

EDA and ARC Expenditures Preliminary Analysis

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Introduction

This report summarizes an initial, exploratory analysis of Economic Development Administration (EDA) and Appalachian Regional Commission (ARC) expenditure data. EDA and ARC efforts are arguably the two largest federal economic development projects ever undertaken in the United States.

Congress authorized the inauguration of both agencies in the mid-1960s, at a time when there was bipartisan belief in the federal government that conditions in regions of economic distress could not improve due to market forces alone. This analysis is a preliminary assessment of all economic development expenditures allocated by both the EDA and ARC during the period 1965–1997.¹ It includes an examination of EDA allocations to approximately 45,000 projects and ARC allocations to approximately 12,000 projects, or virtually every economic development project funded by these two agencies at the county level from their inception until 1997.² Most allocations from both agencies were made on a county-level basis.³ This report begins with descriptions of EDA and ARC policies and concludes with a comparison of the funding trajectories of these two agencies over time. This analysis is primarily concerned with assessing the types of counties—based upon a measure of economic distress—to which the EDA and ARC have allocated funds throughout their histories.

The EDA

In accordance with the Area Redevelopment Act (Public Law 87-27), in 1965 the EDA designated “Redevelopment Areas,” which included counties or clusters of counties, county equivalents, or Indian Reservations within the United States that were to be, at least in part, the focus of EDA policy. Redevelopment Areas, in accordance with sections 5(a) and 5(b) of the Area Redevelopment Act, included areas that met the following criteria:

For 5(a) designated areas, nontemporary unemployment was 6 percent at the time of designation and had averaged 6 percent for either

- 1) 3 out of the preceding 4 years and had been 50 percent or more above the national average or
- 2) 2 out of the preceding 3 years and had been 75 percent or more above the national average or

¹ ARC expenditures related to the Appalachian Development Highway System are not included.

² EDA projects in Alaska, Hawaii, and U.S. territories such as Guam are excluded from this assessment, as are statewide projects, consulting projects not associated with a particular county, and other non-county-level EDA and ARC activities.

³ This analysis includes 3,069 counties that serve as historically consistent units of analysis. In instances where county boundaries have changed over time (e.g. a county has split into two counties, etc.) the unit of analysis nonetheless remains the same throughout all years in the database.

- 3) 1 out of the preceding 2 years and had been 100 percent or more above the national average.

The EDA selected 5(b) Redevelopment Areas based upon one or more of the following criteria:

- 1) low income
- 2) low farm income
- 3) rural development
- 4) low production farming
- 5) very small area of substantial and persistent unemployment
- 6) other needs

A total of 912 counties met the EDA's 5(a) or 5(b) criteria, with 166 and 746 counties meeting the 5(a) and 5(b) criteria, respectively.⁴ There was no overlap between 5(a) and 5(b) counties. As indicated in Appendix Figure A-1, a large number of 5(a) and 5(b) counties (246) were in the Appalachian Region, which reflects, along with the inception of the ARC in 1965, the federal government's nascent concern in the 1960s with Appalachia's socioeconomic conditions. The EDA also designated a large number (128) of Redevelopment Areas in the Mississippi Delta Region. In general, 5(a) and 5(b) counties were distributed throughout much of the U.S., often in clusters, and there were a considerable number of such designations in Appalachia, the Mississippi Delta Region, and Indian Reservations in the Southwest. The EDA designated very few Redevelopment Areas in states such as Iowa, Kansas, Nebraska, and South Dakota, or more generally the central United States. In the 1960s, EDA Area Redevelopment counties, when compared to the rest of the nation, were characterized by the following conditions:⁵

- Low per-capita income and high rates of unemployment relative to much of the rest of the U.S.
- Small populations, including a smaller percentage of the population living in urban or metropolitan areas. While close to 70 percent of the U.S. population was living in urban areas in the 1960s, Redevelopment Areas typically had urban populations of approximately 20 percent. Furthermore, most 5(a) and 5(b) counties were located a relatively long distance from metropolitan areas, which often limited employment opportunities and access to social services for residents of such counties.
- High rates of poverty. In 1960, the median poverty rate in 5(a) and 5(b) counties was 46.12 percent, compared to 28.27 percent in counties that were not designated as being a part of a Redevelopment Area.
- Educational attainment rates well below the national average. Approximately only 25 percent of all residents 25 years old and over living in Area Redevelopment counties had high school degrees in 1960, while this figure was closer to 40 percent throughout the rest of the nation.

⁴ 5(a) and 5(b) counties or areas were aggregated to correspond with the historical database of county-level socioeconomic information developed by the researchers, previously described in footnote 3.

⁵ Based primarily upon 1960 and 1970 U.S. Census data.

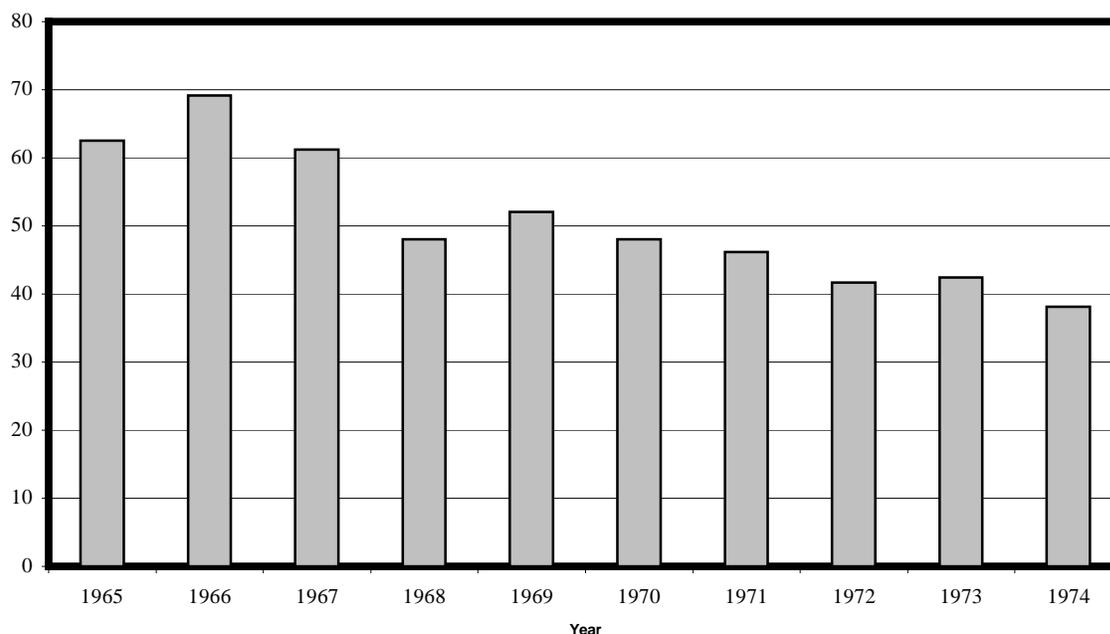
- Substandard housing conditions. The number of families without plumbing in EDA Redevelopment Areas was more than twice as high as in the rest of the U.S., one indicator of poor housing conditions relative to the rest of the U.S.

EDA Allocations to 5(a) and 5(b) Counties

It was assumed prior to this analysis that, at least throughout the first few years of the program, the EDA would have allocated a disproportionate share of funds for development projects to 5(a) and 5(b) counties rather than to other counties in the nation. A total of approximately 30 percent of all counties in this analysis (912 of a total of 3,069 counties) corresponded to EDA 5(a) or 5(b) designations.⁶ Figure 1 indicates the percent of total EDA funds allocated to 5(a) and 5(b) counties during the first ten years of the EDA program.⁷ It is clear that the EDA was successful in allocating the majority of its funds to 5(a) and 5(b) designated counties in the early years of its existence. For example, in 1966, the first year that the EDA began to apportion funds to an extensive number of projects throughout the country, the agency allocated close to 70 percent of its funds to 5(a) and 5(b) counties. It is also clear that the EDA gradually began giving increasingly less funds to 5(a) and 5(b) counties over time: by 1970 such counties consistently began receiving less than 50 percent of EDA funds; by 1974 they were receiving less than 40 percent of EDA funds, an especially limited amount considering that 5(a) and 5(b) counties accounted for approximately 30 percent of all counties in this analysis. Some explanations as to why this happened will be explored in this report's conclusion. Also, a further examination of EDA allocations is included in a later section of this report, where our analysis will suggest a clear change in EDA policy over time.

⁶ Meaning that, by way of our historically consistent aggregation of counties, this is the number that matches the EDA's designations.

⁷ These figures are relative to only the allocations assessed in this analysis. See Section I for description of funds and areas assessed.

Figure 1. Percent of Total EDA Funds to 5(a) and 5(b) Counties, 1965–1974

The ARC

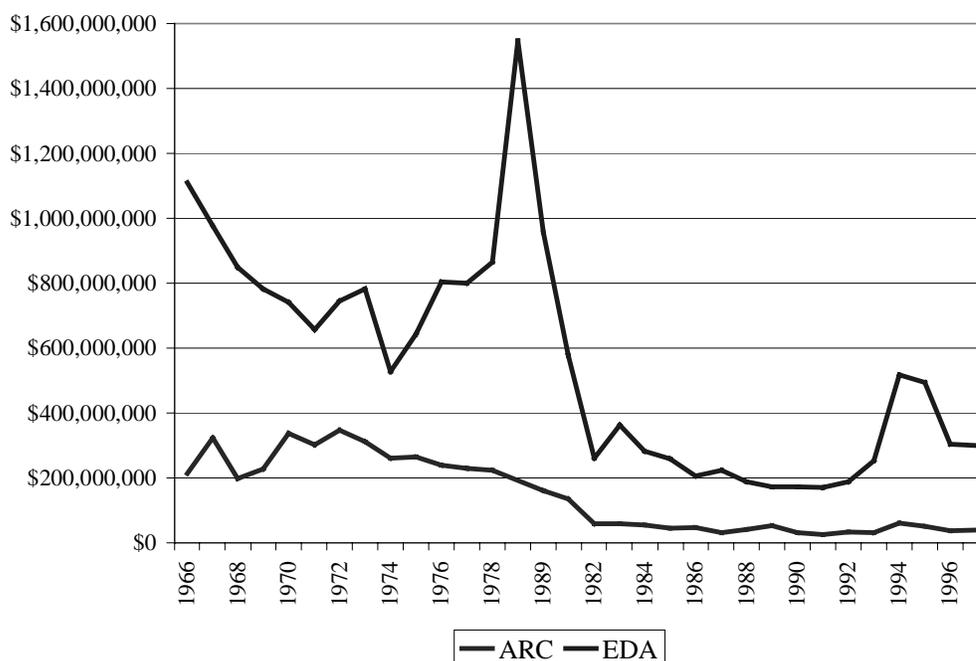
Congress designated the ARC under similar circumstances that led to the establishment of the EDA. Indeed, the socioeconomic conditions in many Appalachian counties were largely similar to those found in EDA Redevelopment Areas, and as previously mentioned, many EDA Redevelopment Areas were located in the Appalachian Region. Appendix Figure A–2 indicates the extent of the Appalachian region as defined by the ARC. Though Congress initially deemed that the ARC would focus on approximately 300 counties in 10 states, by 1967 ARC-defined Appalachia included 397 counties in 13 states. In the mid-1980s, the Commission added two more counties, and the recent addition of seven counties brings the current total of ARC counties to 406, ranging from counties in New York in the North to Mississippi in the South.

From its inception, the ARC attempted to implement a growth center policy, but with little success. The agency’s growth center strategy was to promote economic development in Appalachia’s urban areas, with the belief that such development would eventually “trickle down” to the region’s rural and more economically disadvantaged locales. Prevailing regional development theory in the 1960s strongly endorsed the growth center concept, and many governments throughout the world implemented growth center policies in the 1960s and early 1970s. Though literature pertaining to growth center theory indicates that the ARC should have designated a relatively few, growing urban areas within the Appalachian Region for economic assistance, the Commission found it politically infeasible to do so. Soon after the program began there were more than 300 cities and towns within the Appalachian Region designated as “growth centers”—far more than growth center theory would prescribe, even in a region the size of Appalachia. Nonetheless, the ARC was successful in allocating the majority of its allocations to its albeit large number of growth centers, and urban areas within the Appalachian Region

received the majority of ARC funds throughout the early years of the Commission's existence up until the early 1980s.⁸

In 1981, Congress requested a report from the ARC outlining "a plan for finishing up ARC programs in a reasonable period of time." Faced with what the Appalachian governors and ARC staff members perceived as a serious threat that the federal government would dissolve the ARC, the corresponding report submitted to Congress was in many ways designed to further justify and preserve the Commission. The report stressed that the legislative act that created the ARC had forced the Commission to focus its funding in the urban, growth centers of the region, and that many rural Appalachian communities were still in dire need of assistance; thus, included in the report was the suggestion that the ARC begin a Distressed Counties Program. The ARC was not dissolved, and the Distressed Counties Program has become one of the agency's more eminent undertakings. Nonetheless, funding appropriations to the Commission were significantly curtailed beginning in the early 1980s and have remained so since that time. Indeed, as indicated in Figure 4, allocations to the ARC as well as the EDA dropped significantly in the early 1980s. The patterns of federal allocations to the two agencies virtually mirror one another.

⁸ This is based upon prior research published in *Environment and Planning A*, March 2001.

Figure 2. Federal Allocations to the ARC and EDA Over Time

Distribution of EDA and ARC Allocations to Distressed Counties Over Time

Economic Health Index

This section presents an index of economic distress that emphasizes comparative rates of unemployment, income, level of transfer payments, and labor force participation for counties throughout the contiguous 48 states. The index was originally developed as an alternative measure of distress for the ARC,⁹ and was subsequently extended to include all counties in the nation, excluding those in Alaska and Hawaii, for the periods 1960, 1970, and 1977–1997. The index draws in part on traditional measures of economic health used by other federal agencies, including the EDA and the ARC. However, it also contains some significant additions. Specifically, it is composed of four individual indices: a per-capita market income index, which compares a county’s income level, less transfer payments, to the national level; an unemployment rate index that compares the county-level civilian unemployment rate to the national civilian unemployment rate; a labor force participation index; and a per-capita transfer payments to per-capita market income ratio index.¹⁰ The indices are then summed to arrive at an index of “economic health.”

⁹ A. Glasmeier and K. Fuellhart, *Building on Past Experience: Creation of a New Future for Distressed Counties* (Washington, DC: Appalachian Regional Commission, 1998).

¹⁰ 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.

The use of the four sub-indices was designed to shed light on the quality of county-level economic health, and index scores indicate how individual counties deviate, in both positive and negative terms, from national economic conditions. The Economic Health Index evaluates each county relative to all others, and tracks changes in county scores over time. At the same time, the Index allows for the examination of economic conditions of counties on an annual basis. One intent of the Index is to assist policymakers in their ability to rank counties based on the most current and accurate data available. The Index has also proven useful for examining a number of county-level and regional socioeconomic trends as well as the way in which policy relates to such trends.

In the next section, the Index is used to analyze patterns of county-level economic status and allocations of EDA and ARC funds for the period 1965–1997. Based upon natural breaks in index scores, we have grouped the counties into four categories, which are as follows:

Category 1	Very good economic health
Category 2	Good economic health
Category 3	Poor economic health
Category 4	Very poor economic health

In sum, counties in categories 1 and 2 have very good or good economic health, and counties in categories 3 and 4 have poor or very poor economic health. For the remainder of this analysis, the term “distress” will relate to counties either in categories 3 or 4, while non-distress will refer to counties in categories 1 or 2.

EDA and ARC Allocations to Economically Distressed Counties Over Time

In any given year from 1960 until the mid-1980s, approximately 15 percent of the counties in the contiguous 48 states (hereafter referred to as the U.S.) qualify as distressed counties according to the Economic Health Index.¹¹ Since that time, this number has grown to approximately 20 percent. For example, in 1980 the number of distressed counties in the U.S. was approximately 14 percent. By 1990 this number had grown to approximately 21 percent, and in 1997 the number of distressed counties in the U.S. was slightly above 25 percent. Like the U.S. as a whole, the Appalachian Region has seen, for the most part, a growth in distressed counties over time. In 1960 and 1970, the number of distressed counties in the region hovered around 30 percent. In the 1990s, this figure has ranged between 31 and 41 percent, averaging 35 percent between 1990 and 1997.

Figure 3 indicates the percent of EDA and ARC funds going to counties in each category (distressed or non-distressed) for the period 1966–1997. As indicated in Figure 3, in 1968 the EDA designated 38 percent of its funds to distressed counties, the peak year of distressed county funding for the agency. This was likely due in large part to the agency’s focus on Redevelopment Areas at the time. Thereafter, there was a gradual decline in funding to distressed counties until 1977, when EDA allocations to such counties hit a low of 6 percent. After 1977, there was a fairly steady rise in funding to distressed counties until the late 1980s and in the 1990s the EDA allocated anywhere between 13 and 23 percent of its funds to distressed counties. Thus, there has typically been a greater percent of counties in the U.S. that have been distressed than there has

¹¹ Index scores calculated for 1960, 1970, and 1977–1997

been a percentage of EDA funds going to such counties. For example, while more than 25 percent of all the counties in the U.S. were distressed in 1997, less than 25 percent of all EDA funds were going to such counties.

The ARC's experience has been somewhat different. The trajectory of ARC expenditures is largely reflective of its early focus on growth centers and then its more recent focus on distressed counties. For the first 10 years of the ARC program, approximately 20 percent of the agency's funds went to distressed counties. Beginning in 1983 with the inception of the ARC's Distressed Counties Program, allocations to distressed counties jumped to 42 percent. Throughout the 1990s the agency has typically allocated approximately 50 percent of its funds to distressed counties. Thus, while in the 1990s approximately 35 percent of all counties in the Appalachian Region have qualified as distressed, the ARC has typically distributed around 45 to 50 percent of its funds to such counties. It is clear that the ARC has increased its focus on distressed counties over time.

Figure 3. ARC and EDA Allocations to Distressed Counties



Discussion and Conclusion

Though the 5(a) and 5(b) counties received approximately 66 percent of all EDA funds in the first three years of the program, by 1968 these counties were fairly consistently receiving less than 50 percent of all EDA funds. The agency's early focus on distress, at least in relative terms, was likely a result of policy that prioritized the most economically distressed counties in the nation, especially counties that qualified as 5(a) and 5(b) redevelopment areas. The 1970s saw a period in which the EDA had dramatically shifted its priorities, with the agency only providing 6 percent of its total allocations to distressed counties in 1977. The agency's focus—albeit a

somewhat limited focus—on economic distress clearly waned soon after the agency’s inception, though it has appeared to make a slight resurgence over the past decade or so. The ARC’s experience has been much different. The agency’s early focus on growth centers resulted in distressed counties receiving relatively little funding. In the early 1980s this changed. With the inception of the ARC’s Distressed Counties Program, distressed counties in the region are receiving approximately half of ARC funds in any given year.

The seemingly strange nature of EDA policy can be explained by a number of factors. The foremost reason that the EDA has widely distributed funds to distressed as well as non-distressed counties over time relates to the fairly broad criteria utilized by the EDA to designate distress. Over the life of the EDA, and particularly in the early 1970s, the number of areas that the EDA designated as eligible for assistance grew in response to both political and economic realities. For example, soon after the EDA’s inception, areas of short-term unemployment became eligible for assistance according to agency policy, and new legislative mandates also expanded the types of counties that could be assisted. Between 1970 and 1973, the number of counties that qualified for EDA assistance according to the agency’s own standards nearly doubled; less than a decade after EDA’s original passage, distressed urban areas were included in the agency’s realm of responsibility. By 1976, the full range of EDA programs was available to urban areas suffering from short-term, high unemployment. Fairly broad and inclusive income-level criteria also added to the number of counties eligible for EDA funding throughout the early years of the program. Perhaps most importantly, and further complicating the meaning of eligibility designation, was the fact that a moratorium passed in 1970 disallowed de-designation of a locality without prior consent. In other words, once designated, a county remained a potential recipient of EDA assistance indefinitely. In short, however, the EDA as well as the ARC have both had to face difficult political realities, from a decline in federal funding over the past few decades to the tendency for virtually all federal agencies to succumb to the political exigencies of widely distributing funds.

Areas of Future Research

In the future, a number of research projects could be conducted with the same EDA and ARC data used to generate this analysis. Possible research endeavors include the following:

- An analysis of the EDA’s growth center policy. No studies have utilized EDA expenditure data to assess the extent to which the EDA was successfully able to implement its growth center strategy. It is likely that this policy had an effect upon the distribution of EDA funds.
- Similarly, this analysis has not assessed the relationship between EDA allocations and other EDA eligibility criteria. For example, there is enough information in the data to analyze, at least on a limited basis, the agency’s increasingly urban focus over time. The analysis presented in this report, aside from assessing the relationship between EDA allocations and 5(a) and 5(b) designations, has not examined the relationship between EDA allocations and other agency policies
- Also, as previously suggested, this analysis provides no indication of where in a particular county the EDA and the ARC have provided funds. There is seemingly

enough information in both databases so that such research could be conducted, at least on a limited basis.

- This research provides no indication of the types of projects being funded in particular counties or regions. It may be the case that the EDA has focused its efforts, for what many would consider theoretically justifiable reasons, on economic development in urban areas and social development, such as improving health and educational opportunities, in rural, economically distressed areas. An initial analysis of ARC data has indicated such patterns. There is sufficient information in both databases to conduct such research.
- An important issue related to federal development efforts is state and local government participation as well as private sector involvement and/or funding in such efforts. Information currently available in the databases would allow for the assessment of the participation of the private sector and other government agencies in EDA and ARC projects. An analysis of ARC data has clearly indicated differentiated patterns in terms of project types and outside participation related to county-level patterns of economic distress. Initial analysis of project types could also lead to a variety of case studies in a particular locale or region.
- The information in the databases also lend themselves well to various economic modeling techniques.

In sum, a wide range of research endeavors can be conducted with the information that was utilized to generate this report. In the past, the limited availability of detailed government expenditure data has restricted regional development research. Analyses utilizing such data are critical to informing regional development theory and policy. They can provide a greater understanding of the role of government agencies in economic development efforts. Additionally, such analyses can point to the limitations that agencies may encounter in such efforts. This analysis provides an initial indication of some of the successes as well as difficulties that the EDA and ARC have faced in their attempts to promote local and regional development. Further research could be important to ensuring that future development efforts are met with increasingly greater degrees of success.

Appendix

