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An Analysis of the Public Works and Economic Development Act: 1965-1969

(TITLE)

BY

John Preston Blair

THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF

Masters of Arts

IN THE GRADUATE SCHOOL, EASTERN ILLINOIS UNIVERSITY
CHARLESTON, ILLINOIS

1970
YEAR

I HEREBY RECOMMEND THIS THESIS BE ACCEPTED AS FULFILLING
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ACKNOWLEDGMENTS

I would like to thank my advisor, Dr. Ahmad Murad, for the many helpful suggestions in the drafting of this paper. Also, I wish to thank Dr. Edward Corley for help with the statistical section. Of course, all errors and omissions are solely the responsibility of the author.

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The Public Works and Economic Development Act of 1965 is currently the major piece of legislation in the field of sub-national economic development in the United States.[1] The intent of the Public Works and Economic Development Act (PWEDA) is to enhance the opportunities for those living in lagging economic communities. It is the purpose of this paper to examine the provisions of the Act and its influence on the sub-national development effort in the United States from 1965-1969. From the outset, the position will be taken that the most effective approach to an analysis of the Act itself will be achieved by examining each of the provisions separately and then presenting the interrelationship of the various sections where necessary. The paper will be divided into five parts. After the introduction, Section I will attempt to provide an historical setting and analyse a basic issue in regional development. The organizational structure and philosophy of the development administration will be considered in the second section. Section III will consider various instruments or types of aid which are available to qualified areas under the PWEDA. The fourth section will discuss the application of the development techniques to the particular classes of areas which are eligible for aid and Section V will summarize the findings and discuss policy implications.

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[1] U. S., Congress, Senate, Public Works and Economic Development Act of 1965, Pub. L. 89-136. 89th Cong., 2d sess., S. 1648.

I. Background and a General Issue

The realization that there are areas within the United States which have been left behind in the overall growth of the American economy is not new. Government programs to help areas develop are very old; the Cumberland Road is an example. Although area concern is not new, the uniqueness of recent sub-national development programs stems from two factors: first, the post-war realization that the area economic policies can no longer rely upon Keynesian solutions, but instead must concentrate on structural problems and market imperfections. The awareness of the structural economic problems was expressed by President Eisenhower in the 1956 State of the Union message when he warned:

> We must deal with pockets of chronic unemployment that here and there mar the nation's general industrial prosperity. Economic changes in recent years have often been so rapid and far-reaching that areas committed to a single local resource or industrial activity have found themselves temporarily deprived of their markets and their livelihood.[2]

Second, the modern concept of sub-national development is unique because most of the depressed areas which need aid have a substantial population, unlike early United States regional development; and, unlike backward areas in the U.S., have a heavy investment in infrastructure.[3]

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[2] Congressional Quarterly Service, Congress and the Nation 1945-1964 (Washington, D.C.: Congressional Quarterly Service, 1965), p. 382.

[3] Sar A. Levitan, "Discussion," Industrial Relations Research Association, Proceedings (1965), p. 156.

The increased concern in the late 1950's for sub-national development was not matched by action. The chief advocate of area redevelopment legislation, former president of the American Economics Association, Senator Paul Douglas, was for many years unsuccessful in securing legislation which would help depressed communities. Presidential vetoes and committee entanglement were the immediate reasons for the failure of three Douglas bills as well as the defeat of less comprehensive administration proposals.

Early failures in development legislation illustrated a major political problem inherent in area economic politics: apathy and hostility from prosperous areas.[4] Further, there was a strong tendency for the criterion for aid to be relaxed in order that wider congressional support could be assured. This broadening of aid requirements in turn reduced the effectiveness of the bills toward depressed areas and resulted in use of the veto.

In 1961 the years of political activity culminated in the passage of the Area Redevelopment Act. Although the resources provided were limited, the bill was a start in area development. According to Senator Randolph, "I think it was truly the predecessor of much legislation in the fields of economic development and manpower utilization."[5]

The passage of the Public Works and Economic Development Act four years later, although not without opposition, evidenced that the

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[4] Sar A. Levitan, Federal Aid to Depressed Areas (Baltimore: Johns Hopkins Press, 1964), pp. 10-15.

[5] U.S., Congress, Senate, Committee on Publicl Works, Public Works and Economic Development Act, Hearings, on S. 1648, 89th Cong., 1st Sess., 1965, p. 26.

activities of the Area Development Administration (the coordinating agency for the Area Redevelopment Act) had not solved the problem of depressed areas. The 100 hardest hit unemployment areas, for example, had annual average unemployment rates of 13.6% (2½ times the national average) during a period of relative prosperity. However, the Area Redevelopment Act as well as subsequent development legislation provided "valuable knowledge and experience."[6]

Economically depressed areas in the U.S. vary widely in terms of reasons for distress and other correlates to economic poverty. There are, however, some common characteristics which should be examined in order to understand the strategies for elevation of sub-national depression. Basically there are two widely accepted criterions for a depressed community: low income and high unemployment. Although many areas have both characteristics, this need not always be the case. Professor Chenitz's study shows that low incomes or underemployment are the basic problems in most rural areas, particularly in the South, and that many industrial areas are distressed because of high unemployment caused by rapid decline of the industrial base.[7]

Although the secular decline in agriculture cannot be denied as a cause of economic distress, it is not the sole cause. According to a Committee for Economic Development report, cutbacks in coal mining, cotton and textile manufacturing, and railway production are also major sources

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[6] Ibid., p. 19. (statement of Hon. John T. Connor, Secretary of Commerce).

[7] U.S., Department of Commerce, Economic Development Administration, Regional Economic Development in the United States, Vol. V, "Types of Distressed Areas," by Benjamin Chenitz (Washington, D.C.: Government Printing Office, 1967), p. 12.

of sub-national development difficulties. "Almost all of the areas of chronic distress in the continental United States, whether major or minor, have experienced severe cutbacks in employment in one or two industries . . ."[8] the CED report states.

When an area starts to decline, a local version of the "vicious circle" of poverty takes effects. First, the spirit of depression stifles business ventures. Michael Harrington dramatized the mood of depression:

> . . . an entire community will become shabby and defeated. The young and adventurous go to the city, leaving behind those who cannot move and those who lack the will to do so. The area becomes permeated with failure, and that is one more reason the big corporations shy away.[9]

There is less emphasis upon encouraging development through local development corporations because those left behind have become fatalistic. The migration of the young, who feel that they have no future in a lagging community, migrate; the composition of the remaining labor force is not attractive to industry. "Migration is always selective" and thus disfavors the lagging community.[10]

A second consequence of the high out-migration common to depressed communities is the shrunken tax base. With less income, a depressed community can ill afford the facilities which are necessary to attract and keep industry, which otherwise could reverse the downward spiral.

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[8] Committee for Economic Development, Distressed Areas in a Growing Economy, V. Houser, Chairman (U.S.A.: Committee for Economic Development, 1961), p. 24.

[9] Michael Harrington, The Other America (New York: The Macmillan Company, 1962), p. 10.

[10] Gunnar Myrdal, Rich Lands and Poor (Evanston: Harper and Row, 1957), p. 27.

Educational facilities deteriorate as well so that the young tend to be less employable. The mission of sub-national economic help can best be justified as an attempt to reverse the vicious cycles which, if unchecked, would cause great human suffering as well as an economic waste to society.

There is a general issue in regional economic theory which should be considered before any evaluation of the PWEDA is possible. Why not let the market operate to correct itself instead of providing development aid which distorts resource usage? One answer is, of course, market rigidities. Wages are not free to fall in depressed areas because of union scales and minimum wage legislation. Thus there is no incentive in terms of wage costs for plant location in lagging regions; nor is labor as mobile as economic theory suggests. Adam Smith observed that "man is, of all baggage, the most difficult to transport." Indeed there are human costs involved in migration which are not considered in traditional theory. Because of the human costs many workers, particularly the older ones with families, choose to remain partially employed rather than sell their houses, leave friends and family, and move miles away in the hope of finding work.[11] Further, if one is making only a marginal income, the risk of moving may be perceived as being very great, adding another deterrent to migration.

A second reason for the preference for community development to migration centers around the concept of externalities. The marginal social cost of a family moving to growth points, where jobs are available

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[11] U.S., Congress, Senate, Committee on Public Works, 89th Cong., 1st Sess., p. 34.

is rather expensive in terms of new social capital which must be added to accommodate a large population. At the same time, the social overhead capital a worker will leave behind in a depressed area is wasted. Dale E. Hathaway feels that migration from depressed areas has "severely strained the social and economic structure of many rural communities, causing a serious problem for churches, schools, and rural business . . ."[12] Thus, an important social cost is not included in the individual's decision to migrate. The problem is even more serious if, as theory would suggest and facts indicate, large urban areas are operating at a point of decreasing returns to scale. The conclusion may be drawn that a free market solution to the problem of community poverty is unacceptable both because of lack of mobility and externalities. Of course, I do not mean to imply that no area should experience economic decline. The point is that the migration level of the free market will not be optimal.

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[12] Dale E. Hathaway, "Migration from Agriculture: The Historical Record and Its Meaning," American Economic Review, Vol. 50 (May, 1960), p. 390.

II. Organization and Philosophy of the Economic Development Administration

The Public Works and Economic Development Act seeks to provide financial and technical assistance to depressed areas in order to help such communities break the vicious circle of area poverty and establish viable economies. The PWEDA (as well as other area and regional legislation) is administered by the Economic Development Administration (EDA). Technically the PWEDA gives the Secretary of Commerce the responsibility of administration; however, most of the Secretary's duties have been delegated to the Assistant Secretary for Economic Development who is operating head of the EDA,[13] and four Deputy Assistant Secretaries: Deputy Assistant Secretary for Economic Development, for Policy Coordination, for Economic Development Planning, and for Economic Development Operations.[14]

In addition to its Washington staff, the EDA has seven Area Offices, which can provide insights into special problems faced by particular regions (multi-state areas). Each Area Director is concerned

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[13] U.S., Department of Commerce, Economic Development Administration, EDA Handbook (Washington, D.C.: Government Printing Office, June, 1968), p. 5.

[14] A reorganization in December, 1966 brought all economic development organizational units in the Dept. of Commerce into the EDA. The discussion on organization is concerned with the structure after the change.

with helping qualified local communities by providing information, as well as processing development aid applications and monitoring projects in order to make certain that they meet PWEDA requirements. The Area Directors are assisted by a staff of field coordinators.[15]

In the administration of the PWEDA, the EDA has a set of principles which serve as guidelines in the distribution of development funds. The better a particular project fits the standards, the greater its chance of approval. The following principles apply regardless of the geographic level of development. First, the EDA places importance upon community participation in development projects. The PWEDA requires local initiative in such fields as economic planning and resource base studies as a prerequisite for most aid.[16] EDA further encourages community assistance in all development projects to a degree even greater than required by the Act. The community approach to local development has merit in preventing federal involvement when it is not wanted; bringing more resources to bear on the problem than would have been the case without local level support; and in increasing certain types of resources and knowledge which are available only at the local level. However, because of such requirements as a locally prepared development plan are prerequisites for aid, the possibility arises that many of the most depressed areas are also the least likely to take the initiative (because of out-migration, lack of community spirit and public money, etc.) in requesting aid. Thus the hardest hit areas may be the least likely to receive aid if they can least afford to perform the preliminary requirements of the PWEDA.

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[15] EDA Handbook, p. 6.

[16] Public Works and Economic Development Act of 1965, Pub. L. 89-136, sec. 202 (b) (10).

The second principle which is part of the administration of the Act is the "worst first" policy.[17] Rather than attempt to reach as many areas as possible, the EDA prefers to concentrate its aid in areas furthest behind in terms of the Act's qualifying criterion. The basic reason for the worst-first strategy is that areas which are only marginally qualified for aid receive the greatest benefit from national economic expansion. The EDA realized that marginally distressed areas are more capable of benefiting from national economic growth when, in 1966, 100 of the 324 areas approved for aid were dropped because their unemployment rate was below 6% even before the effects of that aid could germinate.[18] The initiation of the worst-first policy caused "more than doubling of the number of projects and nearly double the amount of money" flowing into the most depressed areas as a result of the PWEDA.[19]

A third principle of sub-national economic development expressed in the PWEDA and by the EDA concerns the degree of development planning. Each project under the Act must be a part of a development program which provides a mapping of the expected future development of a community. The more closely a particular project fits the overall development program, the better are its chances for EDA approval.[20] If, for example, a community

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[17]U.S., Congress, House, Committee on Public Works, Economic Development Administration's Reply to Subcommittee's First Interim Report and Related Matters, before a subcommittee of the Committee on Public Works about Public Law 89-136, 90th Cong., 1st Sess., 1967, p. 5.

[18]U.S., Department of Commerce, Economic Development Administration Annual Report 1967 (Washington, D.C.: Government Printing Office, 1967), p. 22.

[19]Ibid., p. 23.

[20]EDA Handbook, p. 2.

intended to develop tourism, then projects which are related to tourism would have a better chance of acceptance than otherwise. The requirement of an Overall Economic Development Plan is useful in that it not only serves to initiate planning, but the OEDP functions as an organization point where various groups can publicly discuss a community's future. Representation of a broad section of the community is required in the development of a plan. The OEDP may also have the effect of changing the generally pessimistic attitudes which characterize depressed areas by providing an alternative to slow economic decline.

Once an area is notified that it is eligible for development aid, it must submit an acceptable OEDP within six months; if not, a community must wait until the next annual review of qualified areas when it will again have six months to submit a plan. The development plan must be of such detail as to provide an appraisal of retarding factors, special community assets, and a "realistic action program that will be developed."[21] Continued eligibility is not guaranteed; it is contingent upon a regular updating of the plan as well as meeting the income and employment qualification.[22]

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[21] *Ibid.*, p. 13.

[22] *Ibid.*, p. 14.

III. Development Tools Provided in the PWEDA

A. Development Facilities

A major emphasis is placed upon the building of a modern infrastructure because the availability of social overhead capital is a major factor in industrial location theory.[23] The EDA recognizes as eligible such programs as utilities, port facilities, industrial park development, airports, water treatment programs, sewer facilities, tourism, and the projects which "will result in immediate substantive economic expansion."[24] There are two types of benefits which flow from public works programs of this type. First is the immediate impact upon the economy which is caused by the increased spending. This first effect includes the immediate increase in employment plus a multiplier effect.[25] The EDA places less emphasis upon the immediate economic effects than upon the suitability of a project to the long run economic growth of an area. Thus the EDA generally disallows such projects as parks, courthouses and even conservation projects which it does not feel make large enough contributions.[26]

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[23]U.S., Department of Commerce, Economic Development Administration, Industrial Location as a Factor in Regional Economic Development (Washington, D.C.: Government Printing Office, Sept., 1967), p. 15.

[24]U.S., Department of Commerce, Economic Development Administration, EDA Grants and Loans for Public Works and Development Facilities (Washington, D.C.: Government Printing Office, July, 1969), pp. 4-5.

[25]Basically a regional multiplier is similar to a national multiplier except that the Marginal Propensity to Import includes goods and services bought outside the region. Thus, the smaller the area concerned, the smaller the multiplier will tend to be. Also, the poorer the region, the smaller the multiplier.

[26]EDA Handbook, p. 25.

The PWEDA authorized the EDA to provide three types of aid for public development projects. First, the Act allows up to 50% of the cost of qualified projects to be contributed by the EDA. A second type of grant was developed with the understanding that depressed areas often lack even their share of matching funds for federally sponsored programs. The Act, therefore, authorizes the EDA to provide supplementary grants for both PWED programs and other government matching grant programs as well. The determination of the size of the maximum federal share of a project is determined on the basis of median family income and unemployment rates as follows:[27]

TABLE 1

Median Family Income	&/or	Annual Unemployment	Grant Rate (max.)
$1600 or less		12% or more	80%
$1601 - 1800		10.0% - 11.9%	70%
$1801 - 2000		8.0% - 9.9%	60%
All other redevelopment areas			50%

A sample showed that about 40% of all qualified areas are eligible for supplemental aid. However, projects will not automatically receive the full amount for which they are qualified because the EDA encourages borrowing of funds above the 50% level, if possible, before a supplemental grant is given.[28] In this manner, the EDA both saves money and encourages activity among local development agencies.

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[27] U.S., Department of Commerce, Economic Development Administration, Maximum Grant Rates for Public Works in Qualified Areas (Washington, D.C.: Government Printing Office, 1969), p. 5.

[28] EDA Handbook, p. 17.

The third type of public works aid is the development facility loan via government purchase of bonds or other evidences of indebtedness issued by the applicant. However, such loans can be made only under the condition that repayment can be reasonably expected within 40 years and that the loan is not available privately.

The table below shows that approximately 63.5% of the money spent on approved projects has been from EDA sources; the other third was generally obtained from local sources such as development corporations, banks, and state government.

TABLE 2

APPROVED PUBLIC WORKS PROJECTS[29]
(by source of financing through
fiscal year 1969)

Funds	% of Total	Dollars (1000)
EDA		
Direct grants	48.4	542,501
Supplemental grants	6.1	68,874
Loans	9.0	101,040
Other funds	36.5	408,220
	100.0	1,120,635

From the table below it can be seen that the majority of EDA development funds have been used for utilities, particularly water and sewage disposal projects.

[29]U.S., Department of Commerce, Economic Development Administration, Jobs for America (Washington, D.C.: Government Printing Office, Nov., 1968), p. 14.

TABLE 3

EDA PUBLIC WORKS PROJECTS BY TYPE[30]

Project Type	No. of Projects	EDA Investment	% of Investment
Utilities	1,032	436,586	56.5
Industrial/ Commercial	230	133,069	17.2
Streets & Roads	61	38,365	4.9
Tourism	76	53,471	6.9
Health Facilities	44	41,553	5.4
Public Buildings	43	29,327	3.8
Educ. Facilities	56	41,432	5.3
TOTAL	1,542	773,745	100.0

B. Business Loans and Guarantees

Perhaps the most direct method of creating employment is the business development loans and guarantees, which are loans for up to 25 years with an EDA maximum participation of up to 65% of the cost of land, buildings, machinery and equipment. In 1969 EDA loaned or guaranteed over 88 million dollars for business development which is estimated to create directly almost 20,000 full time jobs.[31] Thus investment per job was 4,503 dollars. However, this figure does not consider how many of the jobs would have been established without the loan.

[30] Ibid., p. 5.

[31] Ibid., p. 13. (The number of full time jobs is based upon information provided by the subsidised business.)

TABLE 4

APPROVED BUSINESS LOANS[32]
(by sources as of June 30, 1969)

Banks	10.0%
Other private	29.3
Local devel. corp.	4.6
State/county	.8
Applicant	15.4
Other	.4
EDA Funds	49.4

There are certain qualifications upon EDA loans. Perhaps the most controversial of the requirements is the stipulation that business development loans "shall not be extended to assist establishments relocation from one area to another," nor to new enterprises which would compete in an already over-extended industry.[33] In fact, it was fear of the relocation effects of the PWEDA that caused (and still causes) much of the opposition to such legislation from such groups as the American Manufacturers Association. Secretary Cannon expressed strong support for the relocation clause: "We will go over every application thoroughly and meticulously to see that no relocation is involved . . ."[34]

The provision which disallows aid for relocation is basically a political expedience; however, there are economic justifications because there is no gain to society as a whole from relocation in the sense that

[32] Ibid., p. 13.

[33] Public Works and Economic Development Act, sec. 202.

[34] U.S., Congress, Senate, Committee on Public Works, 89th Cong., 1st Sess., p. 34.

increased employment in one community is matched by unemployment in another. The prohibition upon support for new firms in excess capacity industries is similarly justified. In spite of the restrictions, congressional testimony has brought forth enough violation to raise very serious questions as to the administratability of relocation and excess capacity restrictions.

A second contingent to business loans is the stipulation that "the loan be unobtainable from other sources on terms to carry out the project."[35] This contingency prevents government lenders from competing with private financial institutions. It may, however, have a harmful effect on local economies because most well established and/or prosperous corporations will not qualify for aid. Thus, the PWEDA provides little incentive for such enterprises to establish plants in depressed areas. On the other hand, the firms which will qualify for business development aid are likely to have much higher probabilities of failure.

Even in the case of business development aid, EDA encourages as much local support as is possible. For example, locally organized development corporations are expected to lend or give a minimum of 5% of the project cost.

C. Technical Assistance

Twenty million dollars annually were authorized for technical assistance. The commitment to technical assistance is in part a carryover from the Area Redevelopment Act which authorized 4.5 million dollars

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[35]U.S., Department of Commerce, Economic Development Administration, EDA Loans, How to Apply (Washington, D.C.: Government Printing Office, 1966), p. 4.

for technical assistance. However, the PWEDA potentially depressed and "leaning towards substantial unemployment,"[40] localities which are linked economically to designated depressed areas, and areas which are part of a larger non-eligible area. For example, some PWEDA monies have been spent in inner-city projects in cooperation with Model Cities programs, the National Urban League, and other urban oriented groups. In 1969, 6½ million dollars were allocated for urban technical programs.

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[40]U.S., Department of Commerce, Economic Development Administration, EDA Technical Assistance (Washington, D.C.: U.S. Government Printing Office, July, 1969), p. 20.

IV. Area Designation Criterion and an Evaluation

One of the difficult problems, both politically and economically, in area development policy is the determination of which areas should be eligible for economic development assistance and in what quantity aid should be given. The designation dilemma was handled with the development of a three-tiered eligibility criteria of local-sized areas (mostly redevelopment areas), multi-county development districts, and interstate regions. The multi-level criteria is politically useful in that it allows benefits to be spread, yet provides for concentration of aid to areas of particular distress.

The following table may provide some insight between the level of economic development and the relative importance of the functions performed at each level.

TABLE 5

LEVEL-FUNCTION BREAKDOWN OF 1969
ESTIMATED EXPENDITURES IN 1000's OF DOLLARS AND PER CENT[41]

	Development Facilities	Industrial Development	Planning, Technical Assistance, Research	Total
Region	21,000	———	8,100	29,100 (10%)
District	19,000	19,600	4,615	43,215 (15%)
Redevelopment Area	163,000	35,300	15,065	213,365 (75%)
TOTAL	203,000	54,900	27,780	285,680

[41] U.S., Bureau of the Budget, The Budget of the United States 1969, Appendix (Washington, D.C.: Government Printing Office, 1969), pp. 227-230.

Although this table represents 1969 estimated expenditures, it serves to approximate the relative distribution of aid by level of development and function throughout the period of analysis.

A. Level I: The Redevelopment Area

The type of area which is the primary concern of the PWEDA is the redevelopment area. A redevelopment area is an economic community with a population of over 1,500, designated by the Secretary of Commerce on the basis of high unemployment, low median family income, population loss, and such areas in which there exists a present danger of sudden, high unemployment.[42] Of the possible indicators of economic distress, the unemployment rate and median family income are the best criterion because they are the most direct measures of what the PWEDA is trying to change.

Population loss is a less direct criterion. Areas which have lost more than 25% of their population between 1950 and 1960 are eligible _if_ the 1960 median family income is below 2,830 dollars. Some economists would contend that aid to areas simply because they are losing population is equivalent to helping "inanimate political units or geographic areas."[43] The inclusion of a population criterion can be justified in two ways: First, there is strong correlation between indexes of human welfare, such as unemployment and low median income and population loss. Second, it can be argued that population loss is a contributing factor to economic

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[42]Certain Indian lands are also eligible, but, because of their special socio-political status, they will be ignored for purpose of this study.

[43]Stefan H. Robeck, "Strategies for Regional Economic Development," Papers of the Regional Science Association, Vol. 17, 1965, p. 131.

depression because of its part in creating a vicious circle. Therefore, correction of population loss may be a partial solution. The inclusion of a family income factor also makes the population loss criterion more viable.

The fact that an area may be declared a redevelopment area on the basis of an expected rise in unemployment (in excess of 50% of the national average) can be explained once it is understood that an area is much harder to redevelop after a vicious circle of depression has started. It is much easier to stop a recession before its downward forces are in full operation. This anticipation provision was of special interest to many New England senators.

The PWEDA has been administered in such a manner that counties have been the basic redevelopment area. The use of counties as the basic unit in the development process is a controversial action. Many economists feel that the county is an archaic political unit which "may have been well adapted to the technology of mid-19th century, but which is not well adapted to meet the needs of today."[44] Fox and Kumar argue for a newer, more functional economic unit. Likewise, Robert L. Williams, in a prepared statement before the Senate Public Works Committee, also objected to the use of the county on grounds that it is often too small to provide resources necessary for development.[45] In spite of the objections to the use of the county, the EDA needed a well-defined political area with which to operate; neither the time nor the resources were available

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[44]Karl A. Fox and Krishma Kumar, "The Functional Economic Area," Papers of the Regional Science Association, Vol. 15, 1965, p. 57.

[45]U.S., Congress, Senate, Committee on Public Works, 89th Cong., 1st Sess., pp. 378-380.

to create and gather data on new political areas. Although the county area is not always a good substitute for an economic community, its use can be defended on the grounds of practicality.

There are two other types of qualification which, although not full redevelopment areas, are often classified with redevelopment areas because of the similarity in size. Neither classification receives a significant portion of the total EDA funds. Included in level I areas are those which are eligible only for public works grants under Title I. These Title I areas are those designated by the U.S. Department of Labor as having substantial unemployment (6% or more). When a Title I area becomes eligible, a letter of notification is sent by the EDA, whereupon the area must organize and develop an OEDP before actual designation. By and large, the number of Title I areas is small and the length of qualification is short--often under six months.

Some aid under the PWEDA is spent in metropolitan areas for technical assistance. Although the funds spent on urban projects were not large, there is a good deal of evidence that in the future the EDA will increasingly concern itself with urban areas at the expense of rural development. In 1969, over half of the proposed amendments for the PWEDA in the House of Representatives concerned expanding the amount of aid for the inner-city would qualify.[46]

B. Level II: The Development District

Economically depressed counties often are in the same geographic area with similar economic problems. The provision for the multi-county

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[46]U.S., Congress, House, Committee on Public Works, Public Works and Economic Development Act Amendments of 1969; Titles I-IV and VII, 91st Cong., 1st Sess., 1969, pp. 2-3.

development districts provided an approach to economic development which can operate on a scale larger than the redevelopment area.

The ~~two~~ three prerequisites for a development district are: (1) The development district must contain at least two designated redevelopment areas. (2) There must be at least one redevelopment center which is potentially the source of jobs which can stimulate the economic activity of the hinterland.[47] (3) Submission of a proposed district through the governor of the state along with an OEDP. The EDA will decide on the basis of percentage of the population in redevelopment counties, per capita income of the district, unemployment rates and other relevant criterion if designation is appropriate.[48]

Aid includes a payment of up to 75% of administrative expenses. Further, a redevelopment center, even if not part of a redevelopment area, becomes eligible for aid on a basis equal to a redevelopment area.[49] In an effort to encourage redevelopment area formation, an added 10% bonus on the maximum amount for which the original redevelopment counties would otherwise qualify, the 80% federal maximum would still be in effect, however.[50] For example, if, when consideration is taken of the economic status of an area, it is decided that it is eligible for a 50% grant, the federal government would ordinarily pay 100,000 dollars of a 200,000 dollar project. If the redevelopment area is part of a development district, the federal share may be increased to 60% or 120,000 dollars. The PWEDA clearly intends to encourage development districts

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[48] _Ibid._, p. 5.

[49] _Ibid._, p. 3.

[50] U.S., Congress, Senate, Committee on Public Works, 89th Cong., 1st Sess., p. 21.

Theoretically, the development districts have support as a viable economic unit.[51] In the previously cited article by Fox and Kumar, Dr. Fox argued that the U.S. is divided into "naturally de facto labor market areas roughly equivalent to one hour's travel from center to periphery." This length he claims, is about the maximum people are willing to drive for work and for major purchases. The mappings of labor commuting patterns strengthens the argument for a growth center concept. In every case, the county containing the central city has had a greater population growth, thus implying a better economic climate than in the periphery. The size of the basic economic unit developed by Fox and Kumar is approximately six to eight counties.

It is the development of a concept like the "functional economic area" which the EDA is encouraging under the Economic Development District program. One county by itself may not have the resources; there is need for a city of at least medium size to offer services necessary for attracting industry.

Since their conception, the development districts have had great attraction for many other federal agencies, and they are receiving funds from such agencies as the Department of Housing and Urban Development, H.E.W., the Department of Justice, O.E.O., as well as state and regional organizations.[52] The use of development districts by other agencies speaks well of the success of development districts and may prove to be the most outstanding achievement of the PWEDA.

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[51] Fox and Kumar, pp. 57-85.

[52] Jobs for America, p. 27.

Since 1966 there have been 122 districts authorized for formation, 74 of which have received final approval and designation, along with 135 growth centers. The growing importance of development districts is evidenced by the shift in the allocation of funds away from straight redevelopment areas towards development districts.[53] The future may well show development districts playing a major role in restructuring and modernizing the relationship between area and function.

C. Level III: The Economic Development Regions

The largest units eligible for development aid are the economic development regions. Title V provides 15 million dollars annually for technical and planning assistance to the multi-state regional development districts in 571 counties and 20 states. The six regions are the Ozarks, New England, the Upper Great Lakes, Four Corners and the Coastal Plains.

Once the Secretary designates a multi-state area as qualified on the basis of common experience, continuity, and need for development, the states have the authority to organize a regional commission. In order to encourage organization, EDA will pay 100% of the expenses of the regional commissions for the first three years and 50% of the expenses thereafter.[54]

The federal government has a more direct role in regional development than in either the redevelopment areas or in development districts. The PWEDA specifies that the members of the commissions must include at least one federally appointed co-chairman with a veto on commission activities.

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[53]U.S., Bureau of the Budget, The Budget of the United States 1969 (Washington, D.C.: Government Printing Office, 1969), p. 255.

[54]EDA Handbook, p. 12.

The majority of the activities of the regional commissions' activities are on organizational and planning activities and very few of its energies are spent on development facilities. In spite of the lack of physical activity, the regional approach has gained wide support among political officials. It is significant that the Senate Public Works Committee spent more time hearing testimony concerning this relatively minor portion of the Act than any other section.

The efficiency of the regional approach is difficult to measure statistically because the sums of money involved are very small, the effects are diffused over a large area, and it is difficult to get a control group since the development regions include most depressed multistate depressed regions, and because inaccuracy of regional income statistics.[55] Krutilla concludes that a project by project evaluation of regional development is the most feasible. The project approach, however, will tend to ignore the large sums of money appropriated for overall regional administration and planning.

I believe that a qualitative approach is most feasible for evaluating the regional level strategy. In the four years from 1965-1969, 60 million dollars were initially authorized for regional level development. Of this amount, only about 26 million dollars have been appropriated in spite of the apparent favor in Congress for region activity. This suggests that the regional commissions have not been as active as might have been expected. However, part of the reason for the limited activity might have been because of problems in organization.

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[55]John V. Krutilla, "Criteria for Evaluating Regional Development Programs," American Economic Review, Vol. 45 (May, 1955), p.

A second and more challenging criticism was made by Dr. Lawrence Davis, who feels that the regional economic units were too concerned with groundwork:

> Planning alone is not enough. A Regional Commission must, at some point, convert to the realistic side and cause some action to take place. I fear that there has been too much planning and not enough action.[56]

Dr. Davis further criticised the regional activities by charging that the local development groups (basically district and redevelopment areas) are in a better position to apply aid. Nevertheless, the value of a regional approach in helping lagging regions, although limited, is not completely discounted by Davis.

Few congressional witnesses favored scrapping the regional approach. On the contrary, the overwhelming consensus was that the regional approach to development is sound and needs to be expanded because there are problems which can only be solved on a regional basis. There was much favor with the idea of increasing the types of development activities which the regional commissions may initiate. Also, it was recommended that appropriations be made by specific regional commission rather than in a lump sum under Title V.

It seems that the regional level approach holds some promise, but to date, although there are some concrete accomplishments in planning activities, the regional level activities overall have not generally gone beyond the paper stage.

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[56]U.S., Congress, House, Committee on Public Works, 1969 Amendments to the Appalachian Regional Development Act and Title V Regions under the Public Works and Economic Development Act, 91st Cong., 1st Sess., 1969, p. 287.

D. An Evaluation

I hope in this section to examine the effects of the PWEDA on depressed areas in its entirety rather than section by section. Such an evaluation of the Act requires explicit judgments as to the goals of the PWEDA. The Statement of Purpose of the Act makes it clear that the main purpose is to enable depressed areas to "help themselves achieve lasting improvement and enhance the domestic prosperity by the establishment of stable and diversified economies . . . ." with the provision that aid should not be mere transferring of jobs from one area to another.[57]

The empirical problem may be phrased austerely: Do areas which participate in the Public Works and Economic Development Act programs evidence a higher rate of economic progress than similar areas which did not participate? In order to test the effects of PWEDA, an indicator of economic progress must be devised and control and treatment groups must be selected.

One index of economic progress for which reliable data exists is the change in payrolls. Payrolls are appropriate because they are a composite of man hours worked and the wage rate paid.

(1) $\Delta P = \Delta W H_1 + \Delta H W_1 + \Delta W \Delta H$[58]

where: ΔP = change in payrolls over the relevant period.
ΔW = change in average hourly wages over the relevant period.
ΔH = change in man hours worked over the relevant period.
H_1 = total man hours worked at the start of the period.
W_1 = average hourly wage at the start of the period.

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[57] "Statement of Purpose," The Public Works and Economic Development Act of 1965, p. 1.

[58] (1) $P_1 + \Delta P = P_2 = (H_1+\Delta H)(W_1+\Delta W) = H_1W_1 + \Delta WH_1 + \Delta HW_1 + \Delta H\Delta W$
(2) $P_1 = H_1 W_1$
(3) Therefore: $(1)-(2) = \Delta P = \Delta WH_1 + \Delta HW_1 + \Delta H \Delta W$

The first term of equation (1) has been termed the wage effect, and represents the change in welfare as a result of changed wage rates; the second term is the employment effect which is the result of increased employment; and the third term is the combination effect.[59] Thus, the payroll variable reflects all three effects.

Since the rate of growth is of concern, the actual value which is to be tested among areas is equation (2):

$$(2) \quad \frac{\Delta W H_1 + \Delta H W_1 + \Delta H \Delta W}{H_1 W_1} = \% \Delta P$$

For the percentage change in payrolls, the figures for taxable payrolls for the start of the program, 1965, are used to represent P_1 (equals $W_1 H_1$) and the taxable payrolls for 1968 were used to represent P_2 (equals $W_2 H_2$). The source of taxable payrolls is from the annual volumes of <u>County Business Patterns</u>. There will, of course, be some divergence between actual payrolls and taxable payrolls. The divergence will be larger the less organized the resource and product markets. However, the discrepancy will not greatly affect the results because: (1) the divergence rate between taxable and non-taxable payrolls will not be large; (2) the divergence rate is probably similar between the treatment and non-treatment group; (3) the divergence rate will not change greatly in four years within a particular county.

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[59]Worth Bateman, "An Application of Cost-Benefit Analysis to the Work Experience Program," <u>American Economic Review</u>, Vol. 42 (May, 1967), p. 82.

It was felt that changes in payrolls is a better indicator of changes in welfare than changes in welfare recipients because the criterions vary greatly from state to state, providing little grounds for comparison. The use of unemployment rates or total employment was rejected because such data do not reflect disguised unemployment.

The second issue in preparing data for statistical analysis is the selection of treatment and control groups. A comparison of the treatment group with the nation as a whole is not viable because we would expect different growth rates between the two samples without any treatment. In order to gain a sample of chronically depressed areas with which to work, I selected areas from a list of "Eligible Redevelopment Areas Under S 1648" supplied to the Senate Committee on Public Works.[60] The list contained areas qualified as depressed; 110 counties, all of which had the characteristic of being depressed, were selected and divided into treatment and control groups according to whether they receive aid from EDA or not.[61]

Because of the worst-first policy initiated by the EDA, it is likely that the treatment group may be more distressed with less promise than the control group. If this is true, then a significant difference in favor of the areas receiving aid will be even more impressive.

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[60] U.S., Congress, Senate, Committee on Public Works, 89th Cong., 1st Sess., pp. 48-60. Certain areas had to be excluded from consideration because of lack of information, but the exclusions were few and should not affect the results. (See Appendix for List of Counties).

[61] Jobs for America, Appendix.

The mean growth rate, standard deviation and variance were computed for each group and are shown below:

	Sample Size	X	σ	σ^2
Treatment	70	49%	40.3	1629.7
Control	40	38%	21.6	469.4

The null hypothesis being tested states that there is no difference between the mean growth rate of the treatment group and the control group. If the aid given under PWEDA is to be shown effective, the null hypothesis must be rejected. A one-tailed significance level of 10% was chosen because it was felt that, as in the case of many social programs which are still somewhat in the experimental stage, the need for absolute certainty as might be reflected in a .01 significance level is too rigerous. Thus, at 10% the critical "T" value is 1.289.

Using the formula:[62]

$$T = \frac{\bar{X}_N - X_T}{\sqrt{\frac{\sigma_N^2}{N_N} + \frac{\sigma_T^2}{N_T}}}$$

where:-- σ_T^2 and σ_N^2 = the variance of the treatment and non-treatment (control) groups respectively

-- Nn and Nt = sample size of non-treatment and treatment groups and putting in the relevant variables:

$$T = \frac{38 - 49}{\sqrt{\frac{469.4}{40} + \frac{1629.7}{70}}} = -1.86$$

T = -1.86 is obtained.[63]

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[62]Reinhard Herink, College Level Statistics (New York: Monarch Press, 1965), p. 67.

[63]Actually the critical value at the 5% level is 1.659. Therefore the results are also significant at 5%.

Since 1.86 > 1.289, it can be concluded with reasonable certainty that the two groups are from different populations.

A contingency on the conclusion is that the different growth rates may be due to a factor which also caused some areas to participate in the Act and others not to participate. For example, some communities with a great deal of citizen involvement in economic development would be more likely to have a higher growth rate without the PWEDA and the same communities would be likely to participate in the Act. In other words, one could argue that community involvement caused growth as well as EDA participation.[64] However, such an argument is tenuous because of the unmeasurability of the critical variable. The facts can be explained by both theories, but the simpler, more direct conclusion that participation in EDA activities tends to result in higher growth rates is the most acceptable.

The higher growth rates for the participating areas argues strongly for the success of the Act. It does not preclude the possibility that the funds could have been spent better, but it does provide some evidence that aid was given in large enough quantities to affect area economies.

V. Conclusion

Empirical evidence and economic theory indicate the need for the type of area legislation which the Public Works and Economic Development

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[64] On the admittedly weak assumption that per capita county expenditures could proxy for community involvement, the theory that depressed areas within particular states which received aid would have a greater per capita budget than those which were eligible but did not receive aid was tested. The result showed higher expenditures in areas eligible but not receiving aid. However, no test for significance was made since none was necessary to reject the community involvement theory.

Act was designed to fulfill. Since its inception, the number of distressed areas (as defined in the Act) has declined; however, it is difficult to separate the extent to which this decline is a result of the overall growth of the national economy or of the Act itself. Undoubtedly, both have made contributions.

In the discussion of the area development tools, although specific problems were raised in the body of the paper, the general impression is that each of the three types of aid (development facility aid, business aid, and technical assistance) have a particular role in the development process. As used by the EDA, each type of aid seems to complement the other types.

When concern is focused on the geographic level of development, success seems more evident at levels I and II than at the multi-state scale. Although the regional commissions have done much in the way of planning, they have been ineffective in promoting the hardware needed for economic development. Abolishment of the regional approach is not recommended, however; comparison indicates that more promise is held in the redevelopment area and district size efforts.

The major criticism of the Act is not of any of the specific sections cited in the body of the paper; rather it is a general shortcoming of the basic theory of sub-national development. The PWEDA is an attempt to restore economic life to all depressed communities. Although optimal results cannot be achieved without intervention, this does not imply that all areas should receive aid to stabilize their economies. The EDA needs to develop a theory which will make the distinction between areas which are capable of breaking the vicious circles of decline and establish healthy economies and those areas in which population declines should be encouraged. Thus, a high unemployment rate in some cases may be desirable if it improves the adjustment process. A method of measuring the marginal social cost of assisting distressed areas and a social cost of migration should be devised. If the theory behind the Act could be changed to provide a more selective criterion for aid, its administration would be enhanced.

APPENDIX I

COUNTIES USED IN STATISTICAL ANALYSIS

County	Percentage Change in Payrolls 1965-1968 (mid-March Period)
ALABAMA	
Autauga	21
Clarke	63
Fayette+	41
Macon	52
Walker+	38
ARIZONA	
Mohave+	69
ARKANSAS	
Conway+	53
Jackson	24
Marion+	35
Randolph	49
Woodruff	25
CALIFORNIA	
Modoc	.09
Tuolumne	49

County	Percentage Change
COLORADO	
Huerfano+	20
DELAWARE	
Sussex+	38
FLORIDA	
Sumter+	58
GEORGIA	
Appling+	67
Carroll	48
Elbert	22
Habersham+	59
Laurens+	72
Miller	53
Rabun +	34
Tattnall	105
Treutlen+	38
White+	65
IDAHO	
Teton	32
ILLINOIS	
Alexander	40
Franklin+	29
Massac	48
Union+	41

County	Percentage Change
INDIANA	
Clark+	25
Ohio	57
Switzerland	25
KANSAS	
Rice+	-
KENTUCKY	
Adair	73
Butler+	72
Elliott+	130
Harlan+	23
Lawrence+	230
Madison+	56
Nelson	.09
Rockcastle+	212
Wolfe+	22
LOUISIANA	
Arcadia+	49
Lafayette+	38
St. Landry+	25
MAINE	
Penobscot	34
MINNESOTA	
Beltrami+	134
Itasca+	47

County	Percentage Change
MISSISSIPPI	
Bolivar+	65
Covington	95
Panola+	46
Yalobusha	55
MISSOURI	
Carter	56
Madison+	17
Shannon	30
MONTANA	
Lake+	15
NEBRASKA	
Boon	33
NEVADA	
Lincoln+	-34
NEW JERSEY	
Passaic+	30
NEW MEXICO	
San Miguel	32
NEW YORK	
Franklin	28
Wayne+	51
NORTH CAROLINA	
Carteret+	38
Halifax	21
Pitt+	62

County	Percentage Change
MICHIGAN	
Alcona+	75
Cheboygan+	80
Grand Traverse+	50
Lake	49
Monroe+	43
Ontonagon+	29
NORTH DAKOTA	
Oliver	46
OHIO	
Adams+	48
Jackson+	40
Pike+	23
OKLAHOMA	
Cherokee+	60
Latimer+	01
Murray+	46
Pushmataha	52
OREGON	
Josephine+	13
PENNSYLVANIA	
Allegheny+	28
SOUTH CAROLINA	
Clarendon+	37
Hampton	20
Sumter+	78

County	Percentage Change
TENNESSEE	
Beton	27
Dickson+	41
Hardin+	34
Lauderdale+	90
Pickett+	08
Tipton	37
TEXAS	
Bowie+	70
Freestone	01
Kinney	22
Polk+	68
Starr+	03
Webb+	41
VERMONT	
Grand Isle	35
VIRGINIA	
Lancaster+	22
Wise+	24
WASHINGTON	
Lewis	34
WEST VIRGINIA	
Boone	11
Hampshire+	104
Marion	09

County	Percentage Change
Nicholas+	24
Summers+	15
Wyoming+	18
WISCONSIN	
Langlade+	23
Washburn+	42
WYOMING	
Lincoln	47

+ indicates treatment group

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