Implicit regional economic goals and objectives: A study of U.S. development programs

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Implicit regional economic goals and objectives:
A study of U.S. development programs

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Abstract
At the present time, U.S. regional economic development policies tend to be focused on sectors, infrastructure, human capital, innovation capability, or to be problem oriented, and only a few programs can be described as being place-based. In this paper, we are looking at major federal regional development programs to deduce their combined implicit place-based goals and objectives. Because the U.S. seems to be relatively unique among OECD countries in its scant use of place-based policies, we compare the United States to, in particular, Canada to gain further insights into the reasons for and potential effects of such policy differences.

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1. Introduction

Unlike many other countries, the United States does not have a coordinated national economic development policy. The agency with the responsibility for economic development in its name, the Economic Development Administration, is a small agency in the Department of Commerce (DOC) with less than 2 percent of the DOC’s budget and limited capability to guide policies on a national level. Despite the lack of a national policy, however, numerous government agencies — such as the Department of Agriculture and the Department of Transportation — provide economic development, even if their explicit mission is not defined as such.

Considering the sets of economic development roles performed by the federal government, this paper asks the following question: what would a national development policy look like if we were to assume that the disparate actions taken by the federal government were part of a coordinated national plan? That is, we seek to examine the implicit economic development policy goals and objectives that the federal government is pursuing. The reality of regional development in the United States is one of competition between the states—and between regions and communities. For the most part, the federal and state governments rely on market forces to determine the spatial allocation of economic activities. This does not mean that inter-state and inter-regional economic differences are of no concern, but generally, governments at all levels rely on unemployment, welfare, social security, and other transfer payments to assist regions with an above average concentration of poverty, industrial decline, and restructuring, or other economic problems.
2. Overview of development policy

The United States is conspicuous by its lack of a single unified regional economic development policy. In contradistinction to other nations, various dimensions of economic development policy are situated in programs dispersed across a wide array of broader government and quasi-governmental agencies. Given this lack of a single U.S. regional economic development policy, it is useful to identify the broader context within which the agency operates. This section provides an overview of the dominant agencies within the United States that include development programs within their broader missions. Primary among agencies and organizations that focus in whole or in part on economic development and thus shape the distribution of U.S. regional economic development are the U.S. Economic Development Administration (EDA), the U.S Department of Agriculture (USDA), the U.S. Small Business Administration (SBA), the Federal Housing Finance Administration, the U.S. Department of Housing and Urban Development (HUD), the Federal Reserve Bank, and at a more focused regional level, the Appalachian Regional Commission (ARC) and the Tennessee Valley Authority (TVA). Each agency is briefly introduced in the remainder of this section, and the regional economic development dimensions of their activities are identified. Table 1 below presents summary information on these agencies, each of which is discussed in turn.

Table 1: Overview of Mission of Most Important Federal Economic Development Agencies

<table>
<thead>
<tr>
<th>Agency</th>
<th>Founding Year and Law (Act)</th>
<th>Mission</th>
<th>Spatial Purview</th>
<th>FY 2010 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development Administration (EDA)</td>
<td>1965, Public Works and Economic Development Act</td>
<td>Promoting innovation and competitiveness; preparing regions for growth and success in the worldwide economy</td>
<td>Nation</td>
<td>$293 million</td>
</tr>
<tr>
<td>Agency</td>
<td>Founding Year and Law (Act)</td>
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</tr>
<tr>
<td>United States Department of Agriculture (USDA)</td>
<td>1862, An Act to Establish a Department of Agriculture</td>
<td>The Rural Development mission is to help rural Americans to improve the quality of their lives</td>
<td>Nation, rural areas</td>
<td>$134 billion, $5.266 billion are for rural development</td>
</tr>
<tr>
<td>Small Business Administration (SBA)</td>
<td>1953, Small Business Act</td>
<td>Helps Americans start, build and grow businesses</td>
<td>Nation</td>
<td>$824 million</td>
</tr>
<tr>
<td>Federal Housing Assistance Administration (FHAA)</td>
<td>2008, Housing and Economic Recovery Act</td>
<td>Regulator with the authority to oversee vital components of the secondary mortgage markets</td>
<td>Nation</td>
<td>Not known, included in HUD budget below</td>
</tr>
<tr>
<td>Housing and Urban Development (HUD)</td>
<td>1937, U.S. Housing Act, 1965, Department of Housing and Urban Development Act made HUD a cabinet-level agency</td>
<td>Increase homeownership, support community development and increase access to affordable housing free from discrimination</td>
<td>Nation</td>
<td>$43 billion total, $8.4 billion for community planning and development</td>
</tr>
<tr>
<td>Federal Reserve Bank (FRB)</td>
<td>1913, Federal Reserve Act</td>
<td>Provide a safer, more flexible, and more stable monetary and financial system. Over the years, its role in banking and the economy has expanded</td>
<td>Nation</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
The U.S. Economic Development Administration

Regional economic development activities in the United States at the federal level are allocated to a number of different departments and agencies. The Economic Development Administration (EDA), which is part of the Department of Commerce, is the United States’ agency most comprehensively devoted to economic development. Established in 1965 under the Public Works and Economic Development Act, the agency has a budget of $293 million for fiscal year 2010. However, the small size of its budget relative to that of other federal agencies with economic development agenda missions (see Table 1) demonstrates that it does not play the largest role.

The EDA promotes economic development in distressed areas of the United States, in rural as well as in urban environments. Its stated goals are to target development assistance to agencies that promote the creation and retention of jobs, enhance U.S. firms’ global competitiveness, and have a clear plan for how to use the funding effectively. Funding from the EDA is awarded through a competitive grant process. Proposals are initiated primarily by local development agencies, universities or organizations. Officially, the grant process is open-ended in that the agency has broad goals and allows the applicants to categorize their grant requests into one of
the agency’s programs. In practice, however, requests for proposals within some programmatic areas are quite specific, and the award operates in a manner more consistent with a contract than a grant. In addition to direct funding for economic development, the EDA provides a number of tools for local agencies to use when formulating development policies. The tools generally stem from research funded by the agency, and provide both data and methodologies for creating economic development programs.

**The United States Department of Agriculture (USDA)**

The USDA was established in 1862. Although its mission statement does not explicitly refer to economic development, its mission in rural regions often overlaps with that of the EDA, particularly within the Office of the USDA Undersecretary for Rural Development. In addition, it has a significantly larger budget (see Table 1). The USDA also supports rural economies indirectly through a number of its agricultural programs, many of which focus on strengthening those aspects of community and economic infrastructure that support the agricultural sector. The geographic allocations of USDA funds and impacts of such programs are unevenly distributed, reflecting that agricultural rather than rural development is their priority.

**The United States Small Business Administration (SBA)**

The SBA, established in 1953, is not a government department or part of a department, but an independent agency of the United States Executive Branch (see Figure 1). The SBA specializes in the support of new and small businesses through the provision of business information, training, counseling, technical and management assistance, loans, and grants. In the words of the agency, “The SBA helps Americans start, build and grow businesses.” This includes assisting small businesses after disasters strike. The SBA’s core mission complements the much more general and comprehensive economic development mission of the EDA. The
SBA has its own programs, but also works cooperatively with eleven federal agencies, including the USDA, USDOD, USDOE, etc., in two separate grants programs: the SBIR (Small Business Innovation Research) and SBTTR (Small Business Technology Transfer) programs. The SBA has programs that are aimed at distressed areas, for example, the Historically Underutilized Business Zone (HUBZone) program, which requires federal agencies to spend at least 3% of their budget on businesses in such zones. Since the designation is by census tract, we usually have several, geographically small, non-contiguous HUBZones in larger urban and metropolitan areas, while it is not uncommon to find whole rural counties designated as a HUBZone.

**Agencies with Housing Related Programs**

Several specialized federal agencies are charged with supporting affordable housing. The Federal Housing Finance Administration (FHFA), established in 2008, provides supervision, regulation, and oversight of those federal agencies engaged directly in lending (Fannie Mae, Freddie Mac, and Federal Home Loan Banks). Its predecessor was the Department of Housing and Urban Development’s Office of Federal Housing Enterprise Oversight, established to provide public oversight of the Federal National Mortgage Association (FNMA or Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) created by the Federal Housing Enterprises' Financial Safety and Soundness Act of 1992. Established in 1937 by the U.S. Housing Act, and elevated to cabinet-level agency in 1965, the U.S. Department of Housing and Urban Development (HUD) is charged with supporting affordable housing, including public housing. Although the promotion and support of affordable housing is a major component of its mission, the work of this agency goes well beyond housing and includes urban and community development. One of its programs is the Empowerment Zones and Renewal Communities Initiative, which works mostly through tax incentives. HUD also administers the Urban
Development Action Grant (UDAG) and Community Development Block Grant (CDBG) programs.

The Federal Reserve System and United States Department of Treasury

Often overlooked in assessments of US development policy is the role of the Federal Reserve System (Frequently Asked Questions: Federal Reserve System, 2010, p. 6). The United States central banking system is not a government agency, but an independent entity within the government, having both public purposes and private aspects. Also called the Federal Reserve, or simply the Fed, it was established in 1913 with the enactment of the Federal Reserve Act, but had forerunners dating back to the 19th and 18th centuries. While the Fed’s role in setting monetary policy garners most public attention, its regional branches located throughout the United States are important sources of region-specific information used in the process of setting national monetary policy. Each of its branch banks conducts research in and about its district and disseminates the results to the public at large. Some branch banks also have outreach programs in economic development, though such programs are not mandated and are therefore more subject to change than economic development programs in most federal agencies. This also results in varying levels of participation in such programs. Illustrative is the Center for the Study of Rural America which was operated for several years by the Federal Reserve Bank of Kansas City. This Center has at various times been an influential voice in shaping opinion about rural economic development at the local, regional, state, and federal levels. “The Federal Reserve System, through its Community Affairs program at the Board of Governors and the twelve Federal Reserve Banks, engages in outreach, educational, and technical assistance activities to help financial institutions, community-based organizations, government entities, and the public
understand and address financial services issues affecting low- and moderate-income persons and communities” (Federal Reserve Board, 2010).

The Fed’s Community Affairs department is similar in function to the U.S. Department of Treasury’s Community Development Financial Institutions (CDFI) fund, which makes grants available to Department of Treasury certified financial institutions, which are not-for-profit organizations that are often legally organized as Community Development Corporations (CDC). Through its various programs, the CFDI fund provides grant monies with the intention of providing pools of capital for economic development (Community Development Financial Institutions Fund). Local entities, such as loan funds, community development funds, and local banks and credit unions, can apply to become certified under the program and distribute the loan program funds. Some programs have matching fund requirements that leverage private capital alongside the government money.

**Regionally Focused Agencies**

Unlike many other OECD countries, the United States has few explicit policies to address regional economic disparities or, more generally, has few place-based programs and policies. However, based on a White House memo, place-based policies may be strengthened in the future ([Developing Effective Place-Based Policies for the FY 2011 Budget, 2009](#)). This may well reflect a stronger market-orientation of economic policy in the United States than in most other countries. Among the few exceptions is the Appalachian Regional Commission (ARC), which includes all of West Virginia and portions of the following twelve states: Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. It covers an area of some 531,000 km² (205,000 square
miles). The ARC was established in 1965, and its primary “…mission is to be a strategic partner and advocate for sustainable community and economic development in Appalachia.” It supports a number of programs, but grants for infrastructure to enhance preconditions for economic growth are among its major investments.

A second regionally focused agency is the Tennessee Valley Authority (TVA). President Roosevelt signed the Tennessee Valley Authority Act in 1933 as part of his policies to combat the Great Depression, though public ownership of large land holdings dates back to the time of World War I. At that time a dam had been built at Muscle Shoals, Alabama, to generate energy for a munitions plant. The TVA region includes parts of seven states: Virginia, Tennessee, Kentucky, North Carolina, Georgia, Alabama, and Mississippi. The region was among the economically most disadvantaged in the southern United States, and it suffered from frequent floods as well as soil degradation. Thus, the development efforts in the region were not limited to energy generation, but included the conversion of the World War I munitions plant into a chemical factory that produced fertilizer to help improve agriculture. Other projects followed. Today, the TVA describes its mission as “Serving the valley through energy, environment, and economic development.” While the total budget of the TVA is well over $10 billion, the amount dedicated to loans for new and expanding business is relatively small.

Lastly, the role of the US Congress (Senate and House of Representatives) in regional economic development cannot be understated. In many respects, and primarily through its appropriations practices, Congress is among the most powerful arbiters of the geographic distribution of public capital. Two senators represent each state, and many are extremely effective advocates individually for development in their own states and as members of

\footnote{This is roughly the size of France.}
coalitions with neighboring states (see paragraphs on ARC and TVA above). The number of members in the House of Representatives is based in population. Thus, Wyoming has only one congressman but two senators, while the vast majority of states send more members to the House of Representatives than to the Senate. Support for and acceptance of appropriations in one state are often extended in return for support of either similar appropriations in other states or more general legislation.

Clearly, there are other agencies that could be listed here because of their potential impact on economic development. Among them, probably none is more important than the U.S. Department of Transportation (DOT). Through its Interstate highway building decisions, the Department of Transportation impacts some regions more directly and strongly than others. However, the mission of the DOT at best alludes indirectly to economic development: “Serve the United States by ensuring a fast, safe, efficient, accessible and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people, today and into the future.”

We also want to briefly mention the Bureau of Economic Analysis (BEA), which is a research and statistical service located in the U.S. Department of Commerce. Although it plays no economic development role, per se, it provides access to national, international, regional, and industry economic data that are critical resources to anyone interested in regional economic development. Hence, while the Economic Development Administration has the most explicit and geographically extensive regional development mission, its operation within the broader context of multiple agencies with related missions provides an important backdrop that can help clarify the particular programmatic foci and range of agency activities.
(Drabenstott, 2006) has called for a more broad based federal approach to economic development because, as he correctly notes, the number of federal agencies that influence local, regional, and state economies, for example through their location, investment, and spending decisions, is far greater than those discussed above and represented in Table 1. To provide a more complete picture of the federal government’s influence on economic development at all levels, we reproduce Drabenstott’s Figure 1 below.

Figure 1: Federal Agencies with an Explicit or Implicit Economic Development Role (Drabenstott, 2006)

3. Funding arrangements: How is funding allocated?

In general, each agency submits a budget request with a justification. The process is also political, of course. One of the reasons why the Appalachian Regional Commission has been
relatively successful in the face of serious challenges, including the threat of discontinuation, is its large size that includes part of twelve states and all of West Virginia. Some of these states, New York, Pennsylvania, Ohio, Georgia, and North Carolina, are populous and have therefore a large representation in the House of Representatives. Together the ARC member states hold 143 of 345 votes, which gives them considerable political clout.

4. Performance management: How is policy performance guaranteed?

Table 1 and the discussion preceding it make it clear that many programs were created as responses to national crises, particularly the 1930s Great Depression and the culmination of the Civil Rights Movement in the 1960s (President Johnson’s Great Society programs). While many of these programs have been revised, updated, adapted or otherwise adjusted, there has been no comprehensive effort to better coordinate them. Thus, housing is supported not only by HUD, but also by other agencies, particularly the USDA. Entrepreneurial initiatives, though the primary mission of the SBA, are also housed in the USDA and in specialized agencies such as the TVA. This makes a coordinated territorial development policy nearly impossible.

Drabenstott (2006) calls for a revised federal regional economic development approach, one less dependent on investments in infrastructure and more focused on entrepreneurial development. He estimates that between 2000 and 2004 on average more than one third of all federal economic development spending, over $70 billion annually, was spent on infrastructure. During the same time, the federal government spent an annual average of $16.7 billion on regional development, but $7.6 billion of this was for disaster relief and insurance and $3.0 billion for community development. This left $6.1 billion for area and regional economic development.
Nizalov and Loveridge (2005), as well as Drabenstott (2006), comment critically on federal approaches that do not deviate to account for different regional needs and priorities but, in the name of fairness, treat everyone the same. Elsewhere, the latter claims: “A regional strategy is the cornerstone for sound public policy and effective local action” (Drabenstott, 2008, p. 96).

**Independent Assessments**

A number of studies have examined the effectiveness of regional development programs promoted by the EDA. Martin (1980) surveyed the effects of EDA spending in U.S. counties, and found that personal income was positively related to economic development spending during the periods when aid was received. Once the aid stopped, however, the authors did not find evidence that aid made a substantial lasting impact. Phillips (1995) conducted a meta-analysis of studies on tax policy and found that in general taxes are a moderate incentive for firms to locate in different communities. The authors conclude that the benefits from tax policy are much more pronounced in urban than in more rural areas.

Glasmeier (2005) criticized the EDA for its funding priorities, showing that political concerns were more important in where funding was allocated than economic distress. The authors found that less than one-fifth of economically distress counties received EDA aid. The Obama administration's attempt to promote environmentally friendly jobs has been controversial in the literature. Morriss (2009) criticizes the initiative as focusing too much on employment, and not enough on productivity, which leads to long-term economic growth. The paper also states that green jobs are ill-defined, having come to mean anything that doesn't involve fossil fuels. In a response to Morriss, Pollin (2009) agrees that what constitutes a "green job" is not clearly defined, but it's important to continue talking about how to promote jobs that fit into an
environmentally sound policy. But Pollin rejects Morriss' claims that the economic models used to forecast job growth are faulty.

5. Comparison with Canada

Background

Canada is a federation of provinces as well as a constitutional monarchy with a democratically elected parliament. Intergovernmental Affairs, located in the office of the Privy Council, provides advice to the Prime Minister, the Minister of Intergovernmental Affairs, and to the Cabinet, in general, in federal-provincial-territorial relations (Intergovernmental Affairs, 2010). The cabinet consists of ministers with a portfolio, e.g., the Minister of Finance (see Figure 2), and of Ministers of State, who usually “...assist Cabinet Ministers with a particular responsibility or section of their departments” (Forsey, 2010, p. 6), such as the ministers in charge of Western Economic Diversification and the Economic Development Agency of Canada for the Regions of Quebec. The Cabinet is responsible to Canada’s House of Commons, which is elected by the people, and the Cabinet has the sole power to prepare and introduce new legislation to the House of Commons, which cannot initiate legislation or increase taxes or expenditures without a message from the Governor General, who serves as the representative of her Majesty, the Queen in Right of Canada. The Governor General is always a Canadian citizen. Members of Canada’s Senate are appointed on the recommendation of the Prime Minister (Forsey, 2010).

The solution to Canada’s diversity was to “form a federation, with a strong central government and Parliament, but also with an ample measure of autonomy and self-government

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2 The President of the Queen’s Privy Council currently also serves as Minister of Intergovernmental Affairs and as Minister for La Francophonie.
for each of the federating communities” (Forsey, 2010, p. 8). The provinces retain significant powers and authority, which is reflected in their spending. Sub-central Canadian governments are responsible for over half of total government spending and about half of total tax revenue collection, among the highest shares among OECD member countries (Bach, Blöchliger, & Wallau, 2009). Provinces are also free to choose their own tax rates (OECD, 2003).

The federal, decentralized approach reflects Canada’s history, status as a bilingual nation3, the very large size of the country, great diversity of its regions, and settlement patterns (the majority of the population lives within 100 miles of the southern border with the United States). Figure 2 shows major departments and free-standing agencies of the executive branch of Canada’s Federal Government. The organization of the executive branch shows separate federal agencies for economic development for different parts of the country. The Atlantic Canada Opportunities Agency, Economic Development Agency of Canada for the Regions of Quebec, and Western Economic Diversification are free-standing, while the Federal Economic Development Initiative for Northern Ontario is an agency within the Ministry of Industry. Other ministries, such as Canadian Heritage (see Figure 2), distinguish five regions: (1) Western Region (British Columbia, Alberta, and Territories north of British Columbia), (2) Prairies (Manitoba and Saskatchewan) and Northern Region, (3) Ontario Region, (4) Quebec Region, and (5) Atlantic Region (Canadian Heritage, 2009). Other federal programs, for example the Canadian Rural Partnerships (CRP) Program uses a very similar division into regions (Assessment of the Canadian Rural Partnerships Program, 2008).

3 Unlike in other multi-lingual countries, for example Switzerland, the differences between French and English speakers in Canada concern not only language but also legal systems and religion.
Despite the wide measure of autonomy given to each province, Canada has a serious commitment to equality of access to government services. Canada's Constitution Act of 1982 (Constitution Act 1982, Part III), identifies three commitments to equality:

1. Promoting equal opportunities for the well-being of Canadians;
2. Furthering economic development to reduce disparity in opportunities; and
3. Providing essential public services of reasonable quality to all Canadians.
The Act also mandates that the Parliament and Canadian government are "committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." It is this latter mandate that requires the Canadian government to equalize services across all of its provinces. This mandate is distinctly different from that of the U.S. Federal Government and its responsibility to individual states. State governments have a great deal of autonomy in setting tax rates and government services that are not controlled by the federal government. And though there is a significant amount of redistribution between states, the Federal Government makes little effort to ensure general equality of public services.

6. Conclusions

U.S. regional development policy reflects this country's longstanding conflicts between national and state levels of government. Our federalist system offers more autonomy to the states, but this also limits the national government's ability to equalize opportunities in different regions. Federal facilities in Switzerland, for example, were spread around deliberately to maintain social cohesion.

Conflicts between the goals of equality of opportunity and equality of outcomes are readily apparent in the United States. Generally, the U.S. Federal Government has maintained that reducing barriers to opportunity is sufficient for economic development and has little interest in equalizing outcomes across states.
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