

Economic Development Administration

by Tad DeHaven

February 2009

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Overview

The Economic Development Administration provides grants and loans to state and local governments, nonprofit groups, and businesses in regions that are supposed to be economically distressed. The agency will spend about \$352 million in fiscal year 2009. Of that total, about \$319 million will be spent on grants and loans, and about \$33 million will be spent on salaries of EDA employees and other administrative costs. The agency has six regional offices across the country.

The EDA operates a variety of programs:¹

- Local public works subsidies to “generate or retain long-term private sector jobs and investments, attract private sector capital, and promote regional competitiveness.”
- Economic adjustment assistance to help “distressed communities experiencing adverse economic changes.”
- Technical assistance funding for research into how to “promote economic development and alleviate unemployment, underemployment, and out-migration in distressed regions.”
- Planning grants to fund “planning organizations” for such things as developing Comprehensive Economic Development Strategies.
- Trade adjustment assistance funding for 11 regional centers to help companies “adversely affected by an increase in imports.”

Do these programs work to stimulate growth in depressed areas? Decades of experience show that they do not, and studies by the Government Accountability Office are skeptical of EDA’s claims of success, as discussed below. Indeed, the idea that federal funding can help boost local economic growth might be exactly wrong. It might be that regions which become dependent on government subsidies lose their productive edge and suffer decline, just as individuals on welfare tend to stagnate.

More importantly, the underlying premise of EDA programs—that the federal government should subsidize underperforming regions of the country—is misguided. Why, for example, should the federal government try to stop “out-migration in distressed areas”? Migration is an efficient decision by families to move to faster-growing areas with better job prospects. Migration is not some sort of market failure, but a key source of American economic strength.

Finally, the optimistic 1960’s idea that the federal government can design and implement programs to aid local communities in an efficient manner has been shattered by four decades of experience.² Policymakers in Washington have proven to be very poor at central planning, and the EDA’s record since the 1960s is no exception to the rule. Like other programs for state and local aid, the EDA’s efforts are mired in bureaucracy and are often hijacked by politics and pork-barrel spending.

Origins and Development

The forerunner of the Economic Development Administration was the Area Redevelopment Administration (ARA) created by Congress in 1961. The ARA was formed after six years of legislative efforts by Sen. Paul Douglas (D-IL) and others who wanted to revive “chronically depressed areas” of the country.³

While President Franklin Roosevelt’s New Deal had opened the floodgates to federal intervention into local affairs, the creation of the ARA did not come without controversy. President Dwight Eisenhower had twice vetoed ARA-oriented legislation, although he did support a more modest program.

Sen. Barry Goldwater (R-AZ) was a harsher critic. He viewed depressed areas as “perfectly normal to the economic cycle of American enterprise, and not in need of government intervention.”⁴ According to Goldwater, the very notion of a federal redevelopment program was “an unwarranted invasion of private rights.”⁵ Goldwater viewed government as the cause of economic stagnation, not the solution to it. He feared that federal intervention with such programs as the ARA would “substitute for our free enterprise system the awful specter of the planned superstate.”⁶

Sen. Wallace Bennett (R-UT) also opposed the ARA, arguing that depressed areas were capable of attracting investment by themselves with the right local economic policies.⁷ Those opposing the ARA generally viewed it as another step away from the Constitution’s federalist model under which the federal government’s involvement in state and local affairs was to be kept to a minimum.⁸

The intention of Sen. Douglas was for the ARA to direct aid only to a small number of concentrated pockets of poverty. However, politics soon intruded on that idea. To obtain enough votes for passage, the ARA’s mission was expanded. Instead of just aiding about 50

distressed cities, the program was expanded to cover 1,000 counties, about one-third of all counties in the nation.⁹ A similar thing happened after the ARA's successor agency, the Economic Development Administration was founded—the number of jurisdictions qualifying for aid as “depressed” was expanded rapidly, with over 80 percent of the nation eventually becoming eligible.¹⁰

America's fiscal culture has changed dramatically since the founding of the ARA. Sen. John McClellan (D-AK) warned back then: “if we ever begin permitting the government to enter into one area, one community, and foot the entire cost of a project, then we shall have every community in the country appealing to the federal government for the same treatment.”¹¹ Sadly that has come true. Today, state and local governments spend millions of dollars to employ armies of lobbyists to secure federal grants. By contrast, back in the early 1960s there were communities that actually said “no thanks” to the ARA. In fact, less than half of ARA designated areas sought assistance in the program's first year, and some counties protested receiving an ARA designation and were removed from the agency's list.¹²

Once the ARA was created, it found itself under pressure from powerful members of Congress to steer money to their particular districts, and the ARA was happy to comply. In one instance, two incumbent congressmen were pitted against each other in an election for a newly consolidated district in West Virginia. The ARA allowed the opponent it favored to announce an ARA redevelopment project that was located in the territory of the other opponent. Unfortunately for the ARA, the other opponent ended up winning and he became a critic of the agency.¹³

Like many federal agencies that hand out subsidies, the ADA and later the EDA ultimately became vehicles to serve narrow political ends, even if the original legislation was well-intentioned. A 1971 academic study of the ARA found that “the evidence suggests that the allocation of loans and grants was influenced more by non-economic factors (one of which could be political) than those of need or the criteria specified in the legislation.”¹⁴

It may interest today's readers, who are used to hearing about spending on earmarks, that the ADA was criticized for similar wasteful spending in the 1960s. For example, the ARA financed the purchase of iceboxes for Eskimos and it gave \$1.4 million to help build tourist facilities near a cancelled radio telescope in West Virginia.¹⁵

ARA programs were also criticized for a general lack of effectiveness and for trying to cover up that fact with exaggerated claims of success. The ARA was caught a number of times issuing bogus press releases and testifying to Congress about supposed program successes using inflated or completely false claims of job creation.¹⁶ The ARA often claimed that there would be a large “multiplier effect” from government spending, even though the Department of Labor at the time shot down that theory.¹⁷

Despite the ARA's poor record, it was reborn as the Economic Development Administration (EDA) under the Public Works and Economic Development Act of 1965. The new EDA combined the ARA's targeted planning with a traditional public works component. Eligibility was expanded and a regional focus adopted.¹⁸ Since the 1960s, the agency has since undergone many legislative tweaks, but it is still operates essentially as a slush fund for federal politicians to steer money to their districts for projects that should be funded locally or privately. A photo on the homepage of EDA's website in November 2008 showed Senate Majority Leader Harry Reid (D-NV) handing a \$2 million EDA check to a University of Nevada administrator for the “Harry Reid Research and Technology Park.”

Reasons to Terminate

The EDA and its supporters justify its existence by citing the jobs that the agency has allegedly created and the supposedly high returns earned on its investments. A 2006 presentation by one of the agency's leaders boldly claimed that “private investment of \$31 will be generated for every EDA dollar invested” in the current year and “125,000 jobs will be created or retained” from that year's spending.¹⁹ In 2008, a glossy EDA publication put average returns at \$26-to-\$1 and the number of jobs created at 151,045.²⁰

Few independent economists would believe such claims. How would it be possible for federal employees to find such high-value investments that the private sector or local governments have missed? If the payoff from projects, such as an EDA-funded intermodal facility in Stockton, California, really was \$26-to-\$1, for example, then surely local entrepreneurs and venture capitalists would be interested in funding such projects without government help.

It is also clear that EDA's claims of the benefits from spending only look at half of the equation. The EDA does create government jobs, and perhaps some private sector jobs, but that is only the visible effect. What is invisible, or ignored by policymakers, are the jobs never created because of the taxes that were raised to pay for EDA programs. Every dollar that the government extracts from the economy to pay for programs destroys more than a dollar of private sector economic activity. Taxation reduces the resources available for private sector job creation, and it also distorts the economy by altering price signals for working, saving, and other productive activities.

Over the years, the Government Accountability Office and other outside experts have criticized the EDA's claims of job creation and investment returns. A 1980 academic study of the EDA, which was funded by the EDA itself, found no sustained benefit of EDA programs to assisted communities.²¹ In 1986, an EDA technical assistance program claimed it had created 5,834 jobs, but the Department of Commerce inspector general concluded that the program had created only 83 jobs.²²

In 1999, the GAO found that an EDA study claiming that its grants created jobs was meritless: “The results of EDA's study are highly dependent on the model specification used and that the study's definitive conclusions are unwarranted ... we obtained substantially different results that show that EDA expenditures did not have a significant effect.”²³

A 2000 GAO review of the EDA's Trade Adjustment Assistance program determined that its impact was “inconclusive.”²⁴ The GAO report found that 61 percent of the money spent at regional TAA centers went for administrative and operational costs, and only 39 percent actually went toward technical assistance for firms.

In a 2001 study, the GAO concluded:

TAA-sponsored training is unlikely to complete the match between ... workers and the kinds of jobs available in the current

economy ... while helping dislocated workers is the immediate challenge, it does not lead to—and may even detract from—the efforts to achieve a more flexible and highly educated workforce and a more diversified economy.²⁵

A 2004 GAO review of a decade of EDA grants made to Indian tribes for “enterprise projects” found that only 23 percent were profitable.²⁶ According to the GAO, “most of these projects have created 10 or fewer jobs and did not attract direct private sector investment.”²⁷

Given its poor track record over the decades, why does the EDA continue to be funded? There have been efforts to eliminate the EDA, including efforts by the Reagan administration in the 1980s and congressional Republicans in the 1990s. Unfortunately, the agency survives because its benefits are concentrated narrowly on program recipients, while the costs are dispersed across millions of taxpayers.

The EDA is also skilled at supporting its political defenders. One study found that the timing of EDA project announcements coincided with election periods.²⁸ The EDA coordinates press releases for funding announcements with congressional offices in order to maximize the political gain to members. The EDA’s political skill is also evident on its website, which contains a large section devoted to pictures of politicians and funding awardees holding oversized U.S. Treasury checks.²⁹

It is little wonder that former EDA director, Orson Swindle, labeled the agency a “congressional cookie jar.” His experience made him realize that the private sector, not government bureaucrats, is better at fostering economic development. “The minute politics enters the equation, rational financial management and economic decisionmaking goes out the window,” he noted.³⁰

The EDA has been a recognized source of wasteful spending from the beginning, and it should be eliminated. The agency was a frequent target of former Sen. William Proxmire, the legendary anti-pork Democrat from Wisconsin, known for his “Golden Fleece Awards.” He argued that the EDA “deserves to die.”³¹

One EDA boondoggle highlighted by Proxmire is memorialized on the Internet. The EDA funded grants to Bedford, Indiana to build limestone replicas of the Great Wall of China and the Egyptian pyramid of Cheops. An EDA official at the time said that the grants “gave promise of bringing some economic development to a very poor part of Indiana.”³² The project was never completed, and there is a picture and description of the project on a webpage called “the cursed pyramid.”³³

Unfortunately, the EDA is only one of many federal agencies that claim to promote “economic development.” The GAO has identified 86 federal programs in 10 federal agencies and various commissions that provide economic development funding.³⁴ The GAO has counted 27 different federal agencies—one of which is the EDA—that provide funding for water infrastructure.³⁵ Thus, the EDA is a good example of the duplication and redundancy that pervades the federal budget.

The \$14 trillion American economy does not need a redundant \$350 million “congressional cookie jar” to promote economic growth. Areas of the country that are economically depressed have probably followed public policies that are not conducive to growth, such as imposing high taxes or burdensome regulations. With the high mobility of workers and investment capital these days, any jurisdiction that creates an inviting climate for businesses and skilled workers can prosper without federal government help.

¹ www.eda.gov.

² For background on federal involvement in local affairs, see Chris Edwards, “Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy,” Cato Institute Policy Analysis no. 593, May 22, 2007.

³ Interestingly, Sen. Douglas was against housing the new agency in the Department of Commerce, which was the camp of the “enemy” to him.

⁴ James L. Sundquist, *Politics and Policy: The Eisenhower, Kennedy, and Johnson Years* (Washington, DC: The Brookings Institution, 1968), p. 65.

⁵ James L. Sundquist, *Politics and Policy: The Eisenhower, Kennedy, and Johnson Years* (Washington, DC: The Brookings Institution, 1968), p. 65.

⁶ Sar Levitan, *Federal Aid to Depressed Areas* (Baltimore: John Hopkins Press, 1964), pp. 22, 23.

⁷ Sar Levitan, *Federal Aid to Depressed Areas* (Baltimore: John Hopkins Press, 1964), pp. 24, 25.

⁸ For background on federal involvement in local affairs, see Chris Edwards, “Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy,” Cato Institute Policy Analysis no. 593, May 22, 2007.

⁹ William Spangar Peirce, *Bureaucratic Failure and Public Expenditure* (New York: Academic Press, 1981), p. 158.

¹⁰ Tracey Farrigan and Amy Glasmeier, “Economic Development Administration: Legislative History,” Pennsylvania State University (“Poverty in America” project), www.povertyinamerica.psu.edu.

¹¹ Sar Levitan, *Federal Aid to Depressed Areas* (Baltimore: John Hopkins Press, 1964), p. 138.

¹² Sar Levitan, *Federal Aid to Depressed Areas* (Baltimore: John Hopkins Press, 1964), pp. 67-69. When the ARA designated San Benito County, California, as a redevelopment area, the editor of the local paper complained that “any unemployment problems in the county could be solved only by free-market forces and that the government program would be a waste of taxpayers’ money.” And the editor of a local paper in Rice County, Kansas, wrote that “a strong, prosperous and economically sound county, once proud to stand on its own two feet and meet its own problems as they came, has been shockingly prostituted under the ever-extending wing of the welfare state.”

¹³ Sar Levitan, *Federal Aid to Depressed Areas* (Baltimore: John Hopkins Press, 1964), p. 46.

- ¹⁴ A. Bruce Johnson, "Federal Aid and Redevelopment," *Journal of Law and Economics* 14, no. 1 (1971): 275-284.
- ¹⁵ D.S. Greenberg, "Navy's Big Dish: Zooming Costs, Reduced Need, Bring End to Plans for Biggest Radio Telescope," *Science*, August 3, 1962, pp. 327, 328.
- ¹⁶ Sar Levitan, *Federal Aid to Depressed Areas* (Baltimore: John Hopkins Press, 1964), p. 249.
- ¹⁷ Sar Levitan, *Federal Aid to Depressed Areas* (Baltimore: John Hopkins Press, 1964), p. 249.
- ¹⁸ See James L. Sundquist, *Politics and Policy: The Eisenhower, Kennedy, and Johnson Years*, (Washington, DC: The Brookings Institution, 1968), pp. 105-110.
- ¹⁹ Ben Erulkar, Deputy Assistant Secretary of Commerce for Economic Development, "Overview of Programs and Priorities," Economic Development Administration, July 28, 2006.
- ²⁰ Economic Development Administration, "What You Need to Know About Your Economic Development Administration," 2008, www.eda.gov/AboutEDA.
- ²¹ Randolph C. Martin and Robert E. Graham, Jr., "The Impact of Economic Development Administration Programs: Some Empirical Evidence," *The Review of Economics and Statistics* 62, no. 1 (1980), pp. 52-62.
- ²² United Press International, "Proxmire's Golden Fleece Goes to Jobs Program," December 17, 1986.
- ²³ Government Accountability Office, "Economic Development: Observations Regarding the Economic Development Administration's May 1998 Final Report on Its Public Works Program," RCED-99-11R, March 23, 1999, p. 3.
- ²⁴ Government Accountability Office, "Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear," GAO-01-12, December 2000, pp. 5, 10.
- ²⁵ Government Accountability Office, "Trade Adjustment Assistance: Improvements Necessary, but Programs Cannot Solve Communities' Long-Term Problems," GAO-01-988T, July 20, 2001, p. 3.
- ²⁶ Government Accountability Office, "Indian Economic Development: Relationship to EDA Grants and Self-determination Contracting is Mixed," GAO-04-847, September 2004, pp. 4, 6.
- ²⁷ Government Accountability Office, "Indian Economic Development: Relationship to EDA Grants and Self-determination Contracting is Mixed," GAO-04-847, September 2004, pp. 4, 6.
- ²⁸ J. Theodore Anagnoson, "Federal Grant Agencies and Congressional Election Campaigns," *American Journal of Political Science* 26, no. 3 (1982), pp. 547-561.
- ²⁹ See www.eda.gov/NewsEvents/NewsEventsPhotoGallery.xml.
- ³⁰ Ruth Larson, "Development Unit Likely to Survive War on Commerce," *The Washington Times*, October 12, 1995.
- ³¹ United Press International, "Proxmire's Golden Fleece Goes to Jobs Program," December 17, 1986.
- ³² Kenneth Bredemeier and Ron Shaffer, "Indiana Pyramiders Build a Monument to Tax Dollars," *Washington Post*, October 5, 1981.
- ³³ www.roadsideamerica.com/story/11213.
- ³⁴ See Government Accountability Office, "Rural Economic Development: More Assurance is Needed That Grant Funding Information is Accurately Reported," GAO-06-294, February 2006.
- ³⁵ Government Accountability Office, "Freshwater Programs: Federal Agencies' Funding in the United States and Abroad," GAO-05-253, March 2005.

Cato Institute
1000 Massachusetts Avenue N.W.
Washington D.C. 20001-5403
Telephone (202) 842-0200
Fax (202) 842-3490