more than a thousand communities were eligible for governmental assistance. The language used to identify eligible communities included terms such as "high unemployment," "lagging areas," and "depressed communities." The specific criteria used to identify distressed areas consisted of a combination of income and unemployment characteristics and other attributes of local economies. Figure 2.1 provides a visual representation of the original "5(a)" (high unemployment) and "5(b)" (unfavorable economic conditions) areas identified as economically distressed in 1965.

² A. Glasmeier and K. Fuellhart, *Building on Past Experience: Creation of a New Future for Distressed Counties* (Washington, D.C.: Appalachian Regional Commission, 1998).

³ Economic Development Administration, *The EDA Experience in the Evolution of Policy* (Washington, D.C.: U.S. Department of Commerce, 1974), 1.

⁴ *Public Papers of the President* (Washington, D.C.: Government Printing Office, 1966), 140.

Given this income and economic base designation framework, the underlying rationale of ARA was that communities needed help in making transitions from one economic state to another. Thus, ARA's programs provided public works and technical assistance to help communities "redevelop."⁵

Despite earnest efforts by ARA staff, programmatic limitations led to the agency's demise. In its early days, ARA was criticized for overreaching its mandate. Structurally, the agency suffered from insufficient funding and an inability to expend funds rapidly enough and with sufficient oversight to meet with congressional approval. Additionally, several members of Congress and representatives of organized labor argued that the program's design and intent aided and abetted the relocation of manufacturing plants from one region to another.⁶ Perhaps most important, the program was insufficiently funded to make much of a dent in the problems of qualifying locations. While it was recognized that the underlying problems addressed by ARA were real and persistent, Congress and the president agreed that ARA was not the right vehicle for the job. As noted in a 1973 evaluation of EDA, "the Area Redevelopment Administration was sacrificed for reasons of political expediency."⁷

Lessons from ARA and the Emergence of EDA

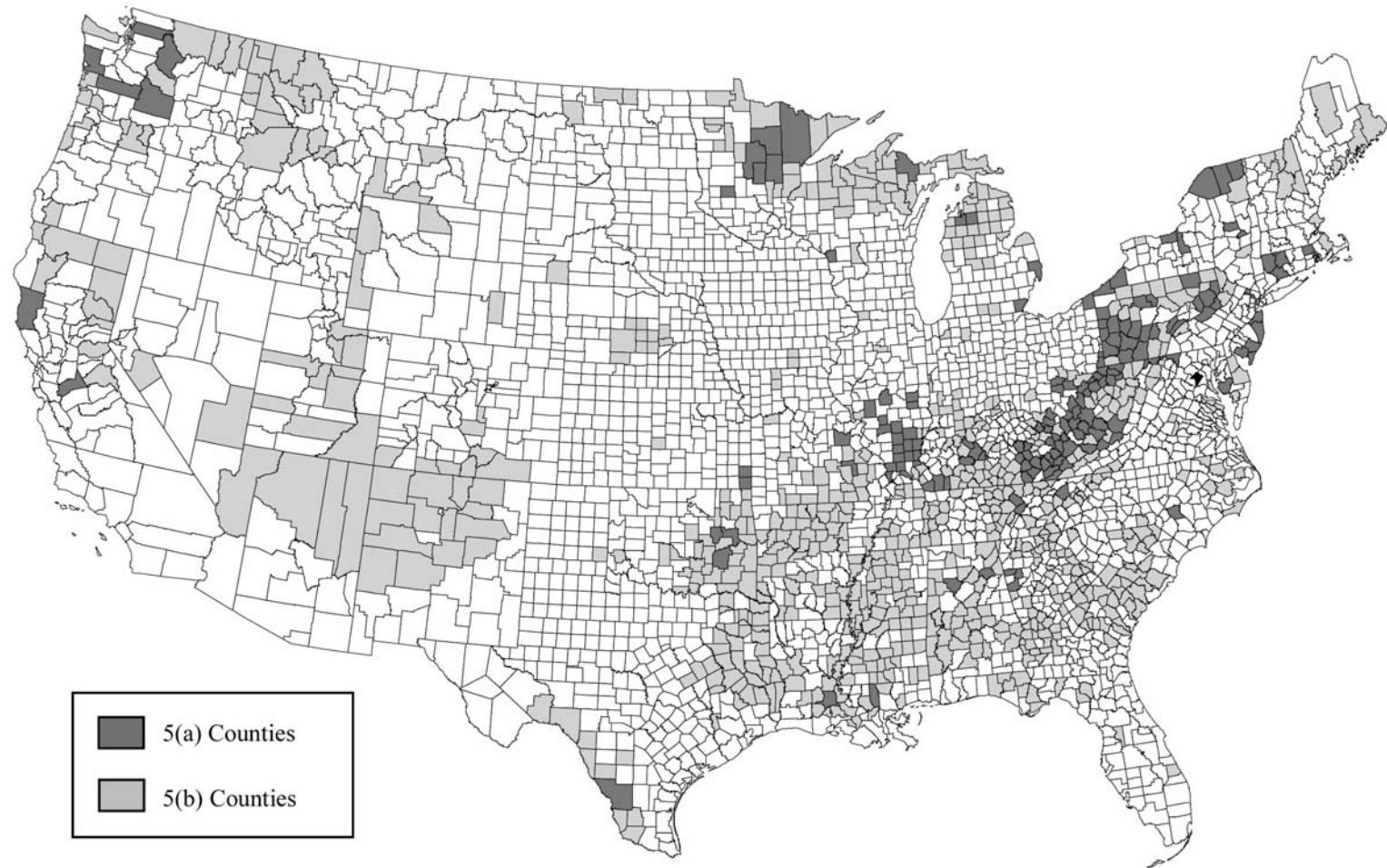
The lessons learned from the ARA experiment provided ample motivation for the creation of EDA. Among the most important insights gained was that the more significant problem for many high-unemployment locations was not capital shortages but rather the need for basic infrastructure. During implementation of the Public Works Acceleration Act of 1962, it became evident that troubled communities lacked sufficient basic infrastructure such as water, sewers, and commercial space to attract and retain industry. Communities argued that these tangible prerequisite elements were needed to attract new investment and that simply making low-interest loans available to firms would prove insufficient. Partly as a result of this recognition, EDA maintained many of the features of ARA but placed a greater emphasis on infrastructure. The criteria EDA used to identify communities in economic distress were an important holdover from ARA.

⁵ In accordance with the Area Redevelopment Act (Public Law 87-27), EDA designated "Redevelopment Areas" in 1965, which included counties or clusters of counties, county equivalents, or Indian Reservations within the United States. The "5(a)" Redevelopment Areas were marked by high unemployment, while the "5(b)" Redevelopment Areas were characterized by a variety of unfavorable economic conditions.

⁶ S. Levitan, *Federal Aid to Depressed Areas* (Baltimore: Johns Hopkins University Press, 1974).

⁷ Economic Development Administration, *The EDA Experience*, 4.

Figure 2.1. EDA 5(a) and 5(b) Area Redevelopment Counties, 1965



Source: Economic Development Administration.

Area Designation

When ARA was established, the problem of “depressed” or “distressed” areas was defined as a lack of jobs; therefore, the heart and soul of ARA and, later, EDA was the generation of jobs. The original regional image of distress that justified ARA was job loss in industrial areas such as New England and parts of the Midwest and in the coalfields of Appalachia. As a result, ARA’s designation criteria provided guidelines “only in relation to substantial and persistent unemployment.”⁸

EDA was instructed to develop further criteria to identify distressed areas. Four additional criteria were established: (1) areas with mean family incomes not exceeding 40 percent of the national median; (2) Indian reservations manifesting the greatest degree of economic distress; (3) areas previously designated by ARA, subject to yearly review on the basis of EDA criteria; and (4) status as the one area that most nearly qualifies for designation in states that otherwise would have no designated area. Places where economic change was likely to produce high unemployment also could be designated. This last provision improved upon ARA practice by providing the secretary of commerce with the flexibility to deal with emergency situations such as natural disasters or other unexpected sources of high unemployment.

Political Pressure and the Expansion of Area Coverage

The number of EDA’s designated areas grew in response to both political and economic realities over the life of the agency, and particularly in the early 1970s. Areas of short-term unemployment were added between 1965 and 1971. New legislative mandates also expanded the types of counties that could be assisted. In 1970, 983 areas qualified for EDA assistance; by 1973, that number had nearly doubled to 1,818 areas. Forty percent of the areas newly qualifying for EDA assistance between 1970 and 1973 were localities experiencing short-term unemployment. Less than a decade after the establishment of EDA, distressed urban areas were included in the agency’s realm of responsibility under Title 1. By 1976, the full range of EDA programs was available to urban areas suffering from short-term high unemployment. A final adjustment was made to the income-level criterion in 1971. Originally set at 40 percent of national median family income, the income-level figure was increased to 50 percent, qualifying an additional 130 counties for assistance.⁹

Further complicating the designation of area eligibility was the fact that a moratorium passed in 1970 disallowed de-designation of a locality without prior consent. Once designated, a county remained a potential recipient of EDA assistance indefinitely. Although EDA staff could and did restrict funding to counties that failed to demonstrate true need, from a congressional point of view, more than half of all U.S. counties qualified for assistance.

⁸ Ibid., 8.

⁹ The use of median family income proved problematic: Although updated data were needed more frequently, median family income was calculated on a decennial basis.

A final change in designation in the early 1970s further expanded the types of areas eligible for EDA support. Following the logic of the “growth center” concept, areas that were within an economic development district but not within a redevelopment area could receive support if the applicant could demonstrate that the redevelopment area would benefit from the project’s funding.

The Geography of EDA

The geographic scope of EDA differed from that of ARA in several respects. Based on ARA experience, EDA was designed with three geographic scales in mind:

1. Regional commissions dealing with economic problems on a multistate basis;
2. Multicounty districts, reflecting the belief that certain areas could not mount effective attacks on unemployment and low income on their own; and
3. Growth centers within economic development districts.

Growth centers were justified based on the notion that “the provision of jobs, income, and local services in growth centers would benefit not only these centers, but residents of the surrounding area as well.” Concentrating development resources in locations of existing economic activity also was thought to be an effective method of stemming migration, because jobs would be provided within a reasonable commuting range. Finally, it was assumed that EDA’s efforts would be more effective in reaching the “target population (i.e., the unemployed and underemployed residents of depressed areas) through investments in growth centers.”¹⁰

Geographic scale is of critical importance in the designation of eligible places. Scale is relevant from the perspective of development processes and from the perspective of statistical measurement of economic distress. The original concept of development guiding EDA was based on the belief that growth occurred in places of at least a certain minimum population size. Thus, a redevelopment area could be larger or smaller than a county, depending on its core population. The critical threshold adopted by EDA was a population base of 250,000 people per redevelopment area. EDA believed that this population base would produce sufficient economies of scale to support a diverse range of economic activity. Counties and metropolitan areas became redevelopment areas using this designation, and growth centers could be, but were not required to be, within a redevelopment area.

By the mid-1970s, it was recognized that the average population size of many potential rural growth centers was significantly smaller than the original redevelopment-area threshold set by EDA. Under the original threshold, small rural areas were combined into redevelopment areas of at least 250,000 people. The extent to which the specific development problems of those smaller areas were addressed within a large redevelopment area depended, in part, on the effectiveness of the planning process that accompanied the receipt of EDA funds. Changes in 1976 led to a reduction in the

¹⁰ Economic Development Administration, *The EDA Experience*, 6.

minimum size of redevelopment areas from 250,000 to 25,000 people. The change was important because it allowed smaller places that might otherwise have been excluded or overlooked to qualify for assistance. As a result of the change, 800 additional towns and cities became eligible for EDA assistance.

The designation of excessively large geographic units as redevelopment areas can also be traced to statistical practicalities. Particularly in EDA's early years, many of the data required for area designation were unavailable below the county level, and critical measures such as median family income were available only for decennial census years. Thus, determining the eligibility of small locations often required using aggregate data to prove need; however, by using aggregate data, specific community conditions were often obscured.

The size of redevelopment areas was revised once again in the late 1970s, this time to include locations of 500,000 people or more. The expansion of the eligible spatial unit was necessary to incorporate urban areas, a realm that became more important to EDA's mandate over time.

Reauthorization of EDA in 1998 and Clarification of the Distress Designation

On the surface, the 1998 reauthorization of EDA and the clarification of eligibility criteria could have created a huge extension of jurisdictional authority over a vast new spatial territory. That was not the case. In fact, the reauthorization of EDA in 1998 stabilized the designation of distress and made more concrete and explicit the criteria used for designation. To be eligible for EDA funding, an area must demonstrate high unemployment, low income, or special circumstances that threaten to cause local economic distress. According to EDA regulations, an area is eligible for a project grant under Sections 305 (Public Works) and 308 (Economic Adjustment) if it meets one of the following criteria:

1. "An unemployment rate that is, for the most recent 24-month period for which data are available, at least one percent greater than the national average unemployment rate. For example, if the national unemployment rate is 6 percent, an area is eligible under this provision if it has an unemployment rate of 7 percent."
2. "Per capita income that is, for the most recent period for which data are available, 80 percent or less of the national average per capita income."
3. "A special need, as determined by EDA, arising from actual or threatened severe unemployment or economic adjustment problems resulting from severe short-term or long-term changes in economic conditions. These include outmigration or population loss, natural disaster, and military base closure."¹¹

¹¹ *Public Works and Economic Development Act and the Appalachian Regional Development Reform Act of 1998* (P.L. 105-393).

Threshold levels for these criteria are as follows (table 2.1).

Table 2.1. Example Eligibility Thresholds

	Unemployment Rate (%)	Per Capita Income (Current Year Dollars)
1960	6.14	1,480
1970	5.37	3,072
1980	7.47	8,050
1990	6.44	15,325

Source: Calculated from U.S. Census, Bureau of Economic Analysis, and Bureau of Labor Statistics data.

Note: Unemployment rates for 1960 and 1970 are calculated for single years only, due to lack of other reliable data. Reflecting EDA's eligibility criterion based on the unemployment rate for the most recent twenty-four month period for which data are available, the figures reported for 1980 and 1990 are calculated from unemployment rates for 1979/1980 and 1989/1990, respectively.

EDA'S ELIGIBILITY CRITERIA: A MAP OF ECONOMIC DISTRESS

The history of ARA and EDA and the description of their respective designations of distress and program emphases provide background for a statistical analysis of economic distress in the United States. The analysis consists of two parts. In the first section, we provide a broad-brush view of distress using the criteria legislated in the 1998 EDA Reauthorization Act (hereafter the 1998 Act). The 1998 criteria differ in specifics but are identical in spirit to the criteria originally specified in PWEDA in 1965.

The second section applies an index of economic health based on income, unemployment, labor-force participation, and transfer payments.¹² The incorporation of transfer payments and labor-force participation rates supplements EDA's narrower emphasis on income and unemployment and provides finer detail and greater specificity of conditions of economic distress over time. As the index provides a continuous score for each county over time, annual comparisons of economic health among and across localities are facilitated. In contrast, EDA's designation method, which, by design, is a categorical scheme, allows only a binary designation of an area as either economically distressed or not distressed. If that method is used, thresholds cannot be compared and cyclical processes are not revealed.

¹² The analysis does not include counties or county equivalents in Alaska and Hawaii. We did not include Alaska because of the significant number of boundary changes that occurred over the study period. We excluded Hawaii because of the lack of data for the early years. This allows us to compare conditions over time and it also allows us to compare the EDA definition with our index for the same years.

Designation of Economic Distress Based on EDA Criteria

Our first analysis examines the number and distribution of counties that qualify as economically distressed based on EDA's 1998 criteria: an unemployment rate of one percentage point or more above the national level or per capita income less than or equal to 80 percent of the national average, for the years 1960, 1970, 1980, and 1990. The number of counties that qualify under each criterion are reported in table 2.2.

Table 2.2. Number of Economically Distressed Counties, Based on Unemployment Rate, Per Capita Income, and EDA Combined Criteria

	Unemployment Rate 1% or More Above the National Rate	Per Capita Income Less Than or Equal to 80% of the National Average	EDA Combined Criteria (Unemployment or Income)
1960	816	1,938	2,191
1970	835	1,712	1,971
1980	997	1,611	1,969
1990	1,200	1,849	2,044

Note: Data are for 3,069 counties in the contiguous 48 states.

These data can be used to identify change in the distribution of distress over the thirty-year period, based on EDA criteria. Specifically, we can calculate:

- the number of counties that qualified for EDA funds in both 1960 and 1990;
- the number of counties that qualified for EDA funds in 1960 but did not qualify in 1990;
- the number of counties that did not qualify for EDA funds in 1960 but qualified in 1990.

This analysis yields the following county groups:

- Qualified in 1960 and 1990: 1,754
- Qualified in 1960 but not in 1990: 437
- Did not qualify in 1960 but qualified in 1990: 290

The pattern of economic distress based on EDA criteria is enduring; 1,754 counties, or 80 percent, of the counties that qualified as economically distressed in 1960 still qualified as distressed in 1990. At the same time, 437, or 20 percent, of the 1960 qualifying counties had moved out of distressed status by 1990. However, 290 counties that were not economically distressed according to EDA criteria in 1960 became so by 1990. The results reveal that, based on EDA criteria, relatively few counties (20 percent) left the economic distress category over the 1960 to 1990 period. By contrast, nearly 300 counties that were doing relatively well in 1960 entered the distressed category by 1990.

A Retrospective Look at EDA's Designation Process

Maps of distressed counties under EDA's definition of distress for 1960, 1970, 1980, and 1990 suggest that the 1998 criteria provide limited precision in the identification of distressed counties (see figs. 2.2 to 2.5). The designation remains sufficiently broad to enable a large number of all counties to qualify for funds. In 1960, fully 2,191 or 71 percent of the 3,069 counties examined would have been designated distressed using the 1998 criteria (table 2.2 and fig. 2.2). In 1970, 64 percent of the 3,069 counties studied would have been designated distressed. The proportion remained stable at 64 percent in 1980 and increased slightly to 67 percent in 1990.

In sum, between 60 percent and 70 percent of all counties qualified as distressed over the entire thirty-year period, based on EDA's 1998 designation criteria. Although there has been some change over time in the counties that qualified for EDA support, a core of counties consistently qualified as distressed over the thirty-year period. (It should be noted that three of the four years examined in this analysis were relatively average, economically; only 1980 had a fairly high unemployment rate of 7.1 percent.)

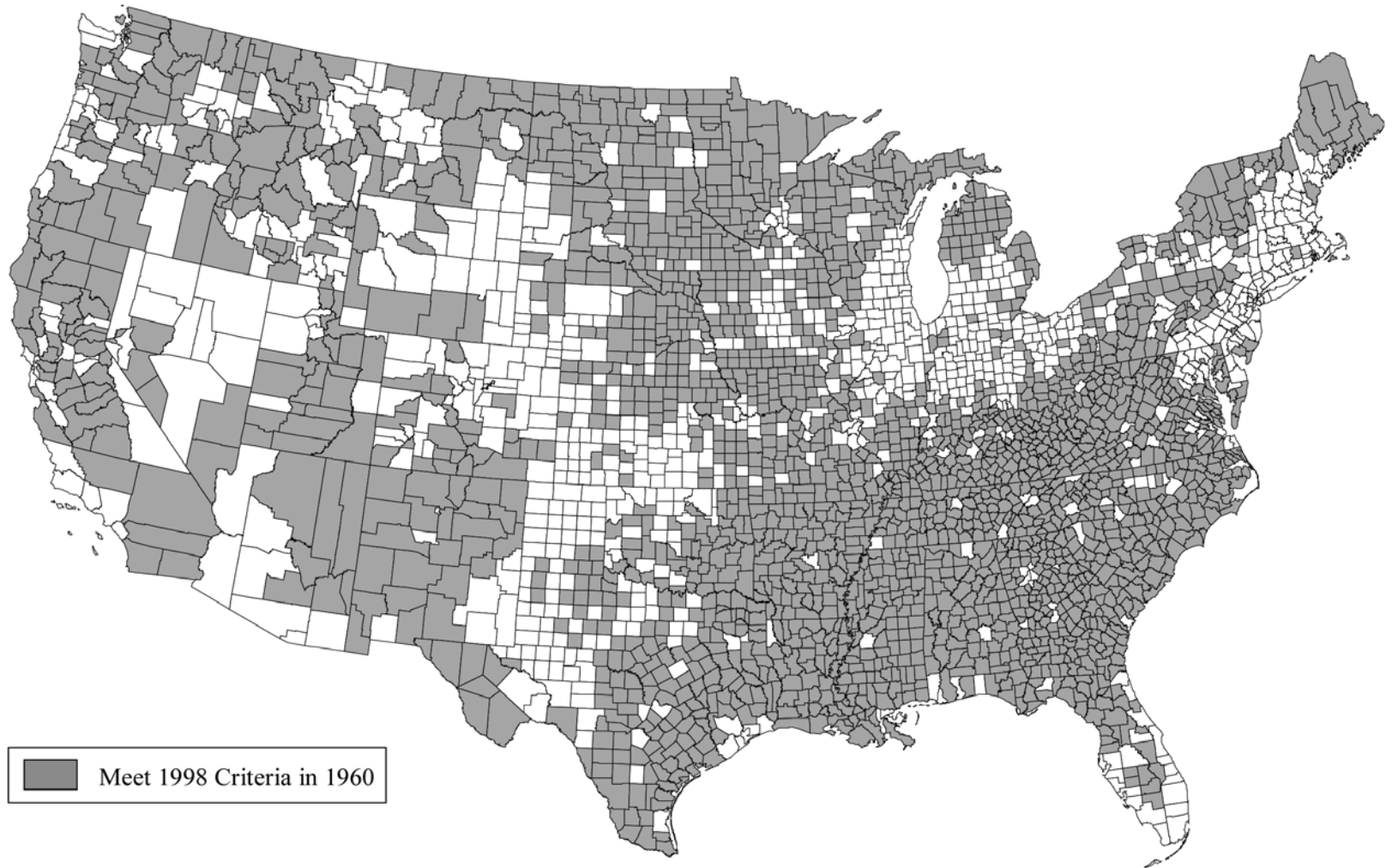
Urban and Rural Trends

EDA originated as a predominantly rural-focused agency but has accumulated urban responsibilities over time. Based on the Beale county-level urban-rural continuum, which designates counties based on population size and the degree of urban population concentration, the majority of counties qualifying for EDA funding in 1960 were rural. In 1990, nearly 90 percent of the counties qualifying for EDA assistance were still rural.

At the other end of the spectrum, 126 metropolitan counties qualified for EDA program funds in 1960. In 1990, 323 metropolitan counties qualified for program support. Some counties that now qualify for EDA assistance moved from rural to metropolitan status over the study period.

Thus, the increase in the number of metropolitan counties that qualify cannot be assumed to reflect solely an increase in urban economic distress. Equally possible, formerly rural areas may have become urban while remaining economically distressed over the study period. Thus, although new urban counties have qualified for EDA assistance, EDA's target area remains predominantly rural in nature.

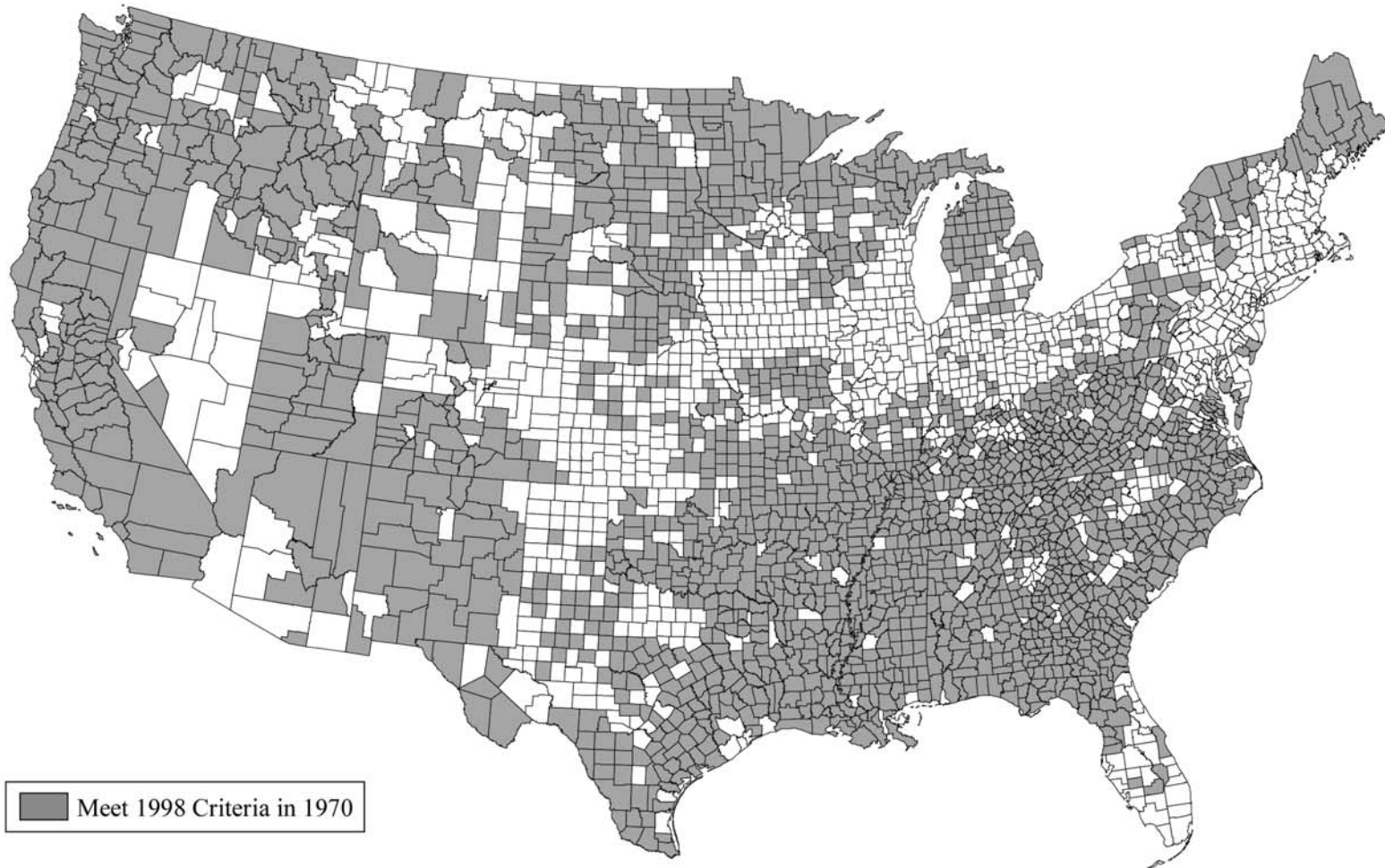
Figure 2.2. Counties in 1960 That Would Have Met 1998 EDA Eligibility Requirements



Source: Data from the U.S. Census, 1960. Calculations by the authors.

Note: An area is eligible for EDA public works and development grants if it has an unemployment rate that is at least 1 percent greater than the national average; if its per capita income is 80 percent of the national average or less; or if it has a special need as determined by the EDA. Special-need counties are not included.

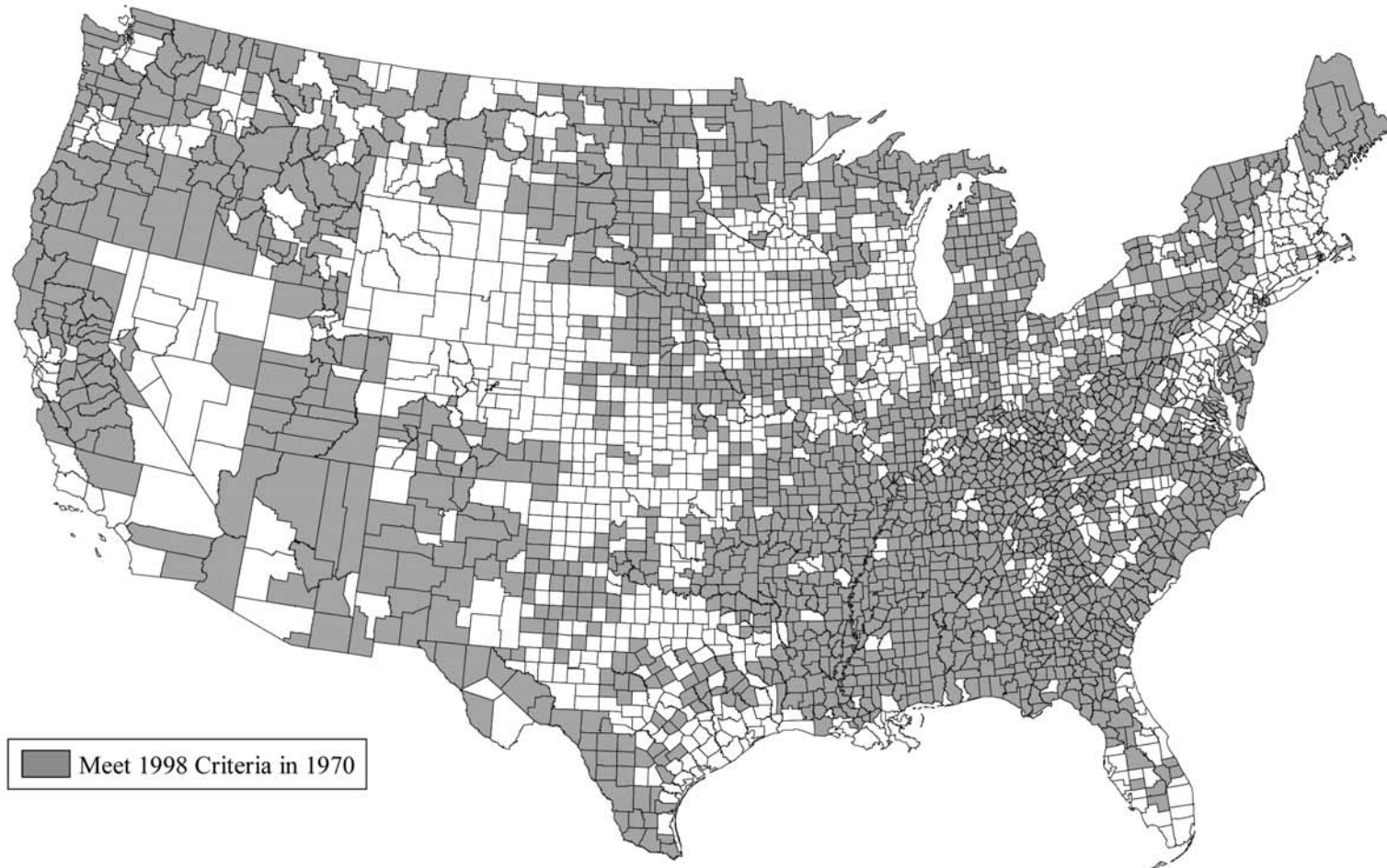
Figure 2.3. Counties in 1970 That Would Have Met 1998 EDA Eligibility Requirements



Source: Data from the U.S. Census, 1970. Calculations by the authors.

Note: An area is eligible for EDA public works and development grants if it has an unemployment rate that is at least 1 percent greater than the national average; if its per capita income is 80 percent of the national average or less; or if it has a special need as determined by the EDA. Special-need counties are not included.

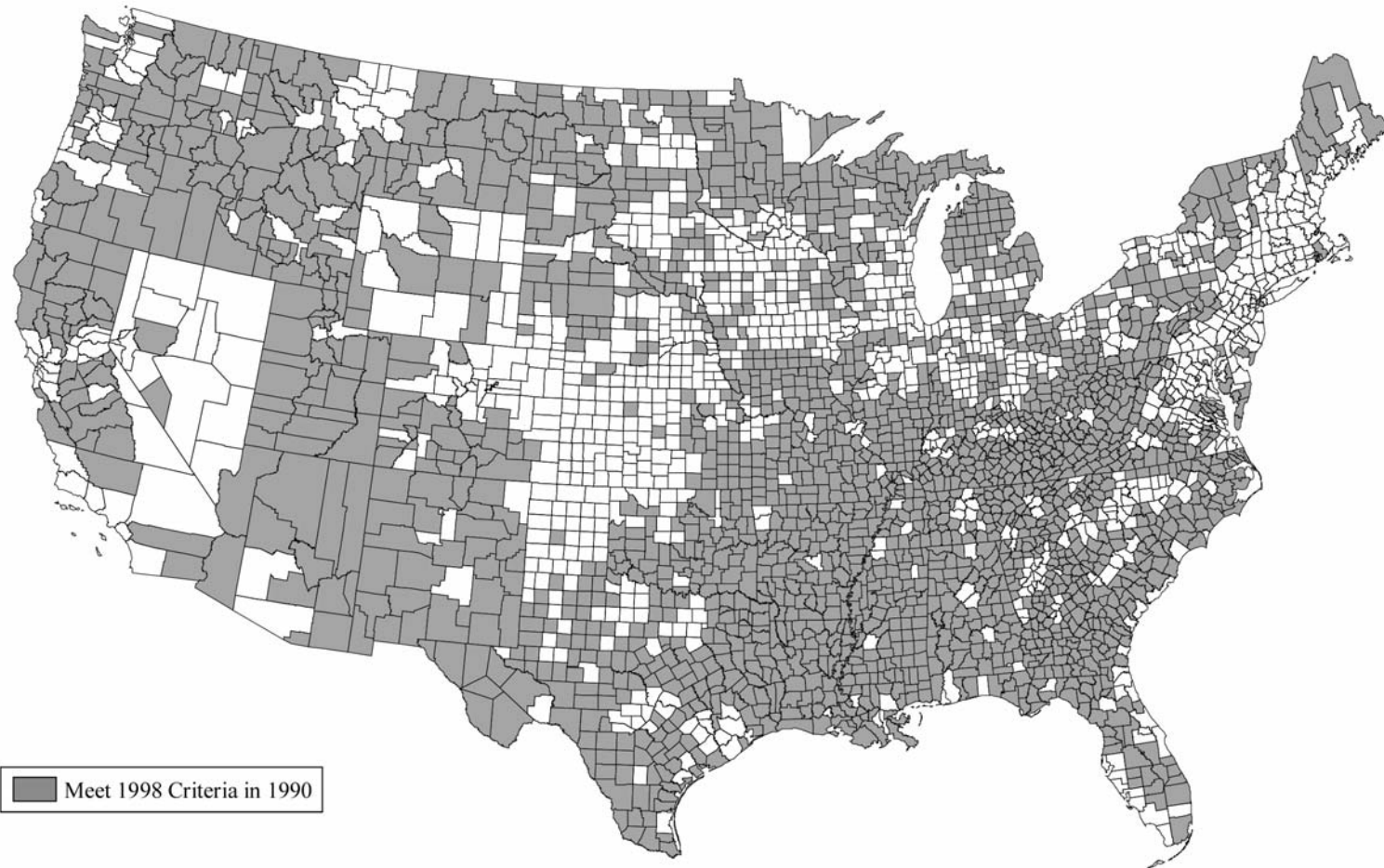
Figure 2.4. Counties in 1980 That Would Have Met 1998 EDA Eligibility Requirements



Source: Data from the Bureau of Labor Statistics; and the Bureau of Economic Analysis. Calculations by the authors.

Note: An area is eligible for EDA public works and development grants if it has an unemployment rate that is at least 1 percent greater than the national average; if its per capita income is 80 percent of the national average or less; or if it has a special need as determined by the EDA. Special-need counties are not included.

Figure 2.5. Counties in 1990 That Would Have Met 1998 EDA Eligibility Requirements



Source: Data from the Bureau of Labor Statistics; and the Bureau of Economic Analysis. Calculations by the authors.

Note: An area is eligible for EDA public works and development grants if it has an unemployment rate that is at least 1 percent greater than the national average; if its per capita income is 80 percent of the national average or less; or if it has a special need as determined by the EDA. Special-need counties are not included.

Counties with Higher Than Average Unemployment Rates and Lower Than Average Incomes over Time

Although the maps presented in the preceding section show relative stability in the number of counties qualifying for EDA assistance, the inclusive nature of the EDA criteria hides more than it reveals geographically. Another means of examining the changing nature of economic distress is to compare the number of counties qualifying for assistance to the total number of counties in a state over time. In this way, we not only note the circumstances of counties at the beginning of the period but also trace the experience of individual counties within states over time.

Table 2.3 lists the percentage of counties in each state that qualified as distressed in 1960 and the percentage that qualified in 1990. Table 2.4 lists the percentage of counties by state that changed their ranking between 1960 and 1990.

In 1960, the top ten states, with at least 92 percent of their respective counties qualifying for EDA assistance, were all located in the South (table 2.3). This pattern is consistent with the historic distribution of economic distress—especially low income levels—in the United States, since the South has always been considered the most economically distressed region of the country.

By 1990, the rank order of states and regions represented in the distressed category had changed dramatically. Although southern and border states such as Mississippi, Louisiana, Alabama, and West Virginia still had a majority of their counties designated as distressed, states in other regions entered the distressed category: Utah, Missouri, Arkansas, Michigan, and Idaho had more than 86 percent of their counties qualify for distressed status based on EDA's 1998 criteria.

Another indicator of state-level change in economic well-being is the percentage of a state's counties that qualified for EDA funding in 1960 and then moved out of distressed status by 1990 (tables 2.3 and 2.4). Of the states achieving the largest declines in distress as a percentage of the state's total counties, only four were in the South: Maryland, Virginia, North Carolina, and South Carolina. The Upper Midwest and Great Plains were also well represented in this group of states.

Explanations for this development differ by region. In the Great Plains, out-migration of population combined with the temporary stabilization of the agricultural sector and growth of more technologically related industries contributed to a reduction in the number of qualifying counties. In the South, post-World War II industrialization, targeted state-level investments, and the consolidation of defense-related activities in the Upper South helped reduce the level of economic distress.

Table 2.3. Rank Order of States by Percentage of Distressed Counties in 1960 and 1990, Using the 1998 EDA Eligibility Criteria

1960		1990	
State	Percentage	State	Percentage
Mississippi	99	Mississippi	96
Arkansas	99	Arkansas	96
South Carolina	98	Utah	93
Alabama	96	Louisiana	92
West Virginia	95	Alabama	91
Georgia	94	West Virginia	91
Louisiana	94	Missouri	89
Tennessee	94	Kentucky	88
Kentucky	93	Michigan	87
North Carolina	92	Idaho	86
North Dakota	91	Arizona	86
Missouri	83	New Mexico	84
Minnesota	83	Georgia	83
South Dakota	82	Tennessee	82
Virginia	82	Oklahoma	78
New Mexico	75	South Carolina	76
Utah	72	Montana	75
Nebraska	71	Oregon	72
Michigan	70	Florida	70
Washington	69	Texas	69
California	69	Illinois	69
Maine	69	North Carolina	68
Texas	67	North Dakota	68
Montana	66	Washington	67
Idaho	66	Ohio	64
Florida	66	Wisconsin	63
Oklahoma	65	California	59
Iowa	65	South Dakota	58
Pennsylvania	64	Virginia	57
Wisconsin	63	Indiana	53
Maryland	58	Pennsylvania	51
Vermont	57	Minnesota	49
Oregon	56	Colorado	46
New York	55	Maine	44
Arizona	50	Iowa	40
Illinois	47	New York	40
Ohio	44	Vermont	36
Kansas	43	Wyoming	35
Nevada	41	Kansas	33
Colorado	38	Maryland	33
Indiana	38	Nebraska	29
Wyoming	30	New Jersey	14
New Jersey	14	Nevada	12
Connecticut	13	Massachusetts	7
New Hampshire	10	Connecticut	0
Massachusetts	7	District of Columbia	0
District of Columbia	0	Delaware	0
Delaware	0	New Hampshire	0
Rhode Island	0	Rhode Island	0
U.S. TOTAL	71	U.S. TOTAL	67

Source: Calculated from Bureau of Labor Statistics; Bureau of Economic Analysis.

Table 2.4. Rank Order of States by Percent Change in the Number of Counties Meeting the 1998 Eligibility Criteria, 1960 to 1990

State	Percent Change 1960–1990
Arizona	35.7
Illinois	21.6
Utah	20.7
Idaho	20.5
Ohio	19.3
Michigan	16.9
Oregon	16.7
Indiana	15.2
Oklahoma	13.0
New Mexico	9.4
Montana	8.9
Colorado	7.9
Missouri	5.2
Florida	4.5
Wyoming	4.4
Texas	2.0
District of Columbia	0
Delaware	0
Massachusetts	0
New Jersey	0
Rhode Island	0
Wisconsin	0
Louisiana	-1.6
Mississippi	-2.4
Washington	-2.6
Arkansas	-2.7
West Virginia	-3.6
Alabama	-4.5
Kentucky	-5.0
Kansas	-9.5
New Hampshire	-10.0
California	-10.3
Georgia	-11.3
Tennessee	-11.6
Connecticut	-12.5
Pennsylvania	-13.4
New York	-14.5
Vermont	-21.4
South Carolina	-21.7
North Dakota	-22.6
North Carolina	-24.0
Iowa	-24.2
South Dakota	-24.2
Virginia	-24.5
Maryland	-25.0
Maine	-25.0
Nevada	-29.4
Minnesota	-33.3
Nebraska	-41.9
U.S. TOTAL	4.8

Source: Calculated from Bureau of Labor Statistics; Bureau of Economic Analysis.

States with new counties entering the distress category stand in sharp contrast with the previous group. Sixteen states experienced an increase in the number of counties qualifying as economically distressed based on 1998 EDA designation criteria (table 2.4). Seven of the new entrants were in the Midwest and eight were in the West. Only two states in the South, Florida and Texas, with the largest populations in the region, joined the ranks of states with increasing numbers of counties experiencing economic distress. States located in the West and entering the distressed category were a more mixed group in terms of population size and economic base.

Changing county fortunes, by state, suggest that the nature of economic distress is changing. While it is still true that the South remains a region of high rural economic distress, newly distressed entrants in the West are experiencing a rise in economic disparity as their traditional natural-resource-based economies dwindle. Poverty in the West is about restructuring and job loss in traditional industries. Wealthy second-home owners, getting away to the good life in amenity-rich western rural locations, find themselves the object of local suspicion as long-time residents struggle to make ends meet amid rising land and housing prices and diminishing economic opportunities. Growing distress in the Upper Midwest reflects long-standing processes of restructuring of natural resource and agricultural economies. Population is being drawn to urban centers where more and higher-paying jobs are available.

EDA Eligibility Is Defined by Income Level

To what extent are economically distressed counties places of high unemployment or low income or both? The answer to this question sheds light on the extent to which job availability is the key determinant of economic distress. Breaking the 1998 EDA criteria into their constituent elements reveals that unemployment adds little to the measure because approximately 90 percent of the counties in each year studied qualify under the per capita income criterion alone. Since the average difference between urban and rural incomes is approximately 20 percent, these results are not surprising. Locations that qualify on the basis of unemployment are more likely to be urban areas, whereas rural areas qualify on the basis of income.

AN ECONOMIC HEALTH INDEX: AN ALTERNATIVE MAP OF ECONOMIC DISTRESS

The inclusive definition of distress used by EDA to identify eligible counties presents important challenges to policy makers and program administrators, particularly in an era of stagnant or declining funding. In an effort to add increased precision to the identification of distressed counties, this section presents an alternative index of economic distress that emphasizes comparative rates of unemployment, income, level of transfer payments, and labor-force participation. The index was originally developed as

an alternative measure of distress for the ARC¹³ and was subsequently extended to include all counties in the nation for the period from 1960 to 1997.

The additional factors added to our index were identified in discussions of economic distress dating back to the 1960s. In 1972, for example, ARC demographer Jerome Pickard experimented with the construction of a composite indicator of socioeconomic distress status. He constructed four indexes: poverty-population; low educational status; labor force participation and unemployment; and substandard housing. He then combined those factors into an additive index, rank-ordered the counties in the ARC region, and found that the index effectively captured the significant distinction between areas of severe economic distress and areas in transition.

Our alternative Index of Economic Health (hereafter, Index) draws, in part, on traditional measures of economic health used by other federal agencies, including EDA and the ARC, but also contains some significant additions. Specifically, it is composed of four individual indexes: a per capita market income index, which compares a county's income level to the national level ($PCMI_{idx}$); an unemployment rate index, which compares the county-level unemployment rate to the national unemployment rate (URT_{idx}); a labor force-to-total population ratio index ($LFPOP_{idx}$); and a per capita transfer payments-to-per capita market income ratio index (TFP_{idx}). We summed these indices to arrive at an additive Index of Economic Health. The use of the four subindexes was designed to shed light on the quality of economic health. The configuration of the Index allows us to express the degree to which the experience of individual counties deviates from national norms. The inclusion of measures of transfer payments and labor force participation is designed to assess the extent to which the population depends on external sources of unearned income (e.g., transfer payments) and the share of the population that depends on the labor of others.

Evaluation of the Index

The Index not only allows annual analysis of a county's economic condition but also allows an examination of distress that was not possible using EDA's categorical designation. The Index evaluates each county relative to all others and tracks changes in county scores over time. At the same time, the Index allows us to examine the condition of counties on an annual basis. The intent of the Index of Economic Health is to assist policy makers in ranking counties based on the most current and accurate data available.

The revised measure appears to reflect the concerns of the original EDA methodology and has high overall reliability.¹⁴ The measure also allows us to compare its powers of classification with the original EDA county groups. There is a high degree of

¹³ A. Glasmeier and K. Fuellhart, *Building on Past Experience: Creation of a New Future for Distressed Counties* (Washington, D.C.: Appalachian Regional Commission, 1998).

¹⁴ See Glasmeier and Fuellhart, *Building on Past Experience*, for a review of reliability measures associated with the index and a discussion of the relative volatility of the index components.

overlap between counties that score high on distress measures using the EDA definition and the Index.

In the following section, the Index is used to analyze the spatial and temporal patterns of distressed status in the country over the period 1960 to 1997, roughly equivalent to the period during which ARA and EDA have been in operation. Readers should keep in mind that a high index value indicates poor economic health. Thus, counties that are at or above the national average in economic health receive a lower score on the Index. A close examination of the county scores indicates that a large number of counties receive an index score of 120 or less. These counties reflect the national average in economic health and do not appear to experience volatility over time. In contrast, there are natural breaks between counties that score between 100 and 149, those that score between 150 and 199, and those that score 200 and above. Based on these natural breaks, we group the counties as follows:

Category 1	Counties scoring below 100	Very good economic health
Category 2	Counties scoring 100 to 149	Good economic health
Category 3	Counties scoring 150 to 199	Poor economic health
Category 4	Counties scoring 200 and above	Very poor economic health

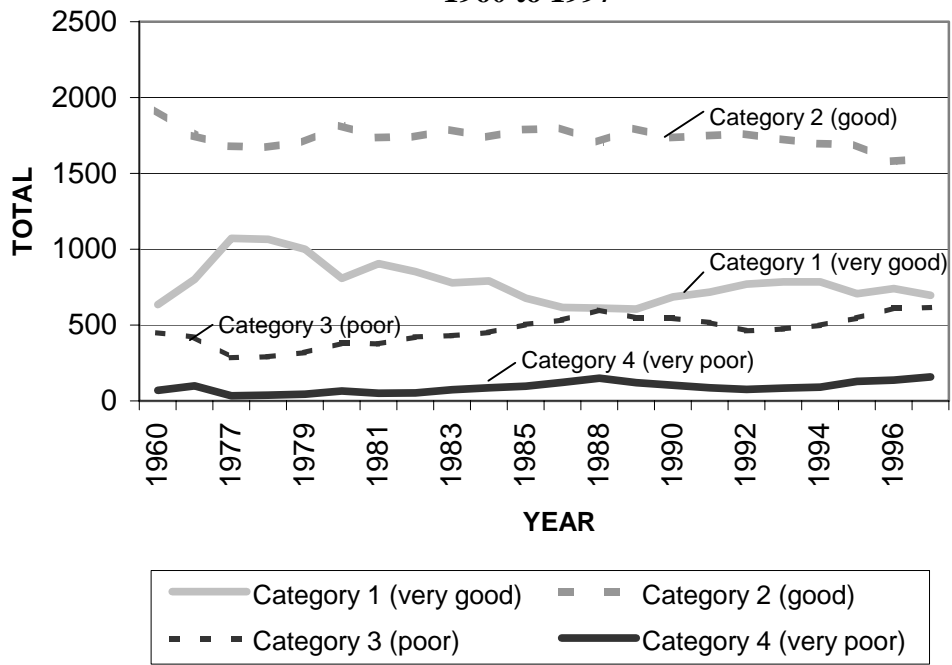
To summarize, counties in categories 1 and 2 have good or very good economic health, and counties in categories 3 and 4 have poor or very poor economic health.

An Overview of the Index

Figure 2.6 traces the number of counties in each index category over time. Although there has been variation in the degree of convergence and divergence over time, a long-term trajectory is evident in the increasing number of counties with poor or very poor economic health. The number of counties in very good economic health (category 1) peaked in 1977 and experienced a subsequent decline over the 1977 to 1997 period. Similarly, the number of counties with very poor economic health (category 4) hit a low point in 1977 and then climbed steadily in number, reaching a peak of 159 in 1997. A similar pattern is evident for counties in poor economic health (category 3). The number of category 3 counties increased by 330, from a low of 285 in 1977 to 615 in 1997.

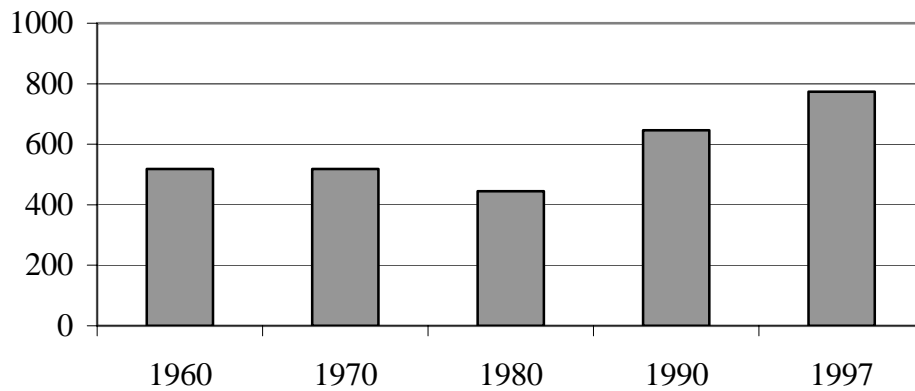
The data suggest that county economic health has been declining gradually but steadily over time (fig. 2.7). This is most striking in the increase in the number of counties with poor or very poor economic health (categories 3 and 4). In 1960, 518 counties fell into category 3 or category 4. The number stayed the same in 1970, declined to 445 in 1980, rose again to 647 in 1990, and reached 774 by 1997. Although volatility is evident, the number of counties experiencing high economic distress increased through time.

Figure 2.6. Index of Economic Health for Counties, 1960 to 1997



Source: Calculations by the authors.

Figure 2.7. Total Number of Counties Ranking Poor or Very Poor (Category 3 or 4) in the Index of Economic Health, 1960 to 1997



Although there was some reduction in the number of counties with poor economic health during the first half of the 1960 to 1997 period, new entrants into the high-distress category (category 4) outnumbered those leaving the category by almost two to one. The total number of distressed counties reached a low point in the mid-1970s, when federal expenditures for social programs and public employment were at a post-World War II high. Following this general improvement in economic health between 1970 and 1977, conditions appeared to worsen throughout the early 1980s; 1988 appears to be a year of particular hardship as the number of distressed counties increased significantly over the 1984 to 1988 period. There was also a period of improvement in the late 1980s, which continued into the early 1990s; however, conditions worsened again by the mid-1990s.

Comparing EDA Designation Criteria with the Index of Economic Health

The set of counties described as distressed by the Index is smaller than the set of counties designated as distressed based on the EDA criteria (table 2.5). Counties receiving a score of 3 or 4 on the Index, indicating poor or very poor economic health, are a considerably smaller group than EDA-designated counties. In 1960, for example, 2,191 counties qualified for EDA assistance based on the 1998 criteria, but only 518 counties were classified as in poor or very poor economic health (category 3 or category 4) using the Index. In addition, approximately three-fourths of the counties that qualified for EDA funds in 1960 would have been rated in good or very good economic health (category 1 or category 2) according to the Index. In 1960, 104 counties that rated in category 1 on the Index (which would place them above the national average in economic health) would have qualified for EDA funds based on EDA's 1998 criteria.

Table 2.5. Counties in Poor or Very Poor Economic Health (Category 3 or Category 4) on the Index of Economic Health Compared with Counties Designated Distressed Using EDA's Criteria, 1960 to 1990

Year	Counties Rated Poor or Very Poor on the Index of Economic Health	Counties Rated Poor or Very Poor on the Index of Economic Health That Also Qualify for EDA Funds	Distressed Counties Based on EDA Criteria	EDA-Qualified Counties Rated Good or Very Good on the Index of Economic Health
1960	518	511	2,191	1,680
1970	518	517	1,971	1,454
1980	445	all	1,969	1,524
1990	647	all	2,044	1,397

Source: Calculated by authors.

Movement Into and Out of Distress

The Index reveals that conditions in America's primarily rural counties have been deteriorating over the study period (table 2.6 and figs. 2.8 and 2.9). First, a core set of 383 counties has remained economically distressed throughout the period from 1960 to 1997. These counties are concentrated in Appalachia and the Mississippi Delta. Further, although 161 counties moved out of the poor or very poor health categories (categories 3 and 4) from 1960 to 1990, 290 counties entered these categories over the same time period. This trend continued between 1990 and 1997: 96 counties moved out of categories 3 and 4, but more than twice that number (223) moved into these categories. Movers were scattered across the country but there was an obvious improvement in economic health in counties in the southern United States, reflecting the post-World War II growth of manufacturing in the region. Nonetheless, only 145 counties moved out of categories 3 and 4 over the entire 1960 to 1997 period, while 401 counties moved into those categories.

Table 2.6. Counties Moving into and out of Categories 3 and 4, 1960 to 1997

Counties in category 3 or 4 in both 1960 and 1997	383
Counties in category 3 or 4 in both 1960 and 1990	357
Counties in category 3 or 4 in both 1990 and 1997	551
Counties in category 3 or 4 in 1960 but not in 1990	161
Counties in category 3 or 4 in 1990 but not in 1960	290
Counties in category 3 or 4 in 1960 but not in 1997	145
Counties in category 3 or 4 in 1997 but not in 1960	401
Counties in category 3 or 4 in 1990 but not in 1997	96
Counties in category 3 or 4 in 1997 but not in 1990	223

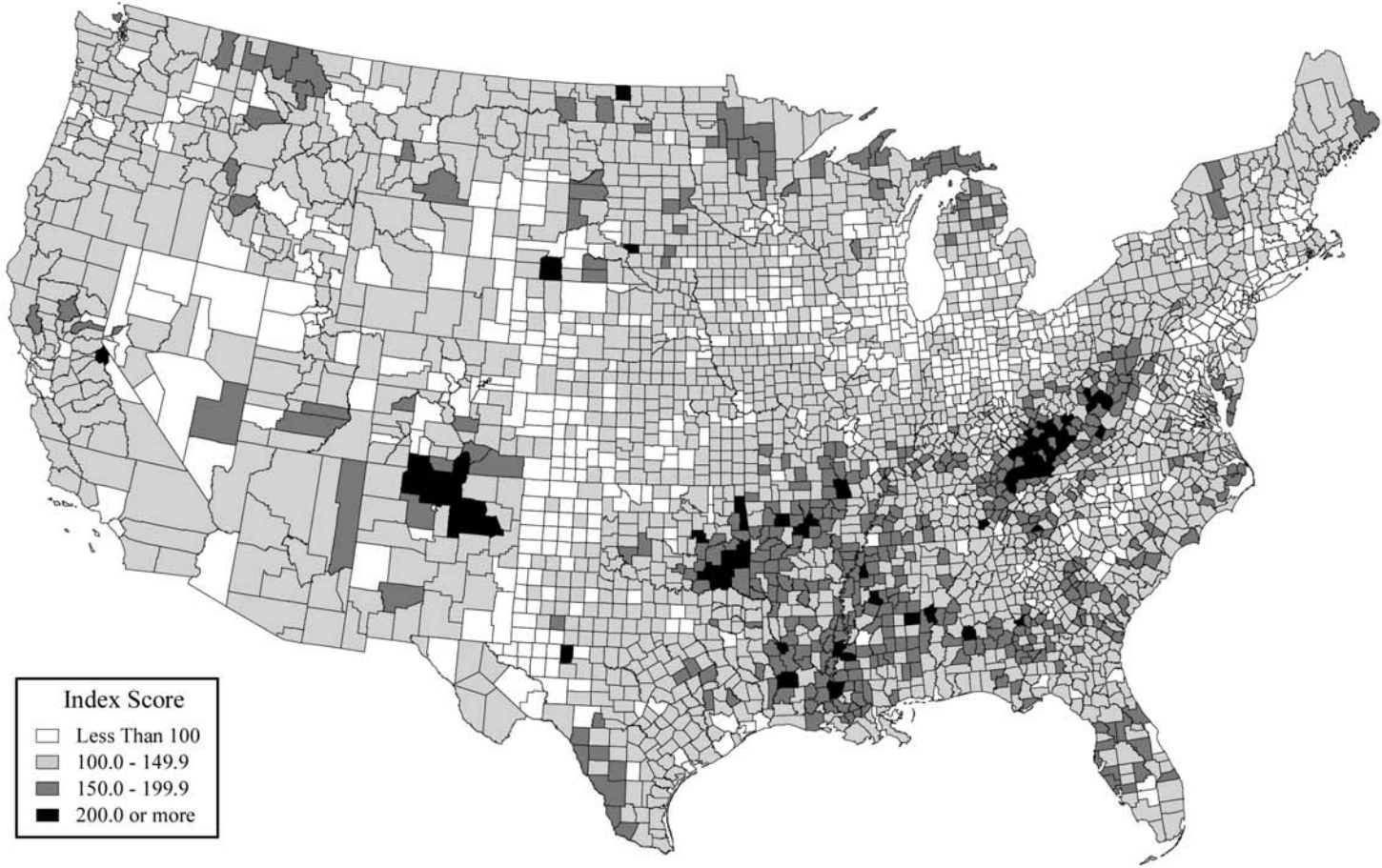
Source: Calculated by authors.

Note: Categories 3 and 4 on the Index of Economic Health indicate poor or very poor economic health, respectively.

The Geography of Economic Health

The geographic distribution of county economic health reveals several interesting findings (figs. 2.10 and 2.11). First, counties in poor economic health throughout the 1960 to 1997 period are clustered in Appalachia, the Mississippi Delta, Oklahoma, the U.S.-Mexico border, the Southwest, the Upper Peninsula of Michigan, and the plains region of Montana.

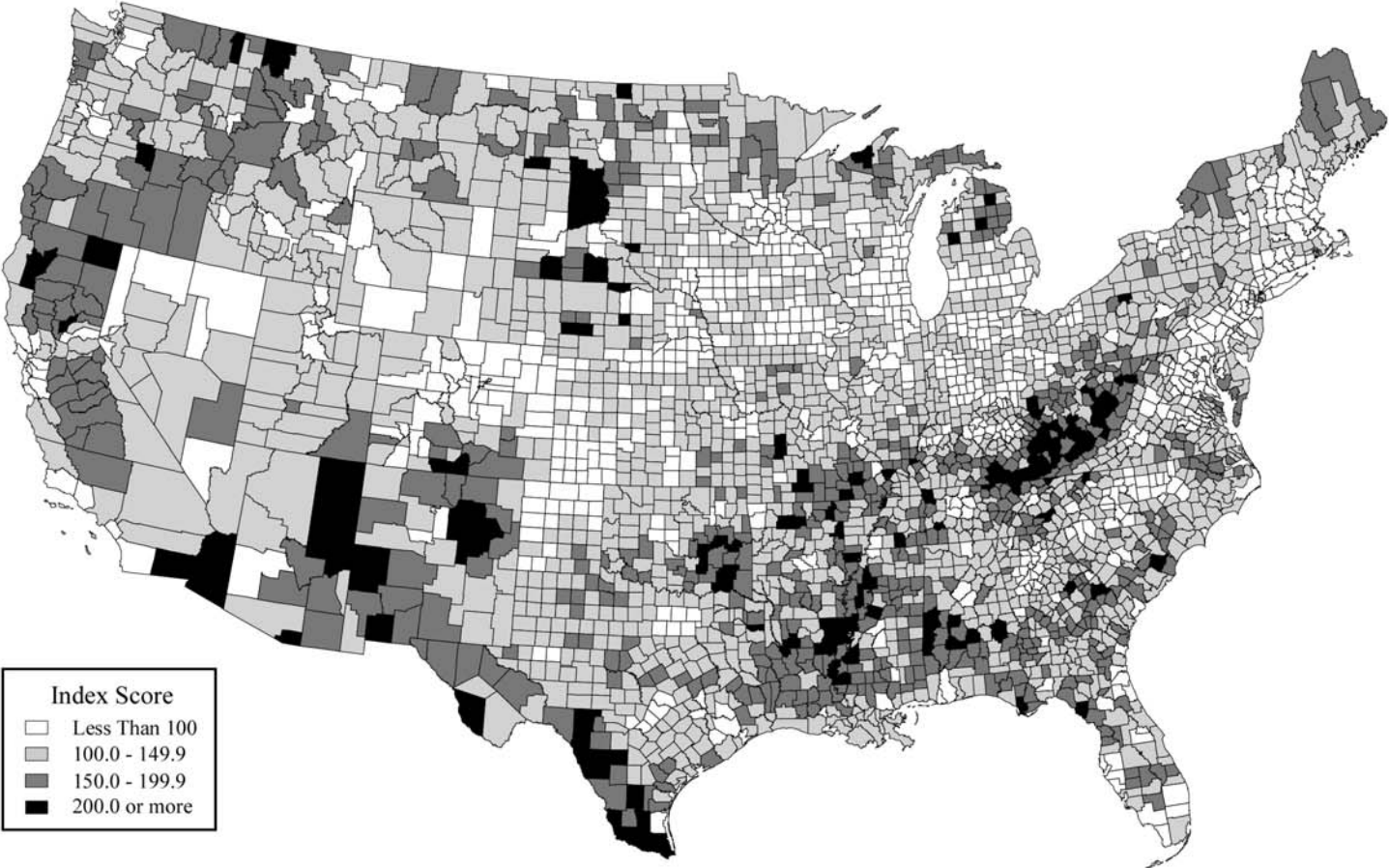
Figure 2.8. Index of Economic Health, 1960



Sources: Data from the U.S. Census, 1960 and the Office of Economic Opportunity. Calculations by the authors.

Note: County-level rates of unemployment, transfer payments, labor-force participation, and per capita market income are compared with national averages to create the Index of Economic Health. Values of less than 100 indicate economic conditions that are substantially better than the national average; increasing values indicate increasingly poorer economic conditions.

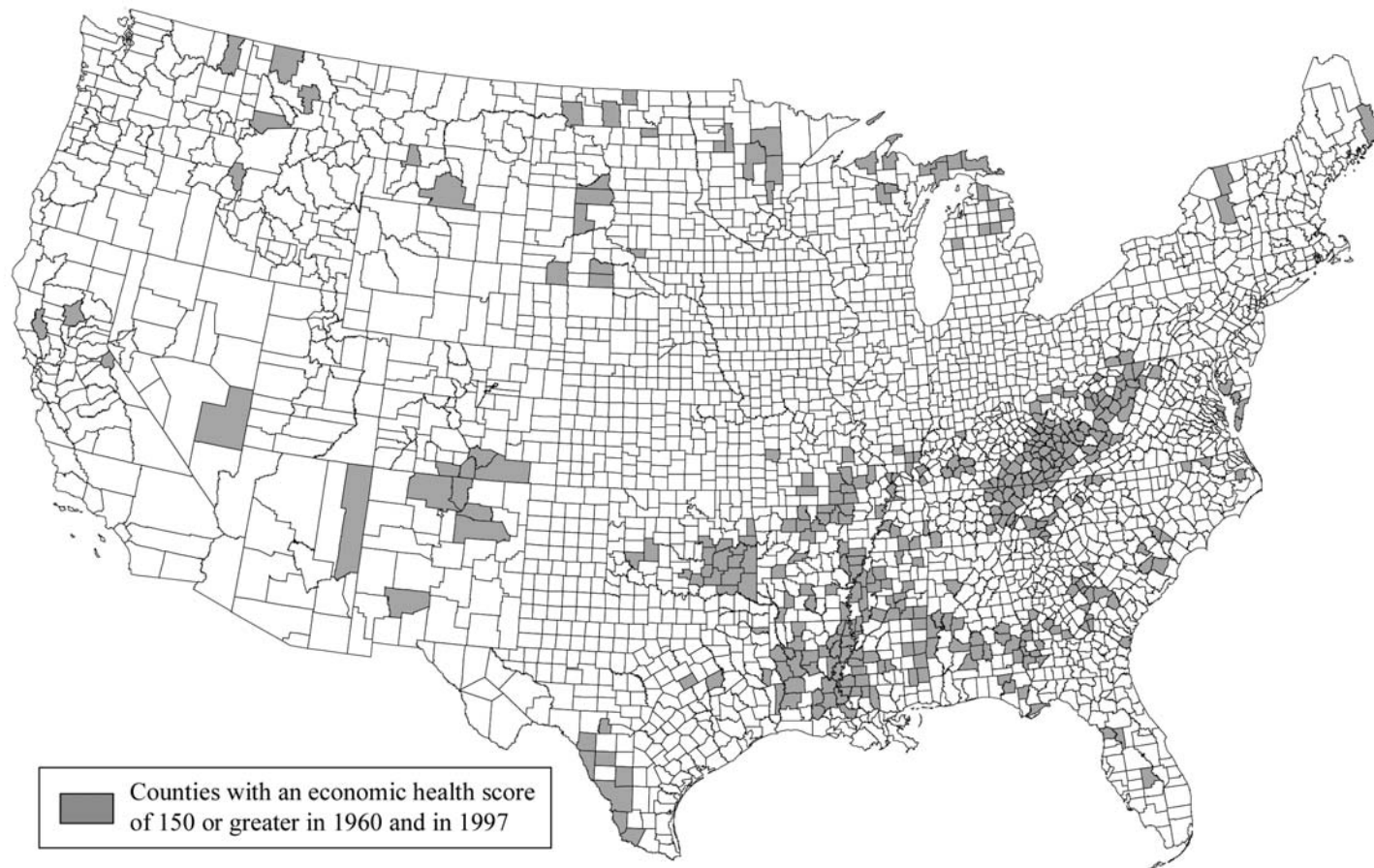
Figure 2.9. Index of Economic Health, 1997



Sources: Data from the Bureau of Labor Statistics and the Bureau of Economic Analysis. Calculations by the authors.

Note: County-level rates of unemployment, transfer payments, labor-force participation, and per capita market income are compared with national averages to create the Index of Economic Health. Values of less than 100 indicate economic conditions that are substantially better than the national average; increasing values indicate increasingly poorer economic conditions.

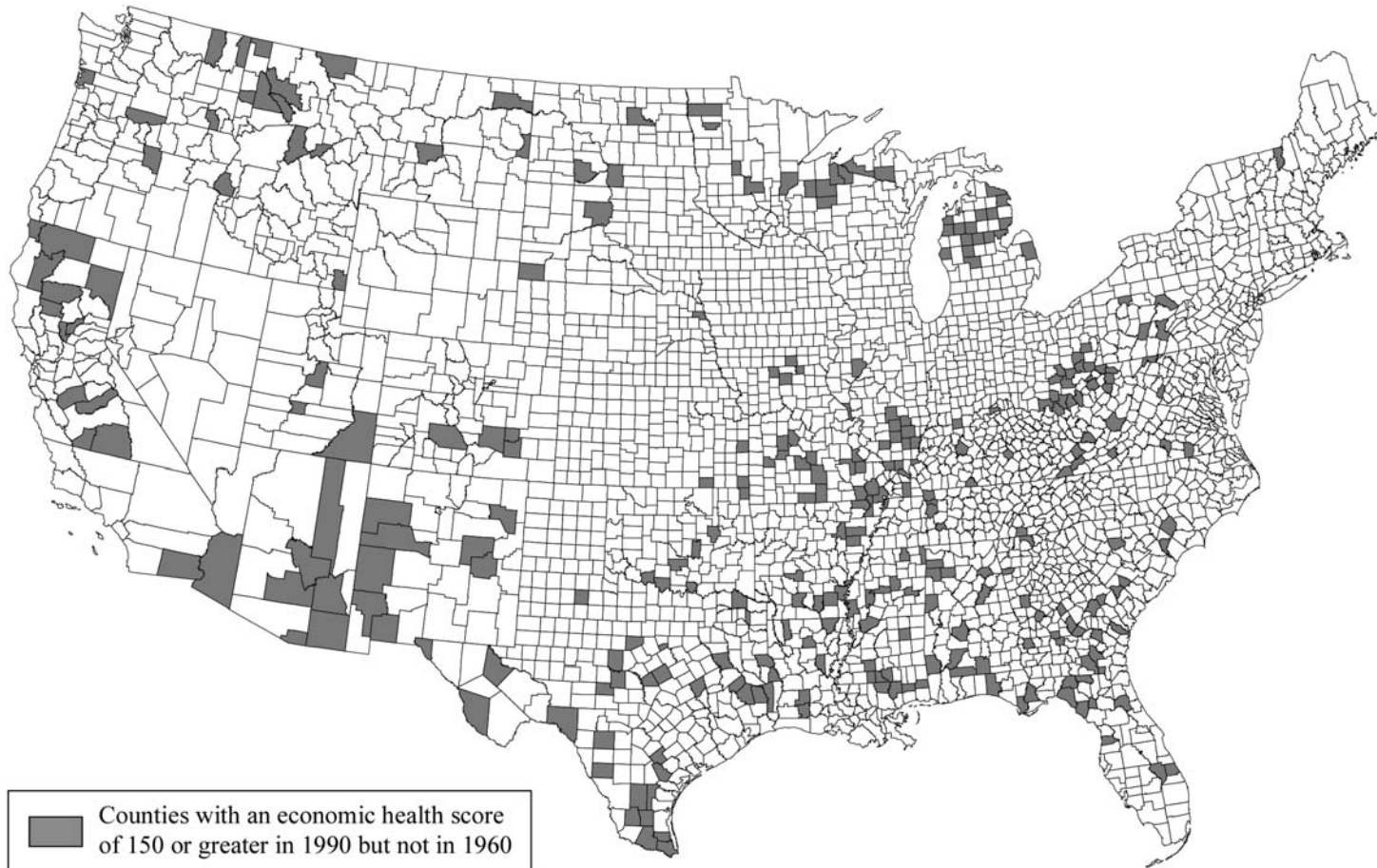
Figure 2.10. Counties with Persistently Poor Economic Health



Sources: Data from the U.S. Census; the Office of Economic Opportunity; the Bureau of Economic Analysis; and the Bureau of Labor Statistics. Calculations by the authors.

Note: County-level rates of unemployment, transfer payments, labor-force participation, and per capita market income are compared with national averages to create the Index of Economic Health. Values of 150 or greater indicate economic conditions that are substantially worse than the national average.

Figure 2.11. Counties with Deteriorating Economic Health



Sources: Data from the U.S. Census; the Office of Economic Opportunity; the Bureau of Economic Analysis; and the Bureau of Labor Statistics. Calculations by the authors.

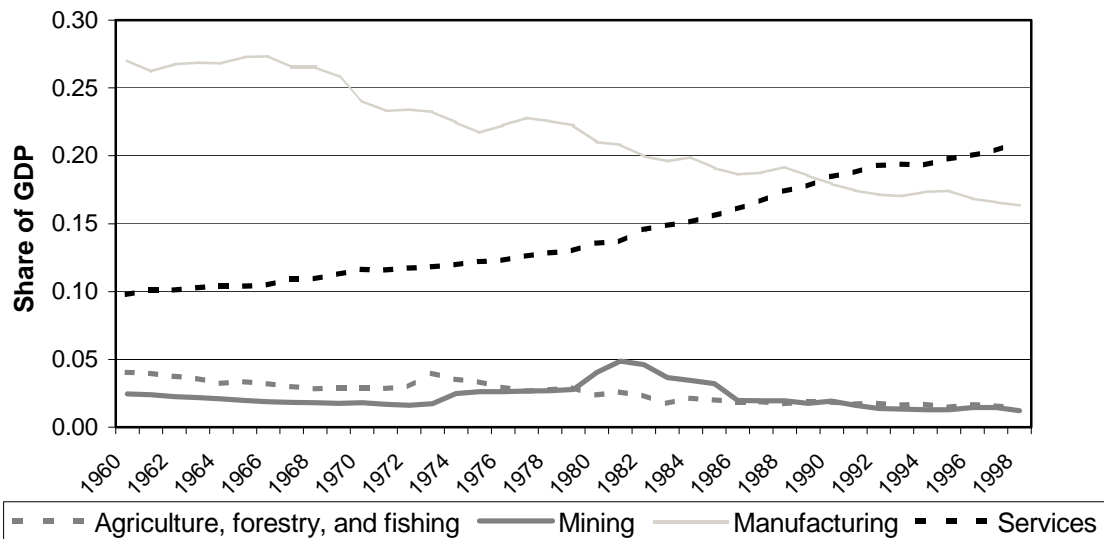
Note: County-level rates of unemployment, transfer payments, labor-force participation, and per capita market income are compared with national averages to create the Index of Economic Health. Values of 150 or greater indicate economic conditions that are substantially worse than the national average.

Counties that entered the distressed category during the 1960–1997 period (fig. 2.11) are located in the border region with Mexico, the southwestern Indian reservations, southeastern Ohio, northern Michigan, and the northern timber and agricultural counties of California. There is a more concentrated pattern to the counties that entered the distressed category in 1990 compared with those that were in the category in 1960, suggesting a trend toward geographic consolidation of new entrants over the study period. This is coupled with consistency over time in the areas of persistent distress—those locations that were economically distressed in both 1960 and 1997.

ACCOUNTING FOR CHANGING PATTERNS OF ECONOMIC HEALTH

Changing patterns of regional economic health across the United States may be traced, in part, to dramatic changes in the U.S. economy over the past thirty-five years. In particular, the industrial structure of the U.S. economy has undergone dramatic changes since EDA's inception in 1965, shifting away from manufacturing and toward services (Fig. 2.12). While manufacturing accounted for 27 percent of U.S. gross domestic product (GDP) in 1960, this figure had fallen to 16 percent by 1998. Services, in contrast, accounted for 10 percent of GDP in 1960 and 21 percent by 1998. Agriculture and mining shares of GDP also fell over the past four decades. In 1960, agriculture, forestry, and fisheries accounted for 4 percent of GDP and mining accounted for 2 percent of GDP. By 1998, agriculture, forestry and fisheries, had fallen to approximately 1 percent of GDP, as did mining. The shifts in industrial structure, which vary across regions, may partially account for changing patterns of regional economic distress. For example, the South in particular has witnessed a tremendous decline in agricultural jobs since the 1960s.

Figure 2.12. Shares of U.S. GDP by Major Industrial Sector



Source: Bureau of Economic Analysis, *Regional Economic Information System*, 2000.

Figures 2.13 to 2.16 illustrate regional patterns of industrial concentration in manufacturing as well as agriculture, forestry, and fisheries in 1960 and 1990. For the manufacturing sector, comparison of the 1960 and 1990 maps (figs. 2.13 and 2.14) illustrates the familiar story of the decline of the manufacturing belt (from Illinois through New England) and the rise of manufacturing in the rural South. The agriculture, fishery, and forestry maps (figs. 2.15 and 2.16) illustrate that the effects of the relative decline of this sector were spatially concentrated across the Great Plains and the Upper Midwest and in pockets throughout the South. Mining had a more stable geographical pattern between 1960 and 1990, which is to be expected for a place-based industry; however, there was a relative decline of this sector during the period, particularly in coal-producing areas of Appalachia and in the oil-shale regions of Colorado and Wyoming. The relationship between changing patterns of industrial concentration and patterns of county-level distress are considered in the next section.

Other important factors that have affected the U.S. economy over the past several decades include fluctuating crude-oil and consumer prices and changes in the U.S. trade balance. Although the impacts of these broader indicators are not directly accounted for in the following analysis—which considers the determinants of distress across counties at single points in time—they have affected EDA funding levels and program priorities. The 1970s oil and consumer price shocks and the appearance of trade deficits in 1976 paralleled substantial increases in EDA funding levels. As noted in later chapters, these economic events also contributed to the formation of new EDA programs intended to address the regional economic consequences of changes in the national economy.

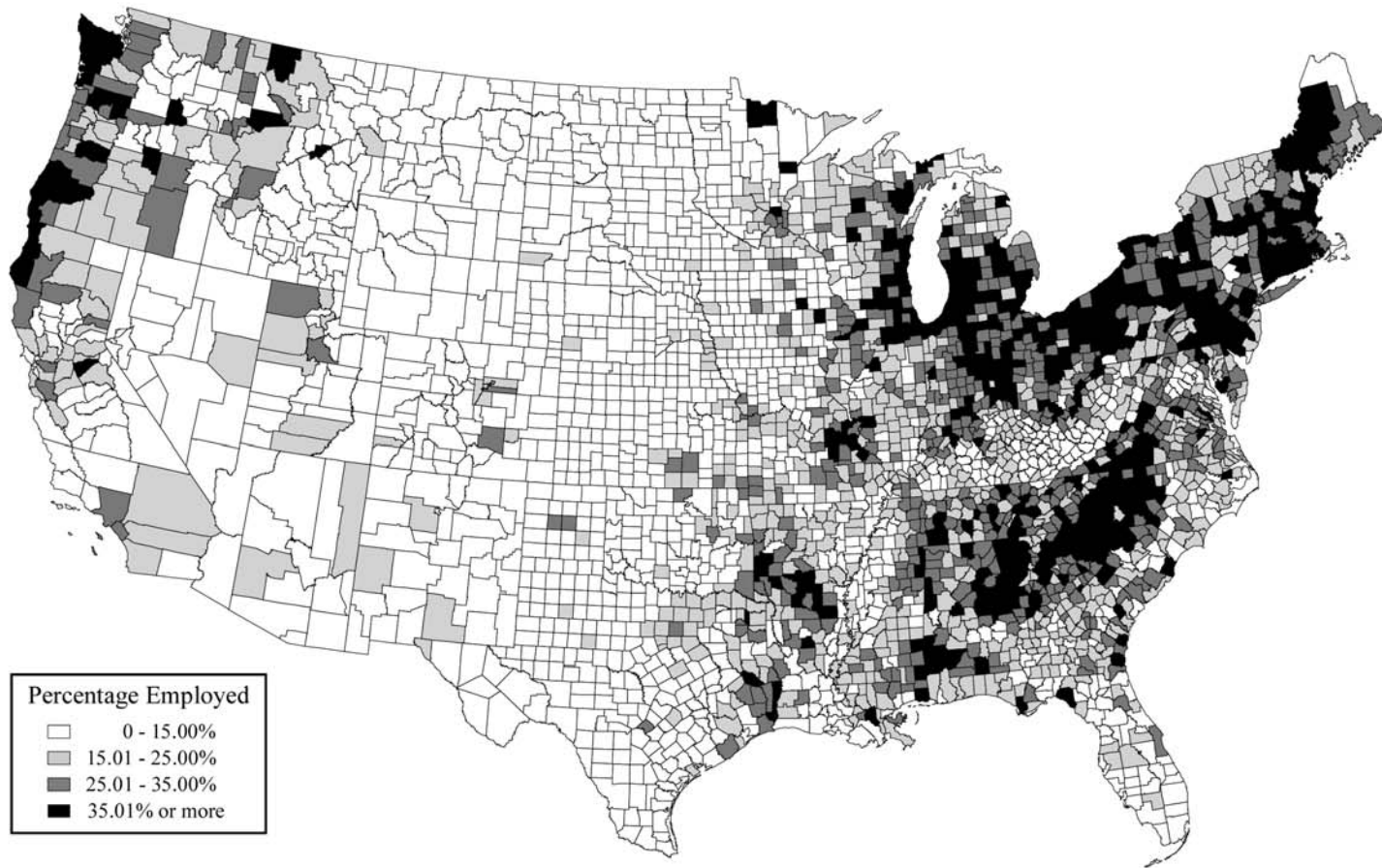
The Regional Determinants of Changing Patterns of Distress

Having described the geographic distribution of economic distress in the United States, we now turn to examining the causes of the distribution of such distress. In the analysis, we use multiple regression models to statistically identify socioeconomic factors that are most closely associated with differences in distress levels as shown by our Index. Separate analyses are run for the years 1970, 1980, and 1990.¹⁵

We examine the relationship of the following independent variables to economic health: previous economic health as measured by the Index (score from ten years prior); urban population; race; educational attainment; dependent population; and employment by industry, including employment in agriculture, fisheries, and forestry, employment in manufacturing, and employment in mining. Regional “control” variables are included in all models (nine regions in the contiguous United States as determined by the Bureau of Economic Analysis) to control for the effects that regional variation could have on the models.

¹⁵ The regression analysis is limited to decennial census years due to the limited availability of data in off-census years.

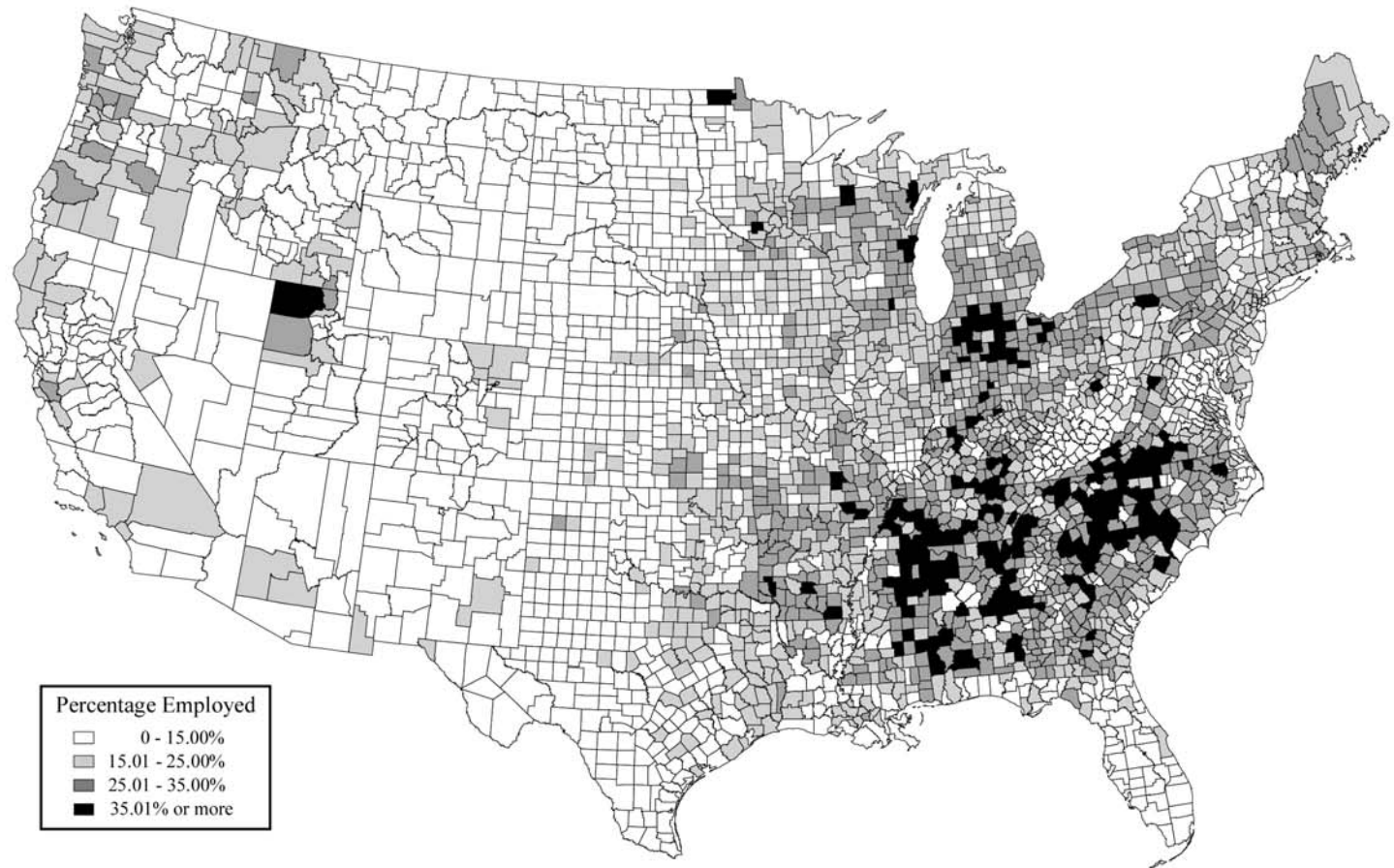
Figure 2.13. Percentage of the Labor Force Employed in Manufacturing, 1960



Source: Data from the U.S. Census (percentage employed by industry). Calculations by the authors.

Note: Percentage employed in the contiguous U.S. in manufacturing in 1960 = 28.29%.

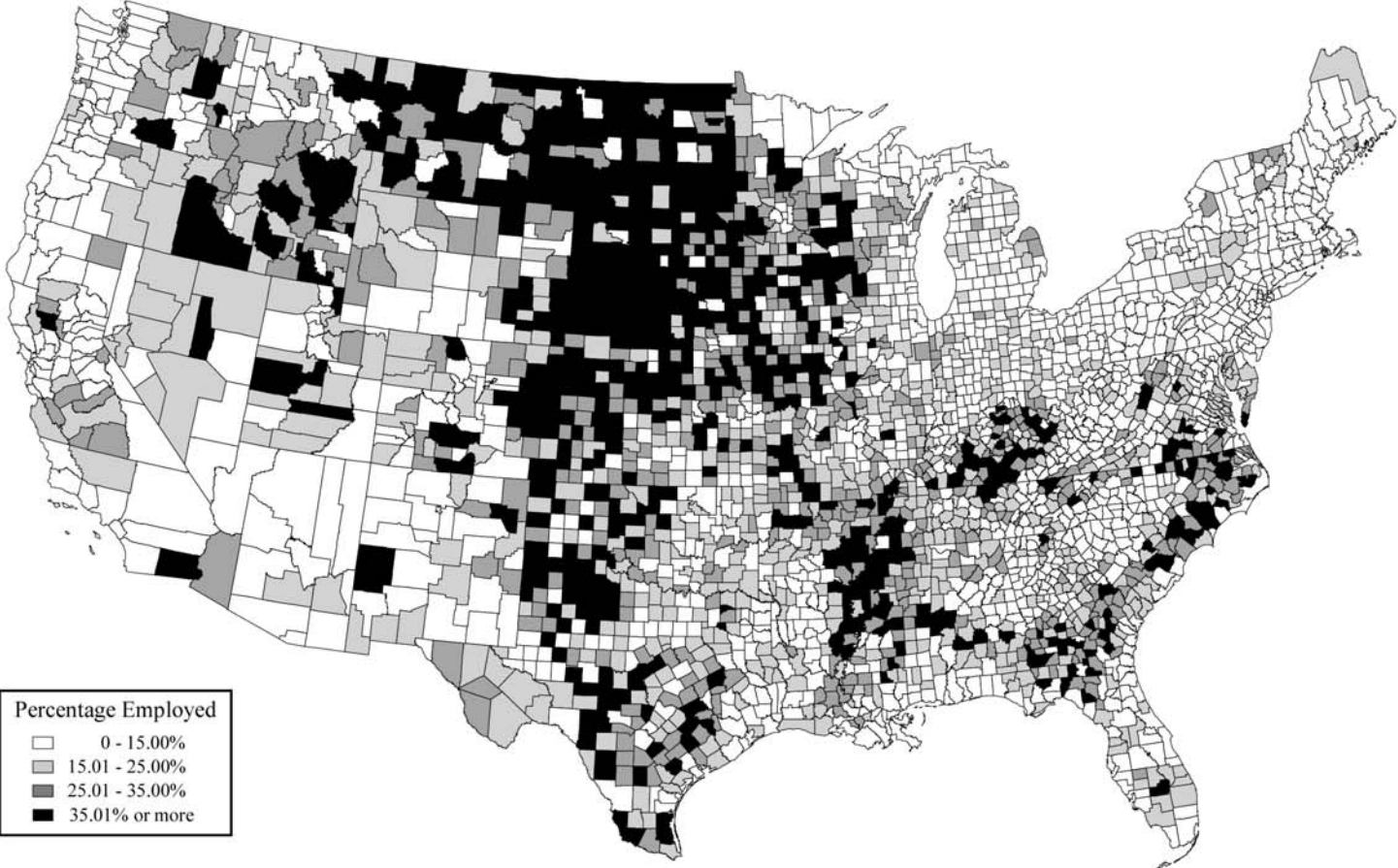
Figure 2.14. Percentage of the Labor Force Employed in Manufacturing, 1990



Source: Data from the U.S. Census (percentage employed by industry). Calculations by the authors.

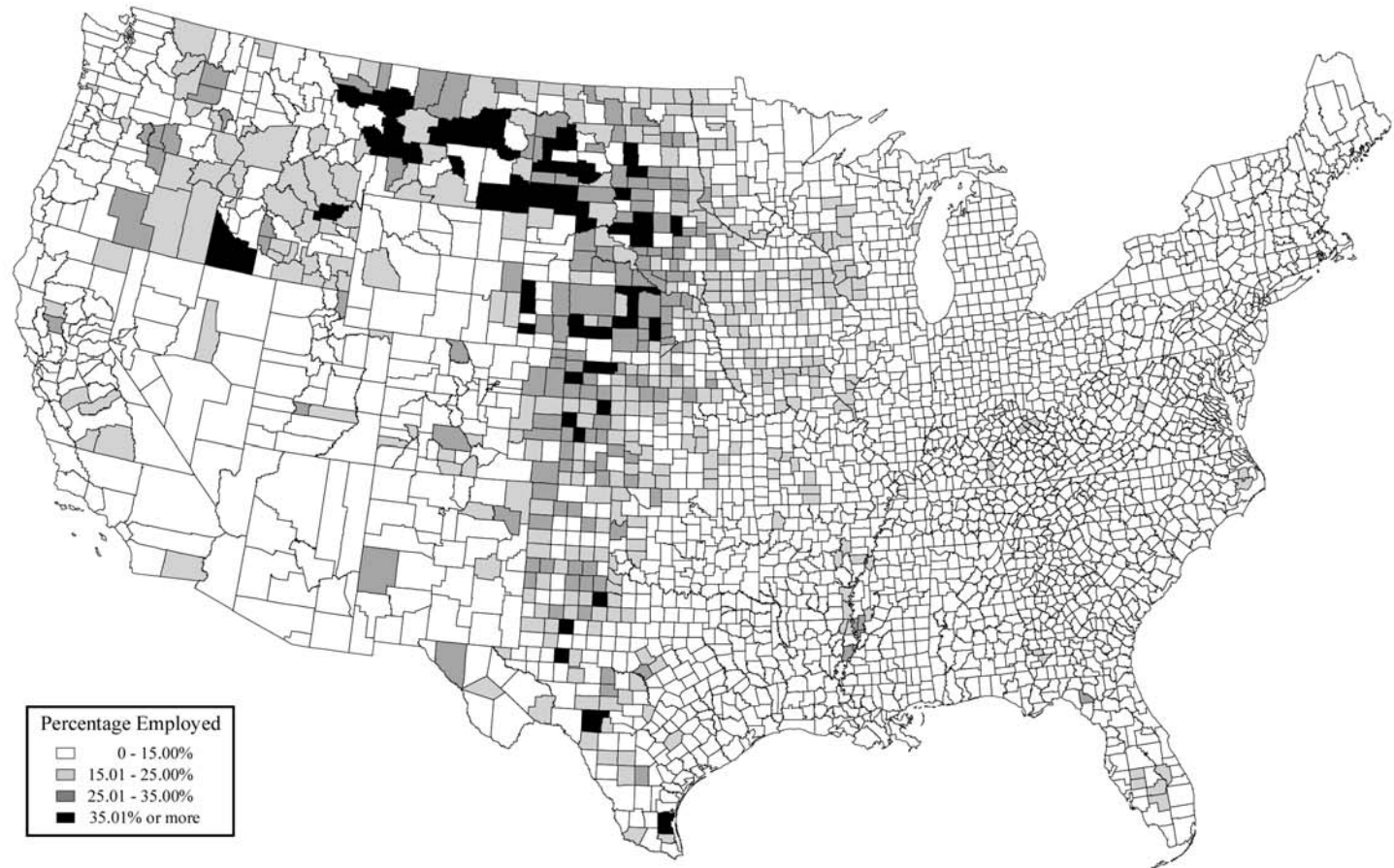
Note: Percentage employed in the contiguous U.S. in manufacturing in 1990 = 18.56%.

Figure 2.15. Percentage of the Labor Force employed in Agriculture, Fisheries, and Forestry, 1960



Source: Data from the U.S. Census (percentage employed by industry). Calculations by the authors.
Percentage employed in the contiguous U.S. in agriculture, fisheries, and forestry in 1960 = 7.01%.

Figure 2.16. Percentage of the Labor Force employed in Agriculture, Fisheries, and Forestry, 1990



Source: Data from the U.S. Census (percentage employed by industry). Calculations by the authors.

Note: Percentage employed in the contiguous U.S. in agriculture, fisheries, and forestry in 1990 = 2.81%.

The inclusion of the independent variables in the models is based upon two criteria. First, so that comparisons could be made between years, the variables had to be available for each of the years modeled. Second, the variables included in the models are assumed to have either a positive or negative effect on county-level economic health. Specifically, it was assumed that increased urbanization, higher rates of educational attainment, and lower percentages of minority populations would be associated with strong economic performance, while a high dependent population—which includes children and the elderly, who are considered dependent because they typically do not participate in the workforce—would be associated with weaker economic performance. Furthermore, we assumed that increased employment in manufacturing would be positively associated with economic performance. Our hypotheses regarding employment in mining as well as employment in agriculture, fisheries, and forestry were less strong, and these variables, like the regional variables, were included primarily as control variables.

Results of the regression models are summarized in table 2.7. The strongest predictor of economic performance is past economic performance. Previous economic health, which is included in these models as the Index of Economic Health score from ten years prior to the other variables in the model, is by far the best predictor of current economic health.

Not all of the variables in all of the models were statistically significant. For example, urban population was not significant in any of the years modeled, meaning that, after accounting for all of the other variables included in the models, there was never a significant correlation between economic health and urban population. We found this result to be surprising, as we expected increased urbanization to be associated with better economic health. However, the lack of significant association between economic health and urbanization may be more reflective of the definition of urbanization, since “urbanized areas” according to the U.S. Census can be rather small, and their size can vary widely. Dependent population was not significant in 1970 but, in 1980 and 1990, higher dependent populations were significantly associated with poor economic performance. In the 1970 model, percent white population, though significant, was a weak contributor to the model. Over time, higher county-level minority populations were associated with weaker economic performance. Educational attainment was the second-best predictor of economic health in both the 1980 and 1990 models, and it was the third-best predictor of economic performance in the 1970 model. Higher educational attainment levels were associated with better economic performance in all years.

The employment-by-industry variables produced more complex results. The mining and agriculture, fisheries and forestry results can be partially explained by the somewhat cyclical nature of these industries, especially the mining industry. Employment in agriculture, fisheries, and forestry demonstrated a positive association with strong economic performance in 1970 and 1990, but a negative, albeit less strong, correlation with economic health in 1980. We interpret this result as meaning that economies generally do well where employment in agriculture is strong. The collapse in agricultural land prices in 1980 and an increasing use of marginal lands for agricultural

production at that time may help explain the negative association between agriculture and economic health in 1980. The mining-employment variable also demonstrated an inconsistent effect upon economic conditions over time, though it is also important to note that in two of the three years, mining was a poor predictor of economic performance relative to the other variables in the models. In 1970 and 1980, increased employment in mining was correlated with better economic performance. In 1980, this correlation was probably associated with a rise in energy prices. Though slight, the association between mining and poor economic performance in 1990 is likely indicative of the long-term trend of increased mechanization in the mining industry, with areas of high mining often having relatively high rates of unemployment compared with much of the rest of the United States. Manufacturing employment demonstrated a strong, positive association with economic health in 1970 and 1990, though it did not contribute to economic performance in 1980, according to the model.

Table 2.7. Effect of Demographic and Employment Characteristics on the Index of Economic Health, for Counties (beta coefficients)

	1970	1980	1990
Index Score			
Previous Decade	.777*	.693*	.795*
Urban Population	NS	NS	NS
Dependent Population	NS	.076*	.101*
White Population	.034*	-.067*	-.107*
Educational Attainment	-.191*	-.184*	-.310*
Employment in Agriculture, Fisheries, or Forestry	-.218*	.110*	-.269*
Employment in Mining	-.059*	-.133*	.045*
Employment in Manufacturing	-.175*	NS	-.183*
Adjusted R ²	.719	.696	.795

*Significant at the 99.9 percent (.001) level or above; data for 3,069 counties.
NS indicates that the variable was not statistically significant.

In general, educational attainment was an especially strong predictor of economic health in each of the years studied. Employment in agriculture, fisheries, and forestry made an exceptionally strong contribution to the models as well, which may be explained, at least in part, by the generally strong economic conditions observed in the nation's agricultural heartland in all of the years studied. Employment in manufacturing also appears to have had a fairly strong and positive long-term relationship with economic performance. Employment in mining was a relatively minor contributor to economic health, except in 1980, when mining areas enjoyed at least some short-lived prosperity due to a rise in energy prices. A large dependent population and a large minority population have had an increasingly stronger, negative association with economic health over time. Most important, however, past economic performance is by far the best predictor of current economic performance. This finding indicates that the efforts of agencies, such as EDA, that assist areas of economic distress are likely hindered by long local histories of persistently poor economic conditions.

CONCLUSIONS

EDA's criteria for economic distress, which determine area eligibility for EDA's programs, have become increasingly inclusive since the agency's inception. As a result, the number of communities and counties eligible for assistance has greatly expanded over time, moving beyond places of deep and persistent economic distress to places experiencing short-term increases in unemployment in excess of the national average.

The use here of an alternative Index of Economic Health allows greater precision in identifying places of severe economic distress and in comparing patterns of distress over time. The index, based on unemployment, income, transfer payments, and labor force participation rates, reveals the striking persistence of severe distress in many areas of the country. Approximately 400 counties have remained persistently distressed throughout EDA's history. These counties are characterized by low income, high and persistent unemployment, low labor force participation rates, and high dependency on transfer income. In addition to the problem of persistent distress, a significant number of counties have joined the ranks of the economically distressed since EDA's establishment. Many of those counties entered the distressed category during the 1990s, despite rapid national economic growth during the decade.

Investigation of the determinants of economic distress reveals that many of the underlying factors that account for persistent distress have also remained fairly constant over time. In particular, educational attainment of the population and the county's industrial structure are key determinants of distressed status. Other factors that account for persistent distress include location in an isolated rural area and racial composition, though these factors tend to be somewhat less important. As will be discussed in later chapters, the persistence of economic distress in many areas and the emergence of new areas of distress both reinforce the continuing need for EDA programs designed to alleviate distress and represent significant future challenges for the agency.

APPENDIX: SPECIFICATION OF THE REGRESSION MODELS

Various diagnostic procedures were used to screen the variables and the models for problems that could have an adverse effect on the models' ability to predict economic health. For example, the analysis included independent variables as long as they were not correlated with one another at a coefficient of .7 or greater. The following section provides detailed information about all of the variables used in the models. Table 2.1A presents mean and median values for each of the independent variables. Tables 2.2A to 2.5A indicate bivariate, zero-order correlations between independent variables in each of the years studied.

VARIABLES INCLUDED IN THE REGRESSION MODELS

Dependent Variable

The Index of Economic Health is calculated for each year (1970, 1980, 1990) based on measures of unemployment; per capita market income; labor force/population ratio; and per capita transfer payments.¹⁶

Independent Variables

The following independent variables are included in the model for each time period:¹⁷

1. Index of Economic Health score from 10 years earlier
2. Urban population: percentage of the population living in places of 2,500 or more persons
3. College education: percentage of persons age twenty-five years and older completing at least some college
4. Dependent population: percentage of the population less than eighteen years old or sixty-five years old and older
5. White population: percentage of the population that is white based on census categories
6. Percentage of the population employed in agriculture, fisheries, and forestry
7. Percentage of the population employed in manufacturing
8. Percentage of the population employed in mining
9. Regional control variables

¹⁶ Sources for all 1970 dependent variables are the U.S. Census (1970); labor force and unemployment data for 1980 and 1990 are from the Bureau of Labor Statistics; transfer payment, population, and income data are from the Bureau of Economic Analysis, *Regional Economic Information System*, 1998.

¹⁷ The sources for all independent variables, aside from the Index of Economic Health, are the U.S. Censuses for 1970, 1980, 1990.

Table 2.1A. Means and Medians of Independent Variables (in percentages)

Variable/Year	1970	1980	1990
Urban Population, Mean	34.5	35.8	36.0
Urban Population, Median	34.0	34.8	34.2
Dependent Population, Mean	47.1	42.8	41.8
Dependent Population, Median	47.3	43.0	41.9
White Population, Mean	89.8	88.5	87.6
White Population, Median	97.0	95.5	94.4
College Education, Mean	16.2	24.4	35.2
College Education, Median	15.1	22.9	34.1
Agriculture, Fisheries, Forestry, Mean	13.2	10.2	8.7
Agriculture, Fisheries, Forestry, Median	9.5	6.7	5.4
Mining, Mean	2.1	2.7	1.8
Mining, Median	.4	.4	.3
Manufacturing, Mean	21.9	20.9	18.6
Manufacturing, Median	21.0	20.0	17.5
Index of Economic Health, Mean	124.0	122.0	120.0
Index of Economic Health, Median	118.0	116.0	116.0

Table 2.2A. Correlation Matrix for Variables in 1970 Regression Model

Variable	Index Score 1960	Urban Population	Dependent Population	White Population	Educational Attainment	Employed in Agriculture, Fishing, and Forestry	Employed in Mining	Employed in Manufacturing
Index Score 1960		-.393	.331	-.325	-.467	.012	.103	-.005
Urban Population	-.393		-.410	.010	.462	-.495	-.052	.073
Dependent Population	.331	-.410		-.171	-.392	.452	.015	-.184
White Population	-.325	.010	-.171		.199	.134	.076	-.161
Educational Attainment	-.467	.462	-.392	.199		-.073	-.066	-.375
Employed in Agriculture, Fishing, and Forestry	.012	-.495	.452	.134	-.073		-.120	-.546
Employed in Mining	.103	-.052	.015	.076	-.066	-.120		-.242
Employed in Manufacturing	-.005	.073	-.184	-.161	-.375	-.546	-.242	

Table 2.3A. Correlation Matrix for Variables in 1980 Regression Model

Variable	Index Score 1970	Urban Population	Dependent Population	White Population	Educational Attainment	Employed in Agriculture, Fishing, and Forestry	Employed in Mining	Employed in Manufacturing
Urban Population	-.371		-.444	-.090	.445	-.468	-.061	.017
Dependent Population	.256	-.444		-.095	-.541	.467	.059	-.096
White Population	-.223	-.090	-.095		.119	.155	.072	-.112
Educational Attainment	-.568	.445	-.541	.119		-.059	-.084	-.422
Employed in Agriculture, Fishing, and Forestry	.007	-.468	.467	.155	-.059		-.097	-.481
Employed in Mining	-.056	-.061	.059	.072	-.084	-.097		-.314
Employed in Manufacturing	.200	.017	-.096	-.112	-.422	-.481	-.314	

Table 2.4A. Correlation Matrix for Variables in 1990 Regression Model

Variable	Index Score 1980	Urban Population	Dependent Population	White Population	Educational Attainment	Employed in Agriculture, Fishing, and Forestry	Employed in Mining	Employed in Manufacturing
Index Score 1980		-.371	.256	-.223	-.568	.007	-.056	.200
Urban Population	-.371		-.394	-.133	.504	-.448	-.070	-.057
Dependent Population	.256	-.394		.029	-.366	.585	.087	-.189
White Population	-.223	-.133	.029		.115	.153	.039	-.079
Educational Attainment	-.568	.504	-.366	.115		-.059	-.120	-.442
Employed in Agriculture, Fishing, and Forestry	.007	-.448	.585	.153	-.059		-.034	-.434
Employed in Mining	-.056	-.070	.087	.039	-.120	-.034		-.295
Employed in Manufacturing	.200	-.057	-.189	-.079	-.442	-.434	-.295	

Interpretation of the Beta Coefficients

In this analysis, variables that are significant at the 95 percent level or better (less than .05) are considered statistically significant. In other words, such variables, according to the model, contribute to economic health as measured by the Index of Economic Health. Beta coefficients provide a means of determining an independent variable's contribution to the outcome relative to the other independent variables in the model. Beta coefficients demonstrate either a positive or negative association with economic health. Variables that have beta coefficients with higher absolute values (either positive or negative) contribute more to the Index of Economic Health values than do variables whose beta coefficients have lower absolute values. Following is an explanation of the implications of the signs of beta coefficients on each variable in each of the models.

1. Percentage urban population:

- A positive value indicates that a high percentage of the population living in urban areas leads to economic distress.
- A negative value indicates that a high percentage of the population living in urban areas results in positive economic conditions.

2. Percentage dependent population (below age 18 or 65 years old and older):

- A positive value indicates that a high percentage of dependent population results in economic distress.
- A negative value indicates that a high percentage of dependent population results in positive economic conditions.

3. Percentage white population (proxy used as race variable):

- A positive value indicates that a high percentage of white (non-minority) population results in economic distress.
- A negative value indicates that a high percentage of white (non-minority) population results in positive economic conditions.

4. Population age twenty-five and older with some college (proxy for education):

- A positive value indicates that low educational attainment rates result in economic distress.
- A negative value indicates that high educational attainment rates result in positive economic conditions.

5. Employment-by-industry variables:

- A positive value indicates that a high percentage of the population employed in a particular industry results in economic distress.
- A negative value indicates that a high percentage of the population employed in a particular industry results in positive economic conditions.

3

THE LEGISLATIVE HISTORY OF EDA

This chapter examines the history of legislation and debate pertaining to the formation and subsequent organization of the Economic Development Administration. The chapter highlights changing perspectives, goals, and problems related to the inception and continuation of EDA. The history begins in the 1930s and 1940s, when federal activity with regard to national economic development objectives escalated, and continues through the creation of EDA and the agency's present position in policy legislation. We review the early legislation leading to the establishment of the Area Redevelopment Administration, the transition from ARA to EDA, and the evolution of EDA's policy mandate. Throughout the chapter, particular attention is paid to the policy positions of the various presidential administrations and their impact on the history of distressed-area legislation.

EARLY LEGISLATION

The New Deal and the Truman Administration

The federal government had established legislation for specific elements of area economic development before the Great Depression, for example, the Federal Highway Act of 1916 and the Vocational Training Act of 1917.¹⁸ In this early period, however, the government failed to acknowledge the existence of, and understand, chronically depressed regions of the country. President Franklin D. Roosevelt's New Deal programs were the first to have significant application to economically lagging areas, although the policy focus was on national recovery.¹⁹

¹⁸ For a discussion of early federal economic development policy, see Curtis H. Martin and Robert A. Leone, *Local Economic Development* (Lexington, MA: Lexington Books, 1977), chapter 1.

¹⁹ President Roosevelt expressed the view in 1935 that individual lives and localities were best served through action that promoted the national economy (*Congressional Record*, 74th Cong., 1st sess., 1935, 79, pt 1: 866).

A number of planning authorities created through New Deal legislation had a substantial impact on the subsequent evolution of regional economic development policy and the later formation of EDA. Principal among these were the Public Works Administration (PWA), the National Resources Planning Board (NRPB), and the Tennessee Valley Authority (TVA).

The PWA was established by the National Industrial Recovery Act (NIRA) of 1933 for the purpose of completing a plan to construct, repair, and improve public highways, buildings, and other publicly owned facilities. The PWA was also responsible for the conservation and development of natural resources. Like the future EDA, the PWA found it challenging to establish criteria for project selection and prioritization.

The NRPB, established in 1933 as the National Planning Board and renamed in 1934, was charged with implementing the public works planning and construction provision of the NIRA.²⁰ The NRPB examined the physical aspects of regional economic development and recommended the creation of coordinated interstate, state, and local planning boards and districts. The NRPB was a precursor of the Area Redevelopment Act of 1961 and the Public Works and Economic Development Act of 1965.²¹

TVA was designed to realize Roosevelt's vision of a national system of interlocking river-valley regional development projects. It was the best known and most adequately funded of the more than forty state planning commissions established during the 1930s to help coordinate federal economic planning. The TVA planning approach served as a precedent for other development commissions, such as the Appalachian Regional Commission.

A rising concern for the vitality of regional economies surfaced with the possibility that the dismantling of the war industry at the close of World War II would create new economically depressed areas.²² In 1943, the NRPB proposed that the federal government could play an important role in the readjustment of population and industry, suggesting that national policy aid in the relocation of people from depressed areas to regions of greater economic opportunity.²³ Congress dismantled the NRPB shortly thereafter and created special House and Senate committees to manage postwar economic policy and planning. No new legislation was passed as a direct result of the committees, but Congress acknowledged that postwar economic problems in some regions were more acute than the national average and therefore required regional remedies.²⁴

²⁰ *Executive Order No. 6777*, June 20, 1934.

²¹ National Resources Planning Board, *Report* (Washington, D. C.: Government Printing Office, 1934), 64.

²² National Resources Planning Board, *Security, Work, and Relief Policies* (Washington, D.C.: Government Printing Office, 1942), 503.

²³ National Resources Planning Board, *Industrial Location and National Resources* (Washington, D.C.: Government Printing Office, 1943), 1.

²⁴ Senate Special Committee on Postwar Economic Policy and Planning, *Post-War Economic Policy and Planning: Report Pursuant to S. Res. 102*, 78th Cong., 2d sess., 1944, S. Rept. 539, pt 4: 7–8.

Legislation to aid depressed areas was driven at this time by a handful of administration officials and congressional representatives. Among them was Secretary of Commerce Henry A. Wallace, who negotiated hearings in Congress on the issue of chronically distressed regions. Focusing on the South, Wallace argued that the nation could not achieve full employment when an entire region was lagging, and he proposed the development of a comprehensive federal strategy for assisting depressed areas.²⁵

Two legislative proposals that dealt with depressed areas reached Congress in 1945. The Full Employment bill, first submitted to Congress in January 1945 (and later approved as the Full Employment Act of 1946), was amended in September of the same year to explicitly state an obligation to assist underdeveloped areas.²⁶ The second piece of legislation was the Hays-Bailey bill, also submitted in September 1945, proposed by North Carolina Senator Josiah Bailey and Arkansas Representative Brooks Hays. The bill, drafted under Secretary Wallace's direction, reflected his concern for rural areas and for industrialization of underdeveloped areas.²⁷ The Hays-Bailey bill was the first directly concerned with underdeveloped areas and shifted the focus of remedial action for rural problems away from worker mobility (i.e., moving people to jobs) to the expansion of employment establishments (i.e., bringing jobs to people). It promised assistance to private economic initiatives, mainly through the provision of information and shared know-how, and had a proposed budget of \$5 million, which was to be divided among all underindustrialized regions of the nation.

Opposition to the Hays-Bailey legislation was similar to that which would be encountered later by proponents of the Area Redevelopment Act.²⁸ Opponents charged that the proposed program impinged too closely on the private sphere, proposed a beggar-thy-neighbor approach that would encourage redistribution of existing production and employment, and provided too little aid to be effective without increases in appropriations year after year.

At the same time that these bills were moving through Congress, two agencies were established for the purpose of compiling and distributing statistics that would inform regional economic development: the Bureau of Employment Security and the Area Development Division. The information collection and dissemination tasks of these agencies reflected the Truman administration's objective to narrow regional differentials by raising productivity and incomes. The administration believed that this objective could be accomplished by improving agricultural methods and land uses, expanding and diversifying industry, and increasing health and educational levels in the lagging regions. To achieve these goals, the Council of Economic Advisers committed to studying the

²⁵ Henry C. Wallace, *Sixty Million Jobs* (New York: Simon & Schuster, 1945), 131.

²⁶ *Congressional Record*, 79th Cong., 1st sess., 1945, 91, pt 7: 8917.

²⁷ Senate Subcommittee on Domestic Commerce, *A Bill to Provide for Aid in Industrialization of Underdeveloped Areas: Hearings on S. 1385*, 79th Cong., 1st sess., May 3, 6, 7, 1946, 14.

²⁸ Curtis H. Martin and Robert A. Leone, *Local Economic Development* (Lexington, MA: Lexington Books, 1977), 25.

problem and identifying ways in which business, labor, agricultural, and government programs might be integrated for the benefit of each sector and of the nation as a whole.²⁹

The Murray-Sparkman bill was presented to Congress by Montana Senator James Murray in reaction to the business decline of 1949.³⁰ The bill proposed additional federal involvement in promoting economic expansion in line with the Employment Act of 1946.³¹ It was the first comprehensive area development legislation proposed in the United States, containing provisions that focused on areas of serious unemployment and on the maintenance of employment opportunities. Although not passed by Congress, the Murray-Sparkman bill brought to the table several issues that would be important in the evolution of depressed-area policy.

The Eisenhower Years

Upon taking office in 1953, President Eisenhower praised the Employment Act of 1946, which stressed the importance of, but did not establish, economic policies for solving future problems. His perspective was that economic problems stemmed from various causes and therefore required different remedies that could not be determined in advance and he questioned the generic solutions prescribed by permanent government institutions.³² Eisenhower was also skeptical of place- or problem-specific efforts on the part of the federal government because he doubted the consistency with which individualized programs could fit together into a sensible national economic policy.³³ His deep concern over these issues surfaced in what might otherwise be considered contradictory behavior: he made a strong appeal for legislation to aid chronically depressed areas but opposed bills that would establish a uniform policy for area assistance.

In general, the Eisenhower administration tended to favor technical assistance and, to some extent, loans for depressed areas. Policy contributions in that direction included the Small Business Act of 1953 and the initiation of the Rural Development Program in 1955. Overall, the Eisenhower administration's economic improvement programs focused to a greater degree than in the past on the efforts of state and local governments and civic organizations.³⁴ A new Area Assistance Program was

²⁹ *The Economic Report of the President*, January 14 (Washington, D.C.: Government Printing Office, 1948), 58.

³⁰ *Congressional Record*, 81st Cong., 1st sess., 1949, 95, pt 7: 9548–9549.

³¹ In the *Report to the President by the Council of Economic Advisors (The Annual Economic Review*, January 1950 [Washington, D.C.: Government Printing Office]), the Murray-Sparkman Bill is referred to as one that addresses trouble spots through modification and within limitations of existing laws. In this context, the Council noted that chronic unemployment was prevalent in distressed areas and called for “more determined efforts, broader in scope and longer-range in character” (117–118).

³² *The Economic Report of the President*, January 28 (Washington, D.C.: Government Printing Office, 1954), 113.

³³ *The Economic Report of the President*, January 14 (Washington, D.C.: Government Printing Office, 1953), 8–9.

³⁴ *The Economic Report of the President*, January 20 (Washington, D.C.: Government Printing Office, 1955), 59–61.

recommended to better assist communities that had experienced persistent and substantial unemployment. The recommendation invoked four major principles outlined in the *Economic Report of the President*:³⁵

- Federal assistance should aim at helping communities help themselves. Major economic redevelopment responsibility must remain with citizens from within the target community.
- The program should aim at lasting improvement of job opportunities through establishment or expansion of productive industries. Projects that generate temporary employment should not be targeted.
- Federal assistance should be contingent on the active participation of governmental authorities closest to the troubled community and funds must be matched in part by state or local governments, credit corporations, or community sponsorship.
- Federal aid must not be extended to a community if the proposed project will create unemployment in some other area.

Despite Eisenhower's appeal for strong legislation to aid chronically depressed areas, he rejected multiple measures proposed by both Democrats and Republicans, including two bills designed specifically for area assistance. The first was proposed in 1958 and the second in 1960. Both were rejected by the president because of their departure from the principles outlined above. Among the specific defects noted by Eisenhower were the tendency to spend funds in areas experiencing only temporary economic distress; the inhibiting of local, state, and private initiatives through excessive federal participation; and the redundancy of initiatives that were already covered under other government programs.³⁶

Of the depressed-area legislation efforts reviewed by Eisenhower, the most concerted were those proposed by Illinois Senator Paul Douglas between 1955 and 1961. Sparked by rising unemployment in a few concentrated regions of the nation, hearings on the causes of chronic unemployment were conducted in March 1955 by the Senate Subcommittee to Investigate Unemployment.³⁷ This was the second of such hearings (the first was held in 1950) in which Senator Douglas, Senator John F. Kennedy, and other subcommittee members heard testimony on the acute unemployment problems of declining mining regions. Democratic views of the situation, presented in the 1955 Joint Economic Report, pointed to chronic unemployment in the coal, textile, and other durable-goods industries, and expressed the urgency of immediate aid to distressed and

³⁵ *The Economic Report of the President*, January 24 (Washington, D.C.: Government Printing Office, 1956) 61–63.

³⁶ *Area Redevelopment Act—Veto Message: Message from the President of the United States*, Senate Misc. Documents I, no. 95, 86th Cong., 2d sess. (Washington, D.C.: Government Printing Office), 2.

³⁷ Senate Subcommittee to Investigate Unemployment, Committee on Labor and Public Welfare, *Causes of Unemployment in the Coal and Other Specified Industries*, 1955, S. Rept. 2042, 2.

chronically depressed areas.³⁸ Senator Douglas drafted legislation consistent with those views, which was submitted for consideration in the Senate by Douglas and in the House by Pennsylvania Representative Daniel Flood (S. 2663 and H.R. 7857).³⁹

The Douglas bill shared much with the Murray-Sparkman and Hays-Bailey bills, as well as with the Full Employment Act of 1946 and other earlier programs, in terms of its broad purpose, approach to causes of decline, and tools for remediation.⁴⁰ The bill also offered a number of original contributions to federal depressed-area legislation:⁴¹

- It was the first bill to acknowledge that a people-to-jobs orientation may be undesirable, and it therefore eliminated provisions for relocation assistance.
- It wrote into legislation the need for a centralized depressed-area authority, as suggested earlier by the NRPB.
- It used area unemployment statistics provided by the Department of Labor to better specify program eligibility criteria.
- It stressed the importance of supporting development efforts in depressed areas during periods of economic upswing, when measures to combat national cyclical economic problems would not conflict with efforts to defeat localized ills.

The Senate version of the Douglas bill passed, but the parallel bill died in the House Rules Committee in 1956. It was followed by a bill (S. 1433), introduced by Pennsylvania Senator Edward Martin, that reflected the views of the Republican minority and was supported by the Eisenhower administration, and by yet another legislative attempt by Senator Douglas, the Douglas-Payne bill (S. 694). The major differences between the Republican-sponsored and the Democrat-sponsored bills were centered on the program's location within the executive branch, the criteria for the certification of areas for aid, and the total allocations for grants and loans.⁴² The flow of depressed-area legislation proposals continued but, at the close of 1959, none of the bills had received the legislative and executive support necessary for passage.⁴³

³⁸ U.S. Congress, Joint Economic Committee, *Joint Economic Report*, 1955, 17, 39.

³⁹ Senate Committee on Labor and Public Welfare, *Hearings, Area Assistance Act of 1956*, 84th Cong., 2d sess., 1956; House Committee on Banking and Currency, *Hearings, Area Assistance Act of 1956*, 84th Cong., 2d sess., 1956.

⁴⁰ For further discussion, see Sar A. Levitan, *Federal Aid to Depressed Areas: An Evaluation of the Area Redevelopment Administration* (Baltimore, MD: Johns Hopkins University Press, 1964).

⁴¹ Senate Subcommittee on Labor, *Hearings on S. 2663, Area Redevelopment*, testimony of William Miernyk, 84th Cong., 2d sess., January-February 1956, pt 1: 154.

⁴² Conley H. Dillon, *The Area Redevelopment Administration: New Patterns in Developmental Administration* (Baltimore, MD: Bureau of Governmental Research, College of Business and Public Administration, University of Maryland, 1964), 8. Comparison of the bills is given in Senate Subcommittee on Banking and Currency, *Hearings, Area Redevelopment Act*, 85th Cong., 1st sess., 1957, 49.

⁴³ For a detailed summary of the movement of S. 722, the most debated of the bills, see the *Congressional Quarterly Weekly Report* (Washington, D.C.: Congressional Quarterly, Inc.), no. 19 (week ending May 6, 1960), 784–785; no. 20 (week ending May 13, 1960), 828–829.

THE AREA REDEVELOPMENT ADMINISTRATION

Support for depressed-area legislation eventually increased, culminating first in passage of legislation establishing the Area Redevelopment Administration, EDA's direct predecessor, and later in passage of the Appalachian Regional Development Act, a regional assistance program with objectives very similar to those of EDA. This section summarizes the congressional debates leading up to passage of the ARA legislation and describes the key components of ARA. The section also describes some of the key debates and criticisms surrounding ARA, which contributed to the eventual replacement of ARA with EDA. The section concludes by considering the debates over passage of the Appalachian Regional Development Act and the main components of that act.

Immediately following his election, President Kennedy appointed a task force headed by Senator Douglas to study the "frontier" of area redevelopment. The task force reported back to the president in December 1960 with recommendations for immediate passage of legislation to relieve unemployment in depressed areas.⁴⁴ In response, three competing bills were introduced to Congress at the start of the 1961 session. The major differences among the three pieces of legislation were issues of organization, funding sources, and the extent of assistance provided:

- S. 1, introduced by Senator Douglas, proposed an independent agency, administered by the president, that would offer project loans (funded by the Treasury Department) to private recipients in rural and urban depressed areas, loans and grants for public facilities, and technical and retraining assistance grants.
- S. 6, introduced by Pennsylvania Senator Hugh Scott, proposed establishment of the Area Redevelopment Administration within the Department of Commerce, under the direction of the secretary of commerce, to provide direct loans (financed by congressional appropriation) to rural and urban depressed areas, public-facility loans, and technical and retraining assistance grants. S. 6 did not provide for public-facility grants.
- S. 9, introduced by Illinois Senator Everett Dirksen, proposed establishment of ARA within the Department of Commerce under the direction of an administrator appointed by the president but reporting to the secretary of commerce. S. 9 limited loans to private projects and public facilities, supported not by ARA funds but by existing agencies (i.e., under the urban renewal and community facilities provisions of the Housing Act). It did not include private project loans for rural areas, public-facilities grants, or technical and retraining assistance grants.

A fourth bill (H.R. 4569) was submitted in the second month of the session by Kentucky Congressman Brent Spence, chairman of the Committee on Banking and

⁴⁴ Referred to in the statement by Senator Douglas in Senate Committee on Banking and Currency, *Hearings, Area Redevelopment Act*, 87th Cong., 1st sess., 1961, 1-2.

Currency.⁴⁵ This bill also proposed placement of ARA within the Department of Commerce. In addition, it contained provisions for technical assistance to depressed communities; participating loans when other financial services were not an option; financing for public facilities to support industry; and assistance in the cooperative efforts of state, local, and private organizations.

Secretary of Commerce Luther Hodges recommended that S. 1 be amended to conform to the language of the bill introduced by Rep. Spence, particularly in terms of the placement of ARA within the Department of Commerce. This proposal met with strong opposition from Senator Douglas who, with other proponents of maximum aid to depressed areas, had fought since 1955 to create an independent agency. In response to questioning by Senator Douglas, Hodges listed the advantages of locating ARA within the Department of Commerce:⁴⁶

- The Office of Area Development and the Business and Defense Services Administration in the Department of Commerce were already administering programs to assist industry.
- Hodges intended to give the new program his personal attention so that everything possible would be done to achieve the objectives of the legislation.
- The secretary and other cabinet members agreed on the nature of the administrative cooperation needed to carry out the program.
- Location within the Department of Commerce would enable the program to be launched with speed, efficiency, and economy.

Secretary of Agriculture Orville Freeman and Secretary of Labor Arthur Goldberg expressed support for Hodges in both the Senate and the House hearings. The greatest opposition was contained in the testimony of representatives of organized labor, such as Solomon Barkin of the Textile Workers of America and William Schnitzler from the AFL-CIO.⁴⁷ Additional opposition was expressed by Mayor Louis Miriani of Detroit, Congressman Flood, and Congressman Carl Perkins (Kentucky).⁴⁸

Supporters of a separate agency were forced to compromise to obtain prompt passage of the legislation, and agreed to an administrator appointed by the president and placed within the Department of Commerce.⁴⁹ As a result, a depressed-area redevelopment act was finally passed during the first year of the Kennedy administration

⁴⁵ House Subcommittee of the Committee on Banking and Currency, *Hearings, Area Redevelopment Act*, 87th Cong., 1st sess., 1961.

⁴⁶ Senate Subcommittee of the Committee on Banking and Currency, *Hearings, Area Redevelopment Act*, 87th Cong., 1st sess., 1961, 641–650.

⁴⁷ House Subcommittee of the Committee on Banking and Currency, *Hearings, Area Redevelopment Act*, 87th Cong., 1st sess., 1961, 561–565, 589.

⁴⁸ *Ibid.*, 522, 593, 599.

⁴⁹ U.S. Congress, House, *Conference Report, Area Redevelopment Act*, Report to accompany S. 1 as amended to adhere to the language of the Spence bill, 87th Cong., 1st sess., 1961.

(PL 87-27). The provisions of the act were slated for termination on June 30, 1965.⁵⁰ The newly established Area Redevelopment Administration included the following components:⁵¹

- Approximately one-third of ARA appropriations were allocated for business loans. This provision reflected the belief held by ARA advocates that a lack of capital was the principal factor impeding business expansion in depressed areas. In order to discourage business relocations, however, ARA limited the use of loans for venture capital purposes to no more than one-third of the total appropriations.
- ARA was given the authority to make loans and grants for public facilities where communities demonstrated that their projects would improve the opportunity for business expansion and provide additional employment to the area. Grant funding for this purpose was eliminated in 1963.
- ARA provided a program for vocational retraining in which the secretary of labor worked with the secretary of agriculture to define retraining needs and with the secretary of health, education, and welfare to implement the training effort.
- ARA provided know-how by supplying businesses and public facilities with market information and technical assistance. This provision was not limited to redevelopment areas but was made available to any individual, enterprise, or community without regard to location.
- ARA included a research component designed to study and determine the causes of unemployment, underemployment, underdevelopment, and chronic economic depression, and to identify effective area-appropriate solutions.

The sluggish national economy in 1962 and the early failure of ARA to significantly reduce depressed-area unemployment prompted the administration to introduce a bill that would give the president standby authority to commit federal funds to public works projects in order to combat recession before it became fully developed.⁵² The original bill, amended and renamed the Public Works Acceleration Act, proposed to permit an immediate commitment of funds by the president for capital improvement programs in areas designated for redevelopment under ARA and in those that had experienced an unemployment rate of 6 percent or more for more than one year.⁵³ Opposition to the Public Works Acceleration Act focused on the transfer of power from the legislative to the executive branch, specifically the authority given to the president to

⁵⁰ *Area Redevelopment Act*, PL 87-27, 87th Cong., 1st sess., 1961.

⁵¹ Conley H. Dillon, *The Area Redevelopment Administration: New Patterns in Developmental Administration* (Baltimore, MD: Bureau of Governmental Research, College of Business and Public Administration, University of Maryland, 1964), chapter 2.

⁵² *Standby Capital Improvements Act*, H.R. 10318, February 21, 1962; S. 2965, March 8, 1962.

⁵³ Senate, *Report, Public Works Acceleration Act of 1962*, 87th Cong., 2d sess., 1962.

take away funds appropriated for other programs without legislative approval.⁵⁴ A new version of the bill was eventually passed that excluded standby authority for the president but included a provision for authority to accelerate public works programs by federal, state, and local government bodies.⁵⁵

Like the legislative initiatives preceding ARA, the Accelerated Public Works program was an antirecessionary or countercyclical measure: its purpose was to increase employment at a time when unemployment had reached its highest level in ten years.⁵⁶ President Kennedy referred to the program as “a significant milestone in our efforts to strengthen the economy and provide a greater measure of economic security to the unemployed.”⁵⁷ The Accelerated Public Works program was seen by the administration as a companion to ARA because it provided funding for a similar purpose. It differed from ARA in that its funding level was nine times greater than that of ARA. In addition, its funds were to be expended over a one-year rather than a four-year period.⁵⁸ Projects under the Accelerated Public Works Program were filed and processed by the agencies with primary operating responsibility as defined by project characteristics, but ARA acted as the primary coordinating agency charged with organizing activities, allocating lump-sum funding, establishing matching fund criteria, and providing a data clearinghouse.⁵⁹

ARA was increasingly faced with organizational and administrative difficulties, due largely to the requirement to operate the program through delegated federal agencies. In addition, ARA’s ability to use its public-facility loan funds was hindered by the fact that the agency had fully expended its grant funds within the first two years of its existence. Consequently, Area Redevelopment amendments were introduced in Congress in 1963 to increase funds for industrial and commercial loans, public-facility grants, and technical assistance.⁶⁰ Debate surrounding additional funding largely consisted of arguments that “Federal funds have been dispersed to too many areas, for projects with too little economic value, at too high a cost in terms of benefits received.”⁶¹ Critics emphasized that ARA was assisting all areas experiencing underemployment rather than limiting funding to areas with persistent, sizable, long-term unemployment. This was due in part to the fact that the ARA mandate was based on counties rather than on economic

⁵⁴ *Ibid.*, 19–28.

⁵⁵ Public Law 87-658, 87th Cong., signed by the president on September 14, 1962. A legislative history of PL 87-658 can be found in Senate Committee on Public Works, *Compilation of Documents on Public Works and Economic Development* (Washington, D.C.: Government Printing Office, 1965), 41.

⁵⁶ PL 87-658, September 14, 1962. See James L. Sundquist, *Politics and Policy: The Eisenhower, Kennedy, and Johnson Years* (Washington, D.C.: Brookings Institution, 1968), 72 and 85.

⁵⁷ Quoted in Conley H. Dillon, *The Area Redevelopment Administration: New Patterns in Developmental Administration* (Baltimore, MD: Bureau of Governmental Research, College of Business and Public Administration, University of Maryland, 1964), 74.

⁵⁸ Comparison of the mandates for the two programs reveals this difference, although the ARA language allowed for additional funding within the four-year period upon legislative approval.

⁵⁹ U.S. Department of Commerce, Area Redevelopment Administration, *Your Community and the Accelerated Public Works Program*, September 1962.

⁶⁰ U.S. Congress, House, *Report, Area Redevelopment Act Amendments of 1963*, 88th Cong., 1st sess., H.R. 4996, May 6, 1963; S. 1163, June 13, 1963.

⁶¹ U.S. Congress, House, *Report, Area Redevelopment Act Amendments of 1963*, 88th Cong., 1st sess., 1963, comments of Florence Dwyer, 42.

areas and that an overwhelmingly large number of counties were eligible for assistance.⁶² Therefore, the program had not established a comprehensive long-term economic policy for alleviating chronic and lasting unemployment as originally had been intended.⁶³ In addition, the ideological differences regarding the role of government in economic matters that prevailed in area redevelopment debates during the Eisenhower administration resurfaced.⁶⁴ Testimony by both supporters and opponents of the original act suggested that the program had failed to gain strong public and legislative approval after two years of operation. This view was reinforced by the failure of Congress to meet the administration's requests for additional ARA funds in both 1963 and 1964.⁶⁵

The Area Redevelopment Act and the Accelerated Public Works Act reflected the tradition of other work relief and resource development statutes that sought to maintain a high level of performance in the national economy and the belief that concentrations of unemployment and underemployment detracted from the national welfare. However, the organization and implementation of ARA, and its discretion over Accelerated Public Works projects, were highly criticized. The criticisms, as summarized by Martin and Leone in *Local Economic Development*, included the following:⁶⁶

- ARA gave unfair competitive advantages to certain enterprises and regions.
- Although ARA attempted to guard against area-to-area relocations, such prohibitions could not be enforced.
- Similarities to the administration of earlier depressed-area legislation left ARA open to comparison with earlier program failures and conceptual shortcomings.
- A program review completed in 1963 argued that ARA's policies provided an inefficient means of allocating resources because they interfered with natural market adjustment mechanisms.
- Under subsequent pressure for government reform, both Republicans and Democrats accused ARA and similar programs of centralizing government functions and power in a handful of bureaucrats, illustrating a rising concern over cooperative federalism.⁶⁷

⁶² According to Milkman et al., "during most of the period covered by ARA operations, more than 1,000 counties were eligible for assistance." R. Milkman, C. Bladen, B. Lyford, and H. Walton, *Alleviating Economic Distress: Evaluating a Federal Effort* (Lexington, MA: Lexington Books, 1972), 4.

⁶³ *Ibid.*, comments by Oliver Bolton, 45.

⁶⁴ U.S. Congress, Senate, *Report, Area Redevelopment Act Amendments of 1963*, 88th Cong., 1st sess., 1963, comments by Senator Simpson, 22.

⁶⁵ *Congressional Quarterly Weekly Report* (Washington, D.C.: CQ Inc., 1964), 2384.

⁶⁶ This summary of criticisms is based on Curtis H. Martin and Robert A. Leone, *Local Economic Development* (Lexington, MA: Lexington Books, 1977), 37-39. Detailed accounts of contemporary views of ARA are contained throughout U.S. Congress, House and Senate, *Hearings on S. 1648, Public Works and Economic Development Act of 1965*, 89th Cong., 1st sess., 1965.

⁶⁷ House Committee on Public Works, *Public Works and Economic Development Act of 1965: Report to Accompany S. 1648*, H. Rept. 276, 89th Cong., 1st sess., 1965, 57.

Other more specific or related arguments for or against the improvement of ARA included the following:

- Certain nonindustrial types of business development, such as convention centers and tourist facilities, should not be supported by ARA.
- ARA duplicated other federal programs, such as those under the Small Business Administration and the Department of Agriculture and, therefore, the new program was unwarranted.
- ARA's project selection process was inept because it depended on evaluations by locally designed Overall Economic Development Programs, approved projects that failed to produce jobs and repay loans, and produced excess capacity in some industries.
- ARA's complex administrative network promoted internal conflict, caused confusion, and created delay.
- Politicians abused ARA projects by using them as political capital in elections.
- ARA inflated employment statistics in order to gain support for its programs.

Criticism of and debate over ARA and earlier depressed-area legislation demonstrated a persistent pattern of political and theoretical struggle. An understanding of the arguments can be gleaned from the transcripts of congressional hearings from 1955 to 1965.⁶⁸ The issues raised in the hearings included debates between those who favored a focus on prosperity of place and those who favored a focus on prosperity for people (a debate that affected the geographic distribution of political support); conflict over federal and state jurisdiction and authority; arguments about equity versus efficiency; and a conflict of ideologies between those supporting federal economic planning and those supporting market processes. All of these contributed in part to the reevaluation of area development policy that surfaced in the subsequent debate leading up to passage of the Public Works and Economic Development Act of 1965 and the replacement of ARA by the Economic Development Administration.

The Appalachian Regional Commission

The Appalachian Regional Commission was also linked to ARA. The Conference of Appalachian Governors sparked national interest in 1960 in regional development for Appalachia. Given its primary responsibility to develop economically depressed areas, ARA was a natural sponsor to oversee the planning necessary to achieve development goals for the region. ARA undertook a preliminary review of the situation in 1962 and, in

⁶⁸ Ideological differences are also described throughout *In the Fullness of Time: The Memoirs of Paul H. Douglas* (New York: Harcourt Brace Jovanovich, 1971).

the following year, established a joint federal-state commission, formally known as the President's Appalachian Regional Commission, to develop a comprehensive study. The commission was made up of representatives of the Appalachian states and the federal agencies concerned with the region. Chaired by Franklin D. Roosevelt, Jr., the commission identified four problem areas in the region:⁶⁹

- Lack of access to and within the region
- Technological inability to fully use the region's natural resources
- Lack of facilities to control and exploit the abundance of rainfall in the area
- Inadequate resources to train and retrain the workforce

The commission's final report recommended a coordinated federal, state, and local initiative to address the region's problems. The report became the basis for President Johnson's message to Congress and for the Appalachian Regional Development Act (H.R. 11946), submitted on April 29, 1964.⁷⁰ The stated purpose of the bill was "to provide public works, and economic development programs, and the planning and coordination needed to assist in the development of the Appalachian region."⁷¹

Opposition to the House version of the bill focused on the following:⁷²

- The act would provide preferential treatment to one region of the country and thereby discriminate against other areas with equal or greater economic problems.
- It would provide aid to all the counties of Appalachia, many of which were deemed prosperous under ARA criteria.
- The proposal was largely based on the poverty measure, which is open to question.
- The data used in the analysis to identify economic deprivation were outdated (1960 numbers were used).
- Although other House committees held jurisdiction over several of the programs, their advice and recommendations were not sought in drafting the bill.
- Existing state and local agencies that normally administer federal aid programs would be bypassed by the Appalachian Regional Commission.
- The commission would be controlled by a federal representative who would dominate the program, putting state and local officials in a subordinate position.

⁶⁹ *Appalachia, A Report by the President's Appalachian Regional Commission 1964* (Washington, D.C.: Government Printing Office, 1964).

⁷⁰ *Appalachian Regional Development Act of 1964*, 88th Cong., 2d sess.

⁷¹ *Ibid.*

⁷² *Ibid.*, 25–26. Additional minority views are contained in S. Rept. 1383, accompanying the Senate version of the bill, S. 2782.

- The highway bill contained within the proposal was considered particularly discriminatory against other portions of the country.
- The highway program was vague, poorly conceived, and inconsistent with the federal-aid highway program.
- The directive to the secretary of the army to prepare a comprehensive plan for the development and use of water resources would overlap the jurisdiction of the Tennessee Valley Authority, half of whose area is in Appalachia.
- The discredited and ineffective Public Works Acceleration Act would, in effect, be reenacted in Appalachia.

The initial measure for Appalachia failed to win congressional support, but it was amended and resubmitted to the Senate in January and to the House in February 1965.⁷³ Although the views of the opposition remained the same, the bill, authorizing \$1.1 billion in aid to the twelve-state region, passed in March 1965 (PL 89-4).⁷⁴ Thus was born the Appalachian Regional Commission, a federal program that stressed the regional approach to economic development with infrastructure construction as the basis of economic growth.⁷⁵

CREATION OF THE ECONOMIC DEVELOPMENT ADMINISTRATION

Passage of the Public Works and Economic Development Act of 1965, EDA's enabling legislation, followed soon after the adoption of the Appalachian Regional Development Act. This section describes the legislative debate leading up to passage of PWEDA. We then summarize the key features of the legislation, outline the major differences between EDA and ARA, and identify the primary and secondary objectives of the EDA mandate.

The debate over ARC made it clear that similar programs were desirable for other regions of the country. Also on the congressional agenda was the matter of ARA, which was set to expire in a few months. Passage of the Appalachian Regional Development Act was therefore followed by a message from the president on March 25th regarding

⁷³ U.S. Congress, House and Senate Reports to accompany S. 3, *Appalachian Regional Development Act of 1965*, 89th Cong., 1st sess.

⁷⁴ For a summary of the debate and amendments to the Appalachian Regional Development Act of 1965, see the *Congressional Quarterly Weekly Reports* (Washington, D. C.: CQ Inc.) no. 7, week ending Feb 12, 1965, 243–244, and no. 10, week ending March 5, 1965, 327–328.

⁷⁵ For an empirical assessment of ARC's planning approach, see Andrew Isserman and Terrance Rephann, "The Economic Effects of the Appalachian Regional Commission: An Empirical Assessment of 26 Years of Regional Development Planning," *Journal of the American Planning Association* 61 (Summer 1995): 345–364.

implementation of the Area Redevelopment Act.⁷⁶ The president had vowed in his 1965 Economic Report to extend and strengthen the Area Redevelopment Act to further assist communities.⁷⁷ The key feature of the new plan outlined by the president was the grouping of distressed counties and communities into economically viable development districts, focusing planning and assistance on the area as a whole as well as on individual counties and towns.⁷⁸

The details of the proposal were laid out in a bill submitted to the House on March 31, the Public Works and Economic Development Act of 1965.⁷⁹ The accompanying transmittal letter from the president declared the plan, in essence, a public works bill that combined the best features of the Accelerated Public Works and the Area Redevelopment programs. The president stated that the bill “rests on the assumption that there is little hope of establishing new industry in an area which does not have the public works and development facilities necessary to support industrial growth.”⁸⁰

According to the president’s proposal, PWEDA would establish a permanent program providing grants for public works and development facilities, other financial assistance, and the planning and coordination needed to alleviate conditions of substantial and persistent unemployment and underemployment in economically depressed areas and regions. In summary, the bill provided the following:⁸¹

- \$510 million in annual spending after a few years (the 1965 budget was estimated at \$40 million and the 1966 budget at \$400 million);
- the majority of funding for construction grants for public works projects designed to attract industry;
- loans mainly for construction of industrial plants;
- government guarantee of working-capital loans and help paying interest on certain loans for private firms;
- special assistance to encourage planning and coordination on the area and regional level; and
- creation of an Economic Development Administration in the Department of Commerce, to absorb the functions of the Area Redevelopment Administration.

⁷⁶ U.S. Congress, House, *Area Redevelopment Act, Message from the President of the United States*, 89th Cong., 1st sess.

⁷⁷ *The Economic Report of the President, 1965*. (Washington, D.C.: Government Printing Office, 1965), 18–19.

⁷⁸ U.S. Congress, House, *Area Redevelopment Act, Message from the President of the United States*, 89th Cong., 1st sess., 4. Additional details of the plan are found in this document as well.

⁷⁹ U.S. Congress, House, *Providing Grants to Alleviate Conditions in Economically Distressed Areas, Communication from the President of the United States*, 89th Cong., 1st sess. Senator Douglas introduced the bill (S. 1648) in the Senate on April 1, 1965, following its introduction in the House on March 31 by Congressman Fallon (H.R. 6991).

⁸⁰ Senate Committee on Public Works, *Compilation of Public Works and Economic Development Documents* (Washington, D.C.: Government Printing Office, 1965), 9.

⁸¹ *Congressional Quarterly Weekly Report* (Washington, D.C.: CQ Inc, 1965) Rept. No. 14, week ending April 2, 582.

Senate action surrounding PWEDA took place in public hearings on the general bill in April and May, and in hearings on Titles II and IV held May 4 to 7 before the Committee on Banking and Currency. The bill met with favorable recommendation following amendments increasing the amount of funds authorized for public works and development facility grants (from \$250 million to \$400 million, annually), limiting Title I to five years, and major revisions to Title V establishing multistate economic development regional commissions similar to ARC.⁸²

Senate debate commenced on May 26, 1965 and the bill was adopted with one additional amendment (the five-year limitation of Titles II and III) on June 1.⁸³ House hearings on the bill were also held in May, and hearings on the Senate-passed bill were considered in executive session in early June. Numerous amendments were offered during both the floor and executive sessions.⁸⁴ The principal amendment accepted, offered by California Congresswoman Bernice Sisk, increased the annual authorization for public works and development facility grants from \$400 million to \$500 million, limited the program to four rather than five years, and increased the number of areas eligible for such grants. Full debate in the House commenced on August 11 and recommittal of the bill took place on August 12, prior to the final vote. The Senate passed the House-approved bill without debate on August 16, and PWEDA (PL 89-136) was finally signed into law by President Lyndon Johnson on August 26, 1965.⁸⁵

EDA's mandate, established through PWEDA, was similar to that of ARA. Like ARA, EDA was to be housed in the Department of Commerce. It was conceived of as a depressed-area agency with a rural focus; it had a supply-side orientation; it contained minor countercyclical provisions; and it increased the federal role in supplying infrastructure to lagging areas.⁸⁶

EDA differed from ARA in its focus on public-facilities and infrastructure development; ARA focused on subsidizing the localization of jobs. EDA also differed in its geographical orientation, which rejected the county as the only unit through which economic development could be attained. This approach was accompanied by legislation to establish or designate multicounty economic development districts (EDDs) that would allow for the pooling of resources and planning activities to address region-specific problems. Also included was legislation designating growth centers within the development districts. The belief was that a concerted effort to stimulate economic

⁸² U.S. Congress, *Public Works and Economic Development Act of 1965*, 89th Cong., 1st sess., May 14, 1965, S. Rept. 193.

⁸³ A summary of Senate action is found in "Legislative History of the Public Works and Economic Development Act of 1965," House Committee on Public Works, *Highlights of the Public Works and Economic Development Act of 1965, PL 89-136*, 89th Cong., 1st sess., 1965, 21.

⁸⁴ *Ibid.* House action is summarized on pages 21 to 22. A summary of amendments accepted and rejected is given in the *Congressional Quarterly Weekly Report*, no. 34, week ending August 20, 1965 (Washington, D.C.: CQ Inc., 1965), 1635.

⁸⁵ Minority and supplemental views on PL 89-136 can be found in U.S. Congress, *Report, Public Works and Economic Development Act of 1965*, 89th Cong., 1st sess., 1965, S. Rept. 193 and H. Rept. 539.

⁸⁶ Curtis H. Martin and Robert A. Leone, *Local Economic Development* (Lexington, MA: Lexington Books, 1977), 45.

activity in the centers would result in growth and prosperity in nearby depressed areas through the effects of worker commuting or migration. Further, EDA legislation allowed for the creation of five multistate regional commissions (New England, Coastal Plains, Ozarks, Upper Great Lakes, and Four Corners), which were similar in structure to ARC but which provided policymakers with greater flexibility in determining program direction. It was expected that this would lead to increased efficiency in local, regional, and state programs by enabling them to prepare and implement meaningful plans for confronting diverse economic problems.

EDA's primary objectives, as established under PWEDA, were as follows:⁸⁷

- *Self-sustained economic development.* EDA was to stimulate self-sustained growth rather than instituting long-term income transfers to the unemployed. This followed from the belief that the agency could correct the negative effects of market forces and that place prosperity is a desirable political and economic goal.
- *Increased planning capacity.* EDA's goal was to promote sound, long-range economic planning at all levels of government. Under PWEDA, this required the creation of regional commissions, development districts, planning grants, and technical assistance, as well as community-designed overall economic development programs.
- *Rural focus of aid.* Although not explicitly stated, the political interpretation of urban ills contained in the act was that they were largely a consequence of the deterioration of rural life and the resultant rural-to-urban migration.⁸⁸ A major objective of EDA, therefore, was to curtail rural out-migration.

EDA's secondary objectives included:

- maximizing national economic efficiency;
- achieving regional equity through economic growth;
- distributing assistance geographically by allocating no more than 15 percent of total EDA expenditures per state;
- preventing economic decline;
- developing and using a wide range of economic development tools including public works, business loans, technical assistance, and job training;
- developing institutional tools for regional planning.

⁸⁷ *Ibid.*, 45–55. EDA's primary and secondary objectives are listed in this source in considerable detail.

⁸⁸ At the signing of PWEDA, President Johnson stated that if we ignore people in distressed rural areas, "we make certain that thousands upon thousands of families will be compelled to move away and go into the great cities. And when they get there, they are going to be concentrated in slums, they are going to live on the edge of poverty..." *Remarks at the Signing of the Public Works and Economic Development Act, Public Papers of the President, Lyndon B. Johnson, 1965, Book II* (Washington, D.C.: Government Printing Office, 1966), 931.

THE EVOLUTION OF EDA'S POLICY MANDATE

No sooner had EDA been established than its policy mandate began to change as each presidential administration attempted to impose its economic ideology and vision onto the agency. This section traces the administration positions and legislative debates surrounding the EDA mandate from 1965 through the most recent congressional reauthorization of the agency in 1998.

President Johnson's commitment to depressed-area policy continued following the establishment of EDA in 1965. He pledged continued support for EDA in 1966, saying, "our efforts under the 1965 Public Works and Economic Development Act will be stepped up."⁸⁹ Less than a year later, he recommended extending the Appalachian Regional Development Act of 1965.⁹⁰ At the same time, he stated his intention to merge the Departments of Commerce and Labor so that federal activities relating to regional economic development and depressed areas could be coordinated through the new department. "This Department would then have the basic responsibility for the Federal Government's efforts in all of the regional commissions that have been or soon will be established, including the Appalachian Regional Commission," Johnson claimed.⁹¹

In the 1968 *Economic Report of the President*, Johnson and his Council of Economic Advisors reiterated a concern for the pressing economic and social problems concentrated in certain communities of the nation.⁹² The report highlighted the Model Cities program, an attempt to redevelop the nation's most blighted urban areas.⁹³ Commitment to the Model Cities program included \$1 billion for fiscal year 1969. Continued support for nonurban communities was provided through EDA and the Rural Community Development Service in the Department of Agriculture. The language of the report, however, signaled the movement of policy and legislation toward urban areas.

The same period saw declining interest in the activities of PWEDA's Title V regional commissions. This was particularly a response to the recognition that the commissions had little leverage or influence on the effectiveness of programs. Unlike the earlier and much larger Appalachian Regional Commission, the Title V commissions were too small, with congressional delegations too limited, to have much influence on development efforts. In addition, the commissions neglected to coordinate effectively to reinforce each other's efforts. A 1968 executive order shifted responsibility for the commissions from EDA directly to the secretary of commerce, although the reorganization did little to change the capacity of the commissions. Their funding was the

⁸⁹ *Annual Message to the Congress: The Manpower Report of the President*, in *Public Papers of the President, Lyndon B. Johnson, 1966*, Book I (Washington, D.C.: Government Printing Office, 1967), 111.

⁹⁰ U.S. Congress, House, *Appalachian Regional Development Act, 1965, Communication from the President of the United States*, 90th Cong., 1st sess.

⁹¹ *Ibid.*, 2.

⁹² *The Economic Report of the President, with Annual Report of the Council of Economic Advisors* (Washington, D.C.: Government Printing Office, 1968).

⁹³ *Ibid.*, 161–162.

responsibility of the assistant secretary for economic development, as it had been in the past, and their ability to obtain the cooperation of governors and other actors remained limited. The commissions nonetheless continued to expand activities and worked closely with EDA in the structuring and funding of projects, assisted by grant money from EDA's Office of Public Works.

Beginning in 1969, the Council of Economic Advisors directed significant attention to the special problem of pockets of poverty, outlining the differences between urban and rural poverty and strategies for their reduction.⁹⁴ Under rural strategies, the council asserted that economic development programs are more effective if some growth has already taken place and, therefore, that "assistance should be oriented toward more densely settled 'growth centers,' such as smaller growing cities or small metropolitan areas." In addition, "Federal agencies should give explicit consideration to the development effects of Federal [military] installations."⁹⁵

Legislation adopted in 1969 included amendments to the Appalachian Regional Development Act (H.R. 4018), authorizing funds to carry out the purposes of the Appalachian Regional Development Act of 1965, and amendments to Titles I, III, IV, and V of PWEDA.⁹⁶ In addition, Title IV of the Economic Development Act was amended to permit designation of Office of Economic Opportunity (OEO) Special Impact Areas as EDA redevelopment areas, to make them eligible for business-loan assistance.⁹⁷ These areas consisted of concentrations of urban poverty, for example, South Central Los Angeles, the Lower East Side of New York, and inner-city areas of Chicago and Kansas City. Finally, EDA public works grants were based on rates generated for rural areas, which related project costs to area-specific statistics such as unemployment and out-migration rates, thus making OEO areas ineligible. The new policy stipulated that public works grants (excluding those for revenue-generating projects) would be 80 percent of total project costs.⁹⁸ This revised definition permitted EDA to assist communities or neighborhoods that the secretary determined had a large concentration of low-income persons and a specified need, whether rural or urban. The amendment thus permitted EDA to enter core city areas and, for the first time, granted EDA permission to assist these areas with aid other than technical assistance. The former OEO areas were incorporated into EDA's Demonstration Program, which sought to create jobs, increase incomes, and stimulate minority entrepreneurship. In addition, it allowed for assistance to rural areas experiencing substantial out-migration, unemployment, or an actual or

⁹⁴ *The Economic Report of the President, with Annual Report of the Council of Economic Advisors* (Washington, D.C.: Government Printing Office, 1969), 172–179.

⁹⁵ *Ibid.*, 178.

⁹⁶ U.S. Congress, House and Senate, *Reports, Appalachian Regional Development Act Amendments*, 91st Cong., H. Rept. 336 and S. Rept. 291. Debate on the amendments is available in the *Congressional Record*, 115, 1969, (July 8 and 15, November 5 and 19).

⁹⁷ Discussion of this change is found in U.S. Department of Commerce, Economic Development Administration, *The EDA Experience in the Evolution of Policy: A Brief History, September 1965-June 1973* (Washington, D.C.: Government Printing Office, 1974), 51.

⁹⁸ R. Milkman, C. Bladen, B. Lyford, and H. Walton, *Alleviating Economic Distress: Evaluating a Federal Effort* (Lexington, MA: Lexington Books, 1972), 60.

threatened abrupt rise in unemployment due to the closing or curtailment of a major employer.

The Nixon, Ford, and Carter Years

President Nixon's 1970 economic report carefully articulated the administration's perspective on the federal government's role in promoting national economic prosperity.⁹⁹ Discussing the rules under which the government should participate in the market, the president stated that "government involvement is not always the best answer—even when private activities are producing undesirable side effects or markets are not completely efficient."¹⁰⁰ Nixon set out the basic principles guiding the management of economic policy in his administration, which presented a staunchly noninterventionist free-market approach.¹⁰¹

Nixon began to realize those ideals in the same month (February 1970), when amendments to PWEDA were submitted to Congress to extend authorization for Titles I through IV through fiscal year 1971.¹⁰² Among the issues debated were the amount of funding for planning, business loans, technical assistance, and research and management consultation projects;¹⁰³ authorization for EDA to provide staff support, technical advice, and financial assistance to communities affected by major disasters;¹⁰⁴ extension of EDA's role in urban and distressed areas; and problems with administering EDA loans. Although the amendments passed in both the House and Senate in June, the administration recommended an extension of the program for only one year, pending submission of further proposals to determine the future of EDA.¹⁰⁵

The 1971 EDA Extension Act proposed increasing EDA's authority through the Public Works Impact Program (PWIP). The act required that EDA spend at least 25 percent of its public works budget on PWIP projects, which were designed to boost short-term countercyclical employment. President Nixon vetoed the bill, contending that the approach did not meet the goal of job creation.¹⁰⁶ Hearings were subsequently held before the Special Subcommittee on Economic Development Programs on a series of related bills to extend PWEDA, the Public Works Acceleration Act, and the Appalachian Regional Development Act as a measure to reduce unemployment. Recommendations

⁹⁹ *Economic Report of the President*, February (Washington, D.C.: Government Printing Office, 1970).

¹⁰⁰ *Ibid.*, 8.

¹⁰¹ *Ibid.*, 10–11.

¹⁰² Senate Subcommittee on Economic Development, *Hearings, Amending the Public Works and Economic Development Act of 1965* (S. 3744), 91st Cong., 1st sess., 1974.

¹⁰³ U.S. Congress, *Department of State, Justice, and Commerce, the Judiciary, and Related Agencies Appropriations for 1971*, H.R. 18116, 56–301.

¹⁰⁴ Richard Nixon, *Special Message to the Congress on Federal Disaster Assistance, April 27, 1970*, in *Public Papers of the President* (Washington, D.C.: Government Printing Office, 1971), 381.

¹⁰⁵ *Congressional Quarterly Weekly Report*, vol. 28, no. 21, week ending May 27, 1970, 1338; and no. 24, week ending June 12, 1970, 1523 (Washington, D.C.: CQ Inc.).

¹⁰⁶ Richard Nixon, *Veto of the Accelerated Public Works Bill, June 29, 1971*, in *Public Papers of the President* (Washington, D.C.: Government Printing Office, 1973), 785–786. Deficiencies of the bill are discussed on pages 786–787.

were submitted in the House on March 29, 1971, for passage of amendments under H.R. 5376 and authorization of appropriations for public works employment through both federal and local government projects; long-range planning and programming for economic development; and extending the highway and non-highway programs of the Appalachian Regional Development Program. The bills, however, failed to win congressional approval.¹⁰⁷

The Senate recommended passage of S. 2317 in June 1971 to amend PWEDA and the Appalachian Regional Development Act to provide special assistance to areas suffering from severe unemployment.¹⁰⁸ The president signed the bill in early August, extending EDA for two years and ARC for four years.¹⁰⁹ The 1971 act stipulated that in no event should “designation of an area be terminated prior to the expiration of the third year after such area was so designated.”¹¹⁰ This was designed to help communities undertake planning efforts without fear that their funding would suddenly be cut off. Program eligibility was extended under the amendments to those areas where per capita employment (a measure similar to the labor force participation rate) had significantly declined during the immediately preceding ten-year period for which statistics were available. The 1971 amendments also permitted designation of areas in which median family income was 50 percent or less than the national average. This was expected to cover areas that had previously qualified on the basis of significant population loss and, therefore, the population-loss criterion was discontinued.

In 1972, proposed revisions to PWEDA included program extension, funding, natural and economic disaster and emergency assistance, and extended political subdivision coverage.¹¹¹ Amendments recommending the extension of PWEDA through fiscal year 1974 were submitted in August. The amendments also proposed authorizations through 1973 for existing and additional programs related to the establishment of a Public Works Impact Program to provide immediate work to the unemployed and underemployed in areas of high unemployment; financial assistance for business development within redevelopment areas; and unemployment compensation and other assistance to individuals who experienced employment loss because of federal actions to improve the environment.¹¹² Additional PWEDA amendments (H.R. 16071 and S. 3381) submitted in October sought to extend PWEDA through fiscal year 1974; authorize additional funds for regional commissions for implementation of development plans; separate short-term emergency assistance and funding from long-term development programs; continue a moratorium on designation of economic development districts; and

¹⁰⁷ U.S. Congress, House, *Miscellaneous Reports on Public Bills*, 92nd Cong., 1st sess., vol. 1-1, H. Rept. 1-202. Minority and supplemental views are on pages 96 to 103.

¹⁰⁸ Senate Committee on Public Works, 92nd Cong., July 20, 1971, S. Rept. 92-273.

¹⁰⁹ *Statement on Signing Bill Extending Special Assistance to Depressed Rural Areas, August 5, 1971*, in *Public Papers of the President* (Washington, D.C.: Government Printing Office, 1973).

¹¹⁰ U.S. Congress, House, *Public Works and Appalachian Regional Development Program Extension*, PL 92-65, (August 5, 1971).

¹¹¹ House Committee on Public Works and Transportation, *Hearings, Extensions and Revisions to the Public Works and Economic Development Act of 1965, As Amended*, 92nd Cong., 2d sess., H. 64121.

¹¹² House Committee on Public Works and Transportation, 92nd Cong., 2d sess., August 7, 1972, H. Rept. 92-1311. Additional, supplemental, and dissenting views can be found on pages 51 to 56.

create a new Indian Development Commission to plan and coordinate federal development assistance to Indian reservations.¹¹³ The 1972 amendments, if enacted, would broaden the scope of federal responsibility to offset the cost to depressed areas of compliance with federal environmental regulations. Under Title VII of the proposed amendment, the secretary of commerce would be authorized to provide temporary assistance in the form of mortgage or rental payments; reemployment assistance payment to cover individuals' moving expenses; and loans for the acquisition, construction, or alteration of pollution-control facilities.¹¹⁴

President Nixon vetoed both the August and the October proposals. In a memo of disapproval, the president stated that while both bills were unwarranted, the October bill in particular would add vast new authorization for federal programs that were ineffective at creating jobs or stimulating timely economic development. Nixon also opposed the bill on the grounds that it would stimulate increased bureaucracy in the regional commissions by using them as a funding tool rather than as a planning and coordinating unit of government; and it would provide assistance to workers and firms affected by federal environmental actions, which would be inequitable and difficult to administer.¹¹⁵

Hearings in February 1973 addressed the extension of PWEDA and the regional commissions for an additional year.¹¹⁶ Testimony was heard in opposition to H.R. 2246, reflecting the administration's plans to terminate programs under PWEDA. This included explanation of the administration's budget plans for fiscal year 1974 economic and rural development projects.¹¹⁷ In addition, the 1973 EDA Extension Act demonstrated increased congressional concern over anticipated defense-related economic dislocations. Section 7 required the President's Interim Economic Adjustment Committee to prepare a report on the community economic impact of proposed defense facility realignments and to submit recommendations for appropriate adjustment measures.¹¹⁸ Together with the 1972 proposals, the 1973 act also acknowledged the cost to depressed areas of compliance with federal environmental regulations. These amendments focused on correcting or ameliorating the negative consequences of federal policy and programs originating in other areas.

President Nixon signed H.R. 2246 but with reluctance. He stated, "I am convinced that this program has done little to help the poor, and it clearly overlaps other Federal programs." He further proposed that "a major overhaul of our economic development

¹¹³ Senate Committee on Public Works, 92nd Cong., 2d sess., October 6, 1972, S. Rept. 92-1277. Supplemental views are reported on pages 9 to 14.

¹¹⁴ House Committee on Public Works, August 7, 1972, H. Rept. 92-1311, 47–50.

¹¹⁵ Richard Nixon, *Memorandum of Disapproval of Nine Bills, October 27, 1972*, in *Public Papers of the President* (Washington, D.C.: Government Printing Office, 1974).

¹¹⁶ House Committee on Public Works and Transportation, (H.R. 2246), 93rd Cong., 1st sess., February 27–28, 1973.

¹¹⁷ *Ibid.*, 10–49.

¹¹⁸ PL 93-46, June 18, 1973.

effort” was needed.¹¹⁹ In fact, Nixon’s budget message had proposed the phaseout of EDA by June 30, 1973. He stood firm in his belief that support for regional commission activities should be shifted from the federal government to state governments. However, he was “willing to continue a limited amount of federal funding of their projects during the one-year of transition.”¹²⁰

Further hearings were held in April and June 1974 on two bills regarding the continuation of PWEDA.¹²¹ S. 3041 would extend the act for one year and amend it to establish an economic adjustment program. S. 3641 proposed to amend and extend PWEDA authorizations for three years. A Senate recommendation for passage of S. 3641 was approved on August 1. The bill proposed to extend PWEDA to June 30, 1977. It would also increase funding for EDA; broaden eligibility criteria; increase the flexibility of EDA business and industrial development programs; and authorize grants for economic development planning (federal and state), Indian assistance, and areas suffering from economic dislocation.¹²² The PWEDA extension was signed into law by President Ford in September 1974.¹²³

The most significant change stemming from adoption of the 1974 amendments was the addition of Title IX, increasing the variety and quality of EDA assistance to certain urban areas. For example, Title I originally provided aid to areas experiencing substantial unemployment for six of the last twelve months, but aid was limited to public works funds. Under the new act, these areas were eligible for the full range of EDA assistance. Title IX of the 1974 act, the Special Economic Development and Adjustment Program, provided expanded economic adjustment and development assistance to areas within cities. The act also sought to reduce hardships to individuals in affected areas by, for the first time, permitting the use of EDA funds to pay up to a year’s unemployment compensation to workers whose job loss was due to structural economic change.¹²⁴ The 1974 Extension Act made public works and loan assistance available to parts of economic development districts outside the redevelopment area, when such assistance would be of substantial benefit to the redevelopment area within the district. This growth-center concept made it possible to rationalize assistance to cities that did not qualify as redevelopment areas based on income or employment statistics.

The Public Works Impact Program was retained in the 1974 act. The amendments stressed the need for EDA to provide increased assistance and funding to communities

¹¹⁹ Richard Nixon, *Statement about Signing Three Bills Providing Health Care, Economic Development in Rural Areas, and Airport Construction, June 19, 1973*, in *Public Papers of the President* (Washington, D.C.: Government Printing Office, 1975), 600.

¹²⁰ *Ibid.*, 601.

¹²¹ Senate Subcommittee on Economic Development of the Committee on Public Works, *Hearings, Extension of the Public Works and Economic Development Act of 1965*, 93rd Cong., 2d sess., 25–42.

¹²² Senate Committee on Public Works, *Public Works and Economic Development Act Amendments of 1974*, 93rd Cong., 2d sess., August 1, 1974, S. Rept. 93-1055.

¹²³ Gerald Ford, *Statement on Signing Legislation Extending the PWEDA, September 27, 1974*, in *Public Papers of the President* (Washington, D.C.: Government Printing Office, 1975), 204-205.

¹²⁴ *Congressional Record*, 93rd Cong., 2d sess., June 26, 1974, 120, pt. 16, PL 57–83.

experiencing both long- and short-term unemployment.¹²⁵ In addition, EDA was authorized to provide working-capital loans to businesses that experienced or were likely to experience temporary but severe problems leading to actual or potential job loss.¹²⁶

For several years, beginning in the early 1970s, EDA acted on behalf of communities that had suffered distress due to natural disaster. While lacking the explicit authority to do so, the agency provided short-term jobs and expanded public works projects in disaster areas that coincided with EDA-designated areas. In 1974, the Disaster Relief Act amendments proposed enactment of a new Title VIII of PWEDA that would vest authority in the president to delegate disaster recovery authority to either the secretary of labor or the secretary of commerce.¹²⁷ A second amendment was proposed in 1974 to increase EDA's recovery role to include certain types of weather-related events in resort areas, (for example, a shortage of snowfall in winter recreation areas). Working-capital loans would be made available to places that suffered a loss of business.¹²⁸ Supporters of the reforms argued that areas already distressed before a disaster would be least able to incur the costs of rebuilding; they would be underinsured and would lack local sources of financial assistance. The impacts of a disaster would therefore be similar to those of long-term economic forces.

EDA's countercyclical activities were further expanded by the Special Emergency Jobs and Unemployment Assistance Act of 1974, which was designed to create public-service jobs as an antirecessionary measure. Title X, the Job Opportunities Program, established a fund to be administered by EDA to "provide emergency financial assistance to stimulate, maintain, or expand job creating activities in areas, both urban and rural, which are suffering from unusually high levels of unemployment."¹²⁹ President Ford, however, vetoed an extension of the act on June 4, 1975. Additional hearings were conducted to explore the agency's response to a congressional request for emergency employment projects using existing federal programs and personnel involving supplemental funds for quickly implemented, labor-intensive programs. Witnesses offered testimony on EDA's implementation of the new job opportunities program authorized in 1974 by the addition of Title X of PWEDA, along with survey results listing possible federal projects fundable under Title X.¹³⁰

The language of amendments proposed in 1975 continued to expand EDA's countercyclical role. A Bill to Increase the Antirecessionary Effectiveness of the Program (S. 1587) was described in Senate debate as an "initiative to lick the recession" and as "a public works program to cope with the massive depression in the construction

¹²⁵ House Committee on Public Works, *Report*, June 7, 1974, H. Rept. 93-1094, 3.

¹²⁶ *Ibid.*, 4.

¹²⁷ House Committee on Public Works and Transportation, *Economic Development Programs Under Jurisdiction of the Committee on Public Works*, Committee Serial no. 93-50, December 1974, 17–80.

¹²⁸ U.S. Congress, 93rd Cong., H. Rept. 93-1094, 5.

¹²⁹ *United States Code*, 1970 ed., Supplement IV, vol. 3, Title 42, ch. 38 (Washington, D.C.: Government Printing Office, 1975), 3209.

¹³⁰ House Committee on Appropriations, *Emergency Employment Appropriations for 1975*, H.R. 1817, 94th Cong., 1st sess., February 26–27, 1975, 230–327,

industry.”¹³¹ Another bill, the Local Public Works Capital Development and Investment Act (S. 3201), provided grants to help local jurisdictions develop facilities that would improve the area’s economic development climate. The massive \$6 billion counter-cyclical effort sought to provide the physical improvements necessary for communities to attract new businesses and capital investments. The bill was initially vetoed by President Ford, but Congress overrode the veto (PL 94-369).

Additional amendments that broadened EDA programs were passed by Congress and signed by President Ford in October 1976. The minimum population requirement for designation of redevelopment areas was adjusted downward from 250,000 to 25,000. The new provision allowed communities within this population range to become eligible for EDA aid for the first time, provided they met economic distress criteria. The Carter administration also sought to expand EDA’s lending power to urban areas. Carter continued the Local Public Works Program through 1977 as part of that effort, but the program was discontinued thereafter.

Throughout the late 1970s, several other amendments were proposed but never signed. H.R. 9398, for example, sought to amend PWEDA in 1976 and to extend it for three years, through fiscal year 1979. The bill sought to extend public-facility grants and loans and technical assistance research and planning, including grants to states, Indian tribes, and urban areas; to provide additional funding for Regional Action Planning Commission programs; and to authorize the president to convene a White House Conference on Balanced National Growth and Economic Development.¹³² The Labor Intensive Public Works Act, proposed in 1978 but also not signed into law, sought to promote the hiring of the long-term unemployed on public-facilities improvement projects.¹³³ It would have targeted aid to states, localities, and Indian communities with high unemployment rates; set aside project grants for minority business contractors and Indian communities; and required payment of prevailing wages to workers on EDA-funded projects.

These attempts were followed in 1979 by two efforts, neither one successful, to pass the National Public Works and Economic Development Act (NPWEDA) and the Regional Development Act. NPWEDA, proposed by President Carter, would have replaced PWEDA with a new and expanded economic development financing program.¹³⁴ The bill proposed the use of public works grants to mitigate long-term economic deterioration and the modification of public works impact programs to provide jobs for the unemployed and underemployed in labor-intensive construction or renovation projects. NPWEDA would have authorized grants for the design, construction, and

¹³¹ U.S. Congress, Senate, *Congressional Record*, 94th Cong., 1st sess., April 29, 1975, 6949.

¹³² U.S. Congress, House, *Public Works and Economic Development Act Amendments of 1976*, 94th Cong., 2d sess.

¹³³ U.S. Congress, Senate, *Labor Intensive Public Works Act of 1978*, (S. 32146), Hearings, , 95th Cong., 2d sess., June 15 and July 12–13, 1978.

¹³⁴ Jimmy Carter, *Public Works and Economic Development: Message to the Congress Transmitting Proposed Legislation, April 4, 1979*, in *Public Papers of the President, 1979*, Book I (Washington, D.C.: Government Printing Office, 1980); Senate Committee on Banking, Housing, and Urban Affairs, *National Public Works and Economic Development Act of 1979*, (S. 914), Hearings, 96th Cong., 1st sess., April 10, 23, 30, and May 1, 1979.

rehabilitation of public facilities, and grants to the private sector for industrial and commercial purposes that would result in additional jobs. NPWEDA also offered direct and guaranteed loans and interest subsidies to those firms seeking to expand or locate in economically distressed areas. The Regional Development Act of 1979 proposed the extension of the Appalachian Regional Development Act through fiscal year 1983, the establishment of additional regional commissions, particularly one in Alaska, and establishment of an interagency committee to coordinate federal support of the regional commissions.¹³⁵

One of the final acts of the Carter administration was to sign legislation in December 1980 to extend PWEDA 1965, as amended, through fiscal year 1982.¹³⁶ This was the last reauthorization of PWEDA before 1998.

The Reagan Administration

Shortly after the inauguration, the Reagan administration proposed the termination of EDA by the end of 1982. Although bipartisan congressional support for EDA prevented its elimination, the administration severely reduced the agency's budget and terminated several programs. These included the Public Works Impact Program, the Trade Adjustment Assistance Program (transferred to the International Trade Administration), and the Business Loan program (terminated in 1986).

The Reagan administration offered a detailed rationale for its attempt to terminate EDA.¹³⁷ Reagan argued that although EDA's original purpose was to provide special financial assistance to those few economically distressed areas of the country that were by-passed by general prosperity, the program had evolved to the point where more than 80 percent of the nation qualified as distressed. Even when an area experienced economic recovery, it continued to be eligible for EDA funds. In contrast, Reagan asserted that economic expansion and job creation would be stimulated through his overall economic recovery program based on tax, spending, and regulatory reduction.

Reagan also claimed that there was little evidence that EDA expenditures in distressed areas had induced development that would not have occurred without this investment. In addition, there was no evidence that the programs being terminated had created net new jobs nationwide. Rather, such programs primarily appeared to encourage growth in some areas at the expense of others. Similarly, Reagan held that the government should not create new jobs in the economy by moving productive resources from the private sector to the public sector. Finally, the programs being terminated tended to lock people and resources into firms and areas that had lost their economic viability.

¹³⁵ Senate Committee on the Environment and Public Works, *Regional Development Act of 1979*, S. 835, S. Rept. 96-171.

¹³⁶ U.S. Congress, House and Senate, *Hearings, Public Works and Economic Development Act of 1965, Amendment, Appalachian Regional Development Act of 1965, Amendment*, H. Rept 643-4 and S. Rept. 323-10, PL 96-506.

¹³⁷ *Major Themes and Additional Budget Details: Fiscal Year 1983* (Washington, D.C.: Government Printing Office, 1982), 95–96.

The nation pays for this subsidization of inefficiency, Reagan claimed, through direct budgetary costs and the hidden costs of decreased productivity and reduced economic growth.

These arguments bear a distinct similarity to the rationales expressed by the Eisenhower and Nixon administrations. Similar arguments were later repeated by the first Bush administration. Indeed, this debate has been waged throughout the history of federal regional economic development legislation. It reflects basic ideological and political differences on the role of government rather than substantive disagreements on the process of regional economic development. While the effectiveness of EDA investments in creating jobs and countering economic distress has been repeatedly documented (see chapter 4), fundamental philosophical differences concerning the federal role in distressed-area policy have buffeted the agency throughout its history.

Despite presidential opposition, another extension of PWEDA (H.R. 6100) was considered by Congress in 1982. Debate focused on development objectives, public- and private-sector roles in local economic development, and the importance of federal economic development assistance to state and local government.¹³⁸ Hearings on PWEDA continued in 1983 and 1985, but once again, the bills were not passed.¹³⁹ Similar bills continued to be debated in Congress for a decade and a half but all failed to gain sufficient support.

EDA REAUTHORIZATION, 1998

Finally, in 1998, H.R. 4275, A Bill to Reauthorize and Make Reforms to Programs Authorized by PWEDA 1965 and the Appalachian Regional Development Act of 1965 was given serious attention by the legislative and executive branches.¹⁴⁰ The bill amended PWEDA of 1965 and authorized fiscal year 1999 to 2003 appropriations for and revision of EDA programs. President Clinton signed the reauthorization bill into law on November 13, 1998, as the Economic Development Administration and Appalachian Regional Development Reform Act of 1998 (PL 105-393).

The 1998 reauthorization amended and standardized several EDA programs and procedures. A number of provisions in the 1998 act had already been in practice within the agency for several years. Major provisions of the 1998 act include the following:¹⁴¹

¹³⁸ *Ibid.*, 39–112.

¹³⁹ House Committee on Public Works and Transportation, *Public Works and Economic Development Act and the Appalachian Regional Development Act* (H.R. 10), 98th Cong., 1st sess.; House Committee on Public Works and Transportation, *Public Works and Economic Development Act and the Appalachian Regional Development Act*, 99th Cong., 1st sess.

¹⁴⁰ House Committee on Transportation and Infrastructure and Committee on Banking and Financial Services, 105th Cong., 2d sess., July 20, 1998.

¹⁴¹ B. Mulock, *Economic Development Administration: Overview and Issues*, Congressional Research Service Issue Brief for Congress, IB95100, April 14, 2000 (Washington, D.C.: Congressional Research Service).

- The eligibility criteria for recipients of EDA funding were changed. As explained in chapter 2, these changes extend grant eligibility to cities and counties with a per capita income of no more than 80 percent of the national average, an unemployment rate one percentage point or more above the national average (in the most recent 24-month period for which data are available), or special needs. The changes eliminate the requirement of location within a designated redevelopment area, thereby consolidating the eligibility criteria for public works and economic adjustment grants and eliminating the provision for grandfathered eligibility.
- A limit of 50 percent was set for EDA's share of most grants, although supplements may increase the agency's share to 80 percent. Exceptions include research grants and grants to Native American communities, which may waive the matching requirement. The nonfederal contribution may include either cash or in-kind contributions of space, equipment, and/or services.
- The requirement that approved projects be part of a locally designed economic development strategy was continued, but the Overall Economic Development Program (OEDP) was replaced by the similar Comprehensive Economic Development Strategy (CEDS). This provision of the act also allows a development plan prepared for another local, state, or federal agency to be used for EDA projects, if that plan is consistent with EDA requirements.
- Performance evaluations of University Centers and Economic Development Districts established with EDA funding are required every three years.
- Appropriations for defense conversion and disaster economic recovery were authorized, and the federal share of disaster recovery grants is allowed to be up to 100 percent.
- A central information clearinghouse was authorized within EDA on matters pertaining to economic development, economic adjustment (including disaster recovery, defense conversion, and trade adjustment assistance), and related activities of federal and state governments. The clearinghouse provides applicants for EDA funds, and other economic development practitioners, with advice on alleviating or preventing unemployment, identifying potential resources, and submitting applications for federal funding.

EDA's survival through annual appropriations during the Reagan-Bush years and its reauthorization in 1998 by a Republican-controlled Congress reflect the agency's substantial bipartisan support. This support is attributable in part to eligibility criteria that extended assistance, albeit in limited amounts, to a wide swathe of geographic areas (see chapter 2). It may also help explain the relative lack of support for the regional commissions and the preference for eligible-area designation. After fifteen years of uncertainty, the 1998 reauthorization stabilized EDA as a significant source of support

for regions affected by high unemployment, defense-spending cutbacks, military-base closures, and natural disasters.¹⁴²

CONCLUSIONS

A review of the history of area redevelopment policy in the United States indicates that there are precedents for many of the fundamental issues and key challenges facing EDA today. For example, the need for coordinated regional economic development planning, a cornerstone of EDA policy, was recognized as early as 1933 by the National Resources Planning Board. Similarly, the difficulty in establishing consistent criteria for public works project selection was recognized as a key challenge for the Public Works Administration. In addition, many of the more general and fundamental questions confronting EDA today have persisted throughout the history of regional development efforts, for example, clarifying the measurement of distress, choosing between prosperity of people and place, defining the federal role in regional and national economic planning, and balancing equity and efficiency.

An examination of EDA's legislative history reveals that although the agency's original goals remain, they have been altered and redefined in important ways. EDA's mandate has considerably expanded over time, even though its budget and personnel resources never rebounded from the drastic cuts imposed in the 1980s (see chapter 5). The agency now has a national rather than a regional focus. Targeted to predominantly rural concerns at its inception in 1965, EDA's responsibility evolved to focus on both rural and urban problems. EDA was originally established to combat the effects of long-term regional economic distress. Its mandate soon evolved to include the prevention of regional decline and to carry out countercyclical policy measures. By the 1990s, EDA had established a dual focus aimed at alleviating problems associated with both long-term structural change and short-term economic dislocation. Over time, the agency extended its original limited objectives by expanding ameliorative programs and gained responsibility for communities and regions that, in some cases, are questionably characterized as distressed. The objectives, design, and funding of EDA programs have been greatly affected by ideological differences within and between the political parties and their constituencies. Political disagreement in both the legislative and executive branches regarding EDA policy and programs has at times limited EDA's ability to meet its objectives.

The 1998 reauthorization suggests that, despite various legislative and political constraints, there continues to be widespread bipartisan recognition of the need for regional development policy and support for EDA's programs. The changes introduced in 1998, many of which were designed to streamline and coordinate programs, indicate an awareness of some of the problems that impeded agency functioning in the past and represent an important step toward improvement. The objectives, operation, and impacts of EDA's current programs are summarized in the following chapter.

¹⁴² *Congressional Quarterly Weekly Report* (Washington, D.C.: CQ Inc.), vol. 52, no. 19, week ending May 14, 1994, 1210.

4

EDA'S CURRENT PROGRAMS: CONTEXT, GOALS, OPERATION, AND IMPACTS

EDA pursues its objectives through a variety of programs. As noted in the previous chapter, some of those programs have been remarkably stable over time, reflecting the underlying strength of EDA's approach. The agency also has been adept at inaugurating new programs and modifying existing ones to meet changing economic and political needs over the past thirty-seven years.

This chapter provides an overview of EDA's principal current programs:

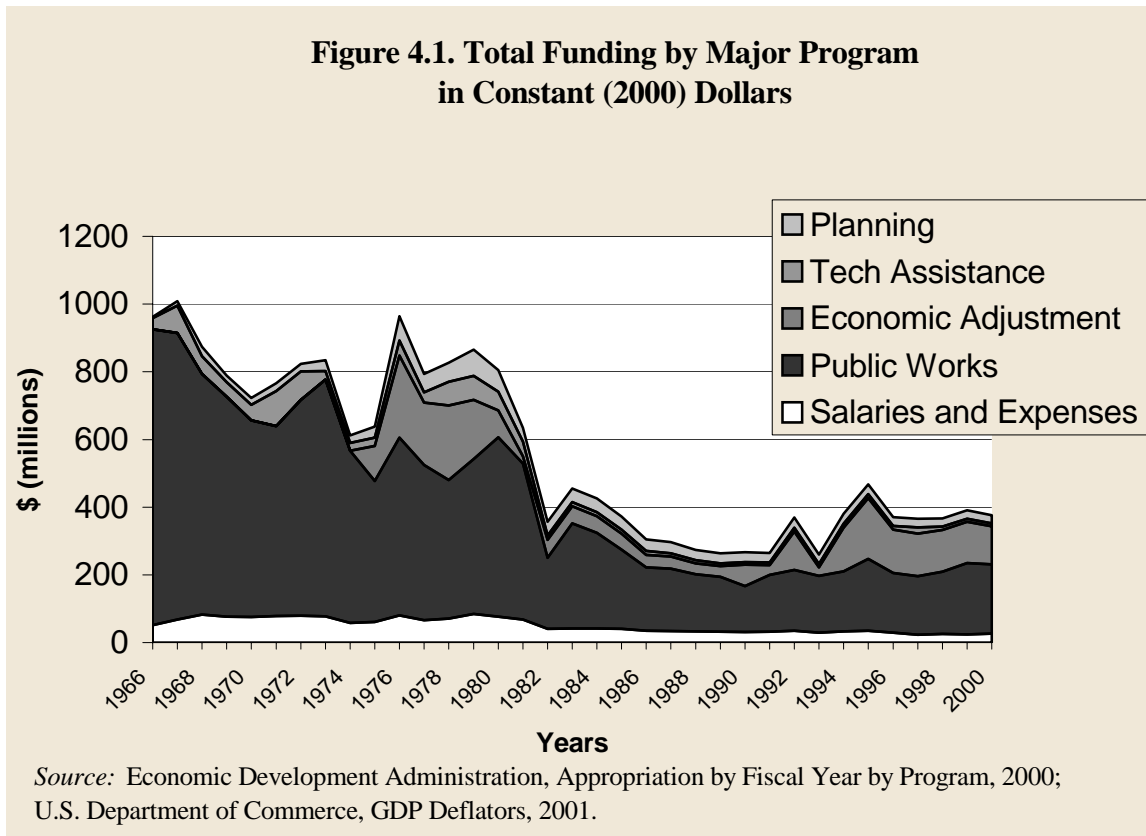
- Planning
- Local Technical Assistance
- National Technical Assistance
- University Centers
- Public Works
- Economic Adjustment Assistance (including Defense Economic Adjustment and Disaster Recovery)
- Trade Adjustment Assistance
- Research

The overview of each program identifies the program's objectives; outlines the economic and political context within which the program was established; describes the program's design and operation; examines its funding levels over time; and summarizes program impacts as reported in available evaluations and assessments.¹⁴³ By focusing on the

¹⁴³ When referring to funding levels for specific projects and program impacts, all dollar amounts in this chapter are expressed in current year (nominal) dollars unless otherwise noted. When comparing program funding levels over time, the dollar amounts are expressed in constant (year 2000) dollars, as noted in the text.

substantive questions of program design and operation, this chapter presents a comprehensive review of what the agency is doing to achieve its objectives.

Before looking in detail at each individual program, it is useful to consider the distribution of EDA funding across the different program areas. The relative distribution of EDA funding among programs has been fairly stable over time: Public Works consistently garnering the largest share, followed by the Economic Adjustment, Planning, Technical Assistance, Trade Adjustment, and Research programs (figure 4.1). The relative share of funding for salaries and expenses, in contrast, has declined steadily over the life of the agency. As discussed in chapter 5, the real appropriation for salaries and expenses today (adjusted for inflation) is less than half of what it was in 1966.



PLANNING PROGRAM FOR DISTRICTS, INDIAN TRIBES, STATES, SUBSTATE REGIONS, AND URBAN AREAS

The Planning program constitutes one of EDA's fundamental contributions to local communities and to the overall process of economic development. EDA's planning assistance helps local communities formulate comprehensive economic development programs and strategies. The premise is that comprehensive planning is an essential prerequisite guiding local economic development and ensuring the effectiveness of

development projects funded by the agency. As noted in a recent evaluation of the Public Works program, “EDA planning assistance is the building block for the ultimate implementation of a project.”¹⁴⁴

Program Objectives

EDA views economic development planning as a continuous process. Within this process, public officials and private citizens (1) analyze local economic conditions; (2) define economic development goals; (3) identify project opportunities; (4) formulate and implement a Comprehensive Economic Development Strategy (CEDS); and (5) evaluate progress toward the goals and objectives. The goal of planning—to design and implement “systematic efforts to reduce unemployment and increase incomes”—remains unchanged from the original PWEDA.¹⁴⁵

EDA offers two different types of planning grants. *Partnership Planning Grants* involve long-term commitments by the agency to assist continuous planning efforts of its recognized partners, including Economic Development Districts, Indian Tribes, and other organizations representing eligible economically distressed areas. Funding may support the preparation or updating of a CEDS; implementation of the CEDS or its components; and provision of planning and technical assistance to communities and local governments within the grantee’s jurisdiction. Grants are intended to enhance economic development planning capability, support the formulation of development policies, and assist in building local institutional planning capacity.¹⁴⁶ Funding is awarded for a one-year period, but recipients can normally expect continuing annual support, subject to funding availability and satisfactory performance.

Short-Term Planning Grants provide assistance to states, substate planning regions, and urban areas. The short-term grants support significant new economic development planning, policy-making, and implementation efforts, without the promise of a long-term funding commitment.¹⁴⁷ Grants are used for economic analysis, definition of economic development goals, identification of project opportunities, and the formulation and implementation of specific development projects. Like the Partnership Planning Grants, the short-term grants are awarded annually. However, recipients of short-term grants normally do not receive more than three annual awards.¹⁴⁸

¹⁴⁴ Rutgers University, Center for Urban Policy Research, *Public Works Program Performance Evaluation*, (New Brunswick, NJ: Center for Urban Policy Research, 1997), 14.

¹⁴⁵ This phrase from PWEDA (1965) is repeated in subsequent statutes: 1965 Act: 42 USC sec. 3151a(a); 1978 Act: sec. 203(b); 1998 Act: sec. 203(b).

¹⁴⁶ 13 CFR Ch. III, sec. 306.1.

¹⁴⁷ *Ibid.*

¹⁴⁸ *EDA Programs Guide*, 1999.

Following are examples of the assistance provided by EDA Planning grants:

- ◆ EDA awarded a \$51,000 annual planning grant to the Northwest New Mexico Council of Governments in Gallup, New Mexico, to develop and maintain a CEDS process. This support has permitted the organization to carry out a number of related activities such as implementing a Workforce Investment Program funded by the U.S. Department of Labor; coordinating a Regional Transportation Planning Study for the state under the U.S. Department of Transportation's TEA-21 program; establishing a microlending program for three Indian Pueblos and the Navajo Nation; and overseeing the Navajo-Gallup Water Supply Project.
- ◆ A grant assisted the Quechan Indian Tribe to formulate and implement economic development planning designed to initiate and monitor economic development projects; provide technical assistance to Tribal Councils and tribal enterprises; work with local officials in coordinating economic development activities; and develop a local economic development database.
- ◆ A \$72,000 grant helped the State of Iowa to analyze the state's needs for telecommunications to stimulate economic development in rural areas and to institutionalize telecommunications needs assessment and planning within the state.¹⁴⁹
- ◆ A grant of \$168,000 allowed Cook County, Illinois, to analyze development needs in the five poorest areas in the county, formulate development plans for each community, and coordinate development efforts among the five communities.¹⁵⁰

Historical Context and Trends

The planning program originated in PWEDA of 1965 and was built around the Overall Economic Development Program. EDA has made planning a prerequisite for project funding ever since. As President Johnson noted at the time, "It is not enough to simply finance projects. These projects must be part of a comprehensive plan to build a viable economy."¹⁵¹ The OEDP outlined a five-step planning process that analyzed local conditions, identified problems and opportunities, set goals, designed strategies, and evaluated accomplishments. According to the agency's guidelines, the OEDP was to "adopt a thoughtful and logical approach to long-range problems but also encourage early identification and implementation of short-range problem solutions."¹⁵²

¹⁴⁹ 1993 *Annual Report*.

¹⁵⁰ *Ibid.*

¹⁵¹ 1968 *Annual Report*, 198, quoting remarks by President Lyndon Johnson on March 25, 1965.

¹⁵² U.S. Department of Commerce, *Overall Economic Development Program: Guidelines for Economic Development Districts*, 1992, 1, quoted in Corporation for Enterprise Development, *Strategic Planning for Economic Development—Moving Beyond the Overall Economic Development Program*, 1999, 15.

In the late 1970s, EDA began to emphasize long-term, continuous, and comprehensive planning over short-term problem solving.¹⁵³ The agency recognized that “the increasing complexity of the national economy, the energy crisis, fiscal constraints, and a myriad of other problems have contributed to a growing awareness of the need for coordinated development at all levels of government.”¹⁵⁴

The principal recipients of EDA Partnership Planning Grants are Economic Development Districts and Indian Tribes. EDDs were established by EDA and a few states as substate regional (i.e., multicounty) economic planning districts. Twenty-four EDDs were funded by EDA in 1969. Today, 325 EDDs and 64 Indian Tribes receive Partnership Planning Grants. Together, the funded EDDs and Indian Tribes encompass more than two-thirds of the area and one-half of the population of the United States.¹⁵⁵ This growth in funding reflects increasing recognition, both within and outside the agency, of the efficacy of planning for local economic development.

EDDs have increasingly assumed responsibility as important intermediaries between multiple government agencies and local communities. According to a recent evaluation of EDA's planning process, EDDs have evolved from relatively narrow economic development organizations to regional organizations that conduct comprehensive planning and assist in the delivery of other federal and state programs, including programs for the aging, the census, emergency management planning, transportation planning, and work force development.¹⁵⁶ As early as the 1970s, most EDDs received more money from their state and local governments than from EDA.¹⁵⁷

Indian tribes have been eligible for assistance since passage of PWEDA in 1965. The Indian Economic Development Program (IEDP) was established as a separate unit within EDA in 1974, following the addition of section 404 to Title IV of PWEDA by amendment (PL 93-423). Between 1974 and 1981, Indian tribes were eligible to receive assistance from the \$25 million appropriated annually for the IEDP, as well as from any other EDA program funds. The IEDP and EDA's Office of Indian Affairs were terminated in 1981, however, as part of a major agency reduction-in-force. With the exception of the Planning Assistance program, no separate funding appropriation has been appropriated to EDA for the purpose of funding Indian economic development since fiscal year 1982. Nevertheless, over the course of its history, EDA has awarded more than \$760 million to Indian Tribes and Alaska Native Villages, to assist and empower their efforts to promote the economic development of Indian communities and reservations. In fiscal year 2000, EDA awarded slightly more than \$16 million in financial assistance to Indian Tribes and Alaska Native Villages for various types of

¹⁵³ Kansas Center for Community Economic Development, *Economic Development Districts: Policy Issues and Choices*, 1991, 12–13.

¹⁵⁴ 1979 Annual Report, 14.

¹⁵⁵ Luis Bueso, Director of Planning and Development Assistance, EDA, telephone interview, November 14, 2000.

¹⁵⁶ Testimony by the National Association of Development Organizations (NADO) before the House Appropriations Committee, Subcommittee on Commerce, Justice, State and Judiciary, August 18, 2000.

¹⁵⁷ Kansas Center for Community Economic Development, *Economic Development Districts*, 14.

projects, including planning, and more than \$25 million in investments were approved in fiscal year 2001.

During its first sixteen years, EDA facilitated the development of two state-of-the-art geographical information systems, primarily through the agency's Office of Planning and Program Support and Office of Economic Research. Between 1966 and 1975, EDA developed the Composite Mapping System (CMS), which was uniquely capable of overlaying as many as 120 differentially weighted maps. This analytical capability was used primarily to determine optimal locations for development facilities and activities. The CMS was disseminated to more than sixty domestic and foreign recipients. Most of the domestic recipients were state planning offices. Foreign recipients obtained the system through the United Nations. From 1978 to 1981, EDA was part of a twenty-two-agency project, headed by the Executive Office of the President and NASA, that developed the Domestic (later Decision) Information Display System (DIDS), a high-speed GIS that accessed large federal socioeconomic databases at fine geographical detail and used high-resolution color display and photographic output. Through its involvement in DIDS development committees and working groups, EDA was responsible for the addition of several advanced features to the system, including differentially weighted map compositing for locational planning and analysis.

Between 1971 and 1981, EDA also developed and operated the Industrial Location Service (ILS), within the Industry Studies Division of its Office of Planning and Program Support. The ILS was intended to supplement local planning efforts by assisting EDA-eligible areas in recognizing their assets and identifying industries that could operate profitably within their jurisdictions. The computerized service was developed because many of the areas eligible for EDA assistance were small towns and cities that were often overlooked by companies and professional plant-location firms seeking new plant sites. Using computer files containing data on the economic location requirements of about 250 five-digit SIC industries, profiles from more than 700 voluntarily participating communities (mostly EDA-designated growth centers) allowed the automated system to identify and rank target industries for local job-creation and job-retention efforts. Had the service been continued, EDA would have updated its industry files and further implemented a design feature that allowed the ILS to compare the requirements of an industry with the locational assets of the profile-submitting communities on file. Thus, a participating firm received a list of ranked communities meeting their needs.

Following passage of the 1998 reauthorization act, EDA adopted the CEDS as its principal planning tool. The CEDS is similar to the earlier OEDP but offers the following improvements: it provides uniform guidelines for grantees; establishes consistency of interpretation among EDA regional offices; accepts planning documents prepared for other purposes and agencies that meet CEDS requirements; and simplifies reporting requirements.¹⁵⁸

¹⁵⁸ EDA, *Comprehensive Economic Development Strategy (CEDS) Guidelines* (Washington, DC: Economic Development Administration) October 2000.

Funding Levels

The Planning Program has been funded continuously since fiscal year 1966. Cumulative funding for the program amounts to \$1.17 billion in constant (2000) dollars. Funding for Planning as a share of the total EDA budget has fluctuated over the decades (figure 4.1). Planning typically accounted for 2 percent to 3 percent of EDA's total budget during the early 1970s. Its share of the budget increased to 5 percent to 7 percent by the second half of the decade. The planning budget represented approximately 11 percent of total agency appropriations during the 1980s, but this resulted more from cuts in other programs than from increases in Planning. Funding for Planning as a share of the total EDA budget has leveled off at approximately 6 percent since fiscal year 1996.

Measured in constant dollar terms, funding for the Planning program fluctuated within the \$20 million to \$30 million range between fiscal years 1966 and 1975, and rose significantly in the late 1970s (figure 4.2). Real funding for EDA's Planning program was again cut severely after 1980, dropping to \$24 million by fiscal year 1999.¹⁵⁹

Of the funding available for the Planning program in 1999, 85 percent was allocated to EDDs and Indian Tribes through Partnership Planning Grants; 15 percent went to states, substate areas, and urban areas in the form of Short-Term Planning Grants. Of the \$20.4 million allotted to the EDDs and Indian Tribes, the EDDs received approximately \$17 million and the Indian Tribes received \$3 million.¹⁶⁰

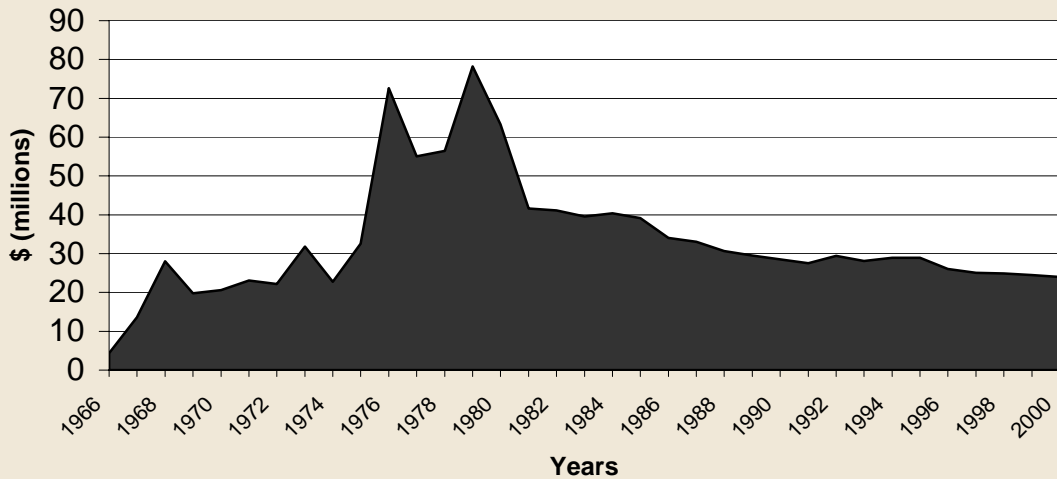
The nominal value of the average Partnership Planning Grant to EDDs is currently approximately \$54,000, the same amount as at the start of the program in 1966.¹⁶¹ Adjusted for inflation, however, the real value of a fiscal year 2000 planning grant amounts to about twenty cents on the dollar when compared to its 1966 purchasing power.¹⁶²

¹⁵⁹ EDA, *Appropriation by Fiscal Year and by Program (FY 1966–FY 2000)*. Constant-dollar calculations by authors using GDP Price Deflator Series, U.S. Department of Commerce, Bureau of Economic Analysis.

¹⁶⁰ Luis Bueso, Director of Planning and Development Assistance, EDA, telephone interview, November 14, 2000.

¹⁶¹ Planning grants to Indian Tribes averaged \$42,000 in fiscal year 1999 (*EDA Programs Guide, 1999*).

¹⁶² National Association of Development Organizations, NADO Statement on EDA Planning Grants for Economic Development Districts, statement submitted to the House Appropriations Subcommittee on Commerce, Justice, State and the Judiciary.

Figure 4.2. Funding for Planning Program in Constant (2000) Dollars

Source: Economic Development Administration, *Appropriation by Fiscal Year by Program*, 2000; U.S. Department of Commerce, *GDP Deflators*, 2001

Program Design

As noted above, EDDs receive most of the funds distributed through Partnership Planning Grants. Because EDA views planning as a continuous activity, funding priority is given to existing grantees. Although grantees must demonstrate satisfactory performance to receive continued funding, discontinuation of funding is rare.¹⁶³ As a result of EDA's limited resources, more than twenty EDDs that have been designated as eligible for the Partnership Planning program have never received funding. Funds remaining after the renewal of Partnership Grants are distributed through the Short-Term Grant program.

Applicants for Planning grants are not subject to the area eligibility requirements included in EDA's general eligibility criteria (i.e., high unemployment and low per capita income).¹⁶⁴ Criteria specific to continuation of funding under the Partnership Planning Grant program include the following: the quality of the proposed work program; management and staff capacity and qualifications of the applicant organization; the extent of broad-based representation in the applicant's economic development activities including, for example, involvement of the local civic, business, labor, minority, and other community interests; compliance with previous grant terms; and overall performance of the organization.

¹⁶³ 13 CFR Ch. III, sec. 306.2.

¹⁶⁴ EDA's area eligibility criteria apply to awards under the Public Works and Economic Adjustment programs.

EDA also has specific requirements for organizations that use their Planning grants for the development of a CEDS:¹⁶⁵

1. A strategy committee must be established that is representative of the main economic interests of the area covered by the planning process, including public officials, community leaders, private individuals, business leaders, labor groups, minorities, and others. The grantee organization must support the strategy committee with a staff skilled in economic planning or a related field.
2. The grantee must conduct an initial assessment and continuous analysis of the problems contributing to economic distress and the opportunities for economic development in the area.
3. The grantee must submit an initial strategy and annual strategy reports to EDA. The strategy must be updated every five years, or sooner if EDA or the grantee determines that the strategy is inadequate due to changes in local circumstances. States are given thirty days to review and comment on EDD strategies before approval by EDA.

Program Impacts: Evaluations of the Planning Assistance Program

As one of EDA's original programs, the Planning program has been repeatedly evaluated since the agency's inception. Some of these evaluations have produced important insights and, ultimately, have led to program improvements.

EDA conducted a pilot project in the late 1970s designed to support the agency's focus on building local capacity to perform continuous and long-term comprehensive economic development planning. The pilot project evaluation, conducted in 1980, recommended that individual project applications should contain a statement explaining the relevance of the proposed project to the OEDP strategy.¹⁶⁶ EDA subsequently adopted the recommendation.

In 1981, a program evaluation examined three types of planning grantees: states, EDDs, and urban areas. The evaluation concluded that grants to EDDs and small urban areas tended to have higher positive impacts than did grants to states or larger urban areas. The evaluators attributed this tendency to greater appreciation of the need for comprehensive planning in the smaller geographic areas.¹⁶⁷

¹⁶⁵ 13 CFR Ch. III, sec. 303.2

¹⁶⁶ McManus Associates, Inc., *Evaluation of the Comprehensive Economic Development Strategy Demonstration* (September 1980). Despite the similar title, this has no relation to the later CEDS.

¹⁶⁷ McManus Associates, Inc. *Economic Development Administration Planning Grant Program: A Program Assessment* (October, 1981). This study included profiles of all 409 planning grantees in the three categories. Data sources included EDA files, interviews, and twenty-four expanded site visits.

A 1999 program evaluation by the Corporation for Enterprise Development focused on three issues: planning guidelines, collaboration, and capacity building.¹⁶⁸ The researchers concluded that EDA's existing planning guidelines needed to be updated to simplify and clarify the rules. The researchers also proposed that the planning process should incorporate clear performance measures and that responsibility for performance measurement should be shifted to the local level. Responding partly to these recommendations and partly to its own policy development efforts, EDA subsequently replaced the existing set of three different OEDP guidelines for EDDs, Tribal Planning Organizations, and Redevelopment Areas with a new uniform set of guidelines and simplified reporting requirements. The title, Overall Economic Development Program, was changed to Comprehensive Economic Development Strategy (CEDS), consistent with the 1998 reauthorization act.

The 1999 evaluation also called for greater collaboration in the planning process among the private sector, nonprofits, and government. Recognizing the concern for interagency coordination, EDA now allows grantees to substitute comprehensive economic development plans prepared for other federal, state, or local programs for a CEDS if those plans meet the agency's substantive requirements. EDA has also hosted a series of meetings with federal agencies involved in economic development in an attempt to reduce redundancy and conflict among their documentation and other requirements.

The recommendations for building local planning capacity reinforce a continuing trend within the agency. The researchers called for a significant increase in the size of planning grants to EDDs and Tribal Planning Organizations. These increases have not yet been funded due to budget constraints. EDA has sought to expand technical assistance and support for planning grantees. It has also designated University Centers in each region, which often provide support and capacity-building services to EDDs and Tribal Planning Organizations (see discussion of the Technical Assistance Program below).

The 1999 evaluation of the Planning Assistance Program stated that "economic development is essentially about creating the right conditions for entrepreneurship and business growth so that local residents can find jobs and earn a decent living."¹⁶⁹ At the same time, however, it found that only 41 percent of EDDs and tribal organizations recognized small and medium-sized businesses as partners in economic development planning.¹⁷⁰ While program regulations describing the CEDS process include participation by the business community, EDA can seek to further the efficacy of economic development planning by focusing on expansion and support of existing small and medium-sized businesses. As a corollary, education of the business community is also needed to convince small and medium-sized businesses that participating in a government-sponsored planning effort is worthwhile.

¹⁶⁸ Corporation for Enterprise Development, *Strategic Planning for Economic Development* (1999). This evaluation was based on a year of interviews, surveys, focus groups, meetings, and presentations by the researchers.

¹⁶⁹ *Ibid.*, 40.

¹⁷⁰ *Ibid.*, 38.

TECHNICAL ASSISTANCE PROGRAM

Technical assistance has been a core part of EDA's economic development efforts since the establishment of the agency. The Technical Assistance Program (TAP) focuses on three related but separate functions:

- *Local Technical Assistance* (Local TA) provides funds to generate and disseminate information to support both current projects and longer-term capacity building for economic development in specific distressed areas.
- *National Technical Assistance* (National TA) supports the generation and sharing of new knowledge regarding the general practice of economic development, without focusing on a specific geographic area.
- *University Centers* are academic-based providers of technical assistance that supply distressed communities in their service areas with access to high-quality applied research and training resources.

Program Objectives

EDA's Technical Assistance Program recognizes that public-sector and nonprofit organizations in economically distressed areas are often faced with limited financial and information resources. The purpose of providing technical assistance is to give state and local economic development practitioners the information and knowledge they need to formulate, implement, and monitor effective development strategies.¹⁷¹

Historical Context and Trends

Although EDA's three technical assistance functions have existed throughout the agency's history, it is not possible to consistently identify a discrete organizational status or funding allocations for each type of activity. Local TA and National TA have been funded as a single line item in the federal budget in most fiscal years. University Centers were originally funded separately, but were combined with local TA and National TA on a single budget line for the last several years.

Administrative and management oversight of the TAP initially was centralized in Washington, D.C., with little distinction made between local and national technical assistance. Most funding went to local and/or industry-specific projects. From the outset, the TAP supported local practitioners in undertaking needs assessments, project planning, feasibility studies, and management and operational assistance. The program's broad mandate also encompassed direct assistance to businesses to improve administrative procedures, plant layout, and marketing plans, and to fund job-training programs.¹⁷²

¹⁷¹ 13 CFR Ch. III, sec. 307.9(a).

¹⁷² Vocational training was authorized under section 241 of the Manpower Development and Training Act, and provided in cooperation with the Department of Labor and the Department of Health, Education and Welfare.

Federal funding for University Centers was initiated in 1963 under the Area Redevelopment Administration, EDA's predecessor agency, and was continued informally by EDA in 1966.¹⁷³ PWEDA did not originally authorize a University Center program nor did it include universities as eligible grantees. Early in EDA's history, however, agency administrators interpreted the act to allow funding for higher-education institutions as "other appropriate entities." University Centers were part of the business development program in those early years, providing assistance to individual businesses on such problems as staffing, product design, marketing, and production. Most of the University Centers served rural populations. In 1968, University Centers began to accept public-sector clients, expanding their role beyond the provision of specialized technical and managerial counseling to small businesses. Centers increasingly provided community-based organizations and the public sector with technical support, including assistance for development planning activities. The 1998 act formally authorized funding for University Centers.

The number of University Centers expanded rapidly during the 1970s and 1980s, increasing from nineteen in 1977 to forty-three in 1989. Several presidential Executive Orders have encouraged federal agencies that administer grant programs to promote the participation of minority-serving institutions of higher education.¹⁷⁴ Seven Historically Black Colleges and Universities (HBCUs) and five Hispanic-Serving Institutions (HSIs) currently participate in the University Center program. One Native American-serving institution is in the program.

In 1969, EDA regional directors received authority to approve small Local TA projects involving feasibility studies and/or management assistance. During the 1970s, Local TA projects provided less direct assistance to private-sector businesses. As a result, the focus of EDA's Local TA program shifted toward capacity building within local and multicounty public and nonprofit organizations—a change in focus similar to the one that occurred in the University Center program.

Local and National TA activities were administered through three offices in the 1970s. Traditional projects, such as feasibility studies, economic data accumulation, and management assistance, were funded through EDA's Office of Technical Assistance (OTA). Between 1977 and 1980, special initiatives or projects requiring a quick response were administered through the Office of Special Projects (OSP). Created during the Carter administration, OSP was a cross-cutting program that operated with the assistance of but separate from EDA's other offices. Unlike Presidential Initiatives, which were interagency projects, "Special Projects" were initiated by the assistant secretary for economic development and primarily worked with minority communities. Recipients of "Special Projects" funding were predominantly community-based nonprofit organizations, making this one of EDA's few forays into the arena of community

¹⁷³ Bentley Clark Associates, Inc. and BDM Corporation, *Evaluation of the University Center Program* (September 1981).

¹⁷⁴ Executive Order 12320, signed September 15, 1981, 46 FR 46107 on September 17, 1981; revoked E.O. 12232, signed August 8, 1980; revoked by E.O. 12677, signed April 8, 1989.

economic development—an action that antagonized many of the agency's traditional multicounty economic development partners.

Projects serving minority and Native American populations were administered through the Office of Minority Business Enterprise (OMBE). Funding in the late 1960s and early 1970s supported National TA projects providing direct assistance to nationwide economic development organizations. Those organizations, in turn, assisted minority-owned businesses. These programs were subsequently combined within the Minority Business Development Agency in the Department of Commerce.

TAP funds were increasingly used in the 1970s to help distressed areas respond to changing local economic conditions such as those caused by defense cutbacks, increasing imports, railroad abandonment, and declines in productivity. National TA projects in this period focused on specific industries or industrial sectors. However, a growing number of projects also addressed specific national challenges; for example, funding supported the development of university curricula for energy conservation during the energy crisis of the 1970s. The National TA program also funded innovative technology development in sectors such as biomedical research equipment.

National TA projects in the early 1980s primarily focused on trade and export assistance, with relatively sizeable funding for such studies in the period 1981 to 1983. By the end of the 1980s, the types of projects supported by Local and National TA funds had become very much what they are today: Local TA has focused on capacity building for economic development and on local project and organizational support, while National TA has focused on applied research, information dissemination, and demonstration projects. The diversity of projects supported by the two programs is considerable. However, the number and scale of both Local and National TA projects declined sharply in 1981 when the Reagan-era funding reductions took hold, and have remained at a substantially reduced level since that time.

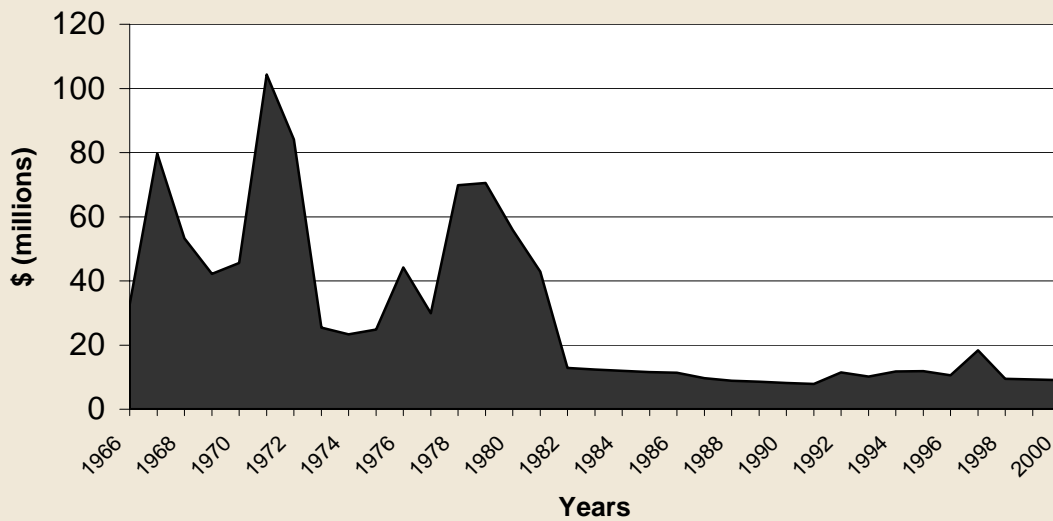
The separation in Washington's management and oversight between the Local and National TA programs occurred in the late 1970s, although the distinction was largely a formality until the mid-1980s. The National TA program is administered entirely by EDA's Washington headquarters. National TA has been administered with EDA's Research and Evaluation program since 1986, although it continues to be funded as part of the TAP. Local TA funds are allocated entirely by the regional offices, with administrative oversight by EDA headquarters. Designation of new University Centers is approved in Washington, but decisions regarding the continuation of funding and day-to-day operations of University Centers are made by the regional offices.

Funding Levels

The TAP has received uninterrupted funding since 1965, although it has always been a relatively small program within the agency (figure 4.3). Cumulative real TAP appropriations between 1966 and 2000 totaled \$968 million, in constant (year 2000) dollars. The TAP funding share of EDA's annual budget has averaged approximately 3.7

percent over the period. Funding for the combined National TA and Local TA programs declined substantially after 1981, both in real terms and as a share of total EDA appropriations.¹⁷⁵ In real terms, TAP appropriations have hovered at or just below \$10 million annually since that time. In fiscal year 1998, the average grant under the Local TA program was \$28,000 (nominal dollars) and the average National TA grant was \$92,000.

Figure 4.3. Funding for Technical Assistance (Local TA, University Centers and National TA) in Constant (2000) Dollars



Source : Economic Development Administration, *Appropriation by Fiscal Year by Program*, 2000; U.S. Department of Commerce, *GDP Deflators*, 2001

¹⁷⁵ EDA, *Appropriation by Fiscal Year and by Program*, 2000.

Most funding during the program's early years went to local projects. There has been no clear and consistent pattern since then favoring either Local or National TA. In many years, one program was significantly larger than the other, but any advantage has not been consistent over time. Funding for the University Center program did not reach \$1 million (in current dollars) until 1977. The expansion of the program in the late 1970s and into the 1980s, however, meant that it garnered an increasing share of total TAP funding, surpassing the funding for Local TA and National TA in every year since 1986.¹⁷⁶ In 1999, the University Center program received 70 percent of TAP funds;¹⁷⁷ it is currently funded at \$6.5 million. Average annual funding for each University Center in 2000 was \$102,000. In addition, the Centers provide an average match equal to 70 percent of the EDA grant, one of the highest matching levels among EDA programs.¹⁷⁸ Very few new University Centers have been established in recent years because of funding limitations; only two Centers have been added since 1997.

In the following sections, we describe specific components of the Local TA and University Center programs. National TA will be described later in the discussion of the Research program, because Research and National TA are now jointly administered.

Local TA: Program Design

Throughout its history, the Local TA program has been known for its flexibility and the breadth of projects funded. The program no longer provides direct assistance to private firms as it did in its early days. However, the types of projects funded for public and nonprofit clients are remarkably similar to what the program offered in the past, including funding for needs assessments, feasibility studies, project planning, demonstration projects, conferences, and operational support.¹⁷⁹

To be eligible for Local TA funding, a project must fulfill at least one of the following criteria:

- strengthen local capacity;
- benefit a distressed area;
- help diversify a distressed economy;
- demonstrate an innovative approach to stimulating economic development; or
- be consistent with a CEDS or other economic development strategy.¹⁸⁰

¹⁷⁶ This increase can be explained by a new federal policy directing all federal agencies to increase funding for and participation by minority-serving institutions. Tony Meyer, Coordinator of EDA's Local Technical Assistance, University Centers, and Trade Adjustment Assistance Programs, telephone interview (November 6, 2000).

¹⁷⁷ 1999 *Annual Report*, vol. 1.

¹⁷⁸ Mt. Auburn Associates, *An Evaluation of EDA's University Center Program*, draft report, November 2000.

¹⁷⁹ *EDA Programs Guide*, 1999.

¹⁸⁰ 13 CFR Ch. III, sec. 307.2.

Like all programs under the TAP, and in contrast to EDA's Public Works and Economic Adjustment programs, funding eligibility is not limited to areas demonstrating economic distress. In principle, this allows the use of Local TA funds to help threatened areas to build local development capacity before they fall into distress. In practice, however, the scarcity of program funds ensures that areas demonstrating distress receive funding priority. Priority is also given to proposals that

- lead to near-term (one to five years) private-sector job creation or retention;
- show strong local support in terms of financial commitment (applicants are expected to provide at least 25 percent of total project costs);
- demonstrate public and private leadership involvement; or
- support special initiatives that EDA may have under way.¹⁸¹

EDA encourages organizations to contact a regional office representative or their Economic Development Representative before submitting a formal proposal for funding under the program.

Following are examples of Local TA awards:

- ◆ The Jackson Water Precinct, in Jackson, New Hampshire, received \$25,000 to identify a new groundwater supply source.
- ◆ Miles Community College, in Miles City, Montana, received \$20,000 to conduct a feasibility study and develop a business plan for the commercial reuse of an existing Veterans Administration facility.
- ◆ The Appalachian Center for Economic Networks, in Athens, Ohio, received \$45,000 to help brand development and marketing of locally produced specialty food products.

Local TA: Program Impacts and Prior Evaluations

An evaluation of the Local TA program was funded in fiscal year 2001. The only previous program evaluation was conducted in 1988.¹⁸² That study acknowledged the diversity among grantees but expressed concern that EDDs accounted for 25 percent of the grants examined. After EDDs, city, town, and county governments were the most common recipients of Local TA funding; Indian Tribes and Alaska Native Villages received very few Local TA grants. The study found that the key factors affecting the success of a Local TA project included support for the project from the local community;

¹⁸¹ Special initiatives are identified in the Notice of Funding Availability (NOFA) published annually in the *Federal Register*.

¹⁸² Mt. Auburn Associates, Inc., *Evaluation of the U.S. Economic Development Administration's Local Technical Assistance Program: Summary of Findings* (June 1988). The methodology for this study included a telephone survey of 139 grantees (all grantees in 1984 and 1985), telephone case studies of 35 grantees, and on-site field visits to 15 projects. Projects were categorized as follows: feasibility studies, program development, development plans, direct business assistance, and capacity building.

the staffing and commitment of the grantee organization; and the grantee's level of attention to follow-up dissemination and implementation efforts. Factors that did not appear to have a strong influence on the project's outcome were the size of the EDA grant; the grant's share of total project financing; and the type of grantee organization. Recommendations included requiring the submission of additional information on organizational characteristics when grantees apply for funding, and sharing project results among the regions and with the general economic development community.¹⁸³

Projects funded under the Local TA program fill important knowledge gaps, enhancing the capacity of local areas to undertake economic development activities. The need remains for broader dissemination of the results of successful projects to other regions and to the general economic development community. A provision of the 1998 act directed EDA to create a central clearinghouse for information on economic development. EDA's Web site, developed partly for this purpose, provides a forum for broad dissemination of information about successful Local TA projects. EDA's latest annotated bibliographies of economic studies include descriptions of many exemplary and replicable local TA projects.¹⁸⁴

University Centers: Program Design

The University Center program is a federal-academic partnership that makes resources at institutions of higher education available to the economic development community.¹⁸⁵ The program helps institutions of higher education establish and operate outreach programs that use their resources (faculty, staff, students, laboratories, and computer systems) to provide applied research and technical assistance to clients seeking to mitigate economic problems or identify development opportunities.¹⁸⁶ Today, there are sixty-nine University Centers, variously named Technical Assistance Centers, Economic Development Centers, and Business Assistance Centers. The centers offer a variety of services, including business planning, financial management, marketing research, production control, inventory management, feasibility studies, training seminars and workshops, planning and data analysis assistance, and special engineering studies.¹⁸⁷

University Centers frequently collaborate with EDDs and other EDA planning grantees. A recent study by Mt. Auburn Associates found that 62 percent of University Centers focus their efforts on assisting economic development organizations, while 38 percent focus on assisting private-sector firms.¹⁸⁸ University Centers working with units

¹⁸³ Mt. Auburn Associates, Inc., *Evaluation of the U.S. Economic Development Administration's Local Technical Assistance Program*, vol. 1, *Research Methodology and Findings*, Abstract (April 1989).

¹⁸⁴ These bibliographies identify 1,119 research reports and evaluations funded during 1965–2001. See, for example, EDA, *Economic Studies of the Economic Development Administration: An Annotated Bibliography*. Research and National Technical Assistance, 2001.

¹⁸⁵ *EDA Programs Guide*, 1999.

¹⁸⁶ 13 CFR Ch. III, sec. 307.5.

¹⁸⁷ Bentley Clark Associates, Inc. and BDM Corporation, *Evaluation of the University Center Program*, EX-1, September 1981.

¹⁸⁸ Mt. Auburn Associates, Inc., *An Evaluation of EDA's University Center Program*, December 2001.

of local government and nonprofit organizations are typically involved in such projects as conducting preliminary feasibility studies for economic development projects, performing data analysis to help communities assess the need for infrastructure expansion, and conducting specialized workshops or seminars.¹⁸⁹

University Centers that target their efforts toward small and medium-size firms generally emphasize technology transfer and assistance. For example, a center may help a firm redesign a product to meet a specific industry standard, identify energy-saving improvements, or solve a technical or engineering problem in a manufacturing process. In a few cases, centers also provide business counseling services such as preparing business plans, packaging loan applications, or assisting firms with financial management and accounting. University Centers have adjusted their programs in recent years to avoid duplicating the efforts of other federal agencies (HUD, NIST, MBDA, SBA, and others) that have established or expanded their own university partnership programs.¹⁹⁰ For example, University Centers are now unlikely to provide basic business-counseling services in areas already served by other federal small-business programs. Similarly, in areas served by one of the Manufacturing Extension Partnerships (MEPs) sponsored by the National Institute of Standards and Technology (NIST), EDA University Centers usually refer clients to the MEP for technology assistance.

The following example illustrates a project funded through the University Center program.

- ◆ Berea, Kentucky, long a center for Appalachian arts and crafts, was severely damaged by a tornado in 1996. Responding to the crisis, EDA's University Center at Eastern Kentucky University studied the importance of tourism to the local economy and examined the feasibility of establishing a local folk arts and crafts center. The University Center helped the community develop a plan, establish local partnerships, and identify funding to build the center. As a result of those efforts, the state legislature dedicated \$6 million to establish the Appalachian/Kentucky Gateway Center, which is projected to employ more than seventy-five people and draw more than 50,000 visitors to Berea annually.¹⁹¹

Any single institution or consortium of institutions of higher education may apply to establish a University Center. As noted earlier, however, new centers are created infrequently because of funding constraints. A proposal for a new center must include activities in three categories: providing technical assistance, conducting applied research, and disseminating results. The majority of the work program must be devoted to

¹⁸⁹ *EDA Programs Guide*, 1999.

¹⁹⁰ Most notable among other programs are the Community Outreach Partnership Centers of the Department of Housing and Urban Development (HUD); Manufacturing Extension Partnerships of the National Institute of Standards and Technology (NIST); the Minority Business Development Administration's (MBDA) Minority Business Development Centers; and the Small Business Administration's (SBA) Small Business Development Centers. EDA, *Final Report of the University Center Quality Action Team*, 1992, 3.

¹⁹¹ National Association of Manufacturing and Technical Assistance Centers, *Project of the Year Profiles, 1999*, on-line at <http://www.namta.org/ProDev/pp99.html>.

providing technical assistance.¹⁹² Each applicant must also describe quantitative and qualitative evaluation criteria that EDA can use to measure the center's performance in each activity described in the proposed work program.¹⁹³ In evaluating proposals, EDA considers the degree to which the applicant (1) has a commitment from the highest administrative levels of the sponsoring institution; (2) provides evidence of adequate non-federal financial support, either from the sponsoring institution or from other sources; (3) proposes activities consistent with the expertise of the proposed staff, the academic programs, and other resources available within the sponsoring institution; (4) documents past experience of the sponsoring institution in operating technical assistance programs; and (5) balances the geographic distribution of University Centers across the country.¹⁹⁴

EDA considers University Centers to be long-term partners in economic development.¹⁹⁵ Consequently, institutions already participating in the program receive funding priority as long as they continue to demonstrate satisfactory performance. The average existing University Center has received EDA funding for twelve years. A policy implemented in 1987 placed a seven-year limit on center funding, reflecting the belief that EDA funds should serve as seed money to help centers become self-sufficient.¹⁹⁶ Congress later reversed this policy in an appropriation bill that directed EDA to continue to fund centers at their previous levels.¹⁹⁷ EDA has discontinued funding in certain instances based on a determination that the center was not in a distressed area, was not performing satisfactorily, or that another area had a greater need for the technical assistance services that a center provides.¹⁹⁸

The 1998 act requires an evaluation of each University Center at least once every three years to assess the center's performance and to determine if it deserves continued support.¹⁹⁹ The evaluations, which are structured as peer reviews requiring the participation of at least one other center, assess the center's attainment of its core mission of providing technical assistance, conducting applied research, and disseminating project results.²⁰⁰

Program Impacts: Evaluations of the University Center Program

A 1981 evaluation of the University Center program examined its effectiveness in two main categories: program implementation and administration, and performance and

¹⁹² EDA, *Final Report of the University Center Quality Action Team*, 1992, 4.

¹⁹³ 13 CFR Ch.III, sec. 307.6.

¹⁹⁴ The following states have more than one University Center: Texas (5), Mississippi (3), and California (3). Other states have none: Connecticut, Delaware, Rhode Island, Vermont, and Wyoming. Washington, D.C. also does not have a center.

¹⁹⁵ *EDA Programs Guide*, 1999.

¹⁹⁶ Rice Center, *Evaluation of Selected University Centers*, May 1989, 1. An internal program assessment in 1992 recommended that EDA should abandon an absolute time limit on participation in the program (EDA, *Final Report of the University Center Quality Action Team*, September 1992).

¹⁹⁷ *Ibid.*

¹⁹⁸ Tony Meyer, Coordinator of EDA's Local Technical Assistance, University Centers, and Trade Adjustment Assistance Programs, telephone interview, November 6, 2000.

¹⁹⁹ Title V, sec. 506.

²⁰⁰ 13 CFR Ch. III, sec. 318.1(a)(2)-(3).

information reporting.²⁰¹ With regard to the first category, the study recommended that centers should (1) be more selective in screening clients to ensure that the sponsoring agency's objectives are met; (2) establish goals, timetables, and paths for achieving institutionalization; and (3) define the "technical assistance gap" in their service area and demonstrate how they will fill it. With regard to performance and information reporting, the study recommended (1) abandoning the requirement for quarterly progress reports; (2) clearly defining EDA organizational responsibilities; (3) clarifying reporting requirements in terms of specified measures; and (4) ensuring that reporting requirements satisfy the needs of those asking for the information.

An assessment conducted in 1988 focused on the status and technical assistance needs of University Centers located at HBCUs.²⁰² The study sought to identify methods to increase the effectiveness of those centers and to assess their potential for continued operation in the absence of EDA support.²⁰³ In general, the study found that program management skills at the HBCU centers were high, clients were satisfied, and central administrations strongly supported the University Center program. The study also concluded, however, that these centers were not likely to achieve self-sufficiency at the same rate as non-HBCU centers because of clients' financial weakness and the host institutions' emphasis on their core academic mission.

An assessment conducted in 1989 by the Rice Center examined a sample of nine University Centers.²⁰⁴ Although that evaluation revealed moderate to high assessment ratings by center clients, it also found a low rate of utilization of advisory boards, low external awareness of the program, insufficient screening of clients' ability to pay, potential overlap with SBDCs, minimal to moderate university support, and a preponderance of part-time directors.

An internal assessment of the University Center program was prepared in 1992 by a team of nine EDA employees from the Technical Assistance program, drawn from both the regional offices and the Washington, D.C. headquarters.²⁰⁵ The review team concluded that University Centers play an important role in local economic development

²⁰¹ Bentley Clark Associates, Inc., with BDM Corporation, *Evaluation of the University Center Program* (September 1981). The evaluation was conducted in three phases. Phase I assessed the program's performance evaluation system and included a separate internal management report on the capacity and potential of the program to provide technical support for EDA's lending activities. Phase II involved a pilot test of the evaluation methodology and data collection instruments to be used in the full-scale evaluation. Phase III provided a comprehensive evaluation of the program.

²⁰² Financial Research Associates, Inc., *An Assessment of the Status and Technical Assistance Needs of the EDA-Funded University Centers at Historically Black Colleges and Universities* (August 1988).

²⁰³ The study was in response to the new policy, adopted in 1987 and later reversed, to cease funding University Centers after seven years.

²⁰⁴ The researchers conducted telephone surveys of twelve non-EDA funded economic development programs to identify successful economic development characteristics; interviewed University Center directors and staff; interviewed approximately fifty clients; conducted on-site visits; and analyzed the Centers' annual reports for the previous three years. Rice Center, *An Evaluation of Selected University Centers* (May 1989).

²⁰⁵ EDA, *Final Report of the University Center Quality Action Team* (September 1992).

and encouraged EDA to select institutions with the strongest commitment to playing an active role in that process.

The internal assessment recommended that University Centers should

- encompass statewide service areas, with a small portion of the total program budget retained for Centers with a nationwide service area;
- give priority to requests for technical assistance that benefit the most distressed parts of their service area;
- focus on assisting clients outside the sponsoring education institution;
- appoint an advisory committee, the majority of whose members are non-university personnel, to maintain an external focus; and
- be prohibited from providing basic business counseling services in areas served by SBDCs or MBDCs.

With regard to the selection of new University Centers, the 1992 report recommended that each regional office be allocated a portion of the University Center program budget to conduct an open competition for center funding. The report recommended that approval of grant awards be delegated to regional directors, subject to approval by the assistant secretary. The following criteria were recommended for use by the regional offices in evaluating proposals for University Center funding: (1) the quality of the proposed work program; (2) the degree to which the work program is externally focused; (3) the presence of a methodology for recognizing and rewarding the participation of faculty and students in the work program; (4) submission of a five-year financial plan; (6) the presence of a management plan; and (7) the proposal's responsiveness to program priorities. The study also recommended continued funding of HBCUs and other minority-serving institutions. It further recommended that EDA abandon an absolute time limit on participation in the program.

A 2001 study by Mt. Auburn Associates provides the most recent comprehensive evaluation of the University Center program.²⁰⁶ The study evaluated several issues, including (1) the contribution of University Centers in meeting economic development needs in their service areas, and (2) the effectiveness of centers in targeting development efforts toward the most distressed regions within their service areas. The study also considered whether University Centers duplicate other federal programs and whether the number and distribution of centers are appropriate.

The report found that program outputs for individual University Centers are modest, due primarily to funding limitations. The average center undertakes about ten projects each year, typically including six or seven technical assistance projects, one

²⁰⁶ Mt. Auburn Associates, *An Evaluation of EDA's University Center Program*, December 2001. Information for the study was gathered through interviews with EDA national and regional staff; interviews with University Center directors at all sixty-nine centers; development of a comprehensive database on University Center activities; and a survey of Center clients.

applied research project, and two or three information dissemination projects. The report noted that demand for center programs exceeds center capacity in many cases.²⁰⁷

Outcomes of the centers' technical assistance projects were evaluated, based on client surveys.²⁰⁸ Because center projects are capacity-building in nature, the outcome evaluated was whether the center directly provided or helped clients develop the capabilities needed to successfully complete economic development projects. A large proportion of clients gave their centers high ratings for being responsive to needs and for the quality and timeliness of the work product. Clients are often repeat customers. Most clients took some action as a follow-up to the center's assistance and achieved the results they wanted. To a moderate or large degree, clients attributed their success to the center's assistance.

The centers' strategic foci were evaluated based on their ability to meet the economic development needs of their service areas. Some University Centers undertake formal analyses of the economic development needs and resources in their service areas. More frequently, however, centers use qualitative methods to gain an understanding of their area, including consultation with economic development professionals, clients, and advisory committees.

Centers were also evaluated on the extent to which they targeted their efforts to the most distressed part of the service area. Few centers specifically consider targeting distressed areas as parts of their mission, but many do it anyway. In some cases where distressed areas are not explicitly targeted, center staff maintain that their entire service area is distressed. Others state that they serve a broad-based clientele, provide services to businesses regardless of their location, or accept assistance requests on a first-come, first-served basis.

Additional measures of center effectiveness included the degree to which the centers leverage limited resources and the extent to which they duplicate services provided by other federally funded programs. The researchers concluded that centers that view their role as capacity-building are most likely to leverage their resources by partnering with other economic development organizations. The researchers found little evidence that the University Center program duplicates activities supported by other federal programs.

A recurrent issue that requires continuing consideration is the appropriate length of time for funding individual University Centers. Despite earlier efforts to limit University Center funding to seven years, there currently is no limit on the number of years in which a center may receive funding. Given limited resources, however, continuous funding of existing centers essentially precludes the funding of new centers in other locations. In light of the persistence of economic distress and the emergence of

²⁰⁷ *Ibid.*, 29.

²⁰⁸ *Ibid.* Information dissemination activities and applied research were not evaluated because they do not have specific clients or identifiable users and because their relationship to action is much more difficult to isolate.

newly distressed areas, as noted in chapter 2, there is likely to be a growing demand for new University Centers in currently underserved areas.

PUBLIC WORKS AND DEVELOPMENT FACILITIES PROGRAM

The Public Works and Development Facilities Program, one of three charter programs authorized by PWEDA in 1965, is the core of EDA's activities. The program provides grants to help communities build basic infrastructure to make the community attractive to private investment.

Program Objectives

The goal of the Public Works Program is to help implement locally developed projects necessary for long-term economic self-sufficiency and competitiveness. As with other EDA programs, projects that result in the relocation of employment from one area to another are explicitly prohibited.

Examples of projects funded through the Public Works Program include industrial parks, water and sewer facilities, industrial access roads, rail spurs, port improvements, skill-training facilities, business incubators, and technology-related infrastructure, as well as the demolition, renovation, and construction of publicly owned facilities. According to the *EDA Programs Guide*, "A typical EDA project might consist of a grant to a local government to develop a parcel of land for industrial use. EDA funds might be used to purchase the land; grade and develop the site in the park; install basic water, sewer, and other utility services; and construct roads."²⁰⁹

Historical Context and Trends

Infrastructure investment has historically been the principal federal economic development strategy to stimulate regional economic growth and ameliorate economic distress. Government-led initiatives in railroad construction and resource discovery during the early period of industrialization spurred some of the most crucial industrial developments in American history. After industrialization was in full swing, government investment in infrastructure development was often deployed as a means to reduce regional economic inequality and to curtail unemployment by creating jobs.

The Public Works Program is central to EDA's identity and mission. EDA was understood primarily as a public works agency since its inception. When he introduced PWEDA in 1965, President Johnson declared the legislation essentially a public works bill that combined the best features of the earlier Accelerated Public Works and Area Redevelopment programs: "[The legislation] rests on the assumption that there is little

²⁰⁹ *EDA Programs Guide*, 1999.

hope of establishing new industry in an area which does not have the public works and development facilities necessary to support industrial growth.”²¹⁰

The program’s early focus was on direct job creation (public works projects were called “job-creating projects”) and stimulating commercial and industrial growth through the development of basic infrastructure. Infrastructure development was considered the basic “foundation” for growth, as stated in the 1967 *Annual Report*:

Public works and development facilities are the foundation blocks for economic development and growth. [These projects] serve as the linking pin between a community looking for new employment opportunities for its people and the businessman seeking to expand or build his plant or commercial facility.²¹¹

The focus of EDA’s Public Works Program has shifted over time, however, in response to changing economic, political, and social conditions. During the turbulent 1970s, the priorities of the program were strongly influenced by dramatic forces, including the continuing economic recession, changing employment demographics (such as the influx of women into the work force), the civil rights and environmental movements, and rapid changes in the nation’s industrial structure.

To address the 1970s energy crisis, the program funded projects for development of alternative sources of energy, retrofitting buildings for energy efficiency, and development of “low-head” hydroelectric power. Also in the 1970s, the civil rights movement prompted a new initiative to sponsor the development of minority-owned businesses. EDA in general, and the Public Works Program in particular, focused more attention on urban problems than had previously been the case. Some public works projects involved rebuilding urban areas devastated by civil disturbances. During the mid-1970s, the program began to fund projects to help businesses adjust to the impact of increasing global competition and a shrinking industrial sector. This period also saw the development of EDA’s first business incubators—centers designed to nurture and support start-up businesses.

Several existing parts of the program were discontinued during the 1970s. Large-scale tourism and cultural resources projects, which had received a good deal of support in the early 1970s, were phased out by the end of the decade. Loans for public works projects were discontinued in the mid-1970s, with projects subsequently funded only through grants.

President Reagan’s Economic Recovery Program attempted to phase out EDA entirely, as a means of reducing government spending. Accordingly, in the early 1980s, the Public Works Program largely focused on programmatic improvements, such as delinquent loan recovery, and on more efficient program management, rather than on the

²¹⁰ Senate Committee on Public Works, *Compilation of Public Works and Economic Development Documents* (Washington, D.C.: Government Printing Office, 1965) 9.

²¹¹ 1967 *Annual Report*, 27.

funding of new program initiatives. Human-resource-based strategies such as vocational and skills-training centers lost favor. Reflecting broad structural shifts in the economy from manufacturing to services, EDA began to support business parks for information- and technology-based firms over traditional industrial parks.

More recently, EDA's support to distressed communities through technology-driven development has led the agency to fund the construction of distance learning, telemedicine, and specialized training facilities, as well as the deployment of broadband communications infrastructure such as fiber-optic cable and high-speed Internet connections. In many cases, the newer technologies provide opportunities to reduce the economic and social isolation of areas that cannot easily be reached by conventional services. These efforts were facilitated by changes in the 1998 act that allowed EDA to fund engineering and design projects for the first time.

In most instances, the changes in program focus did not indicate a shift in strategy, nor did they simply follow popular fashions. Rather, EDA has recognized that large-scale capital investment in basic infrastructure must adapt to the emergence and growth of new sectors, technological shifts, and the introduction of innovative development strategies if distressed areas are to avoid falling further behind.

At the same time, EDA has maintained its commitment to providing and upgrading basic infrastructure. EDA recognizes that newer forms of infrastructure are unlikely to spur growth in the absence of basic systems. Even today, most Public Works funds (about 65 percent) are expended for water or sewer projects because many of the localities that EDA serves still do not meet environmental standards for clean water. On occasion, EDA's patient but farsighted approach means it must adopt new terminology for activities it has been pursuing for years. For example, administration priorities in the 1990s favored funding for brownfields redevelopment, but the Public Works Program had been funding infrastructure to revitalize contaminated and abandoned industrial properties long before anyone had a name for them.

Special initiatives have been administered throughout the history of the Public Works Program. Many of these have been designed as countercyclical job creation programs. One of the largest was the Public Works Impact Program (PWIP), initiated in 1971 and terminated in 1998. PWIP grants sought to generate immediate short-term construction employment by funding labor-intensive projects to develop needed public facilities.

The largest single-year appropriation for a special initiative was the Local Public Works (LPW) program, implemented in response to the lingering effects of the severe 1973–75 recession. LPW was initiated during the Ford administration, passed over the president's veto, and funded for a single year (fiscal year 1977) under the Carter

Following are examples of projects funded under the Public Works Program.²¹²

- ◆ The program awarded \$4.7 million between 1974 and 1995 for site improvements to help develop the Miles Standish Industrial Park on 750 acres of a former World War II staging facility in Taunton, Massachusetts. The most recent progress report states that 497 acres have been sold; 83 companies have located in the park; and more than 7,000 jobs have been created, at a cost to EDA of approximately \$700 per job. One of the major manufacturing tenants, the Perkins Paper Company, is seeking to move to a larger location on an undeveloped site; the move is expected to create an additional 400 jobs and \$27.7 million in private-sector investment.
- ◆ A \$724,000 award in 1995 aided the construction of a vocational training center in Sulphur Springs, Texas. Created as a partnership between the City of Sulphur Springs, the local school district, Paris Junior College, and East Texas State University, the training center has a curriculum tailored to the specific needs of local industries and enrolls an average of 350 adults annually.
- ◆ A series of awards totaling \$1.5 million between 1996 and 2000 helped establish and support the Ron Brown Entrepreneurial Center, a small-business incubator and technology training facility operated by the West Philadelphia Enterprise Center. Headquartered in the nation's first television studio (the original home of Dick Clark's American Bandstand), the Center provides space and entrepreneurship training to local, largely minority-owned, start-up firms. EDA's investment leveraged additional funding by the Prudential Insurance Company to construct and operate a computer and technology training facility for youth in this economically depressed neighborhood on the edge of Philadelphia's Empowerment Zone. The Center recently received the Incubator of the Year Award from the National Business Incubation Association.
- ◆ An investment of \$1.1 million in 1997 supported the development of the Huntington (West Virginia) Industrial Center. The Center is located in a former Owens-Illinois Glass complex that closed in 1993, resulting in the loss of 650 jobs. The site contains 41 acres and 460,000 square feet of floor space—the largest industrial site under one roof in the state of West Virginia. The Center was fully leased by 1999 and employed more than 400 workers in manufacturing jobs such as vinyl-window assembly, metal recycling, and food packaging. Further development of the site in the near future is expected to create more than 200 additional jobs, effectively erasing the job loss from closure of the Owens-Illinois plant.

administration. According to an EDA evaluation, the LPW program “was a keystone in the economic stimulus program initiated by President Carter at the onset of his Administration.”²¹³ The two-year \$6 billion effort funded 10,600 projects to create jobs and provide capital improvements in areas of high unemployment. The program included a 10 percent set-aside for minority firms, the first use of a minority set-aside in a federal program. LPW was one of the largest countercyclical public works programs since the Great Depression.

²¹² Information provided by David McIlwain, Director of EDA's Public Works Division, February 12, 2001.

²¹³ EDA, *Local Public Works Program Final Report: Creating Jobs Through Public Works Projects in Areas of High Unemployment*. December 1980.

In the final years of the Clinton administration, public works initiatives focused on the Mississippi Delta region and the southwest border region.

Funding Levels

Public Works is the largest EDA program. Excluding the \$6 billion LPW appropriation, real cumulative funding for the program has accounted for just over 50 percent of EDA's total real appropriations since 1965 (figure 4.1).²¹⁴ Public Works receives approximately 53 percent of EDA's annual program funding (figure 4.1), although this share was somewhat higher in the early years of the agency (1966 to 1973) and in the 1980s, when Public Works funding averaged well over 60 percent of annual agency appropriations.

Annual appropriations for Public Works have fluctuated considerably over time and have fallen precipitously in real-dollar terms since the early years of the agency (figure 4.4). Measured in constant (2000) dollars, annual Public Works appropriations averaged between \$500 million and \$700 million in the period from 1967 to 1973; declined to between \$400 million and \$500 million in the period from 1974 to 1981 (excluding LPW funding); and have remained between \$100 million and \$200 million since that time.²¹⁵

Table 4.1 shows the distribution of Public Works spending by type of project in 1998, a year that is representative of recent program spending.

Table 4.1. Public Works Expenditures by Type of Project, 1998
(Current Year Dollars)

<i>Type of Project</i>	<i>Number of Projects</i>	<i>EDA Investment (in \$1,000s)</i>
Industrial/commercial buildings	39	28,599
Vocational training/incubator facilities	14	13,106
Transportation facilities	22	15,207
Port/harbor/airport facilities	8	9,899
Water system improvements	75	63,422
Sewer system improvements	40	36,875
Other public facilities	10	10,797
Total	208	177,905

Source: 1998 Annual Report, 11.

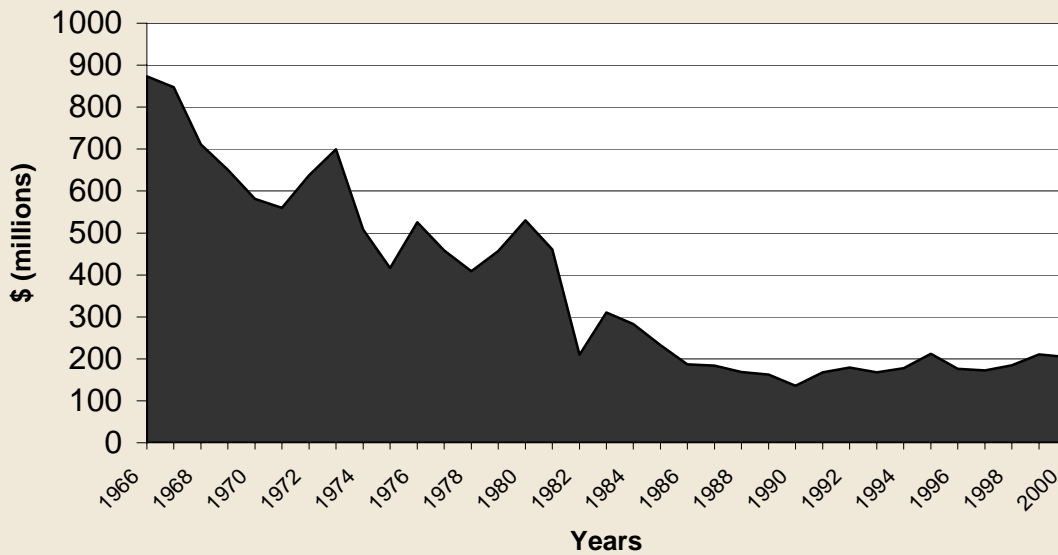
²¹⁴ If the one-time LPW is included in the calculations, the Public Works share of total real EDA funding amounts to 68 percent. EDA, *Appropriation by Fiscal Year by Program*, 2000.

²¹⁵ *Ibid.*

Program Design

EDA's basic eligibility criteria apply to public works projects. The criteria require that the project be located in an economically distressed area; that the grantee have an approved CEDS; and that the project be consistent with or contribute to the implementation of strategies identified in the CEDS. This link to economic development planning helps expedite project development, prevents duplication of efforts, increases the impact of grants, and reduces staff time in reviewing formal project applications. While a large percentage of formal proposals are funded, the extended collaborative planning process screens out faulty proposals before they are formally submitted. For example, in 1968, the first full year after adoption of this procedure, EDA screened 3,500 project ideas and received 512 formal applications, 414 of which were approved.²¹⁶

**Figure 4.4. Funding for Public Works Program
in Constant (2000) Dollars**



Sources : Economic Development Administration, Appropriation by Fiscal Year by Program, 2000; U.S. Department of Commerce, GDP Deflators, 2001

The selection and monitoring of public works projects are carried out in EDA's regional offices. Priority for funding approval is given to projects that accomplish the following:²¹⁷

²¹⁶ Ibid.

²¹⁷ 1998 *Annual Report*, 10.

- improve opportunities for the successful expansion of industrial or commercial facilities;
- assist in creating or retaining private-sector jobs in the near term, as well as creating additional long-term employment opportunities;
- benefit the long-term unemployed and members of low-income families residing in the area served by the project;
- fulfill a pressing need of the area, with initiation and completion achieved in a timely manner; and
- demonstrate adequate local funding, with evidence that such support is committed.

Program Impacts: Evaluations of the Public Works Program

Evaluations of the Public Works Program over thirty years have documented its beneficial effects. A joint EDA-Boise Cascade evaluation conducted in 1970 found that nearly half of the jobs created through Public Works Program funding were filled by previously unemployed workers and that workers who had been previously employed gained higher wages.²¹⁸ The report also found that 44 percent of jobs projected in the project proposal were actually realized.

A program evaluation conducted by Centaur Associates in 1980 found that establishments developed as a result of EDA investment were concentrated in labor-intensive, consumer-product manufacturing activities.²¹⁹ Private firms chose to locate to EDA-assisted sites because of the availability of utilities, adequate labor supply, attractive wage rates, and access to regional markets. These tended to be national or regional firms with out-of-state corporate offices. The study also concluded that the employment and private investment generated by public works projects largely represented new economic activity rather than relocations.

A 1992 evaluation by Mt. Auburn Associates documented the effects on the Public Works Program of the significant budget cuts sustained during the 1980s.²²⁰ The study found that the average grant size decreased substantially in real dollars, with few large-scale projects undertaken. The focus of public works projects also shifted during the 1980s from long-term community development to an emphasis on specific projects with shorter time horizons. The businesses that used the resulting infrastructure tended to be small, established, relatively healthy businesses seeking to expand and/or relocate within the region. The study found that the public works project was a contributory rather than a decisive factor in business investment and location decisions. Businesses reported that they made no special effort to target unemployed or low-income families when

²¹⁸ Economic Development Administration and Boise Cascade, Inc., *EDA Program Evaluation Summary of Results: Selected Policy Questions* (1970).

²¹⁹ Centaur Associates, Inc., *Economic Development Administration Title I Public Works Program Evaluation*, vol. 1, *Evaluation Results and Methodology* (1979).

²²⁰ Mt. Auburn Associates, *Evaluation of the U.S. Economic Development Administration's Public Works Program: Analysis and Findings* (1992).

filling EDA-created jobs and that a fairly small proportion of the resulting jobs went to such families, although a large number of jobs were suitable for this group. The study also observed that project impacts are long-term and their full weight is realized ten or more years after project completion. Fully 70 percent of public works project facilities were being used ten years after completion.

The most recent and comprehensive analysis of the impact of the Public Works program, completed in 1997, concluded that EDA's investments provided help in areas where otherwise there would be none.²²¹ The study considered all 203 EDA public works projects that received their final payment in 1990.²²² EDA provided 54 percent of direct project funding, on average, with the remainder coming from local government entities, other federal agencies, and private investments. The study team found that 96 percent of projects created or retained permanent jobs. On average, each project produced 327 direct permanent jobs for every \$1 million of EDA funding, a median cost to EDA of \$3,058 per job created or retained (in current 1996 dollars). Eighty-four percent of the projects leveraged additional private-sector investment, at an average rate of \$10.08 million in private-sector investment for every \$1 million in EDA funding. Like the earlier Mt. Auburn study, the researchers concluded that the employment impacts of public works projects increase over time: the average number of jobs doubled after six years. The researchers also concluded that project monitoring by EDA helped to see projects through to completion. Of the 203 public works projects, 99 percent were completed (91 percent on time) and 52 percent were completed under budget.

The 1997 evaluation concluded that "EDA public-sector economic stimuli create private-sector jobs at high levels of success and low levels of cost."²²³ The program's goal of providing infrastructure in lagging areas to stimulate economic growth appears to have a significant impact in the communities it serves. Careful project selection and thorough monitoring of funded projects foster efficiency and produce the greatest possible impact from EDA's investments.

In seeking to become even more effective, the Public Works Program can adopt innovative strategies for economic development. The program's history of innovation in response to changing economic conditions offers an encouraging precedent in this regard. Looking ahead, expanding the training and skills development component of the program may serve to build the human capacity necessary to complement physical infrastructure, thus leveraging further growth for the communities that EDA serves. Skills and human-capital deficits have been cited by economists as primary factors contributing to recent dramatic increases in income inequality. Even manufacturing jobs require a higher skills set in the current economy than they did thirty years ago. Given the need for a highly

²²¹ Rutgers University, Center for Urban Policy Research, *Public Works Program Performance Evaluation* (New Brunswick, NJ: Center for Urban Policy Research, May 1997).

²²² The research team conducted mail surveys, phone interviews, and field visits to assess economic outcomes generated as a result of EDA funding. The outcomes measured were number of jobs created, public/private investment generated, and the extent to which the tax base of the community was affected by the project.

²²³ Rutgers University, Center for Urban Policy Research, *Public Works Program Performance Evaluation* (1997) 4.

skilled workforce in a technologically advanced economy, the Public Works Program might benefit by expanding this program component.

The program can also work in tandem with the private sector from the early stages of project development through project completion in order to maximize the return on public investments. Involvement of business leaders in the development stage of projects may increase the likelihood that the resulting projects will be attractive to and will meet the needs of targeted businesses. Such early involvement can serve at least two functions. It can make known to businesses the opportunities that public works projects create, thus increasing the likelihood that businesses will take advantage of those opportunities and invest in distressed communities. Second, if the needs of the business are known in advance, they can be integrated into the project at the outset. Continued success of the Public Works Program depends on the viability of EDA's knowledge-based programs (planning, technical assistance, and research). These programs help make public works projects more effective; therefore, underfunding the knowledge-based programs would threaten the continued high level of success achieved by the Public Works Program.

ECONOMIC ADJUSTMENT PROGRAM

EDA's Economic Adjustment program (EAP), created in 1974, provides assistance to communities experiencing either long-term (i.e., structural) deterioration or sudden and severe economic dislocation. Long-term deterioration involves such challenges as industrial or technological changes that undermine a region's industrial base or a decline in resource-based industries. Sudden and severe dislocation includes such shocks as the closing of a major industrial plant or military base or economic disruption due to a natural disaster.

In addition to the core Economic Adjustment program funded as part of EDA's normal budget, EAP manages EDA's defense adjustment activities, which are often allocated their own line item in the federal budget during periods of military downsizing. EAP is also called upon with increasing frequency to provide special assistance in the aftermath of natural disasters, such as floods or hurricanes. In general, the program tools available to EAP are the combined tools in EDA's Public Works, Planning, and Technical Assistance programs. EAP has added flexibility, however, most notably through the authority to fund locally administered revolving loan funds (RLFs).

Program Objectives

EAP helps communities recover and diversify their economic base in response to current or threatened long-term or sudden and severe economic dislocation. Consistent with EDA's general policy that development projects should evolve from a comprehensive and inclusive strategic plan, EAP supports both the planning process and plan implementation. *Strategy Grants* help communities develop, update, or amend a CEDS. For areas that are not an EDD, funded Tribe, or other current EDA grantee, a

Strategy Grant can be the first step in making the community eligible for other types of EDA assistance. *Implementation Grants* support the completion of one or more activities identified in an approved CEDS, essentially bringing EDA's entire set of program tools to bear in support of a community's economic development effort. Implementation activities may include, but are not limited to, infrastructure improvements, site acquisition, support of marketing or industry research and analysis, provision of public services, and support for workforce training and development.

A specialized form of Implementation Grant is the RLF grant, which is used to capitalize a locally administered loan fund that typically provides "bridge" or "gap" loans to local businesses.²²⁴ These loans help marginal borrowers qualify for funding from private banks or supplement the total amount borrowed. The initial RLF capital is provided by an EDA Implementation Grant. The capital is then replenished as loans are repaid, along with interest and any fees charged by the lending entities, creating a revolving source of capital. EDA pioneered the concept, which is similar to RLFs now funded by other development organizations. EDA's RLFs differ from today's Community Development Financial Institutions (CDFIs) mainly in that the RLFs are normally associated with state or local government while CDFIs are restricted from formal government association.

Historical Context and Trends

During the mid-1970s, the nation faced its deepest economic recession since the Great Depression. The country suffered from high levels of inflation and unemployment; consumer prices rose by more than 12 percent during 1974 alone; and unemployment reached 9 percent in 1975.²²⁵ Congress amended Title IX of PWEDA in 1974, creating the

Economic Adjustment Program in EDA to assist areas affected by major adverse structural economic changes.²²⁶

EDA developed the RLF as an innovative response to the challenge faced by a particular Indiana community. The South Bend Lathe Company, an old line, high-quality manufacturer of industrial lathes, had been purchased in the 1960s by Amstead Industries. Amstead announced plans to close the subsidiary in 1974 in response to a new union contract that paid high wages to South Bend's machinists. In an effort to save the firm and their jobs, the company's workers sought to buy the plant through an employee

²²⁴ The RLF program was developed by EDA in 1975. Since that time, RLFs have become widely used for the redistribution of public funds, not only by federal agencies such as EDA, the Department of Agriculture, and the Environmental Protection Agency, but also by regional, state, and local government agencies. According to a recent performance evaluation, EDA issued 550 RLF grants through 1999, with 360 grants (65 percent) allocated for LTED (long-term economic deterioration) purposes and 190 grants (35 percent) allocated for SSED (sudden and severe economic dislocation) purposes, including defense RLFs. (Rutgers University, Center for Urban Policy Research, *EDA GPRA Pilot II, RLF Projects*, Final Report, November 1999).

²²⁵ Congressional Quarterly, Inc., *Urban America: Policies and Problems* (Washington, D.C.: Congressional Quarterly, 1978).

²²⁶ 1975 *Annual Report*.

stock ownership plan (ESOP), and approached EDA for funding. Although Title IX did not specifically authorize funding for RLFs, it did allow grant funds to be redistributed by a grantee, providing the recipients were also eligible grantees. For-profit businesses could

Following are examples of support provided by EAP grants:

- ◆ A \$100,000 Strategy Grant to Kennebec County, Maine, in 1996 helped the communities of Augusta and Waterville, which were threatened by the closing of clothing and paper-manufacturing facilities in the region, develop economic diversification strategies.
- ◆ An Implementation Grant to Pocatello, Idaho, illustrates EDA's role in revitalizing an economy faced with a plant closure and other jobs losses. Kraft Foods closed its Pocatello plant in 1989, resulting in the loss of 550 jobs. The community lost 450 additional jobs in communications, retail, and transportation during the same year. With the closure of the Kraft plant, the community met the criteria for EDA's Sudden and Severe Economic Dislocation (SSED) assistance. State and local officials developed a response plan that included expansion of sewage collection and treatment capacity. Beneficiaries of the plan included the firm that replaced Kraft, firms located in the expanding industrial park, and a group of firms in the region's health-care industry. EDA awarded \$964,900 to the city of Pocatello in 1991 to help finance the \$3.3 million project. In addition to helping attract a new firm to the Kraft site, the project also assisted a number of firms to expand their facilities. Direct project-related impacts include the creation of 848 new jobs and the retention of 1,685 jobs.²²⁷
- ◆ An RLF grant to the Greater Nashville Regional Council and the Mid-Cumberland Area Development Corporation in Davidson County, Tennessee, supported the provision of gap financing in the economically distressed region. Seven counties in the region and the Nashville Impact Area became eligible for Long-Term Economic Deterioration (LTED) assistance in the early 1980s. The two agencies received an initial RLF grant of \$500,000 in 1985. The fund has been recapitalized twice because of the large demand for loan funds (\$250,000 in fiscal year 1990 and \$275,000 in fiscal year 1993). By 1998, the RLF had made fifty-one loans totaling \$3.1 million and had leveraged \$11.4 million in private funds. It contributed to the creation of 690 new jobs and saved 53 existing jobs. Minority-owned businesses received 14 percent of the loans and women-owned businesses captured 16 percent. Start-up loans constituted almost half of the total loans made.²²⁸

not receive grants (or redistributed grants) under PWEDA, but they could receive loans. EDA interpreted the law as giving it authority to make a grant to an eligible community organization, which could then lend the funds to workers to finance the ESOP.²²⁹ EDA subsequently began awarding RLF grants to fill gaps in local commercial lending. In contrast to the ESOP RLF, these subsequent grants did not generally identify borrowers in advance. By 2000, EDA had made 597 initial capitalization grants and 199 recapitalization grants through the EAP.

²²⁷ Rutgers University, Center for Urban Policy Research, *EDA GPRA Pilot I. Construction Projects*, Final Report, October 1999.

²²⁸ Ibid.

²²⁹ 1975 Annual Report; 1976 Annual Report.

Before the 1998 PWEDA amendments, EAP and the Public Works Program employed different unemployment and per capita income thresholds for an area to be eligible for assistance. In addition, EAP developed formal criteria for “long-term economic deterioration” (LTED) and “sudden and severe economic dislocation” (SSED) that potential applicants had to meet to qualify for assistance.²³⁰ The 1998 act set uniform thresholds for area eligibility across EDA’s Public Works Program and Economic Adjustment Program, and incorporated the LTED and SSED definitions into a “special need” category. Today, both public works projects and economic adjustment projects can be funded in areas that qualify based on low income, high unemployment, or special need. The LTED and SSED terms no longer have legal significance but they remain useful substantive descriptions of the problems the EAP seeks to address.

Funding Levels

Appropriations for EDA’s Economic Adjustment Program began in fiscal year 1975. From fiscal year 1975 to fiscal year 2000, cumulative real appropriations (excluding appropriations dedicated to defense adjustment and disaster recovery) amounted to approximately \$1.85 billion (in constant 2000 dollars), or just under 5 percent of EDA’s cumulative real appropriations.

Annual funding for EAP has averaged approximately \$71 million in constant dollar terms. However, funding levels have varied greatly over time (figure 4.5). In real dollar terms and excluding special appropriations, the program reached its highest funding level in 1976 and then decreased sharply, reaching a low point in 1981. Funding increased somewhat in the early 1990s but again dropped significantly in the years that followed. Appropriations for EAP have been relatively stable in the past five years, averaging approximately \$32 million per year in real (2000) dollars.²³¹

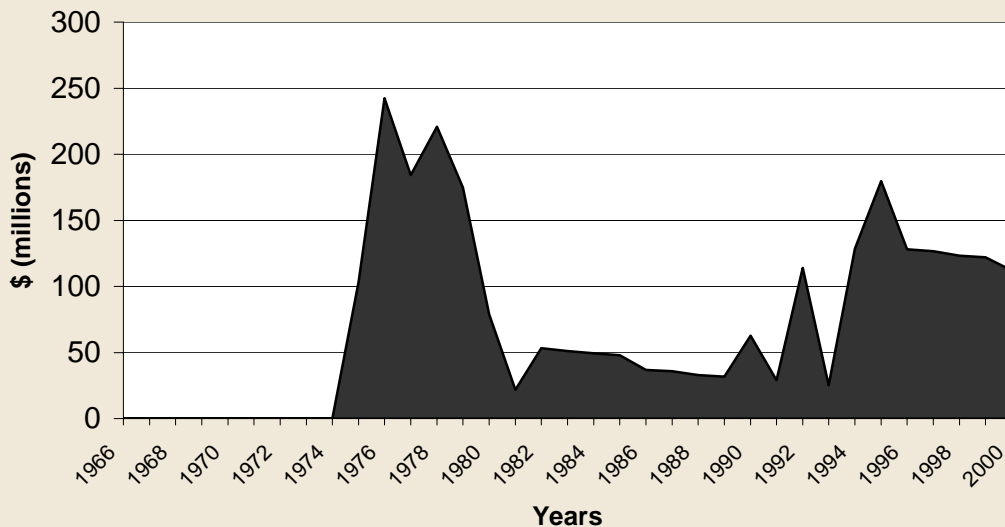
Program Design

Applicants are not required to have an approved CEDS to receive Strategy Grants under the EAP. Similar to Planning Grants, selection criteria take into consideration the proper authority; the capacity of the applicant to lead and manage the planning process; representation of the public and private sectors (public-service providers, trade and business associations, educational and research institutions, community development corporations, minorities, labor, etc.); and the proposed scope of work, including provisions for undertaking appropriate research and analysis to develop a realistic, market-based adjustment strategy.

²³⁰ Following the 1998 act, the formal distinction between LTED and SSED was discontinued, although the concept of structural economic change was retained.

²³¹ EDA, *Appropriations by Fiscal Year by Program, 2000*.

**Figure 4.5. Funding for Economic Adjustment Program
in Constant (2000) Dollars**



Sources : Economic Development Administration, Appropriation by Fiscal Year by Program, 2000; U.S. Department of Commerce, GDP Deflators, 2001

Applicants for Implementation Grants must submit an approved CEDS, and the project must be consistent with or support strategies identified in the CEDS. Selection criteria take into consideration the applicant's understanding of the economic problems that will be addressed by the project; the quality of the applicant's analysis of the economic sectors that contribute to the community's economic base, with emphasis on the strengths and weaknesses of the current situation; the strategy proposed as a means to stimulate investment in new or existing economic activities with good prospects for revitalization and growth; and identification of financial resources to implement the strategy.

In addition, selection criteria for applicants seeking to capitalize or recapitalize an RLF take into consideration the need for the grant as a means to enhance other business assistance programs and services; the type of financing activities anticipated; and the capacity of the RLF organization to manage lending, create networks between business communities and other financial providers, and contribute to implementation of the CEDS.

RLF grantees submit semiannual reports to their EDA regional office that track portfolio performance for the purpose of grant monitoring. RLF projects are also evaluated at the time of final disbursement and at three, six, and nine years after project approval. Evaluation measures, all of which are collected from the semiannual reports, include the number of loans made, the number of jobs created, and private-sector funds

leveraged. The evaluation also attempts to measure the performance of the capital base that is the source of money for the RLF. The capital base is defined as the sum of the original RLF grant, matching funds, and interest accumulated from outstanding loans, less any losses from loans not repaid.

Program Impacts: Evaluations of the Economic Adjustment Program

Since the adoption of Title IX in 1975, EDA has commissioned several evaluations to assess the EAP. The Lazar Management Group conducted an evaluation of the EAP just three years after the addition of Title IX to PWEDA.²³² The evaluation was based on forty-five case studies, which accounted for half of the communities that had received EAP funding through July 1976. The analysis distinguished between Development Grants, equivalent to the present Strategy Grants, and Implementation Grants. Development Grants ranged from less than \$50,000 to more than \$800,000. Implementation Grants ranged from less than \$500,000 to \$10 million (all in nominal dollars). The ten largest implementation grants accounted for 63 percent of total EAP grants allocated during the study period.

The assessment concluded that EAP funds offered significant potential as a tool for dealing with many types of economic adjustment problems and identified the program's flexibility as one its greatest assets. The study observed, however, that this flexibility could also be viewed as a lack of focus. Notwithstanding the program's broad latitude, the researchers noted that EDA tended to fund "traditional types of redevelopment projects in the Agency's traditional client areas."²³³ The study further remarked that, in general, the program did not address the problems that led communities to apply for the aid and that assistance to dislocated workers was provided only rarely.

The researchers offered the following recommendations:

1. EDA should formulate a more specific set of program guidelines, including specific criteria to distinguish between economic dislocation and long-term economic deterioration. Toward this goal, economic dislocation should be defined as "an occurrence that is both severe (i.e., it directly affects, or will affect, at least 500 workers; five percent of the target area labor force; or a majority of a special sub-population, such as a group of fishermen, cattlemen, etc.) and sudden (i.e., an isolated event rather than a continuation of a long-term trend of more than, perhaps, five years)."²³⁴
2. EDA should alter the structure of RLF grants to make them recoverable when the economic dislocation problems identified in the application are solved. This would

²³² Lazar Management Group, *EDA's Title IX Program: Baseline Assessment and Policy Analysis*, September 1978.

²³³ *Ibid.*, xi.

²³⁴ *Ibid.*, 192.

require amending Title IX to permit loans to be repaid to the U.S. Treasury and to establish regional and state development banks to collect the repayments and redistribute the loans in accordance with the banks' guidelines.

3. EDA should combine two or more program tools into one project package for areas that need comprehensive redevelopment programs.
4. EDA should place greater emphasis on projects that serve the needs of individuals directly affected by economic dislocation; for example, demonstration projects using special tools, including relocation, retraining, and job placement assistance for displaced workers.
5. EDA should assign a senior-level administrator to manage the EAP and to develop continuing outreach and monitoring systems.

In response to the recommendations, EDA developed the formal LTED and SSED program designations, which remained in effect until 1998. Additionally, EDA developed new, more specific guidelines for SSED, formulated explicit administrative requirements for RLFs, and set a maximum review period for economic adjustment plans.

An evaluation of the EAP SSED program conducted by Penn State University in 1989 focused on development of multi-tenant incubator facilities as a component of local economic recovery.²³⁵ The study evaluated the program's effectiveness in promoting the movement of tenants into incubator facilities and in increasing the likelihood of business survival and growth. The study, which analyzed thirteen sites, concluded that it was difficult for many incubator facilities to reach financial breakeven; that new firms do not generate large numbers of jobs in the short term; that an incubator initiative works better in the context of an overall economic development program and that the success of the recovery strategy was linked to the presence of a local champion of the incubator initiative; that the facility operator must adopt a risk-sharing attitude regarding tenants; and that successful multi-tenant incubator buildings are those that fill a specific niche in the local economy.

The 1989 evaluation recommended that EDA could improve the EAP program by requiring a market feasibility study for the incubator; by undertaking a financial break-even analysis to assess the level of subsidy required to sustain the recovery program; and by considering the applicant's capacity to successfully implement the project. The study also recommended that EDA eliminate assistance to dislocated workers (it considered such assistance to be ineffective) and reduce restrictions on locally administered revolving loan programs.

Rutgers University conducted a performance evaluation of twenty-three LTED and nineteen SSED RLFs between November 1998 and July 1999, using data collected

²³⁵ Penn State University, College of Business Administration, *Evaluation of Title IX SSED Program Inducements and Enhancements on Multi-Tenant Buildings as a Component in Local Economic Recovery*, parts I and II, Final Report, January 1989.

by EDA's six regional offices.²³⁶ The Rutgers study concluded that nearly all RLF projects achieved the objective of helping communities expand their job base. The study found that 90 percent of RLF projects had produced permanent jobs within six years after project initiation. Total cost per job created or retained, considering all sources of funding, was \$5,883; the cost to EDA alone was \$4,107 per job. In aggregate, across all projects, every \$1 million of EDA funding leveraged an additional \$330,000 in matching public grants and \$860,000 in additional public loans. The combined project default/write-off rate was approximately 7 percent, while the RLF fund growth rate was one percent per year.

In response to the evaluations and EDA internal assessments, EAP has undergone several modifications, improving EDA's support of local economic development. The agency has learned from the findings provided by program evaluations and it has successfully incorporated many of the recommendations. As a result, EDA has clarified program goals and selection criteria while increasing accountability.

Through these changes, EAP has maintained its flexibility and its ability to innovate, which, in turn, has allowed the agency to respond to changing local needs. A major strength of the EAP has been its bottom-up approach to local economic development, which encourages communities to establish local priorities and use various types of EAP grants to fill funding gaps. The RLF program, in particular, has proven to be a powerful tool for addressing credit gaps in economically distressed communities.²³⁷

ECONOMIC ADJUSTMENT PROGRAM: DEFENSE ECONOMIC ADJUSTMENT AND DISASTER RECOVERY

Congress has directed EDA to perform special functions at numerous times in the agency's history. The most notable special functions for which Congress has provided additional funding are defense economic adjustment and disaster recovery. The allocation of supplemental disaster funding to specific EDA programs has varied by appropriation. Some disaster funds have been restricted to EAP; on other occasions, funds have been allocated to specific types of grants, including planning, infrastructure construction, and RLFs. Other disaster appropriations have been allocated more broadly for any EDA program. Although funds for defense adjustment have been available for use under any of EDA's programs, EAP has administered nearly all of the agency's defense adjustment activities.

²³⁶ Rutgers University, Center for Urban Policy Research, *EDA GPRA Pilot II, RLF Projects*, Final Report, November 1999.

²³⁷ Rutgers University, Center for Urban Policy Research, *EDA RLFs—Performance Evaluation*, 2002. For additional evidence that EAP has positively contributed to the success of worthwhile projects, see B. Higgins and D. Savoie, *Regional Development Theories and Their Application* (New Brunswick, NJ: Transaction Books, 1995).

Defense Economic Adjustment: Program Description, History, and Funding

EDA has assisted defense-dependent communities in periods of military downsizing, base closings, and reductions in military production contracts. Defense downsizing has been especially severe in the post-Cold War era. The Department of Defense (DOD) reported in 1998 that Base Realignment and Closure (BRAC) activities in 1988, 1991, 1993 and 1995 contributed to the closure or realignment of 235 military bases. Another round of base closings (BRAC 2005) was authorized in late 2001.²³⁸ According to one DOD estimate, the closure of 95 major bases may have cost as many as 324,000 local jobs.²³⁹

The severity of the job losses associated with base closure and realignment prompted Congress to provide additional funds specifically for Defense Economic Adjustment. In fiscal years 1992 and 1993, the funds were provided through an interagency transfer to EDA from DOD's Office of Economic Adjustment (OEA). EDA has received direct annual appropriations for this purpose since 1994. A total of \$681 million (in 2000 dollars) has been appropriated to date. Direct appropriations for Defense Economic Adjustment peaked in 1995, the year in which the fourth round of base closures took place (table 4.2).

In nearly all cases, when DOD announces a proposed list of base closings, OEA provides the initial reuse planning funds to the affected communities. During the first few years after closure notification, OEA also helps to coordinate assistance from EDA, the Federal Aviation Administration, the Environmental Protection Agency, the Department of Labor, and other federal agencies. As this short-term response winds down and OEA steps back, EDA's role in supporting longer-term economic recovery becomes paramount.

EDA's Defense Economic Adjustment assistance employs the agency's full set of development tools, including public works, EAP, and planning grants. To be eligible for assistance, a community must be the site of a military base closure or realignment, a defense contractor reduction-in-force, or a Department of Energy defense-related funding reduction.²⁴⁰

²³⁸ P.L. 107-107, Sec. 3001, November 28, 2001.

²³⁹ Massachusetts Institute of Technology, *From Barracks to Business: The M.I.T. Report on Base Redevelopment*, Final Report, July 2000.

²⁴⁰ EDA specifies that military base closure refers to a military base that was closed or is scheduled for closure or realignment due to the Base Realignment and Closure Act process or another DOD process. In a defense contractor reduction-in-force, the contractor experiences defense contract cancellations or reductions, as a result of official DOD announcements, having aggregate value of at least \$10 million per year. A Department of Energy defense-related funding reduction refers to a DOE facility that has experienced or will experience a reduction of employment resulting from a change in its defense mission [1998 act, sec. 209(c)(1)].

**Table 4.2. Defense Economic Adjustment, Direct Appropriations
in Constant (2000) Dollars (in millions)**

<i>Fiscal Year</i>	<i>Amount</i>
1992	58
1993	90
1994	89
1995	113
1996	96
1997	94
1998	92
1999	87
2000	77
2001	33
Total	829

Source: David Witschi, Director of the EDA Economic Adjustment Division.

The use of EDA grants is tailored to reflect the community's needs and to ensure that federal funds are used efficiently. For example, EAP Strategy Grants are used to support planning activities not covered in the initial OEA plans. Defense Economic Adjustment construction projects often aim to modernize the infrastructure on former military installations and to make the infrastructure fit for commercial use. For example, military bases are often not in compliance with local building and safety codes; the infrastructure is old or deteriorating and utilities are not metered. In such cases, EDA has provided funds for building demolition, rehabilitation, or construction. New or rehabilitated facilities funded in this way have included business incubators and training and technology centers. EDA funds are also used to upgrade critical infrastructure, including water and sewer systems, for industrial and commercial facilities, port facilities, and roads to industrial sites.²⁴¹

The most recent and comprehensive performance evaluation of EDA's Defense Economic Adjustment activities was completed in 1997 by a research team headed by Rutgers University.²⁴² The research examined all 217 Defense Economic Adjustment

²⁴¹ David Witschi, Director of the EDA Economic Adjustment Division, telephone interview, November 29, 2000.

²⁴² Rutgers University, Center for Urban Policy Research, *Defense Adjustment Program, Performance Evaluation*, Final Report, November 1997. Capacity-building projects were evaluated through grantees' comments. Researchers designed a profile sheet to record performance measurement information for each project. Each project profile was accompanied by a photograph or illustration of the project and a map showing the project's location. The research team used a three-pronged approach to collect the information needed for its assessment. First, they conducted a mail survey of all grantees to obtain project statistics and to quantify project outcomes. Second, they invited all grantees to one-day seminars conducted at thirteen locations across the country that explained how to provide the data required. Finally, research team members conducted site inspections at 22 percent of the grantee locations in forty-two half-day visits.

projects funded during fiscal years 1992 through 1995. The evaluation revealed that forty-nine completed construction projects had produced 30,870 permanent jobs as of 1997, at a cost to EDA of \$8,052 per job and at a total cost (from all funding sources) of \$12,045 per job. These projects also leveraged \$722 million in private-sector investment, which represented \$2.20 per dollar of EDA funding.

Following are examples of Defense Economic Adjustment grants:

- ◆ A grant of \$449,000 to Rantoul, Illinois, helped develop and implement a successful marketing campaign to bring commercial business and industry onto the former Chanute Air Force Base.
- ◆ Total grants of \$4.5 million to the city of Idaho Falls, Idaho, helped establish the Bonneville County Technology Park in response to a workforce reduction of more than 50 percent at the Department of Energy's Idaho National Engineering Laboratory. Grant funds were used to help purchase the land, to install and upgrade infrastructure, to establish an RLF to provide capital to firms locating in the park, and to provide technical assistance to new start-up firms.
- ◆ A grant of \$3,225,000 to Pease International Tradeport in Portsmouth, New Hampshire, helped transform Pease Air Force Base into a civilian airfield and industrial park. The grant funded the demolition of decayed buildings and the improvement of infrastructure, including construction of a road, repair of existing water and sewer systems, and installation of new storm drainage and sanitary sewer and water lines.
- ◆ A 1994 grant of \$1,500,000 to the Southern Mississippi Planning and Development District in Gulfport, Mississippi, helped establish an RLF to stimulate new business expansion in response to the closing of the Mississippi Army Ammunition Plant. As of January 1997, the grantee had closed twenty loans that contributed to the creation of 215 new jobs. As a result of the success of the RLF, the state of Mississippi has agreed to provide matching funds to help other distressed communities establish RLFs.²⁴³

The researchers also examined sixteen RLFs that had fully loaned their capital. As of 1997, the EDA cost per job created through these RLFs was \$3,312. The fully-loaned RLFs leveraged \$2.50 for each dollar of EDA funding. Twenty-one more-recently funded RLFs that were not yet fully loaned created an additional 247 jobs, but their results per dollar of investment were less impressive, a reflection of their unfinished status.

Capacity-building projects are not designed primarily to create jobs in the short term, but rather to improve the planning, organizational, and technical skills needed for local economic development. Nonetheless, the Rutgers researchers found that thirty-one defense-related Local TA projects produced sixty-three permanent jobs at an EDA cost of \$13,633 per job (and a total cost of \$19,393 per job).

²⁴³ Rutgers University, Center for Urban Policy Research, *Defense Adjustment Program: Performance Evaluation*, November 1997.

Post-Disaster Economic Recovery: Program Description, History, and Funding

As with Defense Economic Adjustment, Congress has frequently directed EDA to provide special assistance in the aftermath of natural disasters. Congress has appropriated additional funds for the recovery effort when the economic distress caused by sudden dislocation following a natural disaster is especially severe. In contrast to the procedure followed for Defense Economic Adjustment, however, the additional funds are not provided through regular appropriations but through emergency supplemental disaster appropriations.

The original PWEDA included neither an explicit mandate nor a funding appropriation for disaster recovery assistance. Through the late 1960s, however, EDA used discretion in its Public Works program to assist communities in designated areas that were affected by natural disasters. EDA's close relationships with development experts at the local level allowed the agency to move in quickly with much-needed assistance.

In August 1969, Hurricane Camille left a path of destruction along the Gulf Coast. Some of the most severe storm damage affected counties just outside the Southern Mississippi Economic Development District (SMEDD). Five additional counties sought affiliation and were quickly incorporated into an expanded SMEDD. By the end of fiscal year 1970, EDA had approved planning grants, business loans, and public works projects totaling more than \$21 million, with \$17 million directly attributable to the effects of Camille.²⁴⁴

Only a few years later, in 1972, Tropical Storm Agnes caused severe property damage along the eastern seaboard, and President Nixon declared disaster areas in portions of six states. After a task force of Commerce Department officials toured a portion of the affected area, EDA was given primary responsibility for the department's relief efforts. The first EDA project was approved within five weeks after the storm. By February 1973, EDA had approved fifty-three public works projects and eighty-four technical assistance grants totaling \$28.6 million in commitments. By the end of September, EDA had approved \$43.2 million in public works projects and \$9.5 million in planning and technical assistance grants.²⁴⁵

As a result of EDA's demonstrated ability to move quickly to provide longer-term recovery assistance, Title VIII was added to PWEDA in 1974, giving EDA specific authority to provide economic aid in disaster areas.²⁴⁶ This assistance could take three forms: "(1) assistance in planning for development to replace that lost in the major disaster; (2) continued coordination of assistance available under Federal aid programs;

²⁴⁴ 1970 *Annual Report*, 95.

²⁴⁵ 1973 *Annual Report*, 7. Funding for the response to Tropical Storm Agnes came from a \$16.5 million allocation in EDA's regular budget and a special congressional appropriation of \$40 million.

²⁴⁶ Economic Development Administration, *An Administrative Evaluation of the Special Economic Development and Adjustment Assistance Program (Title IX)*. (Washington, D.C.: Government Printing Office, 1977) 98-99.

and (3) continued restoration of the employment base.”²⁴⁷ Title VIII also established provisions for Recovery Planning Councils (RPCs) to be appointed by an affected state’s governor. RPCs, which included local, state, and federal representatives, were funded to develop and implement recovery investment plans for the five-year period following the declaration of a major disaster.²⁴⁸

For several years after EDA was authorized to provide disaster assistance, the agency’s disaster response activities were conducted under the SSED program but lacked funding specifically allocated for disaster response. The lack of funding meant that EDA could not move into a region in force after the president declared it a disaster area. As a result, the agency’s disaster assistance was effectively limited to relatively few events.

The situation received renewed attention in 1989 with the near-simultaneous catastrophes of Hurricane Hugo and the Loma Prieta earthquake. Resulting emergency supplemental appropriations allowed EDA to assume a larger role in the overall federal effort. The effects of Hurricane Andrew soon thereafter induced the General Accounting Office and Congress to recommend changes to federal response planning.²⁴⁹ Due in part to EDA’s rapid response after Hurricane Andrew, the agency has assumed a growing role in providing assistance and economic planning after major disasters.

Although the restructuring of the EAP in the 1998 act changed the specific wording of the law, EDA’s formal responsibilities changed little. Most important, the amendments still failed to provide funds reserved specifically for disaster assistance. EDA’s response remains limited until after emergency supplemental funds are made available. EDA has repeatedly but unsuccessfully requested funding to create a modest emergency reserve to fund its initial disaster response activities while emergency supplemental appropriations may be under consideration.

EDA has pursued a consistent approach since its experiences with Hurricane Camille and Tropical Storm Agnes. The agency learned that it could provide an important and unique role by helping to smooth the transition between short-term, emergency response and longer-term economic redevelopment. Although EDA is on-site soon after a disaster occurs, immediate relief is generally provided by the Federal Emergency Management Agency (FEMA), other federal agencies, and the Red Cross. Once immediate health and safety needs are addressed, EDA’s response typically involves planning and technical assistance grants to help communities map out recovery strategies “at a critical time when they are often overwhelmed by the impact of physical and

²⁴⁷ Sec. 3231 (a).

²⁴⁸ Sec. 3232 (b).

²⁴⁹ U.S. General Accounting Office, *Disaster Assistance: Federal, State, and Local Responses to Natural Disasters Need Improvement*, GAO/RCED 91-43 (Washington, D.C.: Government Printing Office, 1991); U.S. General Accounting Office, *Disaster Management: Improving the Nation’s Response to Catastrophic Disasters*, GAO/RCED 93-186 (Washington, D.C.: Government Printing Office, 1993); U.S. House of Representatives, *Federal Management Agency’s Disaster Assistance Program, Hearings before the Subcommittee of Public Works and the Transportation Committee*, 103rd Cong., March 2, 1993, 1103-36; U.S. Senate, *Lessons Learned from Hurricane Andrew, Hearings before the Committee on Environment and Public Works*, 103rd Cong., April 19, 1993, 103-86.

economic dislocation.”²⁵⁰ Somewhat later, EDA can provide public works funds and EAP Implementation Grants to help affected communities restore their basic infrastructure and to provide investment capital for devastated local firms. Eligibility for disaster assistance is based on EDA’s special-need criteria, which mirror several types of federal disaster declarations; an area may also be eligible based on EDA’s standard criteria. An area without a CEDS or its equivalent in place can receive only planning assistance, which subsequently can open the way for other EDA assistance.

EDA has distributed nearly \$1 billion in emergency supplemental appropriations for major disasters (in constant 2000 dollars). Annual Reports indicate that EDA has funded at least \$176 million in disaster recovery efforts through EAP appropriations (table 4.3).²⁵¹ These figures exclude a large number of funded public works projects in communities located in disaster areas.

As would be expected, assistance activities are unevenly distributed across time and space, with the funding record punctuated by a small number of catastrophic events. The largest single special expenditure, the Community Emergency Drought Relief Act, was passed by Congress and signed by President Carter in May 1977 in response to severe drought conditions in the western and Plains states. An appropriation of \$175 million (\$419 million in constant 2000 dollars) provided for a combination of grants and loans for water-system improvements. Other costly events included Hurricane Camille in 1969, Tropical Storm Agnes in 1972, Hurricane Andrew in 1992, and the Midwest floods of 1993. From 1965 through 1997, 45 percent of EDA disaster assistance funds provided through regular appropriations went to projects in four states: California, Florida, Iowa, and Missouri.²⁵² In 1998, EDA concentrated 55 percent of disaster assistance funds in Kentucky, North Dakota, and North Carolina.²⁵³

Two recent external evaluations of EDA’s disaster recovery activities, conducted by Aguirre International, provide detailed information on the agency’s response after Hurricane Andrew in 1992 and the Midwest floods in 1993.²⁵⁴ After Hurricane Andrew, “other agencies ... had access to many times the funds available to EDA. Nevertheless, EDA became a major player in the post-disaster recovery effort.”²⁵⁵ Based on case studies of sixteen projects (among twenty-nine funded in the affected areas) and on qualitative evaluations applying six criteria, Aguirre concluded that three-fourths of the funds went to projects that “exceeded expectations” two years after the disaster.

²⁵⁰ This is the wording used by EDA in each of its Annual Reports since 1994 to describe short-term disaster assistance.

²⁵¹ EDA’s Annual Reports range in depth from the encyclopedic volumes of the late 1960s to the terse one- or two-page descriptions of the early and mid-1980s, so this compilation almost certainly omits an unknown number of disaster recovery efforts funded through regular appropriations. Nevertheless, the Annual Reports provide the best available inventory of major events.

²⁵² 1997 *Annual Report*, 27.

²⁵³ 1998 *Annual Report*, 34.

²⁵⁴ Aguirre International, *EDA’s Post-Disaster Assistance Program after Hurricane Andrew: Final Report* (1996); Aguirre International, *EDA’s Response to the Midwest Flood of 1993: An Evaluation* (1998); Aguirre International, *EDA’s Response to the Midwest Flood of 1993: An Evaluation, Case Studies* (1998).

²⁵⁵ Aguirre International, *EDA’s Post-Disaster Assistance Program after Hurricane Andrew*, 9.

Table 4.3. EDA Disaster Assistance Expenditures, 1970–1998

<i>Year</i>	<i>Location</i>	<i>Current Dollars</i>	<i>2000 Dollars</i>	<i>Natural Disaster</i>
1970	Mississippi	17,000,000	62,503,648	Hurricane Camille
1973	Multiple states	52,721,328	167,632,965	Tropical Storm Agnes ^a
1974	New Mexico	1,525,000	4,449,295	Forest fires
1977	Multiple states	175,000,000	418,969,083 ^b	Droughts ^a
1980	Alabama	1,000,000	1,872,945	Hurricane Frederic
	Wisconsin	500,000	936,472	Floods
	Washington	170,000	318,401	Mt. St. Helens
1981	Multiple states	950,000	1,627,471	Hurricane
1983	Utah	200,000	310,234	Flood
	California	901,000	1,397,603	Earthquake
1990	Multiple states	20,300,000	25,069,128	Hurricane Hugo ^a
	California	6,300,000	7,780,074	Loma Prieta earthquake
1991	Kansas	2,500,000	2,978,896	Tornadoes ^a
	American Samoa	75,000	89,367	Hurricane
	Puerto Rico	855,000	1,018,782	Hurricane Hugo
1992	Multiple states	1,082,000	1,258,631	Hurricane Andrew
1993	Multiple states	41,722,266	47,395,615	Hurricanes Andrew, Iniki, and other storms ^a
	Multiple states	5,386,475	6,118,922	Midwest floods ^a
1994	Multiple states	139,314,051	155,030,291	Midwest floods ^a
	California	24,100,000	26,818,759	Northridge earthquake ^c
	Guam	1,550,000	1,724,858	Typhoon Omar
	Multiple states	11,930,000	12,574,771	Hurricane Andrew
	Hawaii	6,902,734	7,681,442	Hurricane Iniki
1995	Multiple states	51,924,323	56,548,892	Midwest floods ^a
	Multiple states	44,023,139	47,944,000	Tropical Storm Alberto ^a
	California	59,200,000	64,472,567	Northridge earthquake ^c
	Multiple states	4,367,750	4,756,758	Hurricane
1996	Multiple states	5,976,861	6,385,535	Tropical Storm Alberto ^a
	Multiple states	4,514,500	4,823,184	Northwest/Mid-Atlantic floods ^a
1997	Multiple states	10,482,000	10,947,783	Upper Midwest floods
	Multiple states	11,212,000	11,710,222	Northwest/Mid-Atlantic floods ^a
1998	Multiple states	27,703,000	28,704,565	Upper Midwest Floods
	Kentucky	1,000,000	1,036,154	Northwest/Mid-Atlantic floods
	Multiple states	4,314,000	4,469,967	Hurricane

Source: EDA Annual Reports.

Notes:

a. Some or all funding provided by special congressional appropriation.

b. Assistance provided as a mix of loans and grants; all other assistance amounts are grants.

c. Some or all funding provided by special transfer from the President's Unanticipated Needs Account.

In a more comprehensive analysis of the 1993 Midwest floods, Aguirre examined sixty projects and reviewed the agency's organizational processes and functions. The evaluation concluded that EDA's tools were highly successful in helping communities make the transition from short-term emergency response to long-term recovery planning. Most (87 percent) of EDA's post-flood assistance was devoted to public works projects, including roads, sewer and water systems, business incubators, and industrial structures; important additional assistance, however, went to levee repair, funding for Flood Recovery Coordinators (FRCs), and Strategy Grants. FRCs helped communities secure approximately \$46 in additional disaster assistance for every EDA dollar invested in Strategy Grants.²⁵⁶

Two geographical issues emerged from the evaluations, one related to the nature of disaster effects and the other concerned with EDA's response. First, studies repeatedly emphasized that disasters do not obey neat boundaries. Although identifying a specific "impact area" might be necessary for administrative purposes, doing so represents a vast simplification of the intricate web of local ties among firms, suppliers, and households. Disasters truncate some of those linkages, redirect others, and may create new ones as recovery activities get under way. The resulting network of disaster-induced employment and earnings losses is a mirror image of the multiplier effects that integrate a region under normal circumstances.²⁵⁷ EDA has recognized the complexity of those ripple effects in its response to recent disasters and has funded some activities outside declared disaster zones.

Second, evaluations of EDA's response to natural disasters highlight a crucial relationship between organizational structure and the geographic dynamics of natural disasters. Aguirre's review of EDA's response to Hurricane Andrew labeled the effort the "Miami Model," consisting of "a centralized field office and intensive work starting soon after the disaster, leading to a kind of 'double spike' of activities: working with local governments and fostering strategic regional planning soon after the disaster occurs, and then supporting those governments and other entities with funding for project implementation activities in the recovery phase."²⁵⁸ This organizational structure, however, is not appropriate in some circumstances. The 1993 Midwest floods, for

²⁵⁶ Aguirre International, *EDA's Response to the Midwest Flood of 1993*.

²⁵⁷ The effects vary enormously with the distinctive structure and specialization of local economies. In addition to contextual variations in interfirm linkages, the expansion of amenity-driven migration and travel services renders local economies ever more dependent on regional, national, or even international population flows. Disasters not only disrupt local businesses but also interrupt the flow of tourists, conventioners, and seasonal migrants. Media portrayals of a disaster can reinforce these impacts, requiring economic development strategies that focus more on perception and spectacle than on the "hard" facilities normally emphasized in EDA's public works programs. In 1980, EDA approved a grant to the state of Washington to conduct a tourism promotion campaign to counter negative perceptions after the eruption of Mt. St. Helens. More recently, one of EDA's innovative projects provided a grant to support a collaborative media campaign by Iowa, Illinois, and Missouri to counteract negative perceptions among international investors after the 1993 Midwest floods. The effort included a series of "advertorials" portraying the region as "America's Profit Center." The advertorials were disseminated through prominent business publications in Germany, Britain, Japan, and Canada (Aguirre International, *EDA's Response to the Midwest Flood of 1993*, 57–59).

²⁵⁸ Aguirre International, *EDA's Post-Disaster Assistance Program after Hurricane Andrew*, 3.

example, crossed many jurisdictional boundaries and precluded a centralized field office and coordinating role.

More recently, EDA has partnered with FEMA and other federal agencies to recognize pre-disaster mitigation as an effective tool to reduce the costs and losses associated with major disasters. From fiscal year 1999 to 2001, EDA allocated approximately \$3.0 million of its annual EAP funding to pre-disaster mitigation.

The federal government's response to large natural disasters often involves more than two dozen agencies. EDA is charged with a relatively small but crucial role in these efforts. The agency's disaster recovery activities have evolved into a set of project tools designed to help communities make the transition from short-term emergency response to long-term economic recovery. EDA has played an important role in responding to major disasters over the years, and legislative changes, along with special appropriations, have increased the agency's responsibilities. The evidence shows that EDA's organizational structure and careful selection of assistance projects have enhanced the agency's ability to meet those responsibilities.

TRADE ADJUSTMENT ASSISTANCE PROGRAM

The Trade Adjustment Assistance (TAA) program for commercial firms is authorized by the Trade Act of 1974. The Department of Commerce is responsible for administering the program. Between 1975 and 1981, and again from 1991 to the present, the secretary of commerce assigned responsibility for the program to EDA. Within EDA, the program is housed in the Planning and Development Assistance Division. The program currently funds twelve Trade Adjustment Assistance Centers (TAACs) serving all fifty states. TAACs assist firms in obtaining certification that they have been harmed by imports. Once certified, firms are eligible for technical assistance that can help them develop and implement strategies for meeting foreign competition.²⁵⁹ In addition, a much smaller program has provided assistance in certain years to specific projects for firms and trade organizations in threatened industries.

Program Objectives

The main goal of the TAA Program is to help firms injured by imports to develop and implement an adjustment plan to guide their economic recovery. By assisting firms threatened by trade agreements, such as the North American Free Trade Agreement (NAFTA) or those made under the auspices of the World Trade Organization (WTO), the TAA Program supports the goal of trade liberalization favored by recent administrations. Rather than relying on protectionism and tariffs, TAA seeks to make U.S. firms more competitive in world markets.

²⁵⁹ The TAA program for workers, also established by the Trade Act of 1974, is a separate program administered by the Department of Labor.

Historical Context and Trends

EDA's initial role in the TAA Program was to help firms obtain certification that they had been harmed by imports and were therefore eligible to receive trade adjustment assistance.²⁶⁰ In 1976, EDA was also assigned responsibility for reporting to the president the number of eligible firms in specific industries and the amount and types of assistance that would likely be requested.²⁶¹

The TAA Program grew steadily between 1976 and 1979. In 1977, EDA began to provide some certified firms with assistance in the form of business loans and loan guarantees.²⁶² The program received a \$74 million supplemental appropriation in 1978 to provide business loans and technical assistance to trade-impacted industries. The first ten TAACs were created in that year, and the TAA Program supported an export promotion program in collaboration with the International Trade Administration (ITA). By 1979, the program had become quite large, with firm, industry, and community components.²⁶³

In 1981, with EDA's future uncertain because of Reagan-era budget cuts, the TAA Program was transferred to ITA, which administered the program until its return to EDA in 1991, albeit at a much smaller size and scope. The twelve TAACs have supplanted EDA staff and are now the central hub of service delivery.²⁶⁴ EDA staff continues to play a central role through the certification of firms and through approval of each firm's adjustment proposal (AP). Ten TAACs serve multistate regions and two serve single states (New York and New Jersey).²⁶⁵ Between 1993 and 1997, each TAAC helped an average of fifteen firms gain certification and assisted ten firms in developing and implementing adjustment proposals.²⁶⁶

The TAA Program has endured several major legislative and budgetary challenges, including proposals to terminate or consolidate key parts of the program. Neither Republican nor Democratic administrations requested funding for the program between 1977 and 1988, and funding was preserved only at congressional insistence. The program lapsed for several months in 1983, forcing the TAACs to lay off staff. The strong and ultimately successful response to these challenges suggests that there is substantial grassroots support for the TAA firm program, not only from the TAACs but also from many of the firms that have been helped by the program.²⁶⁷

²⁶⁰ 1976 *Annual Report*, 16.

²⁶¹ *Ibid.*

²⁶² During the late 1970s, EDA also provided trade adjustment assistance for trade-impacted communities through the Title IX program.

²⁶³ 1979 *Annual Report*.

²⁶⁴ The Urban Institute, *Impact Evaluation of the Trade Adjustment Assistance Program* (1998) 3.

²⁶⁵ The regional organization of TAACs does not correspond to other EDA regional groupings.

²⁶⁶ The Urban Institute, *Impact Evaluation of the Trade Adjustment Assistance Program*, 1998.

²⁶⁷ House Committee on Ways and Means, Subcommittee on Trade, *Written Comments on Proposals to Terminate Trade Adjustment Assistance Programs for Workers and Firms* (Washington, D.C.: Government Printing Office, 1996).

Funding Levels

The TAA Program was relatively large in its early years, peaking at \$98 million (in nominal dollars) in fiscal year 1978. Funding for TAA loan and loan guarantee programs was entirely eliminated in the 1980s. Since 1991, the year the program was returned to EDA, the TAA budget has been in the range of \$8.5 million to \$14 million per year (nominal dollars). TAA funding currently accounts for less than 2.5 percent of EDA's annual budget.

Measured in real (2000) dollars, approximately \$934 million has been allocated for the TAA Program during the two periods in which it has been administered by EDA.²⁶⁸ Most of this expenditure (88 percent) occurred between 1975 and 1981 (figure 4.6).²⁶⁹ Between 1991 and 2000, the program received a relatively modest \$115 million (in 2000 dollars).²⁷⁰

Program Design

The TAA Program shares characteristics with several other EDA programs. Like RLFs, most grants under TAA are provided to an intermediary (the TAAC). TAACs provide direct assistance to private firms. As with EDA's National TA and Local TA programs (but in contrast to the Public Works and Economic Adjustment programs), institutions seeking to establish a TAAC need not be located in a distressed area. Like Research and National TA, the TAA program is administered in Washington, D.C. rather than in the regional offices.

TAACs play three principal roles. First, they help firms petition for certification of their eligibility for assistance from the TAA program. Second, they help certified firms prepare adjustment proposals. Third, they share with the certified firm the costs of obtaining technical assistance from private sector consultants to implement the AP.

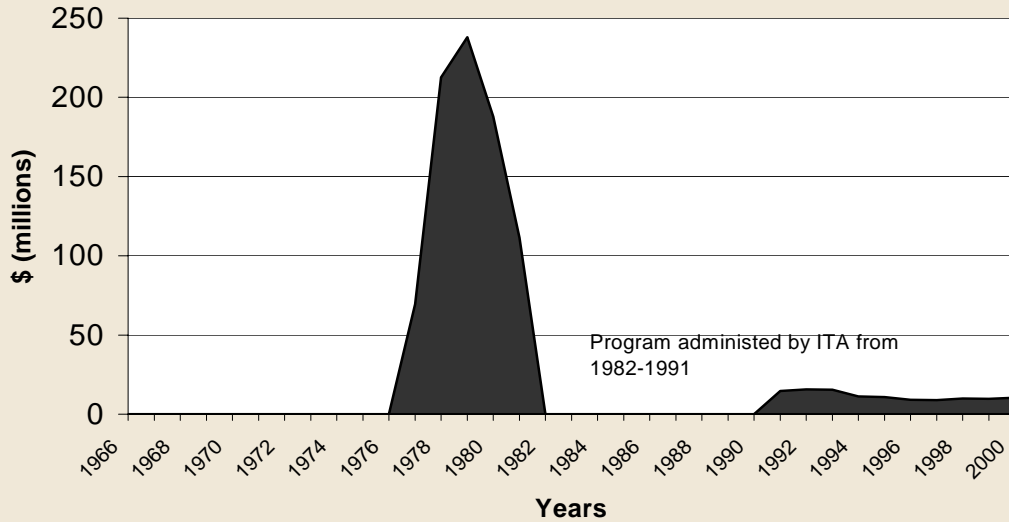
Any manufacturing or processing firm may petition to be certified as eligible for Trade Adjustment Assistance. The certification process is laborious and not all applications are accepted. Certification of eligibility is based on three criteria: (1) a significant reduction or a threatened reduction in the number or proportion of workers in the firm; (2) an absolute decrease in a firm's total sales or production, or an absolute decrease in sales or production of an article that accounted for not less than 25 percent of

²⁶⁸ This figure is the total allocation for TAA technical assistance and direct loans (direct loans were distributed only during the early period); it does not include loan guarantees, nor does it include assistance for trade-impacted communities.

²⁶⁹ The TAA budget totaled \$96 million in fiscal year 1978. Of this amount, \$74 million came from a supplemental appropriation requested by President Carter.

²⁷⁰ EDA, *Appropriations by Fiscal Year and by Program*. Other trade adjustment money—community trade adjustment assistance—is also distributed through Title IX. The above figures include only trade adjustment funding for firms and industries.

**Figure 4.6. Funding for Trade Adjustment Assistance Program
in Constant (2000) Dollars**



Source : Economic Development Administration, *Appropriation by Fiscal Year by Program*, 2000; U.S. Department of Commerce, *GDP Deflators*, 2001

the firm's total production or sales during the twelve-month period preceding the most recent twelve-month period for which data are available; and (3) an increase in imports of articles like or directly competitive with articles produced by the firm that contributed to the job reductions or sales/production decline.

Once certified, a firm has two years to submit an adjustment proposal to EDA. The AP includes an analysis of the firm's competitive strengths and weaknesses and a recovery plan. All TAACs require firms to pay some share of the cost of developing the AP, although this share varies. The AP must materially contribute to the economic adjustment of the firm, give adequate consideration to the interests of the workers, and demonstrate that the firm will make all reasonable efforts to use its own resources for economic development.

If the AP is approved, the TAAC pays up to \$75,000 or 50 percent (whichever is less) of the cost of technical assistance identified in the AP, with the remainder paid by the firm. Technical assistance is broadly defined to include activities such as market research and development of marketing materials; completion of a quality assurance program; and identification and design of technology and computer systems appropriate for the firm's needs. Other examples of technical assistance include help in the area of human resources, product redesign or changes in process technology. TAA funds may not

Following are examples of assistance under the TAA program:

- ◆ A Chicago manufacturer of mechanical dials lost sales to large overseas producers of digital electronic dials in the early 1990s. The company accelerated its own move into the growing digital segment of the market, with help from the Midwest TAAC in 1994. The assistance, which included cost sharing of consultant expenses, allowed the firm to design new products, adopt new production methods, and initiate a marketing program to enter this high value-added market. As a result, the firm increased its sales from \$1.5 million in 1993 to \$3.5 million in 1998.²⁷¹
- ◆ Massachusetts-based Benthos, Inc., is a manufacturer of sophisticated remote sensing equipment, primarily for marine use (its products obtained underwater footage of the Titanic). Market volatility and increasing competition from imports convinced management of the need to expand into nonmarine markets. With assistance from the New England TAAC, Benthos developed a plan to produce inspection systems for consumer packaging. The company then made the shift by upgrading its sensor and controller products. The assistance received under the TAA program also allowed the firm to implement an advanced information system for inventory control and material handling and to obtain critical ISO 9000 certification.
- ◆ A South Carolina machine-tool shop used the assistance received from the TAA program to revise its sales and marketing plan and to create an employee incentive plan to attract and retain skilled workers. The TAAC also helped the firm conduct a financial feasibility analysis of a proposed joint venture with an automotive parts supplier; the analysis included a pricing plan that was used in critical negotiations with the proposed partner. The firm's sales have since increased by 60 percent.
- ◆ The national Gear Research Institute explored the use of "austempered ductile iron" as an alternative material for emerging industrial applications. This metal has the potential to result in significant weight and cost reductions in the manufacture of gears, castings, engines, and heavy machinery, increasing the competitiveness of domestic producers. With the help of the TAA program, the Institute is testing the structural, acoustic, stress, and thermal properties of the material to identify new applications.

be used for the purchase of equipment.²⁷² Technical assistance is typically provided by a private outside consultant. Between 1993 and 1997, more than two-thirds of the firms that received certification assistance applied for and received adjustment assistance. During this same period, the average cost per firm for implementation of an adjustment proposal was approximately \$105,000. EDA paid 52 percent of the cost, on average, or approximately \$55,000 per project.

²⁷¹ H. Lee Murphy, "Helping Companies Facing Foreign Competition," *Crain's Chicago Business* (October 26, 1998) 1; Howard Glazier, "Governmental Assistance in Regaining Competitiveness," *Weighing and Measurement* (June 1999) 42-46.

²⁷² *EDA Programs Guide*, 1999.

The TAA program can also provide support to threatened industries in addition to individual firms. Most often, assistance to industries entails helping their trade organizations to prepare marketing or management plans, undertake research to identify new technological or productivity-enhancing opportunities, provide specialized training, or promote exports. Industries may receive as much as \$10 million per year; however, this assistance has been provided infrequently in recent years because of severe funding limitations.

TAACs evaluate the effectiveness of trade adjustment assistance to firms through self-administered surveys that record the employment and sales outcomes for firms receiving assistance. The survey and data-collection methodology varies among the TAACs.

Program Impacts: Evaluations of the Trade Adjustment Assistance Program

Two recent evaluations of the TAA Program have been conducted, one by the Urban Institute and the other by the United States General Accounting Office.²⁷³

The Urban Institute's comprehensive evaluation, completed in 1998, concluded that the TAA program has successfully helped trade-injured firms become more competitive. The study addressed two questions: (1) Do the technical assistance and business management services provided to firms affect their economic recovery as measured by changes in company sales and employment? (2) Is the current system for providing assistance the most effective and appropriate way to help individual firms?

To address the first question, researchers compared two samples of TAA-certified firms in terms of rates of firm survival and employment and sales growth. The two samples contained firms that received adjustment assistance after being certified and firms that did not receive assistance. To address the second question, the researchers conducted field visits to the twelve TAACs, where they interviewed center staff, representatives of trade-impacted firms, and technical consultants regarding the effectiveness of the TAAC system.²⁷⁴

The firm-survival evaluation found that the TAA Program has been highly successful in helping firms recover economically. Compared with certified firms that did not receive assistance, assisted firms survived at significantly higher rates, added more employees (nonassisted firms typically lost jobs), and had stronger growth in total sales. Based on these findings, the study estimated that by the fifth year after certification, the

²⁷³ The Urban Institute, *Effective Aid to Trade Impacted Manufacturers: An Evaluation of the Trade Adjustment Assistance Program*, 1998; United States General Accounting Office, *Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear*, 2000.

²⁷⁴ The authors also interviewed representatives of other federal and state-sponsored business assistance programs such as SBDCs and MEPS.

TAA Program directly created one new job for every \$4,912 invested, and that the program generated \$92 in additional sales for every TAA dollar invested.²⁷⁵

The process evaluation concluded that, notwithstanding the program's overall success in assisting trade-injured firms, the system for delivering assistance could be improved. Some of the TAA Program's difficulties stem from its legislative origins, and addressing the problems would require statutory changes and/or increases in TAA appropriations. For example, restricting the program to firms in trade-injured industries, as evidenced by recent increases in imports, may exclude firms in industries that are already dominated by foreign imports.

Some of the study's major recommendations were to:

1. increase the number of assisted firms (which requires increased appropriations);
2. change the criteria for eligibility so that firms may be assisted earlier (i.e., before they have to make significant layoffs);
3. reduce backlogs and time lags in the delivery of technical assistance;
4. make cost-sharing policies for certification and assistance consistent across TAACs;
5. increase leveraging of other business assistance services.

A GAO evaluation completed in 2000 examined how TAA funding was used, the number and types of firms assisted by the program, and the impact of the assistance on firms. The majority of the firms interviewed for the study reported that TAA funding had a positive impact on firm sales and employment. TAAC directors were generally positive about the effectiveness of program, but all were frustrated with the low level of current funding. Directors noted that the limited funding did not allow them to fund all projects with approved business recovery plans; the result was a substantial backlog of approved projects.

Despite its generally positive evaluation of the TAA Program, the GAO concluded that program impacts are uncertain because of the lack of systematic monitoring of project implementation and project outcomes. The key recommendations of the GAO report were (1) to develop better measures of program outcome; and (2) to apply those measures in evaluating the effectiveness of the TAACs' delivery of services.

The promotion of free trade has been an important objective of the last several presidential administrations. While the push toward trade liberalization arguably produces long-term benefits for U.S. consumers, it also causes short-term adjustment problems for domestic firms facing increased global competition. The TAA Program,

²⁷⁵ These estimates were based on the assumption that the TAA Program could be credited with job creation and sales in proportion to its investment (AP portion only, not total program funding) as a share of the total assistance package. That is, if the TAA Program pays 50 percent of the package, it is credited with 50 percent of the new jobs and sales resulting from the assistance.

although small, is successful in helping U.S. firms become more competitive in global markets.

The impact of the TAA Program is limited primarily by its small size. In recent years, the program has provided adjustment assistance to approximately 120 firms per year, although thousands of firms are affected by increased imports. Further trade liberalization (e.g., the entry of China into the WTO, expansion of NAFTA to include more Latin American countries) is likely to exacerbate the service gap.

Both recent evaluations of the TAA Program concluded that most firms receiving assistance improved their competitive position as a result. In addition to increasing the number of firms that are assisted by the TAA Program—a step that would require additional program funding—improved measurement of the program’s impacts on sales and employment is needed. Better understanding of the impacts of specific types of assistance would improve program effectiveness, in both the certification of firms and the development of adjustment plans.

RESEARCH AND NATIONAL TECHNICAL ASSISTANCE PROGRAM

The Research and National Technical Assistance (RNTA) Program, administered in EDA’s Washington, D.C. headquarters, supports three types of projects:

- *Research projects* explore emerging or important issues and strategies in economic development and document the results for practitioners and policymakers. Such projects can evaluate non-EDA programs and practices, such as enterprise zones and business incentive programs.
- *Information dissemination projects* make information about development programs, projects, and emerging issues available to practitioners through various means, such as targeted newsletters, Web sites, and conferences.
- *Evaluation projects* assess the effectiveness of EDA programs and make recommendations for their improvement.

Program Objectives

RNTA supports EDA’s mission to help economically distressed areas by providing local development practitioners and EDA leadership with reliable and comprehensive information regarding the processes of local and regional economic development. RNTA funds research to increase knowledge of the causes of economic distress; emerging economic development issues; strategies to overcome barriers to economic progress in distressed areas; and strengths and weaknesses of EDA programs and policies.

Historical Context and Trends

Research and National TA have been important EDA activities since 1965. These activities have always been funded under two separate budget lines: one line funding research and a second funding the national component of the Technical Assistance Program. EDA's Office of Economic Research (OER), established in 1966, was charged with designing programs to improve understanding of economic development processes and to facilitate the implementation of federal economic development programs.²⁷⁶ OER focused on systematic research on regional economic development and on expanding the community of scholars engaged in such research. EDA's first Annual Report summarized the results of four completed research studies.²⁷⁷ The breadth of the agency's research mission is reflected in the titles of the four reports:²⁷⁸

- *Economic Viability and Regional Development*
- *Federal Loans to Private Enterprise under the Economic Development Act of 1965*
- *Project Evaluation for the EDA*
- *Criteria for the Location of Federal Regional Facilities*

Between 1965 and 2001, EDA-sponsored research has generated no less than 1,119 research reports and evaluations.²⁷⁹

OER supported both basic and operational research.²⁸⁰ Basic research included studies of changing economic, demographic, and political structures and institutions; analyses of regional, state, area, and local economic interactions; and the development and use of analytical tools and methods of impact analysis. Operational research included the specification of data needs, sources, and applications; formulation of methods and techniques to assess policy and program options; and identification of actions necessary to strengthen EDA's organizational and programmatic capacity. Dissemination activities included conferences, seminars, and meetings for private- and public-sector audiences.²⁸¹ OER, in collaboration with nine universities, also supported training and education designed to increase the number of scholars researching the nature and causes of regional

²⁷⁶ 1966 *Annual Report*, 30.

²⁷⁷ PWEDA required that EDA include in its annual reports a detailed statement of the research conducted or sponsored by the agency, together with any findings of that research and recommendations for legislative or other action. Title III, sec. 301(c).

²⁷⁸ 1966 *Annual Report*, 32.

²⁷⁹ EDA, *Economic Research Studies of the Economic Development Administration: An Annotated Bibliography, Reports Received August 1965 through December 1973* (Washington, DC: EDA, 1974); EDA, *Economic Research Studies of the Economic Development Administration: An Annotated Bibliography 1974–1978* (Washington, DC: EDA, 1980); EDA, *Economic Research Studies of the Economic Development Administration: An Annotated Bibliography 1979–1985* (Washington, DC: EDA, 1985); EDA, *Economic Studies of the Economic Development Administration: An Annotated Bibliography 1986–1994* (Washington, DC: EDA, 1994); EDA, *Economic Studies of the Economic Development Administration: An Annotated Bibliography 1995–2001* (Washington, DC: EDA, 2001).

²⁸⁰ The early separation between basic and operational research mirrors the later separation between research (i.e., basic) and national technical assistance (i.e., applied) work.

²⁸¹ 1977 *Annual Report*, 26.

Following are examples of EDA-funded research and national technical assistance:

- ◆ In 2000, EDA provided \$590,000 to support the newsletters and Internet sites of five national economic development organizations, including the State Science and Technology Institute, the National Association of Regional Councils, the National Association of Development Organizations Research Foundation, the Oklahoma Institute of Indian Heritage, and the Council for Urban Economic Development (now the International Economic Development Council).
- ◆ An award of \$200,000 in 1998 to the University of North Carolina at Chapel Hill supported research to examine the technology infrastructure needs of America's economically distressed communities. The report identifies the obstacles and opportunities confronting local communities seeking to undertake technology-led economic development.
- ◆ An award of \$140,000 in 1997 to Andrew Reamer and Associates supported research to identify the socioeconomic data needs of local economic development practitioners and to determine how well those needs are met by federal statistical agencies. The research produced a two-volume report. The first volume is a user's guide that helps state and local economic development practitioners navigate the maze of federal statistical agencies. The second volume contains an assessment conducted to improve the services provided by federal statistical agencies. EDA continues to fund a Web site, developed by the researchers, that connects economic development officials with the hundreds of statistics sources they are most likely to need.
- ◆ A 1995 award of \$322,000 to the National Academy of Public Administration supported research to examine the federal government's role in economic development. The report identified important federal roles in support of local and regional efforts, identified key areas for funding, and called for consolidation and coordination of federal programs. Equally important, the report generated a continuing and probing debate regarding the federal government's role in local economic development.²⁸²

economic disparities and the invention and application of better techniques of regional economic analysis.²⁸³

Research projects funded during the 1970s essentially continued this agenda.²⁸⁴ In addition, four regional economic analyses were conducted, focusing on the Northeast, Great Lakes, Southern, and High Plains regions. EDA also sponsored a Conference on National Growth Policy in 1970, reporting the results of recent research on regional economic conditions and the process of economic development.²⁸⁵

²⁸² See, for example, D. Thornburgh, "A Path to Smarter Federal Leadership in Economic Development: Learning, Leveraging, and Linking," *Economic Development Quarterly* 12 (1998) 291–298; E. Hill, "Principles for Rethinking the Federal Government's Role in Economic Development," *Economic Development Quarterly* 12 (1998) 299–312; C. Straub and K. Robinson, "Responses to Thornburgh and Hill: The Federal Role in Economic Development," *Economic Development Quarterly* 14 (2000) 255–264.

²⁸³ 1967 *Annual Report*, 46.

²⁸⁴ 1975 *Annual Report*, 16.

²⁸⁵ 1970 *Annual Report*, 32.

EDA's Research Program was dramatically downsized and combined with program evaluation in the early 1980s.²⁸⁶ Further consolidation occurred in the mid-1980s, when National TA was added to form the current RNTA Division.

Despite substantial funding cutbacks and staff reductions, EDA continued to view both research and evaluation as fundamental to achieving its mission.²⁸⁷ As staff became increasingly overburdened, however, there was a tendency to become less directly involved in the research projects they managed and to fund less basic research. Research topics in the late 1980s focused primarily (although not exclusively) on documenting development needs in distressed areas, identifying successful development strategies, and program evaluations.

RNTA made several internal changes in the late 1990s to increase the quality of funded research. First, the staff sought to reassert themselves in the research they managed, taking a more hands-on approach to impose more stringent quality standards on the reports produced. That change in approach has further stretched staff resources as each project takes additional review time. Second, the program refined procedures from the early 1980s that subject most research projects to competitive selection. Third, RNTA began using e-mail and other methods to circulate its requests for proposals (RFPs) to a larger pool of prospective researchers. Fourth, RNTA distributes the results of its research electronically on EDA's Web site. To leverage its program funding, RNTA has also partnered with other federal agencies to support collaborative research.

Funding Levels

Research has always been a very small program within EDA, receiving a cumulative appropriation of only \$192 million (in constant 2000 dollars) between 1966 and 2000. That amounts to less than one-half of one percent of EDA's cumulative, real funding allocation over the thirty-five year period.²⁸⁸ Still, research absorbed a considerably larger proportion of the agency's budget in the early years than it does today. Research funding obligations (excluding National TA) averaged close to \$9.5 million per year in real-dollar terms during the 1960s and 1970s, peaking at \$23.8 million in 1978 (all in constant 2000 dollars; see figure 4.7). Since 1990, the Research Program has received an average of just \$765,000 per year (in constant 2000 dollars).²⁸⁹ The average research award was \$42,000 in fiscal year 1999 (in current-year dollars).²⁹⁰

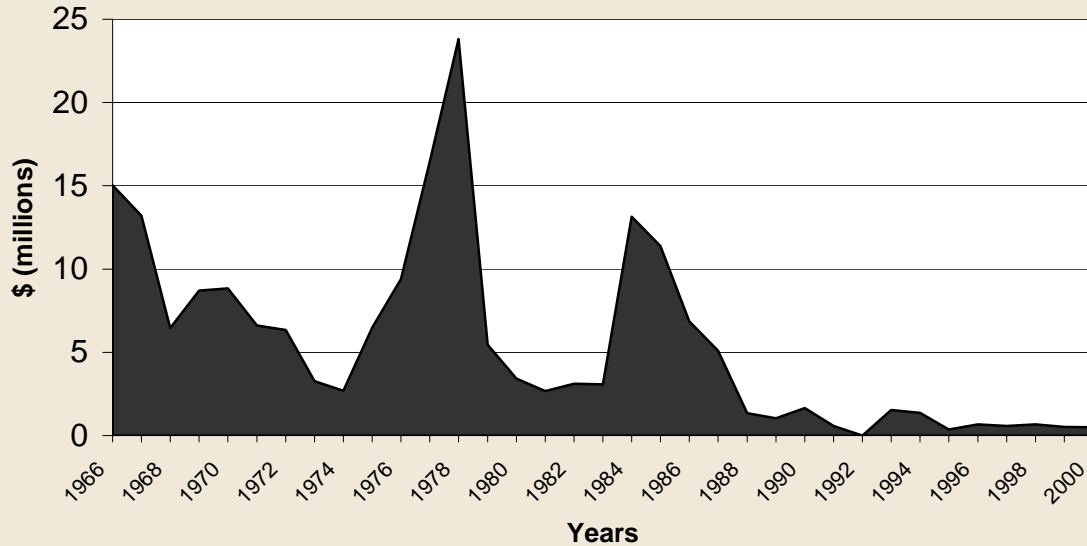
²⁸⁶ Programs within OER, including the visiting scholars program and student internships, were also discontinued in the early 1980s.

²⁸⁷ 1980 *Annual Report*, 8.

²⁸⁸ The figure includes only the Research appropriation. Funding for National TA and Local TA is combined in a single category in the annual appropriation and is discussed above in the section on Local TA.

²⁸⁹ The RNTA Program currently operates with a combined annual budget of approximately \$1.5 million.

²⁹⁰ *EDA Programs Guide*, 1999.

Figure 4.7. Funding for Research in Constant (2000) Dollars

Sources : Economic Development Administration, *Appropriation by Fiscal Year by Program*, 2000; U.S. Department of Commerce, *GDP Deflators*, 2001.

Program Design

Since 1995, RNTA staff have identified research priorities for each fiscal year based on input from clients, headquarters staff, and the regional offices. Those priorities are then reviewed within EDA and a final set of proposed topics is selected. Once topics are selected, RNTA solicits proposals to conduct the research by publishing one or more highly specific Requests for Grant Proposals (RFPs) in the *Federal Register*. All but a few RNTA grants are funded through competitive bidding. Proposals are evaluated by a review panel of at least three members, which considers the responsiveness of the proposal to the scope of work described in the RFP, the federal cost of the project, and the applicant's ability to complete quality research in a timely fashion.²⁹¹ Before 1996, RNTA's competitive selection was from proposals submitted in response to much more open-ended and general *Federal Register* notices and from those responding to specific RFPs.

Funding criteria for the RNTA Program are slightly different than the criteria used by other EDA programs. Because research projects are national in scope, economic distress in the applicant's locality is not a criterion for funding, nor is an approved CEDS. Private for-profit firms are eligible grantees. Most RNTA awards go to universities, national development organizations, and research consultants.

²⁹¹ 1998 *Annual Report*, 25.

Program Impacts: Evaluations of the RNTA Program

Systematic evaluations of the Research Program were completed in 1973 and 1983 but no evaluations have been completed in recent years.

In the 1973 study, 135 research reports were reviewed by a panel of twenty-one academics and consultants from the fields of economics, political science, and public administration. The panel rated the majority of reports as better than average. The study recommended a closer linkage between OER research and other EDA divisions to increase the impact of research within the agency.²⁹²

The 1983 evaluation was an internal assessment conducted by the Economic Development Program Evaluation Task Force, made up of five EDA managers and staff.²⁹³ The Task Force studied several EDA programs, including the Research Program, and focused particularly on the program's cost-effectiveness. The assessment examined a representative sample of twenty research projects begun and completed during the period 1977 to 1982. Users of EDA research were identified, and 168 people were interviewed regarding the quality and utility of the research.

The study found that 94 percent of the people interviewed had read the report or attended a workshop where the report was presented, and that 83 percent found the research useful. Nearly 75 percent of those interviewed reported that the research had affected their operation or performance and 73 percent cited specific examples. Three-fourths of those interviewed stated that the work product was worth the cost of the research. The Task Force concluded that the research products had reached their intended audience; that the reports, workshops, and conferences that stemmed from the projects had positive practical impacts; and that it was unlikely that the research would have been funded by state or local governments or by the private sector in the absence of federal funding.

In 1996, at EDA's request, the National Academy of Public Administration (NAPA) convened a panel of experts to assess the federal government's role in economic development.²⁹⁴ Without referring specifically to EDA's research program, the panel's report concluded that the "federal investment in research, information, and knowledge

²⁹² EDA, *Evaluation of EDA Research Program 1966–1971* (Washington, DC: EDA Program Analysis Division, 1973).

²⁹³ EDA, *Summary of Results: An Examination of Selected EDA-Funded Activities*, prepared for the Assistant Secretary for Economic Development by the Economic Development Program Evaluation Task Force (May 1983).

²⁹⁴ National Academy of Public Administration, *A Path to Smarter Economic Development: Reassessing the Federal Role* (November 1996). The nonpartisan panel of experts met in six full-day sessions over the course of a year to review briefing materials, to conduct discussions with experts and project sponsors, to develop a common approach to and an understanding of the issues, and to direct preparation of the report. The panel was supported by staff who reviewed literature, especially evaluations of federal and state economic development programs and projects; conducted interviews with agency personnel, experts, and practitioners; and conducted roundtables in three cities with federal, state, and local officials. The staff also conducted field studies of economic development "best practices" in five locations around the country.

must be strengthened.”²⁹⁵ The authors cited budgetary limitations, bureaucratic fragmentation, political reactions to negative findings, and the high cost of competent research and evaluation as impediments to information development and dissemination. The general recommendation was that the federal government should help make state and community development efforts “smarter” by ensuring that economic development activities are well informed. The report’s ten specific recommendations included the following:

- The federal government should help finance systematic evaluations of state and local development efforts. The government should support joint federal, state, and local efforts to document and disseminate information about the process of local economic development and about promising ideas, techniques, and approaches to support the development process.
- Federal agencies should earmark a significant portion of their economic development budgets for research that can inform state and local economic development practices and support demonstrations, evaluation, and dissemination of results. In addition, the federal government should engage state and local leaders in the process of defining research agendas.
- Federal funding does not necessarily mean federal control of project evaluations and the dissemination of results. The report recommends the wider use of peer review and encourages states and localities to use outside experts to evaluate their economic development activities.

RNTA supports applied research on economic development issues and conducts evaluations of ongoing EDA programs and activities. Despite the program’s small size, projects funded under the program have made important contributions to knowledge about a wide range of issues facing U.S. firms and regions as they seek to retain or regain competitiveness in a context of continuing economic change.

Although EDA as a whole has suffered significant funding reductions over time, no program has been cut more than research. Major reductions in the research budget were initiated during the Reagan administration, but research today is funded at the lowest level ever in real-dollar terms. Research staffing levels in late 2001 were 40 percent below what they were only two years earlier.²⁹⁶ It is difficult for RNTA staff to manage current grants and, without additional resources, the program cannot effectively play a leadership role in the search for solutions to today’s pressing economic development challenges. Among these challenges, for example, are the rise of the information economy, the emergence of a digital divide between urban and rural areas, and the impacts of economic globalization on local and regional economies. RNTA’s record of supporting cutting-edge applied research suggests that, with even moderate increases in funding, the program could make additional significant contributions to knowledge about these emerging issues.

²⁹⁵ Ibid., 38.

²⁹⁶ This large percentage change may in part reflect a “small numbers” problem.

CONCLUSIONS

EDA's programs comprise a core set of activities—Planning, Public Works, and Technical Assistance—that have been in place since the agency was established. These programs constitute a mutually supporting approach with which the agency helps economically distressed communities plan and implement their economic revitalization.

In addition to these core programs, a few carefully selected functions have been added incrementally over the intervening thirty-seven years in response to emergent problems and new understandings of the economic development process. The Economic Adjustment and Trade Adjustment Assistance programs provided new tools for assisting communities in responding to both long-term decline and severe short-term dislocation in the economic environment. Special congressional funding for Defense Adjustment and Disaster Recovery have further extended EDA's capacity to assist communities in responding to economic dislocation caused by military-base closings and natural disasters.

While each of these programs has a distinct rationale and separate identity, it is important to recognize the integrated and coherent nature of EDA's program structure. Planning is the starting point for local economic revitalization, helping communities to design strategies that reflect local needs, capabilities, and dreams. Specialized technical assistance can then help communities refine their strategies and develop the local capacity necessary to implement them. By the time they seek assistance from the Public Works Program or the Economic Adjustment Program, communities are in a strong position to use that assistance to propel their development efforts forward. EDA-funded research helps produce and disseminate the knowledge base necessary to plan and implement local development strategies and systematically evaluates the effectiveness of EDA's programs.

The coherent and complementary character of EDA's program structure is both a major strength and an imminent challenge. The strength is that close integration among distinct program elements makes EDA considerably greater than the sum of its parts. The challenge, however, is that future limitations on budget resources or reductions in any one program area can threaten the coherence of the structure. It is unlikely that EDA's well-integrated system of support for local economic development could survive further significant reductions.

5

THE EVOLUTION OF EDA'S ORGANIZATIONAL STRUCTURE

EDA's history has been punctuated by a succession of internal organizational shifts as the agency has reinvented itself in response to external challenges. In the face of these challenges, the agency has tenaciously sought to carry out its mission of stimulating economic growth in depressed communities. This chapter traces the ways in which EDA's policy direction and organizational structure have evolved as the agency has engaged its mission over time. Two central questions frame the content of the chapter. First, what prompted the various policy and organizational changes? Second, and more important, how have those changes affected the efficacy of the agency in meeting its goals? These questions are addressed in two sections. The first provides a brief review of major policy changes and the consequent changes in EDA's organizational structure. The second presents an overview of the agency's response to recent management initiatives in reinventing government.

THE CHANGING POLICY CONTEXT AND ORGANIZATIONAL STRUCTURE

EDA's mission to stimulate economic growth in distressed communities is a complex and formidable task. A thorough grasp of EDA's strategy for accomplishing its mission is vital for understanding the agency's organizational structure and why it operates as it does.

The continuing challenge facing EDA management and staff is to maintain an understanding of the local economic development process and to formulate or refine program strategies and an organizational structure capable of supporting that process within available budget and staff resources. The approach consistently followed by EDA throughout its history is to view economic development as an ongoing, fluid, and dynamic process that seeks to strengthen the economic base of an area and to create new, permanent employment opportunities. The agency's primary strategy for alleviating economic distress is to help local areas stimulate private-sector capital investment in order to broaden the tax base and to create and retain permanent jobs.

The “new federalism” initiatives introduced during the Nixon administration reinforced EDA’s view of economic development as a local process. Consistent with this perspective, EDA has operated on the premise that community economic development priorities are best defined at the local level. The agency’s primary goal is to help communities develop the long-term institutional capacity necessary to undertake the planning and implementation of local economic development. The federal role is to provide leadership, technical assistance, training, and funding to catalyze local efforts. Resources provided by the federal government can be directed to support economic development projects defined through vision and leadership at the local level.

EDA recognizes that the economic development process is different in each community, depending on previous development, factor endowments, location, labor force characteristics, and related matters. Community factors critical to the economic development process, such as leadership, institutional capacity, capital formation, and the depth of existing development organizations, also vary widely from community to community. As a result, establishing a uniform policy and strategy for economic development is, at best, a difficult challenge. The key to handling this problem is to encourage and support economic development planning at the local level, and to use the judicious investment of public resources as a catalyst to facilitate plan implementation.

Changes in Organizational Structure

EDA’s internal organizational structure mirrors its approach to local economic development. The agency’s planning and technical assistance functions are designed to assist communities to develop a workable plan for economic growth and the expertise to implement it. The public works and economic adjustment programs are designed to support plan implementation.

At its inception in 1965, EDA inherited ARA’s structure and staff. Almost immediately, however, the agency began a process of restructuring and reinvention in response to changes in the economic and political environment and in an attempt to improve internal efficiency. EDA has achieved its present organizational structure through a prolonged and continuing process that began almost immediately after the agency’s inception. Throughout its history, the agency has periodically changed its structure to increase productivity and efficiency and to respond to external changes. An internal agency assessment of its organizational structure prepared in 1977 explicitly linked program performance to organizational structure:

EDA’s current structural configuration has not permitted the creation of innovative strategies and policy and therefore the effective and efficient operations of which EDA is capable. This has resulted in service to the agency’s clientele that is poorer and slower than EDA is capable of providing.²⁹⁷

²⁹⁷ Economic Development Administration, *An Assessment of the Goals, Objectives, Operations, and Organizational Structure of the Economic Development Administration* (Washington, D.C.: EDA, 1977), 83.

This statement reflects the agency's recognition of a direct link between the way in which it is organized to meet its goals (how it operates) and its end product (what it is able to accomplish).

The separation of functions between EDA's central and regional offices is designed to facilitate the agency's basic programmatic objectives. A reorganization of field operations began in 1967, with the regional offices reporting to the deputy assistant secretary for economic development in the Department of Commerce.²⁹⁸ The principal responsibility of the regional offices was preliminary processing of applications for public works and business loan assistance, while authority for final approval remained in the national headquarters office in Washington, D.C. A technical assistance specialist was assigned to each regional office, and the number of field coordinators was reduced from 73 to 58. The specialist's purpose was to work with local groups and officials to explain EDA programs, assist with planning activities, aid in preparation of applications, and serve as a liaison between the applicant and the area office. The agency undertook a major overhaul of the application and evaluation process in 1968 and introduced the notion that a proposed project must be part of a larger comprehensive economic development plan.

A task force of high-level EDA staff laid the groundwork for a new period of agency restructuring in 1978. The changes involved a substantial decentralization of program responsibilities to the regional offices and a further expansion of the agency's regional network.²⁹⁹ Organizational changes continued into 1979, with additional management practices and procedures designed, in part, to strengthen the authority and strategic actions of the regional offices.³⁰⁰ The regional offices became responsible for preparing regional investment strategies and communication was improved between the Washington headquarters and the regional offices.

These structural changes followed three principal organizational tenets. First, development of strategy, policy formulation, and basic administrative functions would be performed in Washington, D.C. Second, responsibility for program operations would be placed in the regional offices, and adequate resources and personnel would be made available to them. Third, authority and responsibility should not be separated. In addition, it was also proposed that the agency be restructured along three fundamental functions: (1) strategic and policy planning, (2) program operations, and (3) administrative and support services.

In 1979, EDA partnered with other federal agencies to simplify and standardize grant application procedures. EDA's objective was to make it easier for distressed communities to participate in its programs.³⁰¹ For example, in conjunction with one of President Carter's rural initiatives, EDA participated in the development of a streamlined federal application process for water and sewer projects. To improve environmental

²⁹⁸ 1967 *Annual Report*.

²⁹⁹ 1978 *Annual Report*.

³⁰⁰ 1979 *Annual Report*.

³⁰¹ 1979 *Annual Report*.

review of its programs, EDA revised its grant application forms so that applicants provided information needed for environmental assessments. EDA was one of only a few federal agencies to require environmental impact information on its preapplication forms.³⁰²

EDA faced its greatest challenge in 1981 when the Reagan administration took office and attempted to eliminate the agency. The agency was ordered to shut off the new-grant pipeline and to terminate existing grants midstream; the agency could pay grantees for work already performed but could not provide funds for projects to be completed. Regional offices were discouraged from communicating with one another. President Reagan rescinded 30 percent of the agency's original fiscal year 1981 appropriation, cutting EDA's budget by \$187.9 million, from \$624.6 million to \$436.8 million.³⁰³ In fiscal year 1982, EDA's program budget was reduced by an additional 55 percent below the original 1981 appropriation (in current-year dollars).³⁰⁴ The administration requested zero program funding for EDA in 1983 but Congress appropriated \$198.5 million.³⁰⁵ Lacking congressional reauthorization between 1983 and 1998, EDA was sustained solely through the annual appropriations process and was kept alive due only to bipartisan congressional support. The drastic budget reductions prompted sweeping changes within the agency, including the termination of several organizational units and a large portion of the agency's staff, consolidation of agency functions, and realignment and recentralization of agency operations.³⁰⁶

The agency experienced another restructuring in 1994 in parallel with President Clinton's "reinventing government" initiative.³⁰⁷ Unlike previous reorganizations, which were externally imposed, this one was adopted by EDA management to make the agency more efficient. As part of this restructuring, headquarters was reorganized in 1995, primarily into two offices, including most of program operations and other functions.

EDA finally won congressional reauthorization in 1998. The new statute authorized more than \$1.8 billion for EDA over five years (and \$207 million over three years for the Appalachian Regional Commission). In addition to the legislative changes introduced in the 1998 reauthorization act, reform of the agency also entailed a reduction in the number of political appointees in order to flatten the management hierarchy and to make the management of the agency more professional.

EDA's Regional Network

EDA's regional offices are its chief mechanism for achieving its mission of local community economic development. They are critical to the functioning of the agency,

³⁰² Ibid.

³⁰³ 1981 *Annual Report*.

³⁰⁴ 1982 *Annual Report*.

³⁰⁵ 1983 *Annual Report*.

³⁰⁶ 1981 *Annual Report*.

³⁰⁷ 1994 *Annual Report*.

facilitate local economic development planning, stimulate community involvement and local input, help fulfill the requirement of local matching funds, and monitor implementation and progress of funded projects.

The regional office structure resulted from congressional pressure to decentralize EDA in the late 1960s. The assistant secretary favored ARA's experimental field office structure and decided to staff field offices in different areas of the country. At the time of its creation, EDA inherited eight ARA area offices located in Portland, Maine; Wilkes-Barre, Pennsylvania; Huntington, West Virginia; Huntsville, Alabama; Detroit, Michigan; Duluth, Minnesota; Austin, Texas; and Seattle, Washington.³⁰⁸ In addition, there were 73 field coordinators (now called economic development representatives, or EDRs) throughout the United States, most of whom were long-time residents of the areas they represented.³⁰⁹ The Detroit office closed in 1967, leaving seven regional offices.³¹⁰ EDA opened the Philadelphia regional office as a pilot in 1970 and announced the present regional structure in 1971. Subsequent closures and realignments have left the current six regional offices located in Atlanta, Georgia; Philadelphia, Pennsylvania; Austin, Texas; Chicago, Illinois; Denver, Colorado; and Seattle, Washington. There are now only 35 EDRs. EDA recentralized many functions in response to the drastic budget cutbacks imposed during the Reagan and Bush administrations (1981 to 1992), but the regional offices remained open, albeit at a much reduced scale.

A recent reorganization of some regional offices divided the regional staffs into teams based on geographic subdivisions within the region. Previously, regional staff were divided by program (e.g., a Public Works Division, an Economic Adjustment Division, a Planning Division). Under the current structure, the Philadelphia region, for example, is divided into geographical subdivisions of the region it serves (i.e., a New England division and two other multistate divisions). Each division or team is composed of staff representing all of EDA's programs and the entire team is responsible for all of the projects in their division. The goal of the change is to improve the integration of program tools and to make all of the tools available to communities during planning, project development, and project implementation. This reorganization has been unevenly implemented across the regional network and is not fully in place in all of the regional offices.

Fluctuations in the regional office structure were accompanied by shifts in programmatic responsibility and, to some extent, in the distribution of resources. The decentralization of project processing and management that began in the mid-1970s was supported by a perception on the part of both the field and headquarters that decentralization was necessary and overdue. The devolution of project approval to the regional offices proceeded gradually, however, and had not been completed when the Reagan administration recentralized the agency in 1981 as a prelude to shutting it down. Full authority for project processing and approval was again devolved to regional

³⁰⁸ 1966 *Annual Report*, 35.

³⁰⁹ *Ibid.*

³¹⁰ 1967 *Annual Report*, 48.

directors in 1998. At the same time, the role of headquarters staff largely changed from grant-approval processing to policy development and oversight.

The relationship between headquarters and the regional offices continues to evolve. When responsibility for project approval was granted to the regional directors, a concomitant oversight mechanism was not put in place to ensure uniformity and consistency both within and between regions. Lacking both sufficient staff and an appropriate oversight mechanism, the Washington headquarters is stretched to ensure that regions are operating within legal and statutory requirements and according to policies set by headquarters. An executive management team composed of Washington senior managers and the regional directors provides for intra-agency communication.

Economic Development Representatives

The EDR is an important and innovative component of the regional office staff. EDRs serve as field representatives of EDA for communities throughout the nation. They are usually the first representative of the agency a community or client encounters when seeking economic development assistance. Acting as conduits between the agency and the community, EDRs help bring community-initiated projects to the regional offices for consideration, ensure that projects are part of a comprehensive economic development strategy, and assist applicants with the application process, contributing to reductions in processing time and improvements in the quality of formal project proposals.

Headquarters staff and regional office directors rely heavily on EDRs to identify local investment opportunities. EDRs are knowledgeable about the communities they represent, and regional offices depend on the EDRs for information. An EDR's local knowledge includes familiarity with community leaders, organized labor, private-sector sources of capital, the local educational system, higher education institutions, and cultural resources in the community.

Some controversy exists over the degree of authority an EDR can exercise in project selection. Project selection and approval constitute what is by definition a subjective process. Some argue that the process benefits from individualized assessment based on detailed local knowledge; others believe that a uniform approach is needed to ensure consistency in funding decisions across regions. Project elements that are particularly subject to interpretation include the project's appropriateness to local circumstances, its timing, the trade-off between equity (need) and efficiency (benefit/cost), local support, and ease of administration. Some EDRs exercise considerable discretion in considering these matters while others receive far less latitude, and this variation exists across the regional offices. The one issue on which many agree is that there are too few EDRs for the territory that must be covered. Staff at University Centers and EDD offices sometimes help with project identification, development, and monitoring in small communities.

Staffing Changes

EDA's staffing levels have fluctuated widely over time, seriously undermining the agency's ability to carry out its mission. Staffing levels between 1965 and 1967 reflected the growth of a start-up agency: EDA employed a total of 346 people in 1965, including headquarters and field office staff.³¹¹ This number more than doubled in the first year and, by 1966, EDA employed 741 people, 439 at headquarters and 302 in the field offices. By 1967, EDA employed 1,010 people: 599 at headquarters and 411 in the field offices.

The increase in field staff as headquarters shifted more project approval and monitoring functions to the regional offices in 1970 was accompanied by a reduction in force (RIF) in the headquarters office.³¹² The Reagan-era budget reductions forced the agency to absorb a major RIF in the last quarter of fiscal year 1981.³¹³ A smaller RIF occurred during the first Bush administration, and another major RIF occurred in July 1996, after the 1994 mid-term election when Republicans won a majority in the House and sharply reduced the agency's administrative budget. This RIF was partially self-imposed by the agency in an effort to show how efficient and lean it could be within the larger movement to reinvent and streamline government. Currently, there are approximately 250 EDA staff members nationwide (including EDRs), and less than one-third work in the Washington headquarters.

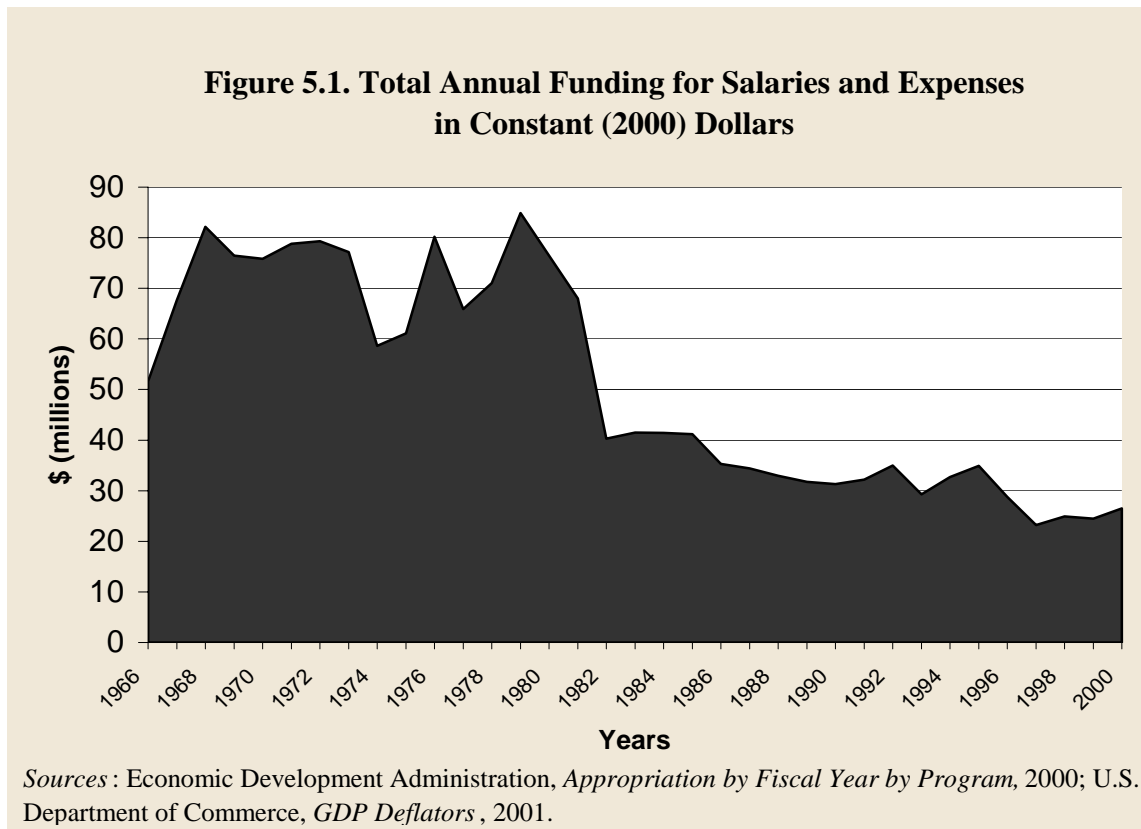
Funding levels for staff and expenses have dropped sharply over time, in inflation-adjusted 2000 dollars (fig. 5.1). The current appropriation for salaries and expenses (also in constant dollars) is less than half of what it was in the early years of the agency, despite the expansion in both the number of programs and in the number of eligible areas. The disjuncture between new program initiatives assigned to EDA by Congress and the lack of funding for additional staff to handle the increased workload presents a continuing challenge. The real decline in funding for staff and program administration takes a toll in the long term as staff resources are severely overextended and lower-profile but nonetheless important programs and tasks are placed on the back burner.

A staff succession problem is looming for the agency. Well over half of current EDA employees, especially at the upper-management and senior staff levels, are eligible for retirement in the next few years. Few young, qualified staff have been hired and there is no plan to overlap replacement staff ahead of schedule so they can learn the jobs of upper-level staff. As a consequence, the agency faces a tremendous loss of both experienced personnel and institutional memory in the very near future.

³¹¹ 1966 *Annual Report*, 33.

³¹² 1970 *Annual Report*, 3.

³¹³ 1981 *Annual Report*, Foreword.



RECENT REORGANIZATION INITIATIVES

Two major federal organizational initiatives launched under the Clinton administration in 1993 affected the legislative and executive branches of government: the Government Performance and Results Act of 1993 (GPRA)³¹⁴ and the National Performance Review (NPR), subsequently known as the National Partnership for Reinventing Government. EDA has reevaluated its practices, policies, organizational structure, and management systems in response to these initiatives and as part of a continuing independent process of internal assessment and self-evaluation.

³¹⁴ PL 103-62.

Government Performance and Results Act of 1993

The GPRA found that “waste and inefficiency in federal programs” undermine the confidence of the American people and that federal managers were hampered in their efforts to correct this situation by “insufficient articulation of program goals and inadequate information on program performance.”³¹⁵ The objectives of the GPRA were to improve program accountability, customer satisfaction, service quality, and service delivery in all federally funded programs.

The rationale behind the GPRA was that program performance and effectiveness would be improved through the adoption of systematic performance measures. Specifically, the GPRA requires annual performance plans and strategic plans from each federal department. Federal agencies must prepare and submit an annual performance plan (APP) for the program activities that are detailed in each fiscal year budget request. An agency's APP includes information on its performance goals and targets, verification and validation data, and actual measures of projected performance. An agency's APP emphasizes core competencies and demonstrates performance-based management practices. The annual program performance report (APPR) provides a summary of program performance measures (contained in the APP) and an assessment of the agency's performance based on those measures. Together, the APP and the APPR constitute a formal, institutionalized, and systematic approach to monitoring agency performance.

Although EDA had conducted evaluations of its programs for thirty years,³¹⁶ the annual APP and APPR submissions are important events for EDA because they help the agency document the importance of its programs to Congress. EDA submitted its first APP in 1999, but the concept of a strategic plan was not new to the agency. By April 1995, EDA staff had created a document that they perceived as a “work-in-progress (that) supports our programmatic initiatives ... and our management improvement initiatives that will enhance the delivery of these programs to our customers.”³¹⁷ In November 1997, the assistant secretary of EDA announced the formation of an EDA Strategic Planning Steering Committee.³¹⁸ The committee's objectives were to (1) help the agency fulfill its mission in an era of diminished staff and budget resources; (2) identify EDA's unique capabilities and ways in which the agency can build upon those capabilities with new initiatives that support its mission; and (3) help the agency meet GPRA requirements in a meaningful, productive, and results-oriented manner.³¹⁹

³¹⁵ Government Performance and Results Act of 1993, S-20, Section 2. “Findings and Purposes.” Retrieved online at <http://thomas.loc.gov/cgi-bin/query/D?c103:1:./temp/~c103xewkyi:e671:>

³¹⁶ Economic Development Administration, *Summaries of Program Analysis Division Evaluations: 1969–1975* (Washington, D.C.: EDA, 1975).

³¹⁷ Economic Development Administration, *Our Vision and Strategic Plan*, May 8, 1995, Preface.

³¹⁸ Memorandum dated November 7, 1997, from Phillip A. Singerman to All EDA Employees, regarding the EDA Strategic Planning Process.

³¹⁹ EDA Strategic Planning Steering Committee, *Report and Recommendations*, February 9 and 10, 1998.

The committee's report, submitted in February 1998, identified six major goals:

- Secure passage of EDA reauthorizing legislation
- Refine EDA's organizational structure
- Develop an ongoing strategic planning process based on GPRA principles
- Reaffirm, enable, and create economic development partnerships
- Improve internal and external communications
- Implement comprehensive employee-training and professional development programs

The report recommended changes to the agency's organizational structure aimed at improving procedures for processing grant applications. With respect to partnerships, EDA staff believed that the economic development process could be improved by working with other federal agencies, and through enhanced coordination and integration among and between its own programs. In particular, the report noted the need to improve coordination between EDA's Public Works and Technical Assistance Programs.³²⁰

EDA has worked with other federal agencies since its inception. Staff in the regional offices coordinate project-funding assistance with the Department of Housing and Urban Development (for community development projects) and the Farmers Home Administration (for water lines for residential use), among other agencies. Headquarters staff in EDA's Economic Adjustment division work as part of a team with the Department of Defense when a military base is scheduled to close, and with the Federal Emergency Management Administration when a natural disaster strikes. EDA has worked closely with the Appalachian Regional Commission, the Department of Agriculture (on rural development projects), EPA (on brownfields development), the Department of Justice, the Department of Transportation, the Army Corps of Engineers, and the Department of Energy. Some of these collaborations are nominally limited to joint project funding and require little interaction. More substantive interagency collaborations could extend and enhance the resources and assistance the agencies provide to distressed communities. Such collaborations, however, require a considerable allocation of staff resources, which represents a serious constraint for EDA.

National Performance Review

The National Partnership for Reinventing Government, formerly the National Performance Review (NPR), is an interagency task force designed to fundamentally change the way the federal government works. President Clinton announced the creation of the NPR on March 3, 1993.

³²⁰ Ibid.

The NPR's initial efforts included convening a task force of 250 career civil servants, state and local government officials, and consultants; holding "town hall" meetings in several federal agencies to learn the problems and challenges facing employees; and hosting a "Reinventing Government Summit" of corporate executives, government leaders, and consultants who were leaders in organizational change. The original task force was organized into two sets of teams. One set reviewed individual agencies, while the other set of teams focused on government-wide systems such as procurement, budgeting, and personnel.

The announced purpose of the NPR was to create a government that works better and costs less by putting customers first, cutting red tape, and empowering employees to achieve agency goals.³²¹ Fifteen recommendations were addressed to the Department of Commerce, two of which affected EDA, one quite general and one fairly specific: (1) reinvent federal economic and regional development efforts and (2) provide public works loan guarantees for infrastructure assistance. The first recommendation was congruent with changes already underway within EDA, giving regional offices authority to approve projects, and giving individual staff members responsibility for administering particular programs.³²² Implementing the second recommendation, for provision of public works loan guarantees, would require legislative change and was not within the capability of EDA to adopt as an administrative matter.

The second phase of the NPR listed additional reforms to help government work better. The Department of Commerce is working steadily toward making structural improvements to streamline operations, consolidate regional offices, and create one-stop shops for program information and application assistance. A major goal of the department's streamlining efforts "is to flatten its hierarchical structure and increase each manager's span of control by having one less layer between employees and the secretary."³²³

In response to the NPR, EDA's 1997 *Annual Report* described the following accomplishments:

- continued with the development of an on-line grant application process
- eliminated 62 percent of its regulations
- focused resources on areas of highest economic need
- reduced administrative overhead
- implemented an agency reorganization
- expanded economic development partnerships at the local level
- increased customer satisfaction
- implemented performance measures in compliance with GPRA

³²¹ The Phase I report, *Creating a Government That Works Better and Costs Less*, was delivered to President Clinton on September 7, 1993.

³²² 1994 *Annual Report*, 3.

³²³ National Performance Review, *Appendix A: Status of Major Recommendations by Agency*, September 7, 1995; retrieved on-line from: www.npr.gov/library/nprprt/annrpt/comsen95/239a.html

- developed a strategic plan that supports the DOC's goals and objectives
- actively pursued reauthorization of agency programs.

EDA launched a major grant-application reform initiative in 1994. Its objectives included reducing application processing times; improving customer satisfaction; continuing to ensure product quality; and ensuring organizational accountability.³²⁴ The changes addressed complaints that applications were too long and complicated, and that the process discouraged potential applicants, particularly those from smaller communities, from applying for EDA assistance. EDA issued another guidance document in July 1998 that established procedures for further streamlining the grants process and delegated authority for final grant processing to regional directors. Project invitation or rejection decisions would be made by the regional office's Project Review Committee, which was structured to conform with departmental project-selection criteria.³²⁵ In addition, regional directors are responsible for approving final grant awards and for staying within their regional program allocation levels.

CONCLUSIONS

EDA's program and organizational structure are flexible, allowing for innovation and responsiveness to changing economic needs and conditions. The agency has been called upon many times throughout its history to take on responsibilities outside of its normal operations. As a result, EDA has developed as an agency that can get things done quickly and one that does not shy away from innovative solutions.

Examples of EDA's innovative approaches are numerous. EDA funded tourism programs in West Virginia when other employment sources were not attracted to the area. After the Watts riots of 1965, EDA helped restore the area's infrastructure and rebuild its economic base. It also implemented economic development programs in Oakland, California, where law enforcement agencies believed the riot potential was high. When the Carter administration placed an increased focus on urban areas, EDA created a Division of Urban Affairs. EDA developed programs during the 1970s to respond to the energy crisis, natural disasters, and economic recession. The agency provided economic assistance to Lake Placid when it hosted the Olympic Games. EDA is currently moving forward on technology-led initiatives, promoting e-commerce and helping distressed areas bridge the digital divide. Despite strained resources, the agency has found and demonstrated new and creative ways to raise money to help communities begin projects, including the securitization of revolving loan fund loans and credit enhancement techniques to leverage defense adjustment financing.

Fluctuations in staffing and budget resources, however, significantly affect the agency's policy and program effectiveness. EDA's resources have been significantly reduced at critical junctures throughout its history, leaving a minimal structure with

³²⁴ 1994 *Annual Report*, 3.

³²⁵ 1998 *Annual Report*, 5.

which to carry out its mission. A recent internal review showed that staff reductions have significantly increased project-processing time.³²⁶ The remaining staff is left with substantially increased workloads. This problem decreases staff productivity and threatens the quality of their work. Understaffing in the regional offices often undermines the agency's compliance with procedures for preconstruction review and post-approval project monitoring, oversight measures that nonetheless are essential for maintaining the quality of EDA projects.

One of the most pressing challenges facing EDA management is the inability to pursue long-term planning for the future direction of the agency. Training and continuing professional development of EDA staff—a vital activity that develops better economic development practitioners and leaders—is virtually nonexistent because of a lack of staff and resources. Another consequence of insufficient staff resources is that headquarters cannot adequately monitor the regional offices to ensure that agency policy is being implemented in a uniform and consistent manner. Insufficient funding for staffing and administration presents a major barrier to overcoming the challenges faced by the agency. Increased funding is needed to reduce staff workloads, support travel to and among regional offices, recruit young staff to replace those at or near retirement age, and employ additional staff with cutting-edge skills and perspectives.

³²⁶ EDA GPRA Task Force Preliminary Planning Session, March 3, 1999, Washington, D.C.

6

EDA'S RESPONSE TO ECONOMIC DISTRESS

OVERVIEW AND ASSESSMENT

This chapter presents an overview of EDA's effectiveness in responding to domestic economic distress. The extent of the agency's success has depended largely on its ability to recognize and respond to the challenges and opportunities encountered throughout its nearly four-decade long history. The agency has faced challenges posed by its external environment, differing approaches to economic development, and widely fluctuating levels of funding and political support. Internal challenges have included reductions in staffing levels, turnover in personnel, and changes in the geographic and administrative organization of the agency. Finally, several enduring issues have affected the agency's direction and program operations in the past and are likely to continue to define, or at least influence, the agency's progress in the future. In this chapter, we identify changes in the agency's external and internal environments and the enduring issues that will continue to shape EDA's effectiveness in responding to domestic economic distress.

EDA has been strikingly successful in addressing the mission set forth in PWEDA in 1965, as documented in frequent internal and external evaluations examining both individual programs and the agency's overall performance. The agency has demonstrated remarkable flexibility throughout its history while remaining true to the vision and objectives established in PWEDA. That success has been achieved despite severe funding limitations, uncertainty and fluctuations in funding levels from year to year, and a wide range of legislative, political, and administrative constraints on program operations.

The agency has been highly successful in helping provide or upgrade the basic infrastructure of economically distressed communities throughout the country. EDA has also been successful in assisting relatively industrialized communities that are temporarily distressed due to a sudden or acute shock, such as a plant closing or a natural disaster, or are negatively affected by longer-term structural changes in the U.S. economy, such as the reduction in defense spending.

EDA's successes reflect the soundness of its two-track approach in responding to domestic economic distress. On the one hand, the Public Works Program has remained the consistent, unwavering bulwark of EDA's strategy, reflecting the belief that provision of basic infrastructure is a prerequisite for attracting the private investment necessary for self-sustaining economic growth. On the other hand, EDA has maintained the flexibility to identify and respond to short-term, emergent shocks that, if left unaddressed, have the potential to distress previously vibrant communities.

This two-track strategy largely accounts for the agency's remarkable effectiveness on three fronts:

- continuing to fulfill the objectives of PWEDA;
- enduring despite significant economic and political challenges; and
- avoiding the pitfalls of bureaucratic rigidity and ossification that often afflict other, less-nimble federal programs and agencies.

Also evident within this overall success story is that EDA's programs have not, in general, addressed economic conditions in the nation's worst-off communities, those marked by long-term, chronic distress. Communities that lack the capacity to be helped by market-based solutions—whether due to marginal location, inadequate educational attainment of their residents, weak or nonexistent linkages to the industrial economy, or some other reason—are generally beyond the reach of EDA's programs. These communities include isolated rural places dependent on agricultural or resource-based economies that are not integrated into the national (or global) economy, and depressed inner-city areas with little prospect for locally induced economic revitalization. In either case, infrastructure provision alone is an insufficient incentive for private-sector investment. EDA programs that respond well to short-term dislocations or structural economic change often do not address the needs of places facing long-term chronic distress.

This gap does not reflect a failure of the agency. Indeed, EDA has admirably and consistently succeeded in meeting its objectives despite severely limited resources. Rather, it highlights the need for additional programmatic approaches, backed by sufficient additional resources, to address the nation's most severely economically distressed areas. There is a need for new programs within EDA that address those places that cannot respond to market-based economic development policies—places that, in the absence of innovative new approaches to economic development assistance, will forever be left behind.

THE EXTERNAL ENVIRONMENT

Changing Causes and Conditions of Economic Distress

The parallel dynamics of persistent economic distress and sudden economic dislocation present considerably different sets of conditions that require substantially

different policy responses. Operating within a market-oriented economic development framework (that is, one based on stimulating private-sector investment and job creation), EDA is better situated to respond to short-term dislocation than to long-term distress.

Nearly 400 counties in the United States have remained persistently distressed for more than forty years (chapter 2). These are locations characterized by low income, persistently high rates of unemployment, low labor-force participation rates, and high dependency on transfer income. Another 400 or so counties suffer from economic insecurity and stagnation. These communities tend to be small and geographically isolated and to have demographic characteristics that differ substantially from national averages on race and/or age. In many cases, their economies are based on natural-resource extraction or agriculture; they are communities that never developed an alternative economic base. Other cases are sites of early manufacturing facilities that disappeared due to technological obsolescence or international competition. American Indian reservations are also heavily represented among communities experiencing long-term economic distress.

The problems faced by such communities include but also extend significantly beyond the need for infrastructure to attract private-sector business investment. Many communities lack more basic elements, including a location conducive to integration with wider economic systems, a competitive natural advantage, effective civic capacity, adequate housing and municipal services, and effective schools. In many ways, these communities can be described as lacking elements that would make them “development ready.”

During the legislative debates surrounding the creation of ARA and EDA, the characteristics of communities experiencing persistent distress were invoked as partial evidence of the need for a federal role in economic development. A debate persisted in EDA's early years over whether to emphasize those places most likely to succeed with a modicum of assistance or those needing the most assistance. With the exception of a brief period in the late 1960s, efficiency arguments proved more persuasive and effective in directing the agency's actions, an outcome that is quite understandable given the relative scarcity of funding available to the agency to operate its programs.

Over time, congressional negotiations consistently broadened the agency's mandate to include assistance to localities experiencing short-term employment losses due to sudden external shocks. Moreover, the early requirement that projects be funded where an established employer was present favored communities that were capable of retaining and attracting employers. Beginning in the 1960s, the group of eligible communities and counties expanded beyond places of deep and enduring economic distress, to include places experiencing substantial short-term increases in unemployment in excess of the national average. This broader scope provides flexibility for EDA to address sudden economic dislocations. Given budgetary constraints, however, it also tends to dilute the agency's ability to focus on places that are persistently distressed.

Program evaluations conducted over the past decade document EDA's success in addressing the infrastructure needs of communities that suffer short-term dislocation, whether due to a natural disaster, a military-base closure, or a sudden economic disturbance. EDA funds have leveraged jobs and private investment in communities with unemployment rates in excess of the national average. The challenge remains in alleviating the problems of communities experiencing long-term distress. Programs to counter persistent economic stagnation must extend beyond an infrastructure approach and include greater emphasis on issues such as strengthening civil society, revitalizing essential institutions, and improving living conditions, all of which are prerequisite to ensuring development. Counties experiencing persistent economic distress are unlikely to change their circumstances in the absence of such investments.

One avenue toward addressing these issues would be to broaden EDA's definition of infrastructure to include not only the physical infrastructure but also the social and institutional infrastructure of a distressed area. Working with states and local governments, EDA could assist those members of society for whom economic distress is a daily reality to become better integrated into regional and national economies. Greater support for and assertion of the needs of distressed residents of EDA's most challenged communities could go a long way toward integrating and coordinating economic development and social-service activities. In many distressed areas of the country at present, the most disadvantaged members of society are almost invisible, but it is their incorporation into civil society that is at the heart of effectively utilizing all of a community's resources.

Chapter 2 identified the changing character and location of economic distress. Historically, the country's most economically distressed communities were found in relatively geographically circumscribed subregions such as Appalachia and the Mississippi Delta. Today, the geography of distress is far more complex and dispersed. An examination of county social and economic conditions revealed more than 400 new entrants into the distressed category (200 of these entered the category during the 1990s). While some of these counties are adjacent to persistently distressed locations, others are found in areas of the country that have had little previous experience with serious economic dislocation. Newly distressed areas have emerged in locations that only twenty years ago exhibited economic conditions close to national norms.

These emerging areas present new and significant challenges. Domestic and international policies, international competition, and resource depletion are reducing the viability of traditional economic activities in many U.S. communities. Resource-dependent communities, in particular, although historically subject to economic highs and lows associated with the business cycle, are now experiencing the effects of long-term economic stagnation intertwined with growing social conflict as their local economies attempt to shift from commodity production to services and tourism. Although tourism and amenity-based development may have the potential to stave off economic collapse, at least in some cases, such activities often provide few viable opportunities for displaced workers. Furthermore, an influx of new residents and investments in amenity-rich locations often drives up the cost of living, making it especially difficult for longtime

residents to remain in the community. A more thorough understanding of the complex processes of change is necessary to better calibrate economic development activities in formerly resource-dependent economies.

Funding for EDA Programs

Funding levels for EDA programs and agency operations represent a persistent challenge confronting the agency. Key issues include overall funding levels, volatility of funding over time, and uncertainty regarding the funding support needed to continue successful programs into the future.

Overall funding levels have been consistently insufficient to allow EDA to fully realize its objectives and fulfill its mission. Compounding the difficulty, appropriations have fallen dramatically and consistently in real terms since the agency's formation. Measured in real (inflation-adjusted) dollars, EDA's fiscal year 2000 appropriation of \$360.5 million is only one-fourth the size of its appropriation in 1966. Because this long-term decline in funding has been accompanied by an expansion in both the number of programs and the geographic area served, the agency's capacity and resources have been spread increasingly—and perilously—thin.

The volatility of annual funding has been a problem throughout the agency's history. The most significant year-to-year increases in EDA funding were experienced in the late 1970s when large special authorizations for Local Public Works were introduced by the Carter administration. These huge and sudden increases in program funding were disruptive to agency operations, especially because sufficient additional administrative and personnel resources did not accompany the funds. Staff had to be diverted to implement new policy and program initiatives and the agency lacked capacity for adequate program monitoring and evaluation. The experience of the 1970s suggests that spurts of short-term or one-time funding not only clog the system but also tend to serve those communities most ready to initiate and implement projects, regardless of project suitability or the community's degree of economic distress.

Significant year-to-year decreases in annual funding are even more disruptive. The most drastic decreases in EDA funding occurred in the early 1980s, at the beginning of the Reagan administration. The funding reductions, tied to the proposed elimination of the agency, were accompanied by drastic reductions in staff. Abrupt reductions of this magnitude severely limit the agency's capacity to fulfill its legislative mandate. They also are harmful to agency morale and lead to high rates of staff turnover and a loss of valuable expertise, further setting back efforts to assist distressed communities. Finally, government RIF rules favor older more senior personnel at the expense of younger recent hires, who are the future leaders of the agency.

Uncertainty in the continuity of funding has presented a substantial additional impediment to the effective functioning of the agency. During the period in which EDA lacked authorization, from 1982 to 1998, its funding was secured through annual

congressional appropriations. In this climate of uncertainty, the agency had limited ability to change the functioning of its programs, implement recommendations made by program evaluators, or engage in long-term planning.

Dilemmas of the Planning Process

EDA has played a significant role in initiating economic development planning in the nation's distressed communities. The agency provides funding for comprehensive planning to areas and communities that are otherwise unlikely to engage in such activities. Early ARA experience revealed that local participation is essential for successful project implementation, and the original PWEDA legislation required the participation of local officials for an area to be eligible for EDA funding.

Although the planning process has worked well in countless cases, problems with planning implementation have continually resurfaced. For example, designation of EDA's development areas in some states occurs at the statewide level, and local concerns and interests do not always play a significant role in area planning. Ironically, the requirement that 51 percent of the governing board of the regional planning body be composed of local officials also presents a potential challenge to local participation. While meeting the representation requirement for local officials, governing boards in some smaller and poorer counties have not always successfully represented the interests of the more disenfranchised members of the community. Longstanding conflicts, schisms, and power inequalities that are often endemic in local communities are sometimes difficult to transcend within the framework of local economic development planning, requiring a level of program oversight that is not possible given currently available resources.

Philosophical Shifts

Since its inception, EDA has faced the challenge of philosophical shifts and differences in perspective, in both the White House and Congress, with respect to the proper role of government in local and regional economic development. EDA replaced ARA, in part, for practical and technical reasons. Its creation, however, also reflected tensions between the Johnson administration and Congress regarding the proper role of government in stimulating economic development. As presidential administrations changed throughout the life of the agency, EDA was continually challenged to re-create itself in accordance with the political tenor of the day.

Philosophical differences also have led to divergent perspectives on the viability of efforts to reduce economic distress in the nation's troubled communities. Policy discourse over the last thirty years has been mired in debate about whether the federal government can—or should—do anything at all to help communities with high unemployment and low income. One result of this uncertainty is that viable models of

action implemented in other parts of the industrialized world have been considered off-limits as practice in the United States.

Periodic shifts in program emphasis from “worst first” to “most likely to succeed” also reflect the agency’s response to changes in the external political context. The apparent lack of consistency in such fundamental program priorities reflects divergent congressional perspectives on and approaches to the problem of regional development and the likelihood of success of federal government intervention in this arena. The periodic criticism of EDA voiced in both presidential statements and congressional testimony from the 1960s through the 1990s was more an expression of the philosophical differences between the political parties than it was a direct objection to the actual practices of the agency.

Is Job Creation Enough?

EDA came into existence in an era in which the national economic development problem was understood, at least in part, as the need for full employment and the maximum utilization of idle economic resources. Memories of the Great Depression, fear of a cyclical economic slowdown after World War II, and concern about structural mass migration out of agriculture and into the nation’s cities, lay at the base of all discussions of economic development programs in those years.

Long before the passage of PWEDA, there was some recognition, at least on a theoretical level, that the nation’s economic development problem involved more than the need to provide jobs. Ideological differences between the White House and Congress and within Congress itself, however, focused policy on job creation through private-sector business development and attraction. The focus of earlier policy discussions—structural problems in regions dependent on natural-resource extraction, inefficient agriculture, and obsolete industrial centers—receded into the background. Resistance to considering the problem of economic distress as anything other than a short-term job gap grew, and congressional deliberations quickly retreated from acceptance of the multifaceted problems underlying economic distress to an approach for which there was the greatest degree of political agreement and the least amount of conflict: the dilemma of economic distress neatly boiled down to the need for jobs.

Almost four decades later, it is evident that this narrow approach often left EDA with little flexibility to operate outside of conventional bounds. Even though the agency received an early mandate to use policy tools such as employment training to help enhance local capacity, ambiguity in EDA’s authority to expend funds beyond its narrowly delineated purview diminished those opportunities. The tendency to justify expenditures almost solely in terms of actual jobs created also limited EDA’s ability to make capacity-building investments in the most distressed places where results might be slow to materialize.

Current circumstances characterized by relatively low rates of unemployment raise serious questions about the viability of retaining a singular focus on job creation as EDA's guiding principle. Even after a decade of strong economic growth throughout the 1990s, more areas show signs of economic distress. The recent economic downturn, exacerbated by the terrorist attacks of September 11, 2001, suggest that additional distressed areas are likely to emerge. This new reality presents important challenges to EDA that will require rethinking the agency's overall mission, including the identification of new activities and practices. For example, the deferral of anticipated business expansion and construction projects in a recessionary period might sidetrack expected community development investments, leaving some communities with few or no alternative sources of employment. The downturn in the high-tech and dot.com sectors may similarly deprive distressed communities of anticipated development opportunities. The lack of effective telecommunications infrastructure will be a serious and enduring hardship for remote communities. The debate about the digital divide represents an important challenge to economic development practice that requires coordination and collaboration with a new set of actors and partners.

THE INTERNAL ENVIRONMENT

Staffing and Personnel Issues

Severe funding cuts have reduced EDA's staff by more than 70 percent over its history. At the same time, the agency's program responsibilities have increased and, as a result, staff workloads have dramatically increased. The problem is compounded by the fact that cuts have left the agency's administrative budget disproportionately low in comparison with its program budget. In addition, the agency is often assigned unfunded mandates that add program responsibilities without the additional resources needed to implement them. This widening gap between staff resources and workload compromises the remaining staff's efficacy, undermines the quality of program delivery and, ultimately, threatens the agency's success in ameliorating economic distress.

The tension between policy development and program implementation also presents a major impediment to the agency's ability to respond to changing conditions and to fulfill its legislative mandate. The lack of sufficient intermediate and senior program staff forces agency management to focus on the accomplishment of day-to-day program operations and inhibits their ability to develop policy, to engage in forward-thinking planning for the agency, and to integrate research findings and evaluation recommendations into program design and policy development.

Regional Organization

EDA's senior management has identified the difficulty of designing and implementing agencywide policy direction. One of the principal barriers to addressing this issue is the lack of both the structure and the resources necessary to formulate

agencywide policy and oversee its implementation at the regional level. There are few mechanisms in place to ensure that the regions are complying with policy guidelines established in Washington.

At the same time, EDA faces considerable difficulty in maintaining sufficient project oversight. Beset by diminished staffing levels and limited travel funds, EDA's regional offices are unable to effectively monitor local projects to ensure that their implementation accords with established EDA guidelines. The same barriers keep the regional staff from evaluating completed projects, identifying the most effective projects, and disseminating best-practices information. As a result, the budget and staffing reductions and freezes that have been imposed on the agency may be counterproductive if they prevent the benefits of successful EDA investments from being disseminated and replicated in other locations.

RETHINKING ECONOMIC DEVELOPMENT IN A POSTINDUSTRIAL ECONOMY

The postindustrial economy presents unprecedented challenges for the nation's economically distressed communities. The prerequisites for participation in the new economy—adequate educational levels and job-readiness skills, competent educational institutions, effective and flexible infrastructure, and proximity to urban agglomerations—are often absent in distressed communities. Also deficient are the institutional structures and civic institutions for democratic participation and planning that are essential to forming the collaborations necessary for today's economic development ventures. EDA's challenge is to provide the building blocks for community development in this new and rapidly evolving context.

If this report had been released only five years ago, it would be read in the context of a vibrant and expanding national economy. The experience of the past several years could not be more divergent. The stock market fell dramatically at the end of the 1990s boom period, job creation has slowed, firms are once again cutting the ranks of the employed, and the national economic growth rate is barely rebounding after having been scaled back from 4 percent to less than 1 percent in recent periods. While this may be a short-term downturn, there is every indication that the national economy may experience slower growth over the next several years and beyond. With these conditions as a backdrop, how should EDA respond? What new challenges will be presented to the agency? What initiatives are required to face the new and continually evolving context?

EDA has an opportunity to move on several fronts. The first remains understanding and coming to grips with the meaning and nature of distress in the nation's most troubled communities. Past practices alone have proved insufficient to resolve the economic problems of long-standing distressed areas. In places like Appalachia and the Mississippi Delta, the challenge is to open up the process of development to wider community membership, encourage the development of community assets, and promote human-capital investments. These are the essential building blocks that traditional EDA

activities require to succeed. Although EDA's mandate has historically included training and human-resource development activities, the problem of long-standing economic distress suggests that these activities may need to be reinvigorated and implemented.

At the same time, the nation is in the midst of a major economic transformation. What started as the electronics revolution only thirty years ago has become a fundamental shift in the character and location of economic activity. The information economy presents important challenges to rural and remote areas because they are the least well connected and the most likely to be left behind as the meaning and value of information forever alters the practice of business and wealth creation. EDA can play a crucial role in constructing the context for public dialogue about this important issue. As models emerge and viable practices are identified, EDA should be at the forefront of assisting communities to find the right mix of activities to keep their economies productive and ensure that they are not left behind.

EDA should also be empowered to experiment with new relationships and practices. Old-line activities are going to be less effective as the national economy becomes increasingly integrated into the international scene and faces competition from other regions of the world. EDA's mandate should focus both on creating new economic development practices and on refining existing activities in line with a realistic appraisal of underlying problems.

EDA has the visibility, the track record, and the widespread professional acceptance needed to lead a dialogue about the economic development challenges facing the nation's distressed communities. The analysis presented in this report demonstrates that EDA has been remarkably responsive to changes in the economic and political environment. As the nation once again enters a time of significant change, EDA should be given the resources and authority to continue to rise to the challenge.

