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The National Role in Rural Economic Development:
Some Empirical Evidence and Policy Implications

by

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College of Agricultural and Life Sciences
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The Federal Role in Rural Economic Development
Some Empirical Evidence with Implications for Current Policy Debates

Introduction

Numerous narrowly focused federal programs are a weak substitute for an integrated federal approach to fostering economic development in rural America. (USGAO 1994b, p. 5)

The “patchwork of federal programs needs to be reappraised” declares the title of a recent U.S. General Accounting Office report on rural development. According to GAO, this patchwork consists of 828 separate programs. They provided rural America $1.8 trillion dollars between 1983 and 1992 — $700 billion for rural development and $1.1 trillion for individual well-being (p. 14). Using its narrowest definition of economic development, GAO identified 35 programs that spent $15.5 billion.

Concluding that the current approach is “generally inefficient,” GAO recommended that Congress adopt a “comprehensive, national strategy for federal assistance to rural America.” Among the problems GAO emphasized are that (1) rural officials find the “myriad” of programs difficult to use, (2) compliance with federal rules and regulations is costly, (3) too many narrowly focused programs exist, (4) federal efforts to coordinate rural development activities have not succeeded, (5) little is known about the programs’ effects, and (6) the National Rural Development Council and the State Rural Development Councils, which were established under the 1990 Presidential Initiative on Rural Development, lack the authority to solve these problems. In addition to “a single federal policy for economic development in rural areas,” GAO noted the need for effective local leadership and long-range economic development planning.

Behind the GAO recommendations stand two key premises. First, federal policy for rural economic development matters; that is, the federal government can stimulate economic growth successfully. Second, a comprehensive, coordinated approach would be more effective than the large number of special purpose, categorical programs resulting from “the congressional subcommittee structure, the protectiveness of agencies toward their programs, and the strong support of constituent groups for particular programs” (USGAO 1995a, p. 49).

This paper presents empirical evidence regarding both those premises. It shows that federal government agencies, working together and in partnership with state and local government, can indeed stimulate rural economic development — and have, in fact, done so. It argues that federal agencies already are able to undertake successful coordinated comprehensive development strategies by pulling together and drawing on the special purpose, categorical programs established and preferred by Congress. GAO, in effect, is posing a false choice between a coordinated approach and individual programs. The key is to coordinate individual programs. Thus, after presenting its empirical evidence, this paper returns to the policy issues raised by GAO and argues that its recommendations are both unrealistic and unnecessary.
This paper places rural development programs and GAO’s recommendation into the broader context of U.S. experience in economic development policy. That experience includes block grants, regional commissions, and federal, state, and local roles, as well as federal categorical assistance. Then the paper presents its evidence that the federal role matters and that a sustained coordinated, comprehensive approach succeeds. Using geographical control group methods, the statistical analysis focuses on two rural regions, Appalachia and the Lower Mississippi Delta. Both have been identified by Congress as special policy concerns, but the congressional policy response has been very different. For Appalachia, Congress funded and mandated a coordinated, comprehensive approach. For the Lower Mississippi Delta, it declined the invitation to do so.

The main empirical finding is Appalachian growth and Delta decline. The control group method cannot determine whether the Appalachian growth stems primarily from the level and composition of public investment in Appalachia, its sustained nature, the geographic clustering or targeting of the investment, or the Appalachian Regional Commission’s unique form of governance. The important point is that the federal action succeeded in stimulating rural development. Finally, the paper discusses the implications of the empirical results for several current policy debates and proposals.

Federal, State, and Local Economic Development Roles in Brief

State governments have taken an increasingly active role in economic development policy over the past two decades. Although attention has returned to the bidding wars among the states and the increasingly large incentive packages offered to firms, the states define economic development in far broader terms. A recent survey of state programs and practice (Isserman 1994b) describes three main orientations. The chasing programs emphasize bringing resources from the outside into the state. They include programs designed to entice not only industrial plants but also foreign investments, government facilities, tourists, retired people, and other sources of jobs and income. The more inward-looking, self-improvement programs emphasize helping the people and businesses of a state become more competitive. They focus on education and labor force training, science and technology, small business assistance, venture capital, and infrastructure. Finally, the knowledge and process oriented programs emphasize greater awareness and use of business practices, incentives, and markets. They emphasize strategic planning, performance measurement, and client orientation, and they advocate treating citizens and companies as customers of government. Drawing on case studies of successful places (e.g., Bosworth and Rosenfeld 1992; Porter 1990) and supported by private foundations, some states have begun to encourage creation of industrial clusters and networks of firms.

Local governments tend to have two major economic development roles. Their direct role focuses on chasing (primarily industrial) and entails improving industrial sites, marketing the community and its image, and writing project proposals for funds from federal and state programs. Their indirect role focuses on making the community a desirable place to live and work. It entails
providing good local schools, parks and recreational opportunities, cultural facilities, a safe environment, good roads, and public services at reasonable cost. Increasingly, that role has involved more interaction with citizen groups and other non-governmental organizations.

Federal government programs that affect state and local economic development typically dwarf the state and local efforts. The main federal effects are often through policies and programs that are not intended primarily to stimulate economic development, such as tax and depreciation laws, defense expenditures, farm and water subsidies, and other congressional appropriations. Other major effects are through economic development programs not aimed at specific places, such as programs supporting science and technology, education, export development, and small businesses and polices affecting trade, infrastructure, and communication. Smallest in size and effects are the place-oriented economic development roles assigned to specific agencies, including the Economic Development Administration, Rural Development Administration, and the U.S. Department of Housing and Urban Development. Those programs feature grants and loans for public works, such as industrial parks, sewage and water systems, housing, hotels, and convention centers, and a large variety of other assistance, including disaster relief, business loans, technical assistance, and planning funds.

A difference in perspective between the federal and state governments is noteworthy. The federal government has emerged as the principal guardian not only of the poor and minorities but also of disadvantaged areas with high unemployment and poverty (Isserman 1994b). Each state, for the most part, regards the whole state as the lagging region whose development it is promoting. Its goal is increased competitiveness and more jobs for the state. In this global competition, the state matches its best with the best of other states and countries, counting on the federal government to help with its distressed or disadvantaged parts.

The Economic Development Administration illustrates well the range of place-oriented federal responsibilities. EDA was created in 1965 “for the clear purpose of aiding the economic growth of distressed American communities” (EDA 1966). Its initial programs included grants and loans to help communities build public works and facilities, low-interest loans and working capital guarantees for businesses, technical assistance and community planning grants, and job training programs. Today its major programs are public works or infrastructure funding related to economic development (e.g., industrial parks, water and sewer improvements, and training facilities), economic adjustment funding and assistance for distressed communities and communities suffering sudden dislocations (e.g., natural disasters and military base or major plant closings), several technical assistance programs, and planning assistance (see Table 1). It manages a business loan portfolio of over $63 million (EDA 1993). EDA generally works in partnership with other federal agencies as well as state and local governments. In some Appalachian states, for example, EDA’s Economic Development Districts and the Appalachian Regional Commission’s Local Development Districts share the same boundaries, with the combined funding of both agencies making possible local economic development planning, leadership training, and technical assistance activities.
Three Federal-State-Local Systems

The three levels of government interact in at least three different approaches to fiscal federalism: categorical grants, block grants, and regional commissions. The regional commission approach is very rare in American history. In essence, it is a regional, multi-level block grant system, which enables a partnership of federal agencies and state and local governments to coordinate federal, state, and local programs.

Table 1. Major programs of the Economic Development Administration, FY 1993

<table>
<thead>
<tr>
<th>Type of grant</th>
<th>Number</th>
<th>$ Million</th>
<th>Rural %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public works</td>
<td>141</td>
<td>136.8</td>
<td>70.8</td>
</tr>
<tr>
<td>Economic adjustment assistance</td>
<td>60</td>
<td>21.8</td>
<td>84.1</td>
</tr>
<tr>
<td>Defense adjustment assistance</td>
<td>36</td>
<td>47.7</td>
<td>n/a</td>
</tr>
<tr>
<td>Disaster adjustment assistance</td>
<td>94</td>
<td>46.1</td>
<td>n/a</td>
</tr>
<tr>
<td>Planning</td>
<td>402</td>
<td>24.8</td>
<td>n/a</td>
</tr>
<tr>
<td>Technical assistance</td>
<td>116</td>
<td>9.5</td>
<td>n/a</td>
</tr>
<tr>
<td>Trade adjustment assistance</td>
<td>16</td>
<td>14.0</td>
<td>n/a</td>
</tr>
<tr>
<td>Total</td>
<td>865</td>
<td>300.7</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: EDA 1994

Table 2. Federal programs serving rural America, 1983-92.

<table>
<thead>
<tr>
<th>Type of program</th>
<th>Number</th>
<th>$ Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture/natural resources</td>
<td>109</td>
<td>288.0</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>84</td>
<td>243.8</td>
</tr>
<tr>
<td>Human resources</td>
<td>461</td>
<td>119.8</td>
</tr>
<tr>
<td>Economic development</td>
<td>35</td>
<td>$15.5</td>
</tr>
<tr>
<td>Subtotal (rural development)</td>
<td>689</td>
<td>667.1</td>
</tr>
<tr>
<td>Entitlements</td>
<td>29</td>
<td>1037.2</td>
</tr>
<tr>
<td>Special groups</td>
<td>139</td>
<td>101.5</td>
</tr>
<tr>
<td>Subtotal (individual well-being)</td>
<td>139</td>
<td>1138.7</td>
</tr>
<tr>
<td>Total</td>
<td>828</td>
<td>1,805.8</td>
</tr>
</tbody>
</table>

Source: USGAO 1994b, p. 14
Categorical Grants

GAO categorizes the 828 federal programs “serving rural America” as shown in Table 2. Ignoring the programs aimed directly at individuals (which include social security, disability, Medicare, and unemployment insurance payments) leaves 689 rural development programs in four categories. GAO gives a few examples of each. The agriculture/natural resources group includes commodity support programs and programs that protect the environment and wildlife, promote energy efficient technologies, and facilitate exports of farm products. The infrastructure group includes assistance for airport development, highway planning and construction, waste water treatment facilities, and public transportation. The human resource group includes job training, rural health care, and housing assistance. Finally, the economic development group, less than 1 percent of the total, includes funds for building industrial parks, starting small businesses, and designing and implementing economic development plans.

From the local perspective, these programs are often bewildering and frustrating: “The many complex and narrowly focused programs are generally difficult and costly to use because officials must grapple with the programs’ different rules and regulations” (USGAO 1994b, p. 4). GAO notes the need for local officials to (1) identify sources of federal assistance, (2) understand rules and regulations, (3) master the different application processes, and (4) reconcile conflicts in rules and regulations among the programs. It concludes that “rural areas may need to be as concerned with designing their projects to meet the program’s criteria as they are with meeting their development needs” (pp. 5-6). Inefficiencies also result when communities must piece together several programs of several agencies to complete a project (p. 33). GAO concludes that federal efforts to solve “the problem of inconsistent, unclear, and costly program rules and regulations” have not been successful (p. 36).

Although excessive rules and regulations by definition cannot be defended, special purpose categorical programs do make sense from a national perspective. The rules and regulations are intended to make certain that the funds will be used by local governments for the purposes intended by Congress and the federal government. The tension is between the state and local wish for maximum flexibility to use the funds to meet local priorities versus the federal wish for accountability to ensure that the funds will be used well for the purposes and beneficiaries intended. The grant application procedure provides a case in point. Preparing a good proposal can require considerable effort and expertise, but a community that lacks the skilled staff needed to complete a good plan and proposal may also lack the skilled staff needed to administer, manage, and monitor a project successfully. Thus, the proposal requirement, seen as a hurdle from a local perspective, is an important screening and accountability criterion from the federal perspective.

Block Grants

The block grant is an alternative to the patchwork of single purpose categorical grants described by GAO. For example, instead of 119 federal programs that deal with economic
development or infrastructure in rural areas, each requiring applications to federal agencies, the federal
government could combine the funds into a few block grant programs. Each state or eligible local
government then would receive its share of funds by formula. An appealing aspect from the recipient
government perspective is that it receives funds with far fewer strings attached and without a
demanding and uncertain application process. An appealing aspect from the federal perspective is the
budget savings, both from the local governments’ willingness to accept less money in exchange for
more flexibility and certainty and from not having to maintain a federal bureaucracy to evaluate project
proposals and monitor project spending.

Yet, block grant programs cannot avoid the tension inherent in providing flexibility to
recipients and insisting that federal objectives be met. An extreme case in point is the General Revenue
Sharing program, a block grant program with virtually no federal restrictions on the local use of funds.
Between 1972 and 1980, this program distributed $55 billion from the federal government to more
than 38,000 state and local governments, accounting for 40 percent of federal transfers to local
governments and up to 50 percent of some local budgets (Isserman and Majors 1978). The program
no longer exists, arguably precisely because it had no strings attached. It served no explicit federal
objective other than to relieve state and local fiscal stress through federal revenues, which were more
responsive to economic growth, and to free small governments from the grantsmanship burdens of the
categorical grant programs (Shannon and Wallin 1981). When the federal government began to feel its
own budgetary pressures, Congress eliminated the revenue sharing program.

The history of General Revenue Sharing reinforces state and local concerns that the present
initiatives to combine categorical programs into block grants are just a prelude to cutting the funds in
the block grants. To quote a long-time observer, “Congress, which is likely to view block grants as
general transfers of federal funds to states rather than a means of achieving federal goals, will start to
pare back the resources devoted to block grants as it seeks additional means of cutting federal
spending” (Downs 1995, p. 138).

Another instructive example is the Community Development Block Grant Program, which has
distributed more than $62 billion to local governments and states since 1975. Urban counties and cities
with at least 50,000 residents are “entitlement communities,” that is, they receive funds directly from
the federal government by formula. Most rural communities are only eligible to apply for funds to
state-administered “small cities” grants (except in Hawaii and New York, where they apply directly to
HUD, because those states declined to administer the programs themselves). Whereas the entitlement
cities have broad spending discretion within the national objectives, rural areas are faced with an
application process that can severely constrain local flexibility in project design and priorities (Isserman
1981). Perhaps as a result, rural areas as a group have devoted 15-22 percent of their total funding to
economic development annually since 1984, while entitlement cities have devoted 10-14 percent
(USGAO 1994a) — although other differences between urban and rural area might explain this
preference.
Several federal strings are attached to the CDBG grants. For instance, at least 70 percent of the funds must benefit low and moderate income persons, only certain economic development activities are eligible, and construction projects must pay prevailing wages. With the spending conditions come requirements that grantees submit first a spending plan and afterwards a performance report to enable the federal government to monitor whether the conditions are being met and the funding is being properly used. According to GAO, recipients have identified several problems in using the grants for economic development: confusion over inconsistently applied rules and regulations, the administrative burden of having to document compliance with low- and moderate-income provisions and pay the local prevailing wages for small construction projects, and the difficulty of using grants for job retention activities.

The CDBG experience reveals that, when Congress wants to influence and monitor local spending, a block grant system does not bring relief from some of the problems GAO identified with the patchwork categorical grant system. In response, GAO has recommended periodical assessments (including feedback from CDBG grantees) of the training provided to federal officials who monitor and administer the CDBG economic development activities, as well as procedural changes to make job retention and construction activities easier to undertake. Yet, GAO also pointed out that some grantees have not met federal requirements that at least 51 percent of the jobs go to low- and moderate-income people, that business assistance meet an appropriateness test and not be excessive, and that grantees prepare adequate analyses and documentation to ensure compliance. Thus, the CDBG experience demonstrates both the burden and the need for federal monitoring requirements within a block grant system.

In terms of flexibility, funding certainty, and federal requirements, the real difference between categorical and block grants is only a matter of degree. When there is a national objective to be met or a congressional concern (for example, whether CDBG creates high quality jobs), a block grant entitlement program apparently cannot avoid reporting, administering, and monitoring requirements to ascertain whether those objectives and concerns are being met. Even when Congress has relinquished discretion over how much money individual communities will receive (giving that authority to either statutory funding formulas or state governments) and even when it has allowed more local flexibility in spending, it has continued to specify restrictions, mandate reporting, and monitor compliance. Furthermore, as the General Revenue Sharing experience suggests, when there is no definite national objective or programmatic federal involvement, an extremely high degree of flexibility may eventually lead to the loss of federal enthusiasm and funding. No national objective leads logically to no federal program.

Regional Commissions

The Appalachian Regional Commission provides a different way of resolving the tension between local flexibility and national objectives — a way that might be useful in several program areas
because it requires coordination among states, maintains a federal role, and encourages participation of local governments and community groups. In essence, ARC is a multi-state block grant program, but one which preserves the direct federal role in decision making that is a hallmark of categorical grant programs. ARC receives an annual appropriation from Congress, which it then allocates by formula to the Appalachian states. The Commission itself consists of a federal co-chair, who is appointed by the President and approved by Congress, and the governors of the 13 states within the region.

All major actions require approval of both the federal chair and a majority of states. Each state is divided into multi-county planning and development areas, known as local development districts, which propose projects. Each state government prepares a state development plan and selects a set of local projects. The Commission votes on the set of state plans and projects. ARC itself has a small staff of about 60 people, located in Washington, D.C.; they interact with Congress and federal agencies, provide technical assistance, and transfer and audit funds. Funding sources reflect the nature of the federal-state-local partnership. ARC projects cost $14 billion between 1965 and 1993, of which 40 percent came from state and local governments, 44 percent from ARC appropriations, and 16 percent from other federal funds (ARC 1994).

ARC’s basic strategy was outlined by the President’s Appalachian Regional Commission in 1964 (PARC 1964). Its programmatic emphasis has included highways, vocational and technical education, health clinics and hospitals, water and sewer systems, child care centers, housing, business loan funds, and leadership training. Three objectives put forth in GAO (1994b) have been part of ARC’s design since its inception: coordinating federal government efforts, nurturing local leadership and professional planning capacity, and creating long term local development plans.

The statistics are impressive. ARC in partnership with federal and state agencies has constructed 2,114 miles of the 3,000 mile Appalachian highway system and 800 miles of access roads; it has helped construct or equip more than 700 vocational and technical facilities, which serve 500,000 students per year; it has provided funding for a network of over 300 primary health clinics and hospitals, which serve 4 million people per year; and it has supported 2,000 water and sewer systems, which serve 700,000 people in distressed counties (ARC 1995). Education, health, and community development account for 43 percent of ARC’s spending, and highways the remaining 57 percent.

ARC has not escaped criticism. The same criticisms have reverberated for 30 years now, but, interestingly, they do not include the kind of criticisms by state and local officials that GAO found for the rural development “patchwork” or the CDBG program. Instead, ARC has been criticized from the right as a funnel for pork barrel spending — a program that benefits politicians, not the people of the region. It has been criticized from the left as corporate welfare — a program that benefits businesses, not the people of the region. It has been criticized by community groups as undemocratic — a program that benefits the externally-controlled local politicians, not the people of the region. State and local officials, in fact, have been strong proponents of the ARC program. In the words of Governor

Summary

GAO has posed the contrast between an uncoordinated, inefficient patchwork of rural development programs and a comprehensive, coordinated national strategy. Block grants offer a partial solution to the efficiency problems of a patchwork of programs, but they do not resolve the tension between local flexibility and national objectives. The General Revenue Sharing experience shows that the federal government may lose interest in block grant programs that have no clear national objectives or federal involvement. National objectives, though, seem to bring with them spending conditions, reporting requirements, and federal monitoring activities as in the CDBG case. The regional commission or multi-state block grant structure appears, however, to permit flexibility while preserving a federal presence, encouraging federal-state-local coordination, promoting a comprehensive, coordinated regional development strategy, and combining categorical programs to serve state and local needs. Aspects of that regional approach, building on existing federal agencies and programs and combining categorical and block programs, can offer more pragmatic solutions to the problems that GAO has identified than the often heard, but always unheeded cry for a comprehensive national strategy toward Rural America. These policy issues are examined again after presenting the empirical evidence.

Research Design 1

Is it possible to derive any statistical evidence that the 30-year old federal approach to rural development of Appalachia has been successful? Or shall GAO rhetoric stand as a substitute for evaluation in deriding the federal role in rural development as an uncoordinated patchwork of a myriad of difficult to use programs?

GAO itself points out that “little has been done to evaluate the effect of individual programs, and no evaluations have documented the overall impact of federal assistance on rural economic development. Such evaluations are difficult but necessary efforts if the federal government wants to assure that its assistance is, or can be made, effective” (USGAO 1994b, p. 29). In its CDBG report, GAO is more precise: “These net effects on employment are very difficult to estimate. The fundamental problem is the lack of a control group or the ability to otherwise estimate with some reasonable precision what would have occurred in the absence of a program” (USGAO 1994a, p. 13).

This study will do exactly what GAO suggests — construct a control group to measure what would have happened without a program. This research is made possible by recent progress in geographical control group methods, whose development was supported by the National Science Foundation. Studies that discuss and use the methods include Isserman (1994a), Rephann and Isserman (1994), Isserman and Rephann (1995), and Isserman, Stenberg, and Sorenson (1997).
The program in question is the federal regional development strategy for Appalachia. Has it stimulated employment and population growth in Appalachia? To answer that question, a counterfactual must be derived, namely, what would have happened in Appalachia had there been no comprehensive regional development program. The difference between the actual and the counterfactual, that is, between what actually happened and what would have happened, is the effect of the program. Employment and population growth are the outcome measures because the chief goal of economic development programs often is increasing the number of jobs and GAO has noted that declines in rural populations might be taken “as an identifiable measure of federal failure” (USGAO 1994b, p. 39). This study extends a previous evaluation of ARC programs (Isserman and Rephann 1995) by focusing on rural areas, measuring job creation, using a broader set of determinants of economic change in selecting the control group, and updating the analysis through 1993.

The key methodological step is selecting the control group. Using counties as the unit of analysis because of data availability, the task is to select for each rural Appalachian county its twin, that is, the county outside Appalachia most similar to it. Those twin counties are the control group. Their growth represents what would have happened in Appalachia without the ARC programs. The effect of ARC is measured as the mean difference between the growth rates of the Appalachian counties and their twins. A standard statistical test of whether the mean difference in growth rates between each Appalachian county and its twin is significantly different from zero reveals whether the measured effect is different than would have resulted by chance alone.

Each rural Appalachian county is paired to its twin based on conditions before the ARC programs commenced. To assure spatial independence, counties within 60 miles of Appalachia are disqualified from consideration as twins in case the ARC programs affected their development. This study follows the practice of GAO and the U.S. Department of Agriculture by defining rural as synonymous with non-metropolitan. Thus, only non-metropolitan counties are eligible to be twins for the rural Appalachian counties. The pairs are formed based on important determinants of economic growth and common indicators of economic distress. They are location, economic base, income and wealth, and labor market conditions. The specific variables are:

**Location:** Distance to a city of 25,000 or more, distance to a city of 100,000 or more, population potential within 60 miles (the labor market), population potential between 60 and 500 miles (one-day shipping boundary), and residential adjustment’s share of income (commuting patterns).

**Economic base:** The shares of total earnings each of farming, manufacturing, and federal government.

**Income and wealth:** Per capita income, transfer income as a share of income, and per capita dividends, interest, and rent.
**Labor market conditions:** Unemployment rate, percent of the adult population having completed high school, and previous population and income growth rates.

**Constraints:** Potential control group county must be more than 60 miles from Appalachia (spatial independence), must have data available for all selection variables, and cannot be included in a metropolitan area.

The control group selection process compares each Appalachian county to every non-Appalachian county in the continental United States. The algorithm calculates the difference between each Appalachian county and all other counties for each of the selection variables. The differences are combined into a single measure of similarity using the Mahalanobis distance metric, which weights the differences using a variance-covariance matrix:

\[ d^2 (X_A, X_C) = (X_A - X_C)^T S^{-1} (X_A - X_C), \]

where \( X \) is the vector of selection variables, \( A \) is the Appalachian county, \( C \) is a possible control county, \( d \) is the distance between the two vectors, and \( S \) is the variance-covariance matrix of the possible control counties. In essence, the Mahalanobis metric weights variables by how much they vary among the counties; differences matter less for variables that vary more.

The Appalachian counties are paired with their most similar non-Appalachian county, except when one county is the most similar county for more than one Appalachian county. This matching problem is resolved using a network flow algorithm to make the control group as a whole as much like the treated group as possible. More specifically, counties are matched to make the sum of the Mahalanobis distances between all pairs of twins as small as possible. Consequently, a few Appalachian counties receive their second, third, fourth, or even fifth best matches.

Figure 1 presents a schematic overview of the method. The control selection occurs with data prior to 1959. The heavy line shows the average growth of the treated group, and the lighter line depicts the control group. Between the selection year and the beginning of the treatment, there should be no significant difference in the average growth of the two groups. In the figure, the treated group quickly begins to grow faster than the control group after the treatment. The treatment effect is the difference in the growth between the two groups.

The treatment effect in the Appalachian study is measured by the mean difference in the growth rates of each Appalachian county and its twin, \( (r_A - r_C) \). If the mean difference is positive and significantly different from zero, it is accepted as evidence that the ARC programs have stimulated growth. The assumption that the ARC programs caused the treatment effects is explored more fully later.
The Appalachian Case Study

The Appalachian Regional Commission was formed in 1965. The official region now includes 400 counties, all of West Virginia and parts of the other 12 states. It stretches from western New York to Alabama and Mississippi. It is larger than California in area and, with 21 million people, has a larger population than New York, Texas, and every other state except California. Although considered a rural region, Appalachia includes four of the nation’s 25 largest metropolitan areas — the entire Pittsburgh area and portions of the Washington, Atlanta, and Cincinnati metropolitan areas. Only in a relative sense is Appalachia rural: 40 percent of the Appalachian population lives in rural counties compared to 20 percent of the U.S. population. Variety characterizes Appalachia. Its 69 local development districts range in size from the Pittsburgh district with 1.3 million jobs in 1993 to four districts with fewer than 10,000 jobs.

Figure 2 shows the 285 rural counties of Appalachia and their control group twins. Note that the buffer around Appalachia is caused by the 60-mile spatial independence constraint. The white spaces within Appalachia are its metropolitan counties. Interestingly, the control group includes counties in New York and New England, which their congressional delegations had argued unsuccessfully should have been included in the area served by the ARC (see Derthick 1974, p. 111).

The rural Appalachian counties grew faster than their twins. Their total employment growth averaged 17 percentage points faster between 1969 and 1993 (the first and last years for which county employment data are available from the Bureau of Economic Analysis). Over that period employment
in the U.S. grew by 55 percent and in rural America by 43 percent. Hence, a 17 percentage point Appalachian advantage over its control group is very impressive. The results for population growth are similar. The rural Appalachian counties averaged 7 percentage points faster growth than their twins between 1969 and 1993.

One suspicion is that Appalachian growth may have been driven by federal government facilities and jobs. The opposite is true. The rural Appalachian counties grew 17 percentage points faster in private sector jobs but no faster than their control group in federal civilian, military, or state and local government employment. In fact, the Appalachian counties lagged behind their twins somewhat in government growth (but the differences were not statistically significant). Thus, the Appalachian edge in employment growth stemmed entirely from private sector employment.

Rural Appalachia grew faster than its twins in three of the four largest employment sectors of the private economy. The Appalachian counties averaged 52 percentage points faster growth in services jobs, 30 percentage points faster in retail trade, and 33 percentage points faster in finance, insurance, and real estate. The lone exception is manufacturing, where the growth difference was not statistically significant.

Income and earnings yield the same results. The counties of rural Appalachia grew 86 percentage points faster than their twins in total personal income (which grew 600 percent nationally over the period). Likewise, they grew 60 percentage points faster in earnings, 58 percentage points in private sector earnings, 204 percentage points in services, 95 percentage points in retail trade, and 211 percentage points in finance, insurance, and real estate. Again, the differences were not statistically significant for the government sectors or manufacturing.

An often used indicator of individual well-being, per capita income, rose 34 percentage points faster in the counties of rural Appalachia. Dividends, interest, and rent grew 282 percentage points faster, and transfer payments 112 percentage points faster. Four-fifths of transfer payments nationally
are retirement, disability, and medical payments, suggesting that the Appalachian growth in transfer payments may reflect attraction and retention of older residents. The growth in dividends, interest, and rent is also consistent with that interpretation. Only one-eighth of transfer payments nationally is unemployment and income maintenance payments, indicating that the faster Appalachian growth does not result primarily from an increase in welfare payments.

These findings strongly suggest that the coordinated, comprehensive, federal-state-local approach succeeded in stimulating growth. Rural Appalachia grew faster than its control group of similar counties that did not benefit from such a rural development approach. Thus, the empirical results support the two premises underlying GAO’s recommendation of an integrated federal strategy. First, the federal government can stimulate rural growth, and, second, a comprehensive, coordinated strategy can succeed. Both have happened in rural Appalachia. Interestingly, however, they did so by building on that very patchwork of programs that GAO wishes to replace.

Research Design 2

Control group research always requires a leap of faith. It cannot prove causality nor explain precisely what in the ARC approach caused the impressive growth differences. Thus, skeptics may always assert that something else, something other than ARC, caused the observed growth differences. For example, perhaps the added Appalachian growth merely reflects a natural outcome of market forces leading to convergence within the dynamic American economy — that is, lagging regions catch up as a result of entrepreneurs finding opportunities there. The Appalachian success stems then, under this hypothesis, not from federal, state, and local policy but simply because it was Appalachia’s time to catch up. When a plausible explanation is offered, the role of research is to test its implications, which is precisely what is done in the next section for this regional market dynamics hypothesis.

After recommending control group research to estimate “what would have occurred in the absence of a program” (USGAO 1994a), GAO recently increased the burden of proof dramatically. In its recent review of studies of the Appalachian Regional Commission, Economic Development Administration, and Tennessee Valley Authority, GAO states three criteria for a “persuasive study of the impact of economic development assistance programs” (USGAO 1996, p.8). The study would have to document an improvement in the targeted area, link the economic changes to specific elements in the agency’s programs, and rule out alternative causes by measuring the growth stemming from other influences on the area’s economy (p. 4).” In response, ARC stated that “it is impossible—not just difficult—to establish such linkages for any specific federal investment,” and the three agencies “said that establishing such a linkage would be extremely difficult and expressed doubt that such studies had been conducted for other federal agencies’ programs,” to which GAO agreed (p. 8).

Applying its criteria, GAO concluded that it was unable to find “any study that established a strong causal linkage between a positive economic effect and an agency’s economic development assistance” and only two studies that established “a weak linkage between economic development and
an agency’s programs” (p.2). One is a study of EDA (Martin and Graham 1980), and the other of ARC (Isserman and Rephann 1995). GAO classified the Appalachian control group study as weak evidence for not linking the growth to specific programs (“for instance, a highway construction program leading to growth in manufacturing”) and not ruling out other explanations (“for instance, how much of Appalachia’s growth can be attributed to ARC’s programs and how much to the sharp increases in coal prices that occurred in 1974?”).

Control group studies can rule out other explanations, but they are very limited in their ability to link growth to specific programs. As GAO notes, doing so with any research design is very difficult because “the task of determining a program’s expenditures on roads or health care, for example, and then correlating these expenditures with local outcomes would be daunting” (p. 5). To draw analogies with medical research, control group studies can establish a link between smoking and lung cancer or between high voltage transmission wires and leukemia, but they cannot explain specifically how smoking or magnetic fields cause disease.

The next section presents another control group study. It was designed to provide either additional evidence of federal success or strong evidence that federal programs had little to do with the Appalachian progress. It is a study of the Lower Mississippi Delta, a lagging, poor region that did not receive the sustained, coordinated, comprehensive federal support that Congress provided Appalachia. Therefore, if the Delta also outpaced its control group, the argument that federal programs stimulated Appalachia is cast into doubt. How could the federal programs be responsible for stimulating Appalachian growth if the Delta had similar growth relative to its twins without such a sustained, coordinated effort? In that case, the regional dynamics and convergence properties of the American market system might well be responsible for the growth of both Appalachia and the Delta. If, on the other hand, the Delta did not do better than its control group, the case for federal success in Appalachia becomes stronger. To put it simply, together the two studies would show that coordinated, sustained federal action succeeds (Appalachia) but federal inaction fails (Delta).

The Lower Mississippi Delta Case Study

Congress established the Lower Mississippi Delta Development Commission in 1988. It consists of 219 counties in seven states from Illinois to Louisiana. The Commission, chaired by Governor Clinton, submitted its report to President Bush in 1990. The Delta development plan proposed to achieve comprehensive approaches to solving problems, streamline institutional processes, develop leadership, change attitudes regarding the region’s tradition and image, improve education, build on and protect existing resources, and improve physical infrastructure (LMDDC 1990). Congress, however, did not accept the Commission’s invitation to “immediately address the issue of an appropriate entity . . . to ensure the implementation of the Delta Commission’s ten-year plan and
recommendations, to provide for joint state and federal participation, and to address possible funding mechanisms” (p. 14).

Therefore, the Lower Mississippi Delta provides a counter-example for Appalachia and can serve as a control for the Appalachian analysis. It is a poor, lagging region defined by Congress that did not receive a federally-sponsored, coordinated regional development program. Has the failure to fund a major Appalachian-style development program in the Delta made any difference?

Answering that question entails a control group analysis for the Lower Mississippi Delta. Using the same variables as in the Appalachian analysis, each rural Delta county was paired with its nearest twin in 1959. There is one methodological difference: Appalachian counties were excluded from consideration as twins for the Delta counties. Therefore, the Delta counties are being matched to counties that did not benefit from the federal support that Appalachia received. They are being matched to other counties without such special support in the expectation that they grew no faster than those counties. Figure 3 shows the 174 rural counties of the Delta and their control group.

Unlike rural Appalachia, the rural Lower Mississippi Delta fell behind its control group. Between 1969 and 1993 the Delta counties averaged 7 percentage points slower growth than their twins in total employment, 10 percentage points slower growth in private employment, and 6 percentage points slower growth in population. The income figures are no more encouraging: a 28 percentage point deficit in total personal income, 54 percentage points in private sector earnings, and 85 percentage points in transfer payments. The only sector in which the Delta outperformed its twins was in federal military employment and earnings, by 13 and 142 percentage points, respectively.

Figure 3. The rural counties of the Lower Mississippi Delta and their twins, 1959.

In short, the two case studies together show that federal action succeeded and inaction failed. In both cases, the counties lagged behind their twins in earnings and population growth rates from 1959 through 1965, when the Appalachian program began. (Employment data are not available until
1969.) The fact that the regions lagged behind their twin counties is no surprise. This “selection bias,” caused by those regions being extraordinarily distressed, merely confirms that they were perfect candidates for regional development programs. The comprehensive, coordinated federal response stimulated the Appalachian region so that it outpaced its control group. In contrast, the Mississippi Delta, without benefit of such an effort, continued to fall further behind its control group.

Figure 4, which depicts the annual pattern from 1969-70 through 1992-93 for employment and population, portrays the contrast. Appalachian growth was significantly faster than its control group from 1970 onward for population and 1973 onward for private employment. The difference in growth rates between the Delta counties and their twins was not statistically significant at the 90 percent level until 1982 for private employment and 1986 for population. These results mean that the Delta kept pace with its control group for a few years. Why it did so is beyond the scope of this research, the important point here being that the Delta did not exceed its control group as Appalachia did.

This evidence of Appalachian growth and Delta lag does not mean that federal programs in the Mississippi Delta failed, were inefficient, or were a waste of money. This research design can offer no evidence on the efficiency or inefficiency of specific federal investments. It provides evidence for the effectiveness of the sustained, coordinated federal approach in absolute and relative terms by showing that faster economic growth occurred where the federal government funded and pursued such an approach. One finding is clear, however. Without a comprehensive rural development program such

Figure 4. Growth of the rural counties of Appalachia and the Lower Mississippi Delta relative to their twins, percentage point differences, 1969-93.
as Congress provided to Appalachia, the Delta remains a distressed region that, unlike Appalachia, is not catching up with its control group.

Implications for Policy Proposals and Five Debates

Not for half a century have ideas for changing the operations and organization of the federal government been discussed so vigorously with the potential of such dramatic change as is the case today. The Clinton administration from its inception made clear its commitment to “reinvent government” and refocus government agencies. It has introduced or proposed many fundamental changes (see Cisneros 1995 for an account of one department’s changes). The election of Republican majorities to the House and Senate in 1994 broadened and intensified the debate. Whole agencies became targets for elimination, including the U.S. Department of Commerce and the U.S. Department of Housing and Urban Development.

This section discusses the implications of the research findings for five debates that may affect rural development policy. The discussion focuses on major ideas and issues, not on the details of the many proposals to reform specific agencies.

Debate 1: Comprehensive versus Patchwork

GAO (1994b) has emphasized coordination, integration, and comprehensiveness in rural development policy and the replacement of an inefficient “web of federal policies, programs, and regulations” (p. 4) with a single federal policy. Yet coordination, integration, and comprehensiveness can be achieved without commencing the quixotic search for a single rural development policy. Rural America is too diverse to lend itself to a single policy, and the nation’s failure to sustain a national urban policy underscores the probable futility of such a quest.

Governmental agencies have found ways to coordinate, blend, and integrate programs to create a comprehensive approach. The regional commission approach is a case in point. A main function of the commission staff is to foster cooperation and collaboration among federal activities within the region and to help state and local governments participate in federal programs. EDA, for instance, is often a partner in ARC projects. From the beginning, ARC took an integrated, comprehensive approach to development — combining infrastructure projects with education, health, and social service projects and combining federal, state, and local participation. It emphasized training local leadership and creating local economic development planning capacity, and it followed an explicit development strategy based on a diagnosis of the region’s needs (PARC 1964). For these reasons, the ARC experience stands as a proven example of how the federal government can achieve the comprehensive, coordinated, integrated approach that GAO advocates but within the framework of existing programs and agencies.

The empirical results support a coordinated, comprehensive approach, but that approach is not costless. True, the lagging region in which the federal government implemented such a program did
well, while a lagging region without such a program did not, but ARC does more than coordinate existing programs. It is a vehicle through which the federal government has made additional investments in the region — cumulatively $4.1 billion for highways and $6.6 billion altogether from fiscal year 1965 through 1994. The 1994 appropriation was $249 million, after a decade ranging from $105-$190 million each year (ARC 1994).

The empirical results suggest that attempts to extend comprehensive regional and rural development programs beyond Appalachia are on track, but neither this study nor GAO’s has determined whether greater efficiencies resulting from coordination and integration of existing programs would suffice to finance the comprehensive, coordinated efforts. GAO implies that they will, but it notes that to date no agency has the authority and responsibility needed to integrate and rationalize federal rural development activities.

Debate 2: More Regional Commissions

In August 1995, the House Transportation and Infrastructure Committee unanimously passed the Public Works and Economic Development Act of 1995 (H.R. 2145), which proposed to reform EDA into a nationwide set of eight Economic Development Regional Commissions. The legislation includes a deliberate choice of the ARC decision making structure as its model. Policy and grant decisions are to be made by the regional commissions, not a federal bureaucracy. Each regional commission consists of a federal co-chair and representatives of each state within the region, and both the federal co-chair and the states would have to agree on commission decisions. The Secretary of Commerce is the federal co-chair for each regional commission. Although EDA does not support this strategy, an EDA office memo notes, “The effect is to place greater control at the local level by forcing the states and Federal governments to come to agreement on economic development decisions.”

A brief review of American attempts at comprehensive regional development demonstrates, however, that establishing a regional commission is not enough to promote regional development. Regional commissions have no magic. Adequate funding is necessary. Regional commissions are a process for producing regional development, but the process will fail without sufficient investment as well as a regionally appropriate, logical strategy, sustainable political support, and, as GAO (1994b) suggests, effective local leadership and long-range economic development planning. Without enough money, the other essential ingredients will not come forth, and the EDA simply does not have enough funds to blanket the nation with effective economic development commissions.

The Tennessee Valley Authority was the nation’s first modern attempt to promote comprehensive regional development. Its organizational structure is very different than ARC’s (TVA is not a federal-state-local agency). Its dual mission of being an exemplary power company and a regional development mechanism has undercut its ability and interest in regional development. Today the TVA is hardly involved in regional development, spending $20 million at most from its 1996 appropriation of $109 million for non-power programs. It is primarily a power company — and
definitely not the intended yardstick against which to measure private power companies. As a result of construction delays, cost overruns, and operational shutdowns in its nuclear power program, TVA is $26 billion in debt and has invested $14 billion in non-producing nuclear power plants whose costs are not being recaptured in its electricity rates (USGAO 1995c). Faced with such overwhelming problems, TVA cannot muster the interest or resources to focus on comprehensive rural development.

Two other attempts to form regional development commissions also did not sustain interest or funding. The Lower Mississippi Delta Development Commission, as mentioned, could not obtain federal funds to go beyond an initial research and planning period. Its experience echoed that of the Title V regional commissions, established by Congress as part of the Public Works and Economic Development Act of 1965. They were to develop “comprehensive and coordinated plans and programs.” Seven commissions involving 29 states resulted by 1972, but congressional efforts to secure major funding to realize their development plans were rebuffed by both the Johnson and Nixon administrations (Derthick 1974).

A financial comparison with ARC is instructive. By the end of fiscal year 1971, the Title V commissions combined had spent $96 million (Derthick 1974), while ARC had spent $1.4 billion (ARC 1994). With so little money, the governors lost interest. One study concluded, “Given the low level of activity of the Title V commissions, it was already apparent in the early 1970s that their research and planning efforts would in fact have only a negligible impact on regional development” (Hansen, Higgins, and Savoie 1990, p. 139). The limited success of their organizational structure is relevant for current discussions, too, because their federal role was built into the U.S. Department of Commerce, as are the proposed eight Economic Development Regional Commissions.

The danger of trying to create many regional commissions at one time, as with the Title V commissions and today’s proposed commissions, is that the nation will be unwilling and unable to provide adequate regional development funding for all of them. ARC has remained singular within the American post-war experience because proposals for more regional commissions have not been accompanied by sufficient funding for comprehensive regional development programs. The proposal to recast EDA as a set of regional commissions is no exception. The entire present EDA budget is less than three times the ARC budget, although the nation has 12 times Appalachia’s population. Furthermore, ARC depends on EDA for funding of some projects within Appalachia. In effect, EDA is being asked to mount a nationwide comprehensive regional development program based on the ARC model, but the legislation does not realize that EDA projects are a vital part of the ARC success. The legislation fails to provide sufficient funding both to maintain the existing EDA programs that support regional development and to create a national system of successful regional commissions.

Debate 3: Targeting Distressed Rural Regions

Having to spread funds too thinly is an old problem for EDA. According to Hansen, Higgins, and Savoie (1990), EDA originally “attempted to be something more than a mere administrator of a
grant and loan program carried out on a project by project basis,” but it “never implemented any consistent strategy or set of strategies” (p. 143). They blame Congress for creating eligibility criteria that by 1980 qualified areas with more than 80 percent of the nation’s population and for giving EDA too many responsibilities that had little to do with economic development. By 1978 EDA itself had concluded that a “piecemeal approach to project funding ... will not result in a meaningful increase in the level of an area’s economic activity” (quoted in Hansen, Higgins, and Savoie 1990, p. 144), but inadequate funding for the number of eligible places can force such a piecemeal approach.

The solution to spreading funds too thinly is to target spending with more discipline and a precise statement of the national objective. An alternative to setting up eight new, underfunded regional commissions that blanket the nation is to extend the ARC model to only a few additional regions. One possibility is to convert the Appalachian Regional Commission into the American Regional Commission with the same organizational structure but different territorial responsibilities than the present ARC. Selecting the regions for such attention depends on the national objective. Assume, for example, that the objective is the economic development of distressed rural regions. Figure 5 shows poverty and unemployment by county, two measures among several often used to define distressed areas (Fullenbaum and McNeill 1995). Quickly leaping out of the poverty map are central Appalachia, the Lower Mississippi Delta, and a belt from southern Texas to the Four Corners area. The unemployment map shows larger clusters in Appalachia and the Delta, as well as identifying some other areas.

By being selective instead of all inclusive, the nation may be able to secure sufficient resources to extend a successful, coordinated, integrated regional development program beyond Appalachia. Boundaries of the target regions should be drawn generously for planning and coordination purposes, if not for project funding. Prospering places and metropolitan areas should be included in the boundaries if they can affect the growth of the distressed region. The broader boundaries can facilitate regional coordination and planning, even if the better off places are not eligible for project funding.
Debate 4: The Economic Development Administration

In October 1995, the Senate Committee on Governmental Affairs issued a report to accompany S. 929, a bill to abolish the U.S. Department of Commerce. The report is outspoken: “EDA is a poorly managed, $400 million Great Society program with a history of fraud, waste, and abuse problems, and a vestige of the failed approaches of yesterday. . . . At its best, EDA duplicates the efforts of several other agencies, such as the Department of Housing and Urban Development and USDA’s Rural Development Administration. At its worst, EDA is a symbol of pork barrel politics and bureaucracy run amok.” The bill transfers EDA’s role in conversion of military bases to the Department of Defense and its role in funding local infrastructure projects to the Department of Agriculture. Thus, although sharply critical of Commerce management practices and efficiency, the bill recognizes the importance of at least two EDA roles.

The minority views in the Committee report point out that EDA has become far more efficient and effective and argue that its programs are both important and integrated. Senator Pryor, for example, notes, “All of these programs serve a defined need and they cannot efficiently and effectively operate if they are dispersed to different agencies and/or eliminated. These programs must be kept together under the EDA umbrella.” This view has prevailed in Congress, with EDA’s 1995 appropriation of $410 million passing by a 3:1 margin.

Eliminating EDA would not solve any of the nation’s rural economic development policy problems identified by GAO. It does not bring the United States closer to an integrated comprehensive strategy, it does not help local communities receive federal assistance in a more efficient manner, and it does not help develop local leadership and long-range economic development planning. Abolishing EDA also would create holes in the programs of other agencies. EDA funding is often a crucial component of HUD projects in urban areas and USDA projects in rural areas, as well as ARC projects in Appalachia.

The empirical evidence in this paper supports extending a comprehensive, integrated development approach to distressed regions outside Appalachia, but rural economic development problems do not only occur in large regions. Pockets of poverty and distress occur throughout the nation, and the individual communities and their residents outside the major distressed regions also need assistance in responding to local economic distress. One possibility is to adapt the ARC structure to EDA in a way that recognizes EDA’s experience and expertise working directly with local governments and its original, primary mission of “aiding the growth of distressed American communities.”

The main lesson of ARC for EDA is not the formation of eight regional commissions, as H.R. 2145 envisioned. Although the basic idea might be right, its geography is all wrong. The ARC model includes an appropriation to support the development of a certain set of places, 404 counties or equivalents identified by Congress. Likewise, EDA could receive an appropriation to support the
development of a set of persistently distressed communities or counties identified by Congress. This set of communities would, in effect, be EDA’s Appalachia. The main difference between this idea and H.R. 2145 is that EDA’s role and resources would be focused on those communities that need its assistance, not the whole country, and that EDA would build on its tradition and strength in assisting individual communities. Instead of a set of eight Economic Development Regional Commissions, there would be one Economic Development Commission, which coordinates federal, state, and local programs in the nation’s worst off places and gives those places the same advantages of a coordinated, comprehensive approach and a Washington presence that ARC provides to Appalachia.

EDA also has become a critical part of the federal response to natural and economic disasters. The set of communities that needs help changes over time, by the very nature of the disasters, but certain skills necessary for promoting comprehensive economic development and recovery do not change. Hence, it is in the national interest to charge an economic development agency with the responsibility to become the national expert in those skills, ready to apply them wherever and whenever they are needed. An obvious choice is the EDA, because it is the most experienced in helping individual rural communities. Helping communities requires more than financial assistance. Personnel training, technical assistance, and planning support are needed and constitute additional areas in which it makes sense to build on a national reservoir of experience and expertise. Likewise, basic research on the effectiveness of rural economic development programs and strategies is needed. EDA points out that its “complete set of program tools provides local leaders with the resources to define a comprehensive economic development strategy, evaluate individual strategic elements, and implement the strategy through infrastructure investments and financing tools, regardless of the cause of the economic distress” (EDA 1995). Success in the roles of national expert, coordinator, and facilitator often requires the very responsiveness, flexibility, openness, and creativity that bureaucratic longevity can impede — but the roles are necessary. With disaster relief programs comes the need for eligibility criteria, funding applications, monitoring, and accountability. One way to help rural areas receive federal help more efficiently, as GAO recommends, is charging EDA to design one-stop shopping systems to mobilize and coordinate federal programs for distressed and threatened communities, much like the ARC provides a central federal access point for Appalachia.

Debate 5: Block Grants

General consensus supports the consolidation of federal programs. The issue is how to do so, while targeting the federally intended recipients, attaining federal objectives, and reducing the federal bureaucracy. The problems and potential of block grants have been noted. Key is the right tradeoff between local flexibility and federal involvement. With too much federal involvement, the inefficiencies described by the GAO study of rural development programs begin to mount. With too little federal involvement comes the dual problem of holding state and local governments accountable while maintaining federal interest in the program. The Community Development Block Grant and General Revenue Sharing experiences reveal that such problems are not just theoretical.
Add to those problems the strong tension between state and local governments over whether federal block grants should go to the states or through the states. In the words of the National Association of Development Organizations, “Rural economic development and infrastructure programs have the greatest effectiveness when they help meet locally established goals. . . . We question whether state governments can or will be any more responsive to the needs of local communities than the federal government has been” (quoted in USGAO 1995b, p. 27). In short, block grants are no panacea. They must be designed very carefully.

Whether for a region or a group of distressed communities, the commission structure provides a way of maintaining federal oversight and interest within a block grant system. It substitutes federal representation in decision making for federal bureaucracy in program management. It does so by combining federal, state, and local roles in a unique partnership. Projects are initiated at the local level, but coordinated on the national level. The federal interest is represented directly in decision making, and the states and region have an advocate at the federal level. In effect, the commission is a block grant to the region or group of communities, which requires coordination on the local and state level and consultation on the regional level, while preserving federal oversight and involvement.

The federal government has set up block grants in three different ways: wash our hands, tie their hands, and shake their hands. General Revenue Sharing is an example of a “wash our hands” block grant. The money was sent to state and local government without a clear federal interest and objective, which eventually led to the demise of the program. CDBG is an example of a “tie their hands” block grant. The rules and requirements accompanying the funds make necessary a federal bureaucracy and a local burden reminiscent of categorical grant programs. The Appalachian Regional Commission is an example of a “shake their hands” block grant. The national objectives are met through a partnership, not a federal bureaucracy. The empirical findings support wider use of the commission structure with adequate funding through multi-place block grants as part of a comprehensive, coordinated strategy to stimulate rural economic development.

References


