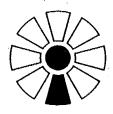
AREA DEVELOPMENT POLICY IN THE UNITED STATES 1955-1965

Maurice J. Boote

Trent University





Area Development Agency Department of Industry Ottawa, Canada December 1966

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AREA DEVELOPMENT POLICY IN

THE UNITED STATES,

1955 - 1965



MAURICE J. BOOTE

FOREWORD

Canada's policy with respect to area development is of more recent origin than that of the United States. The Canadian program was introduced in 1963 with the passing of the Department of Industry Act, two years after the equivalent American legislation had been enacted. This Act established the Area Development Agency and gave it the specific responsibility of assisting in the economic development of designated areas through measures designed to increase employment and income.

Many features of the Canadian program are similar to those of the United States program. There are also important differences of policy, intent, and scope. Nevertheless, the American experience in the development of economic policy in relation to depressed areas is of direct relevance to Canada. Much of the conceptual background to both programs is similar, and many of the comments and criticisms to which the American legislation gave rise have been echoed in this country.

In particular, it is of interest to note the American experience with respect to two main aspects of any area development program, namely, the criteria used for selecting areas that are deemed to need special attention, and the programs and measures adopted to assist in their economic betterment.

The Area Development Agency of the Department of Industry is pleased to be able to publish Professor Maurice Boote's study, "Area Development Policy in the United States - 1955 to 1965" for distribution to those federal, provincial and municipal government departments and agencies which have an involvement in area development policies, as well as to universities and other institutions and organizations outside government which may be interested.

Any conclusions reached in this study by Professor Boote do not necessarily reflect the opinions of the Department of Industry.

There is now general recognition that the political and economic structures within the United States do not produce sufficient opportunities for every segment of the society. After the Second World War, the problem was obscured and overshadowed by a high national rate of economic growth. But by 1955 it was apparent that many geographical areas had not shared in the national prosperity. The problem of the depressed area, so familiar in the United Kingdom, had become a feature of the United States.

This study attempts to describe the evolution and implementation of a national policy towards depressed areas In North America, the main stream of economic and regions. research and analysis has until recently by-passed the problem of the depressed area. The main reason for this may be that traditional analysis of the market adjustment process is an inconclusive guide to policy, when the costs and incentives of the market can bring about only a partial adjustment to major changes in the economic environment. Market forces still operate in depressed areas, persistent emigration being the most obvious adjustment. But a pattern of resources, technology, and public services that was appropriate and adequate for an earlier generation, can no longer provide a sufficient standard of living for a large proportion of families in a depressed area. Despite continual emigration, relative poverty tends to become endemic and self-perpetuating. Sooner or later, local, state, provincial, federal, and central governments decide that governmental policies must reinforce and supplement the partial adjustment process of the free market.

The study originated under the auspices of the Atlantic Provinces Series, Social Science Research Council of Canada, edited by Professor John F. Graham (Dalhousie University). The Social Science Research Council, and the Department of Industry, Ottawa, have given financial assistance for expenses involved in the study. Membership of the Institute for Economic Research at Queen's University enabled me to work on the study during the summer of 1964.

This monograph could not have been written without the generous co-operation of the staff of the Area Redevelopment Administration, Washington, D.C., particularly Mr. Gordon E. Reckord, Dr. Vincent M. Throop, and Mr. R.L. Wrigley.

Opinions expressed in the manuscript are the responsibility of the author. I am also indebted to the staff of the Department of Industry, Ottawa, for editorial assistance and for typing and other work involved in publication of the manuscript. I am grateful to Professor Graham for his encouragement and for his advice on specific points and to Professor R.S. Thoman (Queen's University) and Professor D.M. Winch (McMaster University) for helpful suggestions.

Trent University, Peterborough,

Maurice J. Boote

December, 1966.

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LOCAL AND REGIONAL ECONOMIC RETARDATION

Within a prosperous nation, geographical areas of relative poverty can generate complex economic problems. In such areas, growing industries do not expand sufficiently rapidly to employ all those who are displaced from industries in which employment is declining, as well as all those who enter the labour force for the first time. Despite a high rate of emigration, excessive unemployment and underemployment Local environments of urban and rural blight emerge, often characterized by decaying industrial buildings, subsistence agriculture, low tax yields, and inadequate community An excessive proportion of the population suffers from the physical and psychological consequences of long-term unemployment and relative poverty. The standard of living falls well below that of the prosperous regions of the national economy. Such conditions persist in most retarded areas despite a great variety of local efforts, both public and private. The economic backwardness of much of southern and western France, of southern Italy, of North-eastern England, and the relatively retarded condition of the Atlantic Provinces of Canada, are well known instances of retarded regions within generally prosperous nations. Although the United States did not enact a federal policy for selected geographical areas until 1961, problems of local and regional retardation These intractable conditions are had long been apparent. evident in much of the Appalachian region, in areas of low income in the southern states, and in many formerly prosperous towns and cities of the Northeast.

The intervention of central, or federal, governments is necessary if the economic and social effects of long-term retardation are to be reversed. But effective intervention may be extremely costly, and may involve such drastic restraints on private decisions, that federal efforts are likely to be so cautious that they will have only marginal effects. The evolution of a national policy towards retarded areas is of particular interest in the United States because until recently the benefits of the free market have been extolled more insistently than in most other countries. In the past, there have been 'several extensions of the role of the federal government. At the end of the last century, a sharp increase in the economic and social influences of large corporations led to governmental restraints on business behaviour; in the 1930s, there were the more varied interventions associated with the

depression. Since that time, there have been sharp increases in the rates of personal and corporate income taxes; despite redistributive overtones, the chief cause of the increases has been the cost of defence. years, the United States has been approaching another reconsideration of the role of the federal government. The unfavourable economic position of racial minorities, of the aged, and of depressed communities and regions, has drawn attention to problems associated with chronically low income. 1 But the pervasive tendency to deprecate governmental institutions as vehicles of economic and social improvement, has made it particularly difficult to devise an effective policy either to prevent or to cure such problems. Throughout the 1950's, this attitude was a major cause of the wariness with which the Congress dealt with any legislation that was intended to help retarded areas.

It is usually not difficult to explain adequately the past growth of an industry in particular locations or, for that matter, an agglomeration of industries in a particular area.² The theory of industrial location has emphasized the raw material orientation of the early stages of production and the market orientation of the late stages of production.³ During the past quarter century, throughout much of the world, it has been evident that the largest urban areas exert a powerful attraction for economic activity.

- 1. Recent references include: U.S. Congress, Senate and House of Representatives. Economic Opportunity Act of 1964. Reports and Hearings. 88th Cong., 2d Sess. Washington, D.C.: Government Printing Office, 1964. Conference on Economic Progress. Poverty and Deprivation in the United States. Washington, D.C.: Conference on Economic Progress, 1962. Harrington, Michael. The Other America. Harmondsworth, Mx: Penguin Books Limited, 1963. Morgan, J.N., David, M.H., Cohen, W.J., and Brazer, H.E., Income and Welfare in the United States. New York: McGraw-Hill, 1962.
- 2. See, for example, industries discussed in Estall, R.C. and Buchanan, R. Ogilvie. <u>Industrial Activity and</u> Economic Geography. London: Hutchinson and Co., 1961.
- 3. Hoover, Edgar M. The Location of Economic Activity. New York: The McGraw-Hill Book Company, Inc., 1948, and bibliography cited therein.

The concentration of the market in relatively small geographical areas reflects the importance of distributional
costs, of the availability of specialized services to
producers and consumers, including the array of educational
and cultural activities that provide a skilled and informed
population. The processes of urbanization and of agglomeration, with its associated external economies, by no means
undermine all major economic activities in areas that are
remote from a metropolis. There are primary activities such
as pulp and paper production, mining and mineral processing,
fisheries and fish processing, and agriculture, that continue
to be diffused beyond metropolitan areas.

The existence of differential rates of regional growth has been described by many writers. It is sufficient here to recall that if, for any reason, a region is able to accelerate its rate of economic growth, relative to the rate of another region, there are strong forces that produce cumulative processes in both regions. Gunnar Myrdal, in his Rich Lands and Poor, writes:

The decision to locate an industry in a particular community, for instance, gives a spur to its general development. Opportunities of employment and higher incomes are provided for those unemployed before or employed in a less remunerative way. Local businesses can flourish as the demand for their products and services increases. Labor, capital and enterprise are attracted from outside to exploit the expanding opportunities. The establishment of a new business or the enlargement of an old one widens the market for others, as does generally the increase of incomes and demand. Rising profits increase savings but at the same time cause investments to go up still more, which again pushes up the demand and the level of profits. And the expansion process creates external economies favorable for sustaining its continuation.

The local tax rate ... can be lowered and the amount and quality of public services enhanced. Both changes will make the community more attractive to businesses and workers ... with the result that the local finances will again be boosted, with similar results on the tax rate and public finances, and so on.4

4. Myrdal, Gunnar. Rich Lands and Poor. New York: Harper and Row, 1957, p. 25.

Myrdal, and others, have traced the cumulative, contractionary effects of a change that is unfavourable to The multiplier effects of such a change impinge on employment, profits, investment, savings, population growth, tax yields, and on the standard of the public An unfavourable change can have extremely serious effects on a community that does not possess a diversified economic base. The permanent closure of more than two hundred textile plants in New England between 1946 and 1954, marked the onset of chronic retardation for many towns. 5 Other towns have slipped into chronic retardation after the demise of coal mines, railroad workshops, and assembly or manufacturing operations. A predominantly rural area may enter prolonged stagnation because of depletion of a natural resource, or it may not be able to convert its activities, such as agriculture and fisheries, to modern technologies that yield a relatively high value of output per worker. In the Canadian economy, the recent exploitation of the petroleum resource in Alberta has had strong expansionary effects, whereas the difficulties of the collieries in Cape Breton have accelerated contractionary effects that were already present in the region.

The operation of market forces may increase inequalities between regions. Once a relatively slow rate of growth is underway, it gives rise to "self-reinforcing pressures" that make recovery of the region extremely difficult. The marginal productivities of labour and capital are likely to be higher outside the retarded region and labour and savings will migrate. In the case of Canada, the very large inflows of foreign capital and of foreign labour since 1946 have largely avoided the Atlantic Provinces. 7

- 5. United States, Senate. Area Redevelopment. Hearings. 84th Cong., 2d Sess. Washington, D.C.: Government Printing Office, 1956, p. 814.
- 6. Caves, R.E. and Holton, R.H. <u>The Canadian Economy</u>. Cambridge: Harvard University Press, 1959, p. 165.
- 7. In the decade 1951 1961, the Atlantic Provinces recorded an increase of population of 279,299, after net migration of -97,072 during the period. That there were many additional opportunities elsewhere in Canada is suggested by the fact that the remainder of Canada recorded a net migration of +1,174,190. Dominion Bureau of Statistics, Census of Canada, 1961. Ottawa: Queen's Printer, 1962, Vol. 1, Pt. I.

If sharp differences in regional rates of economic growth persist for several decades, and if the effects are not ameliorated by transfer payments from the central governments, the likely course of events is easy to predict. Transportation networks, school systems, and health services, become markedly inferior in the region of slow growth; each relatively inferior service is a drag upon the region. The unfortunate region attracts few financial and technical organizations that provide specialized services. Research, educational, and cultural activities expand and flourish to a much greater extent in the regions of rapid growth. The environment of sluggish growth inhibits modernization by firms within the retarded region, and chronic unemployment contributes to a pattern of labour utilization that is out-dated by contemporary standards in prosperous regions. It is certain that the retarded region will become relatively unattractive for the exercise of managerial talents.

In a pioneer analysis of regional development in Canada, B. S. Keirstead, in The Theory of Economic Change, concluded that locational advantages for manufacturing in central Canada, accompanied by technological changes that favoured large-scale manufacturing, had been reinforced by the effects of concentration of ownership:

Concentration of ownership has led to geographic concentration, and has done so even when it resulted in the underemployment or complete waste of intramarginal resources and even in uneconomic use of resources. There is convincing evidence that the ownership concentration of Canadian industry, for example, has left unexplored and undeveloped important resources in the Maritime provinces that might with economic wisdom have been exploited to the advantage of the people of those provinces. 8

Keirstead urged public expenditures for the development of retarded regions; private capital is committed to a program of concentration, and is not interested in the welfare effects of the program on the regions that suffer most from it.

8. Keirstead, B. S. The Theory of Economic Change.
Toronto: The Macmillan Company of Canada Limited,
1948, p. 337.

A more recent study, D. H. Fullerton and H. A. Hampson, <u>Canadian Secondary Manufacturing Industry</u> concluded that there was no evidence that Canadian manufacturing industry would be less geographically concentrated in the future. The proportion of population in Ontario and Quebec continues to rise, and it is expected to exceed 65 per cent by 1980; secondary manufacturing continues to locate as close by as possible to the centre of the Canadian market. Fullerton and Hampson commented:

The supply of skilled labour will be an increasingly important factor in determining the location of industrial growth. There is some evidence that this factor is contributing to the agglomerative process by which the metropolitan areas of Toronto and Montreal are growing at a rate much faster than the central provinces in which they are located. areas have available supplies of almost all the types of skilled labour required by modern industry and also tend to attract additional manpower which will provide the main sources of industrial skills in the future. These areas also tend to be the headquarters for most of the firms supplying specialist engineering and technical services. As the need for skilled labour and advisory services grows, so will the attractiveness of the large metropolitan areas to the manufacturer, despite such offsetting disadvantages as higher wages and traffic congestion.9

The exceptionally powerful, self-reinforcing, elements in the process of growth are even more apparent in Southeast England, and in metropolitan Paris. In each country, the central government has recently increased its efforts to restrain growth at these centres and to deflect it to the retarded regions. An example of incipient public policy in this field is the province of Quebec:

The fact that Montreal and the metropolitan area is becoming a monstrosity ... this very small geographical area is concentrating the purchasing power, the income, the industry, the population, almost the entire life strength of Quebec ... In

9. Fullerton, D. H. and Hampson, H. A. <u>Canadian Secondary Manufacturing Industry</u>. (A study prepared for the Royal Commission on Canada's Economic Prospects) Ottawa: Queen's Printer, 1958, p. 197.

a balanced, more rational economic future, care should be taken to decentralize and develop areas ... most of the areas outside the metropolitan area of Montreal require further stimulus and development if an increasingly apparent and dangerous desertion of these areas into the self-same metropolitan area is to be avoided. 10

Local and regional governments are not usually able to shield an area from economic changes that originate far away. The central, national government often protects an industry from foreign competition but the effective pressure for protection usually comes from the industry, rather than from local governments within whose jurisdictions the domestic industry is located. Indeed, the industry is usually aware of the threat of effective competition long before the danger is recognized by local governments. A national government is hesitant to protect an industry from technological and organizational changes that are underway within the national boundaries. In the United States, the decentralization of automobile assembly from Detroit, and the disruption of traditional centres of textile production by synthetics, are well known examples of adjustments that have proceeded until recently without intervention by the federal government. The assumption that declining employment in certain industries is more than offset by rising employment in new and expanding industries may be valid in aggregate values for the national economy. However, the adjustment is almost certain to be highly imperfect. As the forces of retardation take root in a community, large numbers elect to stay, rather than to move elsewhere. Indeed, individual inclination is usually reinforced by public policy. its early stages, national policy towards retarded areas is likely to emphasize welfare payments to individuals, supplemented by grants-in-aid to local governments to prevent further relative, or absolute, declines in the quality of public services. Also, of course, the adjustment of a declining industry may be cushioned by subsidies, sometimes. excessively so.

10. Lévesque, René. <u>Quebec's Economic Future</u>. Proceedings, Seminar on French Canada. Montreal: 1963, pp. 71-72.

Social welfare payments by a federal or central government are a relatively more important component of personal income in retarded areas than elsewhere. In Canada, family allowances, pensions for the aged, and unemployment compensation payments, are essentially standard—ized throughout the country. These payments can inhibit the mobility of labour, particularly in rural areas of a retarded region. But it is often difficult to complement these payments by other policies that encourage centres of economic growth within the retarded region, and that encourage migration to such centres and to areas of expansion in other regions.

The maintenance of personal income by social welfare payments is likely to be accompanied by grants-in-aid to regional governments to maintain public services. With the onset of retardation, the yield from a given rate of tax will lag behind the yield elsewhere. Unless there are heavier rates and imposts than elsewhere, there will be at least a relative decline in the quality of services. Since 1945, central governments have increasingly recognized the consequences of this insidious process. In Canada, the tax equalization grants, and the Atlantic Provinces Adjustment Grants under the federal-provincial tax sharing arrangements, are examples of this policy. In the fiscal year 1963, these two classes of payment comprised 32.7 per cent of the net general revenue of the provincial governments of the Atlantic Provinces.11

The cumulative effects of changes that are unfavourable to a region are partially offset by the migration of those factors of production that are able to respond to differential returns. Emigration of labour is restrained not only by disproportionate welfare payments but by other monetary and non-monetary costs, by ignorance of opportunities elsewhere, and by lack of suitable skills. A pattern of permanent wage differentials between regions might be expected to attract economic activity from areas where wage rates are higher. Thus:

11. Calculated from Provincial Finances, 1963. Toronto: The Canadian Tax Foundation, 1963. Tables 38, 40, 42, and 44. It should be noted that the tax equalization payments are made only in respect of the per capita yield of the so-called standard taxes, that is, the personal income tax, the corporation income tax, and the estate tax.

Lower wages and salaries can give these regions cost advantages in certain manufacturing lines that can compensate for their natural disadvantages. These regions can specialize in industries that are relatively heavy users of labour, where their wage advantages would be the greatest, leaving the capital-using and resource-based industries to other regions. By being integrated in this way with the main developing centres of the Canadian economy, these poorer regions will necessarily share in the general economic growth that is taking place. 12

While it is true that some types of manufacturing will continue to be relatively heavy users of labour, the rate of technological change in manufacturing as a whole suggests that it would be unwise to expect this sector, in retarded areas, rapidly to absorb a relatively large additional quantity of labour. Furthermore, there has long existed in many retarded areas a pattern of wage rates that is markedly below that of more prosperous areas. Experience in Europe and in North America suggests that relatively low wage rates are seldom, if ever, a sufficient inducement to attract a significant amount of industrial employment to a retarded region. location of a manufacturing facility depends on an amalgam of influences, including the cost of labour, and there is little reason to suppose that other attractions in the areas of rapid growth, coupled with various disadvantages in the retarded region, will not outweigh the lower wage rates. Data for Canada suggest considerable and persistent differences in wage rates between regions. But the existence of a general wage differential between regions must always be scrutinized; low productivity is reflected in low wages. a retarded region, certain industries will record a high value of output per unit of labour employed; in such cases, the combination of factors of production, in proportions that are appropriate to the latest technologies relevant to market opportunities, will reward the worker with a wage rate close to the rate for the same skill in more prosperous regions. An example that is well known in Canada is that of specific skills in the manufacture of newsprint; rates for such skills

12. Gordon, H. Scott, Planning for Economic Progress,
Social Purpose for Canada, edited by Michael Oliver.
Toronto: University of Toronto Press, 1961, p. 262.

in the Atlantic Provinces are usually at least equal to rates for the same skills elsewhere in Canada.13

A national government is reluctant to encourage emigration from areas of chronic unemployment. Regional opinion invariably favours a national policy that will provide regional full employment, without the necessity of incentives to emigration that supplement the usual market In 1957, the Report of the Royal Commission on Canada's Economic Prospects recommended that if the pace of development in the Atlantic Provinces proved insufficient, even after additional federal efforts to raise the rates of private and public investment, "then those who may wish to re-establish themselves in other occupations elsewhere should, we suggest, be assisted in doing so".14 This recommendation of the Commission was almost universally condemned by organs of opinion in the region, although it was clear that the Commission did not necessarily intend that migration be only to points outside the region.

In the United States and in Canada, there has been little official encouragement to emigration from regions that are plagued by chronic surpluses of labour; public discussion between the several levels of government to seek an appropriate migration policy has been negligible. Usually, it has not been known to what extent the regional surplus of labour exceeds all likely increases in demand for labour in the retarded region within, say, the next ten years. primary aim of developmental policy is to improve the living standards of individuals, then direct assistance to facilitate emigration has been inadequate. Sufficient emphasis has not been given to improvement in the efficiency of the national Labour market: better employment services and agencies, training courses and subsistence payments immediately after migration, removal assistance, assistance for travel to seek jobs elsewhere, and housing assistance of various kinds. course, emigration has some contractionary effects. be qualitative differences between those who migrate and those

- 13. Department of Labour. <u>Wage Rates, Salaries, and Hours</u> of Labour. Ottawa: Queen's Printer, annual.
- 14. Report of the Royal Commission on Canada's Economic Prospects. (Final) Ottawa: Queen's Printer, 1958, p. 413.

who remain; to the extent that emigrants are in receipt of relief payments from the national government, there is a reduction in effective demand in the region.

The per capita income differential between a prosperous region and a retarded region may be relatively constant over a long period, despite the fact that the rate of increase of income per capita in the retarded region may be surprisingly rapid. This appears to have been so for the Atlantic Provinces of Canada; extremely rapid growth elsewhere in Canada since 1945 has over-shadowed the substantial growth of the Atlantic region. 15 The extent to which monetary inflows in the form of grants-in-aid and welfare payments to individuals discourage emigration of savings and labour deserves investigation. But the persistence of a major differential in income per capita between the regions eventually generates policies that are more varied, and less passive, than the grants-in-aid and welfare payments. Regional and national governments are likely to adopt policies to attract private employers to the retarded region, and to encourage the initiation and expansion of local enterprises. The incentive to private employers usually takes the form of grants, loans, and tax concessions. concessions and other incentives are often initiated on a local basis but competition between areas within a region can be self-defeating. If the incentive is to be a loan, this is likely to be at a relatively low rate of interest, for relatively long term, and it is likely that the governmental agency will relinquish the first lien to a private lender and thus encourage participation by private financial institutions. This type of assistance is primarily the result of an assumption that the cost, or the absolute unavailability, of risk capital restricts economic growth in certain localities. For a manufacturing organization of large scale, the relative profitability, and other advantages, of expansion in an area of relatively rapid growth is likely to deflect its expansion away from retarded areas. Similarly, insurance companies, banks, and other institutions that operate on a national basis, tend to channel funds to the prosperous regions.

In North America, the large, national, corporation is the major source of investment expenditure in the private sector. In Canada, the growth of certain localities has long

15. Dominion Bureau of Statistics, <u>National Accounts</u>, <u>Income and Expenditure</u>. 1926 - 1956, 1960 - 1963. Ottawa: Queen's Printer, 1958, 1961 and 1964.

been dependent on investment by large corporations, usually international in scope; the recovery and processing of natural resources, and the production of durable goods, are heavily concentrated in such organizations and in certain localities. There is no evidence that the supply of credit has restrained the expansion of these corporations in retarded areas. Indeed, two recent investigations of monetary policy in Canada have concluded that credit conditions are not a significant cause of regional retardation. In each case, it is maintained that credit is available, on a regional basis, under essentially national rates and conditions. In 1964, the Report of the Royal Commission on Banking and Finance concluded that:

Federal taxes and services cannot easily be different in different parts of the country, nor is it possible to conceive of a meaningful regional monetary policy given the essential unity of capital markets and the readiness of capital to flow to the centre offering the best return. However, regional development funds may be useful if it is desired to create enterprises which are either not able to pay going interest rates or which are being established for other than economic reasons. It should be noted, however, that we did not find significant evidence that an inability to obtain capital was the basic difficulty in regions of the country characterized by high unemployment. 16

In 1960, A. K. Cairncross investigated the impact on the Atlantic Provinces of national monetary policy. Professor Cairncross concluded that credit restrictions in the region during recent years had been "far less conspicuous than the damping effects of credit restrictions outside the region and of obstacles to expansion in other markets". 17 While Cainrncross made some suggestions to improve the supply of credit in the region, he regarded monetary policy to be "not an appropriate means of dealing with the long term problems involved in differential rates of growth in different parts of Canada. 18

- 16. Report of the Royal Commission on Banking and Finance. Ottawa: Queen's Printer, 1964, p. 527.
- 17. Cairncross, A. K. Economic Development and the Atlantic Provinces. Fredericton, N.B.: Atlantic Provinces Research Board, 1961, p. 13.
- 18. Ibid. p. 18.

In the Area Redevelopment Act of 1961 (United States), the main incentive to expansion of private enterprise in a retarded area has been the possibility of a loan, at a low rate of interest for long term, from a federal agency. conditions under which such loans are available are discussed in Chapter III. In brief, a loan can cover up to 65 per cent of the cost of land, buildings, and equipment, it can be for up to 25 years, at a rate of interest of 4 per cent, and it can occupy a subordinate lien. Such credit conditions are not generally available from commercial sources for the types of activities that have formed a major proportion of loans during the first four years of the program. Indeed, the tenor of the legislation is that the federal agency should be the lender of last resort; it must be demonstrated by the applicant that credit is not available "on reasonable terms". There are few private corporations in prosperous areas that are likely to embark on a branch plant in a retarded area if this is the only incentive; relatively few loans by the Area Redevelopment Administration have been for branch plants. In the main. successful corporations can obtain credit from conventional sources on "reasonable terms", presumably at the national going rate for the type of enterprise and the type of credit. In any case, such corporations are to a large extent self-financing from depreciation allowances and from retained earnings. is extremely unlikely that a credit inducement of this kind is sufficiently powerful to have a noticeable effect on investment decisions by established corporations. For new, local, enterprises, the terms of federal credit are usually considerably better than terms available locally and, in the main, it is this type of company that has applied for a federal loan.

Although the federal governments of the United States and Canada have constructed elaborate programs of grants-in-aid to other levels of government, in some instances to include special treatment for areas of low income, grants to private enterprises have until recently been regarded as inappropriate. In the United States, the Republican Administration of President Eisenhower and the House of Representatives have been, in principle, opposed to this incentive for regional development. Until 1955, the Republican Administration regarded local and regional retardation as the responsibility of local and state governments. A conservative House of Representatives has barely tolerated an extremely modest program of area development; federal grants to private firms, at least until

1966, have not been acceptable to the Congress. None of the redevelopment bills considered by the Congress prior to enactment of the redevelopment legislation in 1961 included this feature. At the renewal of the legislation in 1965, the Democratic Administration did not request a program of grants for private enterprises that expand operations in designated areas.

In Canada, federal assistance to private enterprises in designated areas was at first, in 1963, limited to accelerated capital cost allowances and a three year exemption from corporation income tax applicable to new plants and to expansion of existing plants. In 1965, these incentives were supplemented by cash grants for new manufacturing and processing facilities in designated Significant plant expansions in such areas were also made eligible for the grants. The size of the grant. up to a maximum of \$5,000,000, varies with the amount of capital investment; the grant as a proportion of capital investment varies from a minimum of 20 per cent to a maximum of 33-1/3 per cent. 19 In the United States, the Congress has not been willing to adopt accelerated write-offs, tax exemption, or grants for plants in designated areas, although accelerated write-offs have been utilized extensively in the United States to encourage expenditures on facilities that are certified to be significant for defence purposes.

The natural resources of a retarded region can be made more attractive to exploitation by private enteraccessibility can be improved, supplies of power and water can be developed by public agencies, research and technical assistance can develop new techniques of processing, as well as new uses for resources. But the amount of labour that is required for efficient regional production and processing of natural resources has become modest in relation to employment in other sectors of the economy. In regions where the labour force is heavily concentrated in the production and processing of natural resources, the pressing problem is to redistribute the work force to other occupations as the efficient volume of labour per unit of output declines in agriculture, fisheries, lumbering, and mining. The development of many regions now depends less on the quantity and the quality of natural resources, than on the quality of the work force and on the possibility of the adoption of contemporary technologies by regional industries. Emphasis on these

19. The National Finances, 1965-66. Toronto: Canadian Tax Foundation, 1963, pp. 177-178.

aspects of development is apparent in the economic history of such nations as Denmark, Sweden, and Switzerland. ²⁰ In recent years, there has been growing emphasis on the quality of the work force in the United States, Canada, and the United Kingdom. ²¹ A realization that high productivity, high income, and relatively full employment require major investments in human capital, suggests that the quality of the work force in a retarded region has become an urgent aspect of policy. In North America, it is apparent that during the next decade a sharp increase in the supply of labour will occur at a time when there is less opportunity for the relatively unskilled, and when there is a sharp increase in the levels of skill required in most occupations. ²²

The work force of a retarded region often includes a disproportionate number of the unskilled and poorly educated. Such regions require special consideration in educational and training legislation if a developmental policy is to be effective. Of course, this does not mean that education and training of the work force in a region will directly induce private enterprise either to locate or to expand in the region. However, the extensive and diverse facilities for education and training in prosperous regions are an increasingly significant asset for such regions. At the same time, the prospects for successful emigration from the retarded regions are likely to deteriorate unless the migrant is properly trained; a pool of semi-literate, unskilled, labour is an increasingly dubious asset for any region.

The area redevelopment legislation of the federal government in the United States, as originally enacted, provides for occupational training, accompanied by subsistence payments to those undergoing training. Although the legislation did not prevent training that is intended to qualify a

- 20. These aspects are discussed by Ardant, Gabriel in "Regional Planning and the Problem of the Regional Economy", <u>International Social Science Journal</u>, XI (1959).
- 21. Three monographs that give attention to this point are Wolfe, J.N. Taxation and Development in the Maritimes. Toronto: Canadian Tax Foundation, 1959. National Economic Development Council. Conditions Favourable to Faster Growth. London: Her Majesty's Stationery Office, 1963. Schultz, T.W. The Economic Value of Education. New York: Columbia University Press, 1963.
- 22. Economic Council of Canada. First Annual Review. Ottawa: Queen's Printer, 1964, Chapter 9. Also, U.S. Department of Labor. Manpower Report of the President. Washington, D.C.: Government Printing Office, 1964, pp. 34 36.

person for employment outside a redevelopment area, during the first four years of the program relatively few persons were trained for jobs outside their area of residence. The legislation also included a technical assistance program that has attempted to improve the utilization of resources of retarded areas, as well as to evaluate the feasibility of new enterprises. These matters are discussed in Chapter V. The legislation does not explicity include incentives to the rationalization of obsolete or obsolescent activities; with the exception of agriculture, there has not been a major federal effort to participate in the readjustment of an industry and of the individuals and communities that are heavily dependent on it.

Entrepreneurship is an elusive aspect of regional development. A locality that is chronically retarded neither generates nor attracts sufficient entrepreneurship. there are entrepreneurs of local significance in many depressed areas, it is likely that knowledge of contemporary technologies. of financial and commercial techniques, and of other opportunities will lag the degree of awareness in regions of growth. Despite chronic economic depression, a major city may offer opportunities to keep abreast of changing conditions of production and marketing in every type of endeavour. But, even in large urban centres within retarded regions there is likely to be much evidence of the lag of entrepreneurship. sluggish rate of increase of both private and public incomes. continuous emigration, and the continued difficulties of many businesses and of local governments, perpetuate a prevailing caution and induce a slower rate of adaptation to changes in technologies and tastes. Regional developmental policies rarely include an explicit recognition of deficiencies in local entrepreneurship; in the main, it is assumed that for any one region internal and external entrepreneurship will respond to new opportunities and to new incentives.

Policies for regional development vary between nations and such policies are, or should be, under constant review. The exact mix of policies at a given time, depends on complex economic and political forces that together fashion the scope of the legislation. Regional and local retardation existed in North America long before the introduction of federal legislation in the United States (1961) and in Canada (1963). This legislation is a tentative recognition that un-coordinated policies to assist single aspects of the problem are not likely to be sufficient. But it is extremely difficult for a national government to make a transition from a passive policy of welfare payments, of grants-in-aid, and of ad-hoc measures to assist a declining industry, to a policy that is diverse, flexible, and overtly aimed at raising the

income per capita of a region to within, say, 20 per cent of the national figure. The traditional emphasis on welfare payments and grants-in-aid rested primarily on the value judgment that it is inequitable, in a generally wealthy society, for persons to endure poverty and the effects of poverty. The transition to more diverse policies that began in the 1950's has been induced by the persistent, intractable, nature of regional retardation during a period of unprecedented, national, prosperity. This has been reinforced by the realization that chronic unemployment and underemployment reduce the national output of goods and The possibility that a more positive policy for regional development may reduce relief payments, reduce unemployment compensation payments, raise output of goods and services, and raise tax yields has also encouraged scrutiny of the ad-hoc policies adopted in the past. 23

It is evident that in many regions there are some communities that have better prospects for growth than The pace and the complexity of technological change make it impossible to be adamant about which areas within a region have good prospects, and which have not. new process, a mineral discovery, a publicly financed program of technical assistance, are some of the events that can change the economic prospects of a community. A major increase in expenditure on the infrastructure of public facilities can improve greatly the prospects of a region; the Tennessee Valley Authority is a well known instance. Nevertheless, a large urban area within a retarded region is often a more propitious setting for economic growth than is a small town or village in a rural hinterland. The ghosttowns that were once tenuously prosperous mining communities have recent parallels in the one hundred and fifty outports of Newfoundland that have been abandoned since 1945. 4 A large urban community is a virtually permanent society, not

- 23. For a discussion of opportunity costs involved in alternative developmental policies see Wilson, T.

 Financial Assistance with Regional Development. Fredericton, N.B.: Atlantic Provinces Research Board, 1964, pp. 59 67. Also see Needleman, Lionel. "What Are We to Do About the Regional Problem", Lloyds Bank Review, No. 75, January, 1965.
- 24. A federal-provincial program to provide approximately \$2,400 per family for relocation expenses was announced March 5, 1965. This program is expected to lead to the abandonment of several hundred very small settlements; abandoned villages will revert to Crown property to prevent resettlement. See The Globe and Mail, March 6, 1965.

likely to be abandoned; the withdrawal of regional and national financial support either from the community or from the individuals that comprise it, is highly improbable. Thus, it seems desirable that a developmental policy should include diverse measures to accelerate growth within the labour market areas of large urban communities in a retarded region; it is probably these communities that are the most attractive locations within the region for private enterprise. Such an emphasis does not imply a complete absence of economic opportunity elsewhere in the region, but it does mean that certain centres of growth should be encouraged, even though such centres may not record either relatively high unemployment or relatively low income.

Unfortunately, the criterion of equity as the main foundation of policy towards retarded areas still impels those who draft legislation and those who vote on legislation, to favour static, often perverse, statistical yardsticks for Thus, eligibility is usually dependent on rates eligibility. of unemployment, or on rates of income. Once the appropriate rates are determined, after a lengthy process of compromise, it is likely that there will be widespread complaints that some designated, eligible, areas are in greater plight than others, and consequently should be entitled to more extensive developmental incentives. In the United States, the eligibility criteria included in the Area Redevelopment Act of 1961 yielded over 1,000 designated areas. While many of the designated areas are large cities, with relatively good developmental potential, several hundred designated areas have little discernable attraction to private enterprise. But, the incentives in the Area Redevelopment Act are such that they can be utilized only if they facilitate, in a direct and measurable manner, the initiation or expansion of a private enterprise. in the main, the benefits of the legislation flow to areas of opportunity. The fear of the economist that resources may be channelled to areas without potential for economic growth is allayed; at the same time the principle of equity in designation is preserved. The experience of designation in the United States does suggest that it is less devious to designate only areas that are geographically large enough to include centres of potential economic growth, and thus avoid the impression that every small area either of high unemployment or of low income, is to be "redeveloped".

The Chapters that follow attempt to elucidate the process by which an area development policy has emerged in the United States. The Administration of President Eisenhower was in office from early in 1953, until early in 1961. Until

1955, the Administration insisted that local unemployment and local poverty were not the responsibility of the federal government; its responsibility was limited to encouraging high, national, rates of employment and economic growth. 25 Nevertheless, the Republican Administration did either initiate or expand policies designed to assist areas of high unemployment. In 1952, the Administration attempted to introduce bid-matching for firms in areas of high unemployment; strong opposition in the Congress prevented implementation of the policy. 26 In the following year, the Administration introduced a policy to allocate a proportion of defence contracts to firms in areas of high unemployment. plexities of the regulations, and the frequently narrow industrial base of depressed areas, prevented successful implementation of this policy. 27 In 1953, the Administration also amended the well established policy of accelerated capital cost allowances for facilities of significance to national defence; new defence facilities in areas of chronic unemployment were to be eligible for a higher rate of deprecia-But by this date, the main force of expansion for defence production had been exhausted; after 3 years, less than 1 per cent, by value, of certificates issued during the period were in respect of such area. 28 By 1961, about 200 rural counties had participated in a modest program of the Department of Agriculture that had been initiated in 1956. The program emphasized demonstration projects, often in counties of relatively high income, rather than alleviation of poverty in regions of low income. The Republican Administration also attempted to assist small communities that had found it difficult to raise funds to finance public facilities.

- 25. Economic Report of the President. Washington, D.C.: Government Printing Office, 1955, p.57
- 26. Firms located in labour-surplus areas were to be given the opportunity to match the otherwise acceptable lowest bid from among firms not located in such an area. For a review of procurement and tax amortization policies see Levitan. Sar A. Federal Assistance to Labour Surplus Areas. Report prepared by Legislative Reference Service. Library of Congress for Committee on Banking and Currency, United States House of Representatives, 85th Cong. 1st Sess. Washington, D.C.: Government Printing Office 1957. pp. 50 53.
- 27. Ibid.
- 28. Ibid.

The criterion adopted was population, rather than low income or high unemployment; assistance took the form of federal loans at a relatively low rate of interest.²⁹

During the 1950's, the most prominent advocate of federal legislation to accelerate the economic growth of retarded areas was Senator Paul H. Douglas (Illinois). 1954, the Democrats won control of the Senate, and Senator Douglas became Chairman of the Joint Economic Committee of the Congress. In July, 1955, the first of a series of redevelopment bills to be sponsored by Senator Douglas and his associates was introduced in the Senate. By January, 1956, the Republican Administration, faced by a rapid increase in the publicity given to depressed areas, some of it emanating from the Joint Economic Committee, decided that limited, experimental, federal assistance had become inevitable. 30 Within six months of the introduction of the Democratic bill, the Republican Administration had sponsored a more limited The Republican bill was based on a recommendation of the Council of Economic Advisers that an Area Assistance Administration be established to provide loans to private firms, and grants for technical assistance.

Although the sense of the Congress was that modest, experimental, legislation was necessary, many Republicans supported the legislation while numerous Democrats opposed it. The principle of federal aid to particular localities was really inconsistent with the views of the majority of Republican members of the Congress, although the degree of their antipathy tended to vary with the degree of prosperity of the area they represented. Not only had the President temporized in his admission of the need for legislation but national business organizations, and many senior officials of the federal government, expressed hostility towards it. legislation entailed an extension of federal activity, an admission that the federal government has responsibilities that are a consequence of the location of economic activity, and an increase in federal expenditure at a time of preoccupation with balanced budgets.

- 29. Ibid.
- 30. United States Congress. Joint Committee on the Economic Report. Joint Economic Report. 84th Cong., 1st Sess., Washington, D.C.: Government Printing Office, 1955.

Despite the relative insignificance of the cost of the legislation, and despite the extreme conservatism of the inducements to local development contained in the legislation, five years of altercation between the Congress and the Administration generated continuous national publicity. On two occasions the legislation was passed by the Congress, then vetoed by the President. The final proposals of the Republican 'Administration, prior to the Presidential election of 1960, were a revolving fund of \$75,000,000 for loans to private enterprises in designated areas, together with \$5,000,000 annually for technical assistance and occupational training. The Area Redevelopment Act of 1961 authorized \$200,000,000, over four years, in loans to private enterprises, \$175,000,000 in grants and loans for public facilities, and \$76,000,000 for technical assistance and occupational training.

The character of the legislation remained essentially unchanged, from its introduction to the Congress in 1955 until its enactment in 1961. Major restraints on the character and cost of the legislation were enforced by the ideological, constitutional, and political environ-Apart from technical assistance, the only direct incentive to private activity that was given careful consideration by the Congress was the provision of federal loans. Although this incentive was adopted in 1958 by the federal government for small businesses, 31 regardless of their location, it generated persistent controversy over the possibility of relocation of economic activity. It became necessary to include in the area redevelopment legislation a prohibition against federal loans to any project that might involve a transfer of employment from one locality to another. The other main aspect of the legislation is federal loans and grants for public facilities. While it was generally believed that economic growth in many localities is prevented by inadequate public facilities, the relationship of expenditures on public facilities to an expansion of private enterprise was by no means clear. Some sponsors of the legislation believed that many opportunities for expansion of private activities were restrained by the inability of a community to finance the necessary public facilities. Others regarded the general renovation of the public facility infra-structure of a depressed area to be a prior condition for economic growth; a condition that could not be fulfilled without federal aid.

31. Program administered by the Small Business Administration, Washington, D.C.

A third element in the legislation has been training of labour. Again, the precise relationship of training, and retraining, to local development was not clear to all who had to vote on the legislation. extent to which training should be limited to opportunities within the designated redevelopment areas was extremely difficult to define. The chief sponsors regarded the public facility and the training aspects of the program to be essential complements to federal loans for industrial and commercial projects. But attempts to define these relationships occupied a great deal of time in hearings, debates, and committees, with little success. The remaining aspect of the program is technical assistance. Because the legislation was regarded by both the leading sponsors in the Congress and by the Administration, as a supplement to the efforts of local and state authorities, the nature of technical assistance also eluded definition; it therefore became the responsibility of the Area Redevelopment Administration to use funds for technical assistance in the most appropriate manner.

These aspects of the legislation are discussed in Chapters III, IV, and V. Chapter II deals with the problem The conservative incentives to of eligibility criteria. local and regional development are in contrast to the liberality of the eligibility criteria. The relatively negligible funds of the program have had to be allocated among more than 1,000 designated areas. At the inception of the program it was apparent that without a major increase in funds, and without additional incentives, the program could not bring about a reversal in the retardation of a large proportion of the designated areas. Chapter VI brings together some conclusions about the legislation and attempts to indicate the probable future course of federal policy, including the renewal and revision of the legislation in 1965.

Although the Democratic Administration had requested, in 1963, that the Congressional authorization for the program be more than doubled, the Appropriations Committee of the House of Representatives delayed the request. Early in 1964, assistance for public facilities was virtually suspended because of lack of funds; by the summer of 1964, lack of funds had also curtailed the program of loans to private enterprises.

In the meantime, several other programs have been enacted; their general effect has been to overshadow and, in some respects, to reduce the effectiveness of the Area Redevelopment Act of 1961. The Manpower Development and Training Act of 1962 is a nation-wide program of major

proportions that permits much more extensive training than has been available under the Area Redevelopment Act. The assistance for public facilities available under the Area Redevelopment Act has been supplemented by the Public Works Acceleration Act of 1962; this program has provided grants for public facilities in designated areas on a scale that greatly exceeded the grant provisions of the Area Redevelopment Act. The Economic Opportunity Act of 1964 is a large-scale program that includes many techniques to assist individuals, regardless of their location, who have been reared in, or fallen into, severe poverty. Also, in 1965, the Congress enacted a major program to rapidly accelerate the economic growth of the Appalachian region. These programs are touched on in Chapters IV, V, and VI.

The area redevelopment legislation, the Appalachian development program, and the accelerated public works legislation are implemented on the basis of the designation of geographical areas. The manpower training legislation and the anti-poverty program are implemented on the basis of the eligibility of individuals. Although it is now a decade since the area redevelopment legislation was introduced in the Congress, it is not yet possible to discern whether intervention by the federal government to correct the effects of chronic unemployment and chronic poverty will in the future be applied, in the main, in accordance with criteria that relate to individuals, or in accordance with criteria that relate to areas. This point is discussed in Chapter VI. It is to some of the problems involved in the designation of areas, that we turn, in Chapter II.

CRITERIA FOR THE DESIGNATION OF

REDEVELOPMENT AREAS

In the main, localized chronic unemployment is a likely consequence of excessive reliance on one industry or occupation. Changes in technology and in demand lead to contraction of industries and occupations. The former coal mining centres of West Virginia and Kentucky, the former textile centres of New England, the contraction of automobile employment in Michigan, and of railroad employment in Pennsylvania are examples of the adverse effects of such changes. In rural areas, long-term economic retardation can be caused by a decline in demand for a crop, by soil and forest depletion, by uneconomic units of production, and by the absence of alternative occupations. Throughout much of Appalachia, and in many parts of the southern states, rural poverty and unemployment is widespread. A broad crescent, from New England to the lower Mississippi, contains a large proportion of the depressed localities of the United States, with the largest numbers of unemployed in major urban centres being in Michigan, Pennsylvania, Rhode Island, and West Virginia.

The Area Redevelopment Act of 1961 was interpreted by the Area Redevelopment Administration $(A.R.A.)^{\perp}$ to provide eligibility for urban centres, and for smaller towns (often in a rural setting), on the basis of the local rate of unemployment relative to the national rate. Within specified limits, the qualifying rate varies with the duration of un-These unemployment criteria do not take account employment. of emigration, or of other withdrawals from the labour force, such as women and older men. It is well known that in an area that has been chronically depressed, there is likely to be a relatively low rate of participation in the labour force. The Act also includes eligibility criteria for predominantly rural areas, where income is a more feasible criterion of retardation than is unemployment. The Republican Administration of President Eisenhower regarded redevelopment legislation

1. An agency within the Department of Commerce, Washington, D.C. The appropriate agency to administer the legislation was one aspect of the disagreement between the Congress and the Republican Administration. This point is discussed in Chapter V.

as inappropriate for rural areas, believing it to be essentially an inducement to those manufacturing activities that usually locate in urban centres. The opinion of the Administration was that an existing program of its Department of Agriculture was sufficient to assess the techniques of rural development. There was also the additional restraint of a generally restrictive budgetary philosophy during the Administration of President Eisenhower.

Since 1951, the Department of Labor has used an unemployment rate of 6 per cent of the labour force, discounting seasonal and temporary factors, as the criterion for a <u>substantial</u> labour surplus. In 1960 the Department formalized its definition of <u>substantial</u> and <u>persistent</u> unemployment. For a locality to be classified as one of substantial and persistent unemployment, it is necessary for it to meet the 6 per cent criterion, and in addition, the annual average rate of unemployment must have been:

- (a) at least 50 per cent above the national average for 3 of the preceding 4 calendar years; or
- (b) at least 75 per cent above the national average for 2 of the preceding 3 calendar years; or
- (c) at least 100 per cent above the national average for 1 of the preceding 2 calendar years. 3

These criteria for <u>substantial</u> and <u>persistent</u> unemployment were to become, for predominantly urban areas, the eligibility criteria of the Area Redevelopment Act of 1961.

- 2. The rural development program had commenced in 1956. Many of the counties included by 1961 had relatively high income; low income was not the chief criterion for selection. Between 1956 and 1960, the annual funds for the program were about \$15,000,000 for farm improvement loans and about \$1,000,000 in grants for demonstration projects.
- 3. U.S. Department of Labour. Area Trends in Employment and Unemployment. Washington, D.C.: U.S. Department of Labour, monthly. Annual average national rates of unemployment for recent years have been:

1952 - 3.1 per cent 1953 - 2.9 per cent 1954 - 5.6 per cent 1955 - 4.4 per cent 1956 - 4.2 per cent 1957 - 4.3 per cent 1958 - 6.8 per cent 1955 - 4.6 per cent 1965 - 4.6 per cent Between the first Congressional hearings on the legislation in 1956, and enactment of the legislation in 1961, alternative criteria based on unemployment rates were discussed in hearings, debates, and committees of the Congress. On three occasions, unemployment criteria different from those set out above were included in legislation passed by one or by both houses of the Congress.

The Department of Labour is primarily concerned with non-agricultural employment. For this reason, and also because the Republican Administration was opposed to the designation of rural areas, suggestions for rural criteria were made by Congressional or other advocates of the legislation. As we shall see, such suggestions usually did not go beyond the general principle that areas of lowest per capita income should be eligible, and that the Administrator of the legislation should be given discretion to decide the rate of income appropriate for eligibility.

Congressional Action, 1956-1961. The first redevelopment measure to be passed by either house of the Congress was a bill numbered S.2663 that passed the Senate in July, 1956. The bill had been introduced in 1955 by the Chairman of the Joint Economic Committee of the Congress, Senator Paul H. Douglas (Illinois). Its introduction coincided with extensive publicity given to two Reports of the Committee that recommended legislation to halt the economic deterioration of many industrial and rural areas. 4 Originally the Depressed Areas Act, the title of S. 2663 was changed to the Area Redevelopment Act, following representations at the Hearings of 1956. Until at least January, 1955, the Republican Administration had opposed legislation of this type, believing that private enterprise, together with the efforts of local and state governments, could achieve adequate adjustment for such areas. Late in 1955, the Administration did recommend legislation, but it was less comprehensive in coverage, in types of aid, and in funds, than the proposals of S. 2663. This change of policy appeared to be the result of energetic complaints from major industrial areas, of increased public awareness of economic and social conditions in the retarded areas, and of the growing support in the Congress for S. 2663. In January, 1956, the first legislative proposals by the Administration were introduced to the Congress in a bill numbered S.2892.

4. U.S. Congress, Joint Economic Committee.

Characteristics of Low-Income Population and Related Federal
Programs. Report. 84th Cong., 1st Sess., 1955. Washington,
D.C.: Government Printing Office, 1955. U.S. Congress Joint
Economic Committee. A Program for the Low-Income Population
at Substandard Levels of Living. Report. 84th Cong. 2d Sess.,
1956. Washington, D.C.: Government Printing Office, 1956.

In this and later Chapters, attention is directed to legislative proposals by the Administration and by those of a predominantly Democratic group in the Congress, led by Senator Douglas. The original version of S. 2663 restricted Federal aid to urban areas that had recorded a rate of unemployment of either at least 9 per cent for at least 18 consecutive months, or at least 6 per cent for at least 36 conse-The Administration's bill proposed that elicutive months. gibility be on the basis of urban labour market areas that recorded an unemployment rate of 8 per cent or more, seasonally adjusted, both at the time of application for assistance and for more than half of each of the preceding 2 years. Administration's bill excluded rural areas, except that any locality in the United States was to be eligible for limited technical assistance that did not involve grants or loams.

The redevelopment hearings of 1956 yielded nearly 2,600 pages of testimony but barely a dozen references to eligibility criteria. Discussion of this critical aspect of the legislation was hampered by the limited coverage of data collected by the Department of Labour; nevertheless, these were the only reasonably consistent and uniform data available. In 1956, the Department classified all the major labour market areas: there are 150 such areas in the United States and usually such an area includes a major city with a population of at least 50,000. For areas of intermediate size, that is, not major areas but areas having a work force of more than 15,000, including 8,000 in non-agricultural occupations, the Department conducted employment surveys on request. After 1956, coverage widened rapidly as more areas of intermediate size requested unemployment data. After enactment of the legislation in 1961, the Department completed its coverage of those areas possibly eligible on the basis of unemployment rates, including small urban areas in a rural setting, with a work force of less than 15,000.

The chief criticisms of the original criteria of S. 2663 were that they were unduly severe and lacked flexibility. A community that experiences a severe, probably permanent, decline in employment would have to endure a qualifying period of 18 months. Also, an area might lose its eligibility if it did not maintain the qualifying unemployment rates for an unbroken period of either 18 or 36 months. Witnesses from areas likely to be marginally eligible feared that emigration, and withdrawals from the work force, during the qualifying period would reduce the rate of unemployment below the qualifying rate. Governor Mennen G. Williams of Michigan

cited the heavy emigration from Upper Michigan during the period 1950-1955. In 1955, the rate of unemployment in the area was 5.7 per cent; but for emigration it would have been nearly 20 per cent.5. Two reasons were presented for a qualifying period: to ensure that unemployment is not temporary, and to ensure that the federal government is not involved until local and state resources have been committed. One witness feared that the Department of Labour might arbitrarily adjust the labour force estimates; another urged that a rise in the rate of employment of women, such as additional textile employment in an area where coal mines khad closed, should not disqualify the area if the rise in female employment carried the employment rate just above the qualifying rate. Several witnesses urged that at least technical assistance be available before the expiration of the qualifying period, as was the case under the Administration's bill, S. 2892.

The Administration opposed discretionary powers, and insisted that unless the Administrator of the legislation adheres to precise criteria it would be difficult to resist pressures from areas that approximately qualify. Some witnesses feared that if areas could be designated at the discretion of the Administrator, so many might be designated that resources would be spread too thinly. This criticism illustrated the fact that in much of the discussion of eligibility criteria, the main principle of the legislation was overlooked: that access to financial assistance depends not only on eligibility under the criteria but also on the existence of apparently feasible economic opportunities that might be developed with federal aid, if other sources of funds are not sufficient.

Following the hearings, the Committee on Labor and Public Welfare recommended to the Senate that rural areas be included in the legislation; this change had become virtually inevitable in the light of growing awareness of rural poverty. The inclusion of rural areas resulted in accusations that this had been done to obtain the support of members of the Congress from southern states, the majority of rural areas likely to be eligible being from that region. The Committee indicated that the counties to be designated were to be those that included "the largest numbers and highest percentages" of low-income

5. U.S. Congress, Senate, Committee on Labour and Public Welfare. Area Redevelopment Hearings. 84th Cong., 2d Sess., 1956. Washington, D.C.: Government Printing Office, 1956. p.239.

farm families, accompanied by a condition of substantial and prolonged underemployment; the Administrator was to designate up to 300 counties, but not more than 15 in any one state. During debate, an amendment removed these limitations on the numbers and location of counties. The Senate was sympathetic to the belief that the limitations were not consistent with the absence of such restrictions for urban areas; the Senate was also influenced by the view that counties in some states are typically small, relative to counties in other states. For the so-called industrial areas, the Administrator was to apply the following unemployment criteria:

- (a) not less than 12 per cent for the immediately preceding 12 months, or
- (b) not less than 8 per cent for 15 of the immediately preceding 18 months, or
- (c) not less than 6 per cent for 8 months in each of the immediately preceding 2 years.

Representations during the hearings resulted in a recommendation that the Administrator be permitted some discretion. Thus, the Administrator was to be authorized to designate without waiting the prescribed time period, if it appeared that no significant improvement would follow a sudden, severe, rise in local unemployment. The Committee also recommended that no attempt be made to legislate geographical boundaries for redevelopment areas; statistical or political boundaries were regarded as not necessarily appropriate for redevelopment areas. These were the conditions for eligibility that were accepted by the Senate in 1956.

The majority view of the Senate was that an area that recorded 12 per cent unemployment, equivalent to almost three times the national rate at that time, should not have to wait longer than 12 months for federal aid. Each pair of rates and qualifying periods was regarded as an appropriate yardstick to relate local unemployment to the national rate (4 per cent), and to the widely accepted criterion of full employment (3 per cent). At this stage, the attempt to exclude temporary unemployment was not supplemented by a criterion to relate local unemployment to changes in the national rate of unemployment.

U.S. Congress. <u>Congressional Record</u>. Washington,
 D.C.: Government Printing Office, 1956. p. 14640.

There were features of the legislation proposed by the Congressional group led by Senator Douglas that were not acceptable either to the Department of Commerce or to many members of the Congress. By no means all of the Congressional opponents were Republicans. The eligibility of rural areas was one unacceptable feature but the inclusion of grants, and the terms on which loans to commercial enterprises might be made were others. The Rules Committee of the House of Representatives was not willing to release the legislation for debate, and the House did not vote on the legislation during 1956. Representative Daniel J. Flood (Pennsylvania), an indefatigable advocate of the legislation, complained that despite the fact that depressed areas were represented by over 100 members of the House, the Rules Committee intended to prevent action:

The Democratic leadership even agreed to call up on the floor for final passage, under suspension of the rules, the administration bill, the very bill the President asked the Congress to pass on this problem. The Department of Commerce spokesman and the Republican leadership of the House refused even to agree to consider the Administration bill as proposed by the President.

The first redevelopment bill to be passed by both the Senate and the House of Representatives was vetoed by the President in 1958. During 1957 and 1958 the Senate considered three main bills: S. 964 (the successor to S. 2663), S. 1433 (the Administration's bill), and a bill sponsored by Senator Frederick G. Payne (Maine), S. 3447. The eligibility criteria of S. 964 were virtually the same as those passed by the Senate in 1956. The only change was that the discretionary power for boundary determination was made more precise; the Commissioner for Area Redevelopment was to be empowered to designate "several counties, municipalities, or a part of a county or municipality as a redevelopment area . S. 1433 proposed the criteria that had been proposed by the Administration to the previous Congress: a current rate of unemployment of 8 per cent or more, seasonally adjusted, and having been at least 8 per cent for the major portion of each of the preceding two years. It did not include discretionary powers for boundaries, and did not provide for designation of areas that did not meet exactly the formal criteria. S. 3447 included rural areas, and proposed the same rural eligibility

7. U.S. Congress. <u>Congressional Record</u>. Washington, D.C.: Government Printing Office, 1956. p. 15292.

criteria as S. 964, except that a limitation of 300 counties appeared only in S. 3447. For industrial areas, S. 3447 proposed four, rather than three, pairs of qualifying time periods and rates of unemployment.

In the bill that has been recommended to the previous Congress, and again in S. 1433, the Administration proposed that designation be carried out by the Department of Labor in accordance with specific criteria, but that the legislation be administered by the Department of Commerce. Disagreement on the appropriate Department to administer the legislation was one cause of two Presidential vetoes; this point is dealt with in Chapter V.

During hearings, the Mayors of Philadelphia and Detroit urged that a redevelopment area be defined in such a way that it could include the core of a city; in many large cities the rate of unemployment in the city proper is high, but the rate for the metropolitan area is pulled down by the suburbs. The Administration preferred to regard a development area as a standard labour market area; one characteristic of such an area is that it can be regarded as a commuting area.

The rule of thumb nature of the criteria was again apparent during the 1957 and 1958 hearings. The following remarks passed between the Under Secretary of Commerce and Senator Joseph S. Clark (Pennsylvania):

Senator Clark. Mr. Mueller, I am wondering why the Administration fixed 8 per cent as the unemployment figure in this bill, whereas as I understand it, the Administration uses 6 per cent when it is determining areas where there is labour surplus?

- 8. U.S. Congress, Senate, Committee on Banking and Currency.

 <u>Area Redevelopment Act</u>. Report. 85th Cong., 2d. Sess.,
 1958. Washington, D.C.: Government Printing Office, p. 49.

 The four pairs of time periods and rates of unemployment were to be as follows:
 - (a) 15 per cent for 6 months preceding the date of application for assistance;
 - (b) 12 per cent for 1 year preceding the date of application for assistance;
 - (c) 9 per cent for 15 of 18 months preceding the date of application for assistance;
 - (d) 6 per cent for 18 of 24 months preceding the date of application for assistance.
- 9. U.S. Congress, House of Representatives, Committee on Banking and Currency. <u>Legislation to Relieve Unemployment</u>. Hearings. 85th Cong., 2d. Sess., 1958. Washington, D.C.: Government Printing Office. pp. 732, 743.

Mr. Mueller. Because it is assumed that 4 per cent is a normal figure, if you have such a normal figure, for unemployment as a whole. Senator Clark. It has been our understanding that 3 per cent was that figure, and that is why we fixed it at 6 per cent instead of 8 per cent, as you do. Again, that is a matter of judgment, I suppose.

Mr. Mueller. Again that is a matter of lyidgment, sir.10

Some opponents of the legislation disliked what they called the arbitrary assistance to the unemployed in selected areas; the view of Senator Douglas was that those who live in redevelopment areas have particularly poor prospects for employment. Other critics regarded the legislation as arbitrary in the sense that it did not take account of the relative needs of different areas. In April 1957, a bill numbered H. R. 6975 sponsored by Representative James E. VanZandt (Pennsylvania), attempted to vary the assistance available with the degree of need of a community. 11 The Congressional committees did not adopt the proposal, almost certainly because the availability of assistance under the legislation is based primarily neither on eligibility, nor on relative need, but on the viability of a new or an expanded commercial project. The complexity of the proposal was another reason why it was not recommended by the committees. The eligibility criteria of H. R. 6975 are set out in the hearings and in the Congressional Record. it here to indicate how one type of assistance would vary with the duration and the rate of unemployment. The first level of eligibility was to be a current rate of unemployment of 6 per cent or more, seasonally adjusted, and 6 per cent or more for at least 8 months in each of the preceding 2 years. Enterprises within an eligible area would be entitled to apply for federal loans for up to one-third of the cost of commercial or industrial projects. The second level of eligibility was to be a current rate of unemployment of 8 per cent or more, seasonally adjusted, and either 8 per cent or more for the major portion of each of the

- 10. U.S. Congress, Senate, Committee on Banking and Currency. Area Redevelopment. Hearings. 85th Cong., 1st Sess., 1957. Washington, D.C.: Government Printing Office, p. 346.
- 11. U.S. Congress, House of Representatives, Committee on Banking and Currency. Legislation to Relieve Unemployment. Hearings. 85th Cong., 2d Sess., 1958. Washington, D.C.: Government Printing Office, p. 1126.

preceding 2 years, or an average of 12 per cent or more during the preceding year. Enterprises in such areas would be eligible to apply for loans for up to one-half the cost of a project. A third level of eligibility entitled enterprises in eligible areas to apply for loans for up to three-quarters of the cost of a project.

The bill recommended to the Senate by its Committee on Banking and Currency, S. 3683, became known as the Douglas - Payne bill, for it included features of both S. 964 and S. 3447. The section of S. 3683 that dealt with eligibility recommended that a Commissioner for Area Redevelopment be required to designate industrial redevelopment areas that qualified under the following criteria:

- (a) not less than 12 per cent of the area labour force unemployed for a period of 12 months immediately preceding the date on which an application for assistance is made;
- (b) not less than 9 per cent unemployed for a period of 15 months out of the 18 months preceding such date;
- (c) not less than 6 per cent unemployed during at least 18 months out of the 2 years immediately preceding such date. 12

In addition, an area that had suffered 15 per cent unemployment during the preceding 6 months could be designated if the Commissioner determined that the principal causes of the unemployment were not temporary in nature. If these criteria are compared with those of S. 2663, as passed by the Senate, it will be noticed that under (b) the qualifying rate had been raised from 8 per cent to 9 per cent, and that under (c) the qualifying time period had been changed from "8 months in each of the immediately preceding 2 years" to "at least 18 months out of the 2 years immediately preceding such date". The Committee recommended that the Commissioner be granted discretion to determine that an industrial redevelopment area had been subject to substantial and persistent unemployment for an extended period of time, and on this

12. U.S. Congress, Senate, Committee on Banking and Currency. Area Redevelopment Act. Report.85th Cong., 2d. Sess., 1958. Washington, D.C.: Government Printing Office, p. 29. The vote of the Committee in favour of the bill was 8:7. Those who voted against recommending the bill to the Senate were opposed to the legislation in principle.

basis to designate the area as eligible. The Commissioner was to be permitted to define boundaries:

These areas may or may not be the same as the labour market areas used by the Government for other purposes. An industrial redevelopment area might include one or more towns or cities, or it might include part of a county or municipality. . . The Commissioner will determine the boundary of each rural redevelopment area which may include one or more counties or parts of counties or other areas, or part of a county. The primary purpose will be to define the boundary of the redevelopment area to take account of common economic interests. 13

The Committee recommended the inclusion of rural areas in the legislation and it proposed criteria almost identical to those that had been passed by the Senate in 1956; the exception was a recommendation that not more than 300 counties be designated as rural redevelopment areas.

In March 1958, the Department of Labor ascertained that under S. 3683, 20 major areas and 46 smaller areas would probably have qualified. Under the criteria proposed by the Administration, only 10 major and 28 smaller areas would probably have qualified. These tentative eligibility lists did not take into account the large number of small areas which at that time were not classified by the Department. The fact that the Administration's bill excluded rural areas, meant that many opponents of the legislation regarded S. 3683 as an "ultraliberal" program.

S. 3683 was passed by the Senate in May, 1958, in the form recommended by the Committee on Banking and Currency. The Committee of the House of Representatives recommended eligibility criteria almost identical to those passed by the Senate. However, the Committee struck out the limit of 300 counties in the case of rural redevelopment areas; it regarded the limit as an arbitrary restraint, incompatible with the absence of a similar restraint in the case of industrial areas. The Illouse agreed to the amendment, and the bill was passed in August, 1958.

There were aspects of the legislation, other than eligibility, on which the Committees made differing recommendations and the Senate and the House had now passed different versions; negotiations resulted in the Senate agreeing to the House version. The result in terms of eligibility criteria was merely that S. 3683, as passed by the Congress, excluded the limitation of 300 counties. On September 6, 1958, the legislation was vetoed by President Eisenhower. One of the reasons for the veto was that the Administration believed that in certain instances federal aid would be available to areas of temporary unemployment:

Federal assistance to communities where unemployment is not clearly chronic would necessarily mean the assumption of responsibility by the Government for the direct support of local economies—an assumption of responsibility that would have the most profound consequences.14

The inclusion of rural areas in the legislation was another cause of the veto:

S. 3683 also contemplates federal redevelopment assistance, including loans, in rural areas. There is a serious question as to whether federal loans for the construction of industrial buildings in rural areas would be a proper or effective approach, much less a permanent one, to the problem of surplus labour in essentially agricultural communities. 15

The Congress had adjourned by the time it became certain that the President would veto the legislation, and on this occasion no attempt was made by the Congress to over-ride the President.

In January 1959, Senator Douglas and 38 other sponsors again introduced a redevelopment bill, S.722, to the Senate; eligibility criteria were identical to those of the bill vetoed in 1958. The latest proposals of the Administration were presented in bill S. 1064; this was a significant bill in that the qualifying unemployment rates were now related to the national rate of unemployment. The Secretary of Commerce was to be authorized to designate

- 14. Memorandum of Disapproval. Washington, D.C.: The White House, 1958.
- 15. Ibid.

any area certified as eligible by the Secretary of Labor. The criteria were to be:

- (1) the rate of unemployment in the area, excluding unemployment due primarily to temporary or seasonal factors, is currently 6 per centum and has averaged at least 6 per centum for the qualifying time periods specified in (2) below; and
- (2) the annual average rate of unemployment in the area has been at least (A) 50 per centum above the national average for four of the preceding five calendar years, or
 - (B) 75 per centum above the national average for three of the preceding four calendar years, or
 - (C) 100 per centum above the national average for two of the preceding three calendar years; and
- (3) non-agricultural employment in the area has declined, or has shown a smaller increase than in the country as a whole, during the preceding five calendar years: provided, that no area shall be excluded by the requirement of this subsection if the annual rate of unemployment in that area for three of the past four years exceeds 8 per centum. 16

Where historical data might be incomplete, the Secretary of Labor was to be authorized to certify labour market areas that approximately satisfied the specific criteria. Boundaries of redevelopment areas were not to be discretionary, and S. 1064 did not include rural areas.

Between February and May, 1959, committees of the Congress again held hearings and again issued reports. The main submissions that dealt with eligibility were on behalf of the Administration. The Department of Commerce and the

16. U.S. Congress, Senate, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 86th Cong., Ist Sess., 1959. Washington, D.C.: Government Printing Office, 1959. p. 30.

Department of Labour now believed that more elaborate criteria were necessary to restrict assistance to urban areas of "clearly defined, chronic, unemployment". It was stressed that the purpose of the revised criteria was to prevent a large proportion of the United States being designated during a severe recession. In addition, S. 1064 included two screening devices: the 6 per cent seasonally adjusted current rate, and the trend in non-agricultural employment. The Administration urged that full calendar years be used to permit annual average rates that avoid technical difficulties of seasonality in local unemployment for periods shorter than a year. Testimony submitted by the Administration indicated that it was not committed to an unchanging concept of full employment. Thus:

The criteria should be adaptable to meet whatever labour market situation may be prevalent in the future when concepts as to what constitutes a normal rate of unemployment may be significantly different from those of today.

and:

In the mid-sixties we are going to have again a very large increase in the population of young people coming into the labour market as the youngsters born in the forties come of age to go to work. Thus, we feel it advisable to provide enough flexibility to take account of that kind of situation, so that the Administrator will not be embarrassed in the future, or may not be, by fixed criteria, which may not be applicable in future periods. 18

The AFL - CIO witness was the only challenger of this viewpoint:

These unbelievably stringent criteria are proposed by the Administration because it is

- 17. U.S. Congress, House of Representatives, Committee on Banking and Currency. <u>Area Redevelopment Act</u>. Hearings. 86th Cong., Ist Sess., 1959. Washington, D.C.: Government Printing Office, 1959. p. 471.
- 18. Ibid. p. 476.

possible that a 6 per cent, 7 per cent, or even 8 per cent unemployment rate may become normal throughout the Nation at sometime in the future . . . this kind of defeatist thinking just has no place in the United States today. 19

The sharp rise in the national rate of unemployment in 1958 made it apparent that the number of areas to experience substantial unemployment could rise sharply in a recession. Many members of Congress were impressed by the implication that S. 722 could mean federal assistance to a large number of areas. Many members were also influenced by the fact that S. 722 provided \$390,000,000 in the form of loans and grants compared with only \$53,000,000 (limited to loans) in the case of S. 1064; throughout the Congressional attempts to obtain legislation during the Republican Administration, the Administration was only prepared to offer significantly less money than the proposals of the Congressional group led by Senator Douglas. March 1959, the Department of Labor estimated that of the areas at that time classified, probably 18 major areas and 56 smaller areas would qualify under S. 1064; under S. 722, 23 major and 89 smaller areas, plus between 300 and 500 rural counties that would probably have been eligible.

The Report of the Committee on Banking and Currency of the Senate recommended adoption of the criteria proposed by the Administration for industrial areas, except that the qualifying time periods were to be reduced by one year in each case and the trend in non-agricultural employment was to be omitted. 20

- 19. Ibid. p. 237.
- 20. U.S. Congress, Senate, Committee on Banking and Currency.

 Area Redevelopment Act. Report. 86th Cong., Ist Sess.,
 1959. Washington, D.C.: Government Printing Office, 1959.
 p. 27. The eligibility criteria of S. 722, recommended by the Committee and passed by the Senate, were:
 - (1) where the rate of unemployment, excluding unemployment due primarily to temporary or seasonal factors, is currently 6 per centum or more and has averaged at least 6 per centum for the qualifying time periods specified in \sub-paragraph (a) below; and
 - (2) where the annual average rate of unemployment has been at least —

 (a) 50 per centum above the national average for three of the preceding four calendar years, or
 (b) 75 per centum above the national average for two of the preceding three calendar years, or
 (c) 100 per centum above the national average for one of the preceding two years.

Six of the fifteen members of the Committee signed a minority report that included objections to the revised criteria; the main objection was that specific unemployment rates and time periods were insufficient to appraise the direction of change in the employment situation:

Differentials in unemployment percentages may suggest differentials in severity of unemployment but certainly furnish no insights as to the basic factors underlying unemployment in a given area nor any basis for placing the official 'redevelopment area' stamp on particular areas and not on others with slightly lower percentages of unemployment. 21

The minority report also feared that the criteria would lead to designation of areas that could achieve prosperity without federal aid. It was also suggested that the Administrator would experience exceptional pressure following designation of a large number of areas because the limited funds would generate intense competition among eligible areas:

Since the criteria for eligibility give little or no consideration to economic or business standards, the Administrator may well be forced to choose among the applicants on the basis of favoritism or political expediency. ²²

As we shall see in the next Chapter, the criteria are merely an initial screening; financial assistance is, indeed, tied to "economic and business standards". The minority report did not suggest alternative criteria, presumably because most of the signatories in principle were opposed to the legislation. The criteria for rural areas were regarded as so vague that the Administrator would have difficulty avoiding "political" or "capricious" decisions. These criticisms were partly the result of the particular bias or principle held by the minority members of the Committee, a view certainly also held by many members of Congress who voted against the legislation:

- 21. Ibid. p. 40.
- 22. Ibid. p. 40.

We oppose S. 772 because it is arbitrary, discriminatory and antithetical to the basic tenets of a free economy in which flexibility, not rigidity, is essential to the allocation of resources. The bill if successful, would tend to freeze our economy in a fixed pattern on the basis of criteria which do not take into account reasons for economic deterioration and potentialities for development. 23

The remarks of Senator Hugh Scott (Pennsylvania), and of Senator Homer E. Capehart (Indiana), during the debate on S. 722 illustrate two not unusual views on the appropriate coverage of the legislation. In speaking to the adoption of the Committee's amendments to the motion, Senator Scott stated:

I am very much concerned. These criteria still would not cover Philadelphia and the degree of unemployment there. I am not certain, but they do not appear to cover the large unemployment area around Pittsburgh. 24

Senator Capehart, speaking on the same occasion, said:

I would like to help these needy communities; but to make an effort to help communities only on the basis of the criterion that there must be unemployment, would never work. where there are many factories, or processing plants, or in communities where there are mines which have not exhausted their minerals, there are periods when employment rises or falls. might well be that in a 6-month period communities or towns might qualify under the criteria established by the pending bill, but communities could cure this situation themselves. are areas where mines have become completely exhausted and the people are going to have to move away because there is no possible source of jobs there.

I should like to help such cases, but I think it would be unwise to help cities such

- 23. Ibid. p. 46.
- 24. U.S. Congress. <u>Congressional Record</u>. Washington, D.C.: Government Printing Office, 1959. p. 4917.

as Detroit, New York, Chicago, Milwaukee, Indianapolis, South Bend, . . . for the reason that there is not enough money in the Federal Treasury to do that sort of thing. So my position is that if we limit the provisions of the bill to the obvious needs of towns and communities in which it is apparent that there are not going to be employment opportunities unless someone builds a new plant or facility, the bill would be workable and worthwhile. 25

S. 722, including the criteria recommended by the Committee, passed the Senate in March, 1959. The vote was close; 49 to 46. Those in favour were 45 Democrats and 4 Republicans.

The Committee on Banking and Currency of the House of Representatives recommended the criteria of S. 722 at the time of its introduction, that is, the criteria passed by Congress in 1958. However, the Committee recommended an additional rural criterion. The Administrator was to be required to designate as a rural redevelopment area:

any county (1) which is among the 500 counties in the United States ranked lowest in level of living of farm-operator families, or (2) which is among the 500 counties in the United States having the highest percentage of commercial farms producing less than \$2,500 worth of products for sale annually. 26

The Report included a list of 662 counties that would have to be designated under these criteria; more than half the counties on the list were located in five Southern states. By this time, of course, the rural aspects of the legislation were usually referred to as a bait for the votes of Southern Congressmen. However, not all of the 662 counties were as poverty stricken as the data implied, for some included a strong non-agricultural sector. A majority of members of the Congress from Southern states were at least suspicious of the urban aspects of the legislation; the

- 25. Ibid. p. 4900.
- 26. U.S. Congress. House of Representatives Committee on Banking and Currency. Area Redevelopment Act. Report. 86th Cong., 1st Sess., 1959. Washington, D.C.; Government Printing Office, 1959. p. 13.

South had been enjoying a relatively high rate of industrialization, much of it based on parent companies located in the Northeast. The fact that a large proportion of the eligible rural areas were likely to be located in the South, did not remove the hostility or suspicions of many members from the South. The minority report objected that the criteria would diffuse assistance to areas of temporary unemployment; it was urged that only communities that have lost their economic base should be eligible; discretionary powers were opposed because the Administrator might designate an excessive number of areas, or might greatly reduce the number by diluting localized unemployment into larger areas.

The Rules Committee of the House of Representatives was unwilling to release the bill, and it was not until May, 1960, that supporters of the bill were able to arrange for debate and voting. Although 8 of the 12 members of the Committee were Democrats, four Southern Democrats on the Committee supported the four Republicans. On a vote of 221: 171, the House decided to consider the legislation, against the wishes of the Rules Committee. After a short debate, in which no previously unstated view on criteria was presented, the House passed the version of S. 722 that had been recommended by its Committee on Banking and Currency one year before; the Senate agreed to accept the House version of eligibility criteria. Thus, the legislation that was now ready for Presidential signature contained, among other features unacceptable to him, eligibility criteria that had been vetoed in 1958. The eligibility of rural areas, as well as what the Administration regarded as inadequate qualifying time periods for other areas, and undesirable discretionary powers, were all included in the bill passed by the Congress.

In the Veto Message, President Eisenhower indicated six major objections. One objection was that:

S. 722 would squander the taxpayers' money where there is only temporary economic difficulty, curable without the special Federal assistance provided in the bill. In consequence, communities in genuine need would receive less Federal help for industrial development projects than under the Administration's proposals. 27

Under the criteria as vetoed, 40 major areas would have been eligible in May, 1960, compared with 16 under the

27. <u>Veto Message</u>. Washington, D.C.: The White House, 1960.

In addition, 662 rural counties Administration's bill. would have been eligible under the vetoed legislation. The frequently stated view that either funds would be spread too thinly or most areas would get nothing, no doubt carried weight with many members of the Congress. Senator Douglas, however, pointed out that 30 of the 40 major eligible areas had been eligible for at least five years, and that each of the 40 had been eligible for at least two years. With four-fifths of the cost of the program in the form of repayable loans, coupled with the fact that existing agricultural programs were wholly inadequate, Senator Douglas could not accept the President's view that the legislation squandered taxpayers money on areas in temporary difficulty. The Veto Message was, he said, "ignorant, unduly unctious, and hypocritical". The Senate voted to override the veto (45:39); lacking a two-thirds majority, the veto was sustained.

Within a week of the veto, the Administration sent a revised bill to the Senate. Among other concessions that brought the Administration's proposals closer to the vetoed version, were revised eligibility criteria. The Administration accepted the qualifying rates and time periods for industrial areas that had passed the Senate in 1959, and the clause regarding non-agricultural employment was omitted. However, rural areas were to remain ineligible, the Administrator was not to be given discretionary power, and the clause concerning areas affected by trade agreements was also omitted. In August 1960, the Secretary of Commerce discussed the main points of disagreement at a meeting of a Subcommittee of the Senate's Committee on Banking and Currency. The Secretary pointed out that 9 major and 3 smaller areas, eligible under S.722 at the date it was passed by the Congress, had recently become ineligible because of improved employment rates. The Secretary said that the Administration still believed that rural development should be handled through existing programs; redevelopment legislation is intended to assist industrial areas that already possess skilled labour, public utilities, and some manufacturing facilities. 28

28. U.S. Congress. Senate, Committee on Banking and Currency. Area Redevelopment Legislation. Hearings. 86th Cong., 2d. Sess., p. 9.

Criteria were not, however, the only disagreement between the slim majorities in the Congress and the Republican Administration; disagreement on the type and the extent of assistance to eligible areas was another cause of the impasse. The last months of the Second Session of the Eighty-Sixth Congress, 1960, marked the culmination of years of dissension between the Republican Administration and supporters of the logislation in the Congress. Underlying the attitude of the Administration was a philosophy concerning the character of the legislation. This philosophy was stated bluntly by the Under Secretary of Commerce, Philip A. Ray, in a letter to Senator Douglas:

This is not a case of quiddities and quiblets over some language in a bill, as some imply. Nor is the crux of the matter whether -- as you insist -- the administration has or has not assumed a no compromiso posture. Plainly, it has not. The issue is far more basic. is a fundamental difference of principle. is the difference between those who prefer an economy controlled and regulated by an all powerful centralized government as contrasted with those who place chief reliance on private initiative and local resources to establish free enterprise jobs in a free society . . Financing, including outright grants, so preponderantly Federal as to amount to virtual Federal control of the establishment and location of plants, federal control of production and supply, federal control of jobs.

Dilution of this preference so widely as to make it meaningless to particular communities in genuine distress — thus fruit-lessly expanding bureaucratic authority over American industry.

Setting the stage for what amounts to Federal piracy of plants from healthy economic regions of the country, unfair competition, displacement of settled jobs, introduction of controls, restrictions and confusion and the inevitable destruction of personal freedoms. 29

29. U.S. Congress. <u>Congressional Record</u>. Washington, D.C.: Government Printing Office, 1960, p. 19090.

It was apparent that agreement on several aspects of the legislation could not be reached; with the Presidential election less than three months away, the Democratic sponsors of S. 722 indicated that they would reintroduce the bill in January, 1961.

During the Presidential election campaign of 1960, John F. Kennedy frequently promised that a redevelopment program would receive priority if he were to be elected. Following the November election, several Presidential Task Forces were appointed to make recommendations on urgent federal matters. One such study group was the Task Force on Area Development, under the Chairmanship of Senator Paul H. Douglas. Its Report stated:

The most immediate task is for legislation which will encourage new industry to locate, and existing industry to expand, in industrial areas of chronic unemployment, and in underdeveloped rural and small urban areas of underemployment which require a better balance of industry and agriculture. 30

The Report recommended legislation similar to that of S. 722. On January 5, 1961, Senator Douglas and 43 other sponsors introduced the bill, S. 1, that was to become the Area Redevelopment Act of 1961. The eligibility criteria were those that had been passed by the Senate in 1959.

In the course of the hearings in 1961, the relatively few comments on eligibility criteria were largely repetitious of remarks made at previous hearings. CIO representative again insisted that the minimum waiting period of one year was too long for a community hit by the permanent closure of its major source of employment. rural criteria continued to produce scepticism. Secretary of Agriculture was questioned by committees of the Senate and the House of Representatives on the way in which funds would be allocated. Senator Wallace F. Bennett (Utah), for example, pressed the question that "thousands" of small rural communities would expect to qualify, but just how would the funds be shared out? In reply, the Secretary did not say unequivocally that the economic feasibility of each project would determine the federal assistance. He did say, however, that "we will limit this somewhat to the areas where we get

30. <u>Task Force on Area Redevelopment</u>. Report. Washington, D.C.: The White House, 1960.

some results".31

The Reports of the Committees recommended slight tightening of the criteria of S. 1. The discretionary power of the Administrator to designate an area where there has existed substantial and persistent unemployment, "for an extended period of time", was to be amended to authorize the Administrator to designate areas, "upon the basis of standards generally comparable with those set forth in the specific formulas based on rates of unemployment"; it is this wording that is included in the Act. This restriction makes it impossible for the Administrator to take preventive measures, other than certain types of technical assistance. 32 The Senate's Committee recommended two additional changes. First, that the Administrator prescribe detailed standards for the designation of rural areas, based on principles of eligibility included in the bill. Secondly, that the Administrator be required to distribute assistance under the rural provisions of the bill, "widely among the States, so far as is feasible and proper, in order to give as wide a variety of experience with these programs as possible. 33 One member of the Committee objected that under this language, a Senator was still not assured that at least one project would be located in a depressed rural area in his own state.

In February, 1961, the Democratic Administration had submitted to the Congress a bill that proposed the same criteria as S.1, except that the Administration proposed to grant priority in designation to areas in which, "a substantial part of the employment is or most recently was in an industry adversely affected", by reductions of trade barriers. Only the Senate's Committee accepted this proposal.

- 31. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 87th Cong., Ist Sess., 1961. Washington, D.C.: Government—Printing Office, 1961. p. 62.
- 32. U.S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment 1961. Report. 87th Cong., Ist Sess.,
 1961. Washington, D.C.: Government Printing Office, 1961.
 p. 15. Also, House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Report. 87th Cong.,
 Ist Sess., 1961. Washington, D.C.: Government Printing
 Office, 1961. p.10.
- 33. U.S. Congress. Senate, Committee on Banking and Currency.

 <u>Area Redevelopment 1961</u>. Report. 87th Cong., Ist Sess.,
 1961. Washington, D.C.: Government Printing Office, 1961.
 p. 26.

The chief objections to the criteria proposed for S.1 were by now familiar: that because of the "vagueness" of the criteria, several hundred areas would be eligible, but could not immediately be identified; that many eligible rural areas might not be suitable for redevelopment in terms of long-run economic viability; that the legislation included no criterion by which assistance could be allocated to areas according to their developmental potential. In committee, and in debate, Senator Homer E. Capehart (Indiana) tried without success to modify the criteria, so as to isolate what he regarded as the chronically depressed area; that is, an area where a single industry formerly employed a major portion of the labour force.

On March 15, 1961, S. 1 passed the Senate by a vote of 63:27. On March 21, a similar version passed the House of Representatives, 251:167. There were slight differences in the eligibility criteria included in the two versions. The managers of the bills agreed that the House adopt the following additions to the rural criteria, these having been included in the bill passed by the Senate:

- 1. A requirement that detailed standards for designation of such areas must be prescribed before any financial assistance is extended as a result of such designations.
- 2. A provision that in making such designations consideration shall be given to the extent to which rural development projects have previously been located in such areas under programs of the Department of Agriculture.
- 3. A provision that in making such designations the Secretary shall endeavour to distribute projects widely among the several States, so far as is feasible and proper, in order that actual experience with the program may be had in as many States and areas and under as many different circumstances as possible. 34
- 34. U.S. Congress. House of Representatives, Committee of Conference. Area Redevelopment Act. Report. 87th Cong., Ist Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 20.

The House version did not include a clause dealing with boundaries. The statement in the Report of Conference that supported the inclusion of such a. clause, indicated that the intention of the conferees was that although redevelopment areas need not necessarily follow political boundaries, part of a municipality should not be designated as a redevelopment area. clause in the version of the bill passed by the Senate, provided that the Administrator could designate part of a county or municipality, one or more states, one or more counties, and one or more municipalities. The conferees agreed to delete this clause. In its place a new clause defined a redevelopment area as "any area within the United States which has been designated by the Secretary as a redevelopment area".35 The labour market area classification of unemployment statistics is based largely on the concept of a commuting area. This may mean that data are not available for certain areas contiguous to labour market areas and the Administrator should be able to designate such areas if he is satisfied that they approximately meet the unemployment criteria. Some discretionary authority was also necessary to overcome the absence of unemployment data for areas with a labour force less than 15,000. The Senate's version included the clause that granted "priority in designation" to areas adversely affected by foreign trade agreements. The House conferees were adamant that this clause be deleted and the Senate conferees agreed. The Senate and House accepted the compromises reached by the Conference, and on May 1, 1961, the bill was signed by the President. The eligibility criteria are set out in Section 5 of the Act; this Section is reproduced as an Appendix to this Chapter.

Designations under the Area Redevelopment Act. Before 1961, the section of redevelopment bills that dealt with eligibility had usually been divided into criteria for industrial areas, and criteria for rural areas. This distinction had emerged during the first hearings, when it was evident that the Republican Administration wished to restrict the legislation to urban areas of chronic unemployment. The Act distinguished two types of redevelopment area: those designated on the basis of the rate and the duration of unemployment have been known as Section 5(a) Redevelopment Areas; those designated on unemployment standards that either approximate those of Section 5(a), or on some other basis, have been known as Section 5(b) Redevelopment Areas. One of the first

^{35.} Ibid. p. 20.

tasks of the new Area Redevelopment Administration (A.R.A.) was to prescribe detailed criteria under Section 5(b); designation, and the submission to the A.R.A. of a local development program, being prerequisites for financial assistance. The imprecise criteria included in the Act meant that the A.R.A. had to co-operate with the Departments of Agriculture and Labour, if working criteria were to be developed quickly.

The A.R.A. decided to designate under Section 5(a) only those eligible <u>labour market areas</u> that have a labour force of more than 15,000;36 designation of smaller labour market areas frequently has to be based on approximate rates and durations of unemployment.

As of July 1, 1964, 144 redevelopment areas, each with a labour force of more than 15,000 were designated under Section 5(a). The aggregate population was approximately 21,800,000. A further 12 areas, previously designated under Section 5(a) had been removed from the list of eligible areas at various dates prior to July, 1964. 37

After enactment of the legislation, the problem of designation of the core of a city within an ineligible labour market area did not disappear. During consideration of amendments to the legislation in 1963, the relevant committees of the Congress instructed the A.R.A. to consider the possibility of designation for part of an urban area. Utilizing data of the Decennial Census of Population for 1960, the A.R.A. determined that among the 52 cities in the United States that have a population of 250,000 or more, there were 9 that appeared to be eligible on the basis of the rate of unemployment in the central city within the labour market area. Up to September 30, 1964, the cities of Buffalo, Cleveland, Detroit, Oakland, Philadelphia and Toledo had been

- 36. The National Archives. <u>Federal Register</u>. Washington, D.C.: Government Printing Office, 1961. p. 9935.
- 37. Area Redevelopment Administration. Area Designation Status Report. No. 13. Washington, D.C.: Department of Commerce, 1964. The aggregate population of the redevelopment areas whose eligibility had been terminated by July, 1964 was approximately 3,700,000. Among these terminations was the labour market area of Detroit; however, the City of Detroit remained eligible and was included among new designations.
- 38. U.S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment Act Amendments of 1963. Report. 88th Cong.,
 Ist Sess., 1963. Washington, D.C.: Government Printing Office,
 1963. pp. 14-15. Also, U.S. Congress. House of Representatives,
 Committee on Banking and Currency. Area Redevelopment Act
 Amendments of 1963. Report. 88th Cong., Ist Sess., 1963.
 Washington, D.C.: Government Printing Office, 1963. pp. 10-11.

designated as redevelopment areas within larger, but ineligible, labour market areas. 39

At July 1, 1964, there were 908 redevelopment areas that had been designated under Section 5(b); the aggregate population was approximately 15,600,000. Although there are some exceptions, such as Indian Reservations and Electoral Districts in Alaska, the standard unit of designation for Section 5(b) is the county. The principles set out in the Act, together with their interpretation by a committee of officials from the A.R.A. and from the Departments of Agriculture, Interior, and Labour, led to seven categories of eligibility under Section 5(b). An area may be designated on more than one basis and can remain eligible on any one basis. The seven categories of eligibility under Section 5(b) are as follows: 40

- 1. Areas of low income: median annual family income less than one-third of national median annual family income. In July, 1964, the qualifying rate, based on the 1960 Census of Population, was a median annual family income of \$1,887, or less.
- 2. Areas of low farm income: median annual income of farm families less than one-quarter of the national median annual income of farm families. In July, 1964, the eligible rate was \$1,415, or less.
- 3. Rural Development Counties: counties included, prior to May 1, 1961, in the rural development program of the Department of Agriculture. The main emphasis of the program had been on agricultural improvement in the sense of farm efficiency; many counties had been included on the basis of developmental potential for agricultural activities, rather than on the basis of low income. The Department of Agriculture accepted the recommendations of the Extension Service in each state with the result that certain states were excessively represented in the program.
- 4. Areas of low production farming: in such areas, 60 per cent or more of all commercial farms within the area are
- 39. Bureau of Employment Security. <u>Procedures Used in Developing City Unemployment Data for Use in Evaluating Eligibility of Cities Under the Area Redevelopment Act.</u>
 Washington, D.C.: Department of Labour, 1963.
- 40. Op. cit. Area Designation Status Report, No. 13.

Class VI commercial farms. For this Class, the 1959 Census of Agriculture indicated that the annual value of farm products sold must be between \$250 and \$1,199.

5. Small areas of substantial and persistent unemployment: areas that have a labour force less than 15,000 but unemployment conditions equivalent to those of Section 5(a) Areas. In the absence of more suitable data, these areas were designated on the basis of unemployment compensation data, although many include an urban centre in a rural setting. It was realized that in some cases the agricultural labour force may be sufficiently important to invalidate the designation, but agricultural labour was not covered by unemployment compensation.

6. Indian Reservations.

7. Other: these include areas designated to permit participation in the redevelopment program by states or territories that would otherwise be excluded; American Samoa, Guam, Hawaii, and the Virgin Islands have been designated under this category. Also, some areas have been designated as areas contiguous with previously designated redevelopment areas, in order to form a viable development area. This category is vulnerable to pressure by members of the Congress who are interested in the designation of districts not otherwise eligible.

TABLE I

BASIS OF DESIGNATION OF REDEVELOPMENT AREAS

Section 5(a) - Areas designated on the basis of substantial and persistent unemployment, each having a labour force greater than 15,000	he	144
Section 5(b) - Number of areas designated		908 ^b
(1) Areas of low income	191	
(2) Areas of low farm income	1,48	
(3) Rural development counties	219	
(4) Areas of low production farming	61	
(5) Areas designated on the basis of substantial and persistent unemployment but with a labour force less than 15,000	443	
(6) Indian Reservations	54	
(7) Areas designated to permit participation by states or territories otherwise excluded, or designated as contiguous areas	4 2	

SOURCE: Compiled from Area Redevelopment Administration Area Designation Status Report. No. 13. Washington, D.C.: Department of Commerce, 1964.

a As at July 1, 1964

b Many areas designated under Section 5(b) qualify under two or more criteria.

Table I summarizes the basis of designation under the legislation. Other than Indian Reservations, 52 per cent of the Section 5(b) designations qualify on the basis of unemployment criteria, and 40 per cent on the basis of either low family income or low farm income. Approximately 40 per cent of the Section 5(a) designations are concentrated in Pennsylvania, West Virginia, and Puerto Rico. The designations under Section 5(b) are heavily concentrated in the States of Alabama (38), Arkansas (47), Georgia (72), Kentucky (45), Mississippi (60), Tennessee (44), and Texas (51).

Most redevelopment areas were designated without prior notification from the A.R.A. to local governments. The occasional complaint induced the A.R.A. to adopt prior notification, and to make it clear that an area did not have to either accept designation or remain designated, if the appropriate local public authorities objected. 41 By the end of 1963, the A.R.A. had adopted two administrative conditions for designation: that an area shall request designation after notice of its eligibility from the A.R.A., and that an area shall prepare an Overall Economic Development Program that meets the approval of the A.R.A. In the main, local officials quickly realized that designation carries with it eligibility under other federal programs; preferential interest rates on loans by the Small Business Administration, preferential treatment in federal procurement, and a minimum grant of 50 per cent for public works under the Public Works Acceleration Act of 1962.

Section 13 of the Act provides that designation is to be terminated if an area no longer meets the criteria. However, contracts entered into before the date of termination of eligibility are to be completed, and designation can recur, if conditions deteriorate after termination. The A.R.A. has ruled that in the case of areas that have been designated on the basis of unemployment, the disqualifying reduction in the rate of unemployment shall apply for a continuous period of not less than 6 months. For other designated areas, termination shall be on the basis that "there has been such improvement in the economic circumstances of the area that it no longer meets the standards for designation". 42

- 41. The National Archives. <u>Federal Register</u>. Washington, D.C.: Government Printing Office, 1963. p. 14491.
- 42. Ibid.

For purposes of termination, the Rural Development Counties have been given special treatment: the Department of Agriculture must concur that economic conditions have improved to the point where assistance under the legislation is no longer necessary. Up to July 15, 1964, the A.R.A. had terminated the designation of 51 areas. Of these, 12 had been designated under Section 5(a). Of the terminations, 33 were based on decreased unemployment, 16 for failure to submit an Overall Economic Development Program. The remaining two were rural development counties that had elected to withdraw. 43

The eligibility criteria of the Act have resulted in the number of designated areas being large, both absolutely, and in relation to the resources provided by the Act. The unduly prolonged legislative impasse, together with widespread publicity in 1961, 44 raised the hopes of many communities. But the authorization of \$375,000,000 for federal loans and grants to be spread over four years, plus \$19,000,000 per year for technical assistance and for retraining of labour, are not amounts that will produce spectacular changes in the economic environment of 1,050 communities.

- No less than 142 of the rural development counties that were inherited by the A.R.A. from the pre-existing program of the Department of Agriculture, did not qualify on any other basis. The unusually influential Directors of Agricultural Extension at the state level have inhibited attempts to terminate the eligibility of such counties that do not qualify on the basis of low income. Many of the 443 areas that have been designated under the category of small areas of substantial and persistent unemployment might not be eligible if more comprehensive unemployment data were available. Most of the Section 5(b) areas of apparently high unemployment are single counties. To designate part of a county, in order to remove the ineligible rural environs of a small town, may yield a less viable economic unit.
- 43. Data obtained from Area Redevelopment Administration, Economic Analysis Division, August, 1964.
- 44. The Area Redevelopment Act was given top priority by President Kennedy, and was the first major legislative action by the new Administration.

The fact that the eligibility of an indeterminate number of areas rests on a liberal interpretation of the criteria, has resulted in charges that some of the limited resources of the Act are being diverted from the areas of greatest need, particularly from the chronically depressed industrial centres. A persistent criticism in the hearings and debates had been that stringent criteria were essential to avoid spreading funds too thinly and thus discrediting the program. But, the affairs of men abound in imperfect solutions and measurements, in compromises, and in the acceptance of the opinions of the majorities. A rate of unemployment of 50 per cent above the national average for 3 of the preceding 4 calendar years, and similar criteria, are but rules of thumb for The choice of the criteria, and the rigour eligibility. of their application, can each be less important than the effectiveness of the developmental tools included in the legislation. Further, the emergence of other federal policies that emphasize improvement in the economic welfare of individuals, regardless of their place of residence, makes less significant the eligibility of particular areas for the limited assistance provided by the Area Redevelop-The implication remains, however, that because the purpose of designation is to assist an area to reduce its rate of unemployment -- or to raise its rate of income -- closer to the national average, every designated area is entitled to receive federal assistance until this aim is attained to an extent that is acceptable to the various interests that coalesce in the compromises of the legislative The A.R.A. has not yet been faced by the problem of terminating the eligibility of a low income area that no longer meets the appropriate criteria. When that occasion arises, another rule of thumb criterion will have to be devised; this might, for instance, be an improvement from one-third or less of the relevant national figure to, say, two-thirds, and to have held at least this improvement for, say, 5 years.

Later Chapters review the precise conditions under which aid is available. The legislation contains only limited techniques; such measures as federal cash grants and direct control of locational decisions were ignored during hearings, if only because they were incompatible with the prevailing notions of free enterprise. In brief, the legislation improves the supply conditions for long-term loanable funds and thus extends the margin of feasibility for certain commercial enterprises. Loans and grants for public facilities are also

available and these improve the chances that an area can attract, or retain, commercial activity. Each loan or grant is made by the A.R.A. in support of what is expected to be a viable project that will generate income and employment in the designated area.

Between the date that an area is designated and the date of allocation of funds to a project within the area, there is interposed the role of the local development organization, and the preparation by that organization of an Overall Economic Development Program for the area. aspect of the legislation is discussed in Chapter V, but it is relevant to remark that the necessity for local and state participation, as well as for the presence of potentially successful commercial projects, indicate that federal aid is likely to flow to areas of opportunity. Areas that, at present, lack economic opportunities, and lack effective local and state development organizations, are not likely to benefit noticeably from their designation as redevelopment areas. Given limited funds and limited techniques, the areas that obtain federal aid will be those where local initiative and organization coincide with local development opportunities. Such a conjunture of favourable conditions is most likely to be found in areas that possess managerial experience, skilled labour, and relatively attractive location. It should be emphasized that the legislation operates at the margin of profitability, a point that will be examined in the next chapter; areas of greatest opportunity not only have the best chance to attract private entrepreneurship, but they also are the ones most likely to be able to utilize the federal aid.

Many of the areas that have been designated under Section 5(b) are located in regions where the main source of employment, usually agriculture, but sometimes mining, or forestry, or fishing, do not yield an adequate combination of employment and income. Marginal or sub-marginal farmland, rural villages, and former mining, lumbering, and fishing villages are being depopulated at varying rates, as new economic and social structures slowly emerge. For many predominantly rural regions of low income, economic adjustment is likely to mean significant growth in a few localities within the region, accompanied by continued depopulation of the region as a whole. About 80 per cent of the Section 5(b) designations are single counties, and many of these are not likely to sustain a relatively sophisticated development organization; in any case, many counties have extremely poor

developmental potential.

The mandatory designation of a large number of localities fits uneasily into the predominant philosophy of the Act -- reliance on local ability to discover and to implement economic opportunities. While it is true that designation may prompt the establishment of a local organization in an area, it is likely that many such organizations have small chance of uncovering significant economic opportunities within, say, ten years. Such areas are likely to form part of the sparsely settled hinterland of one or more growth centres of a region. Although the Section 5(b) criteria do not imply this result, the terms on which assistance is available are such that many areas of poor opportunities will continue their painful adjust-The fact that a county has low income, declining employment, and few commercial opportunities gives it neither priority, nor entitlement, to assistance. Section 5(b) of the Act charges the Administrator to take into account such evidence of economic change as emigration, employment opportunities, and the relative importance of public assistance, the interpretative administrative orders concerning designation have not indicated that such considerations should entitle an area to special treatment. was not the intent of the legislation to attempt to reverse the strong forces that had led to regional economic decline in certain areas of the country. However, in 1963, a Report of the Banking and Currency Committee of the House of Representatives that dealt with amendments to the legislation, urged the A.R.A. "to give increased weight to the factor of population outmigration". 45 The Committee regarded a substantial loss of population as "a significant indicator of economic difficulty and a threat to the future of a community", and implied that the A.R.A. should attempt to halt the process.

The developmental efforts of federal and state governments can be more effectively meshed with local organizations if the number of organizations is not excessive. Indeed, the effective area for planning and for implementing public services such as main highways, educational services, and health facilities, is generally a much larger area than a

45. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act Amendments of 1963. Report. Washington, D.C.; Government Printing Office, 1963. p. 12.

single county. Criteria that utilize political subdivisions of approximately county size tend to perpetuate the idea of assistance for a large number of small areas, many of them with extremely poor prospects for development. It is, however, unlikely that a federal program could designate economic regions and, within regions, centres or points at which aid is to be concentrated. Local and state sensitivities continue to ensure that the regional concept will only emerge slowly and indirectily. Thus, under the Area Redevelopment Act, the local political boundary usually delineates the designated area, although the extent to which federal assistance will be available depends on local opportunities, and on local and The political framework of a federal state initiatives. system makes it almost inevitable that the concept of a development region must evolve from the political subdivisions con-In the meantime, the approach of the federal legislation does not pretend either to give equal aid to every area, or to concentrate aid where economic conditions are most severe. Limited aid is available when and where an apparently viable economic opportunity exists. In this connection, it should be remembered that many areas of little promise can be given improved prospects by governmental programs for resource development, for transportation improvements, and for technical assistance of many kinds, as well as for public facilities outside the field of resource development. Thus, while many economists have inclined to the view that hundreds of communities in Appalachia have no economic future, this is not necessarily true once the states within the region and the federal government agree to embark on a large-scale program of regional development. The significance of the Appalachian regional development legislation is discussed in Chapter VI.

For areas that have been designated on the basis of unemployment rates under Section 5(a), the typical prospects of development are considerably better than for many of the Section 5(b) areas. Each of the 5(a) areas had a labour force of at least 15,000 at the time of designation. Despite the fact that some of the areas are former coal or textile centres, they usually possess a sufficient concentration of population to make it unlikely that the community will wither away by emigration, in the face of persistent relative poverty. Many of the localities designated under Section 5(a) are large urban areas, and federal and state programs to assist such areas are becoming more extensive. Most of these areas are relatively well located, in or near the mass markets of the Eastern United States; many of them had already achieved

considerable regeneration before the present legislation was enacted, by means of local and state organizations, both private and public, pursuing defined opportunities within a framework of relatively sophisticated developmental planning. Some additional comments on eligibility criteria are included in Chapter VI, but it is now necessary to turn to the techniques of development that are included in the Area Redevelopment Act.

Appendix to Chapter II

ELIGIBILITY CRITERIA INCLUDED IN THE AREA REDEVELOPMENT ACT, 1961.

"Sec. 5. (a) The Secretary shall designate as 'redevelopment areas' those areas within the United States in which he determines, upon the basis of standards generally comparable with those set forth in paragraphs (1) and (2), that there has existed substantial and persistent unemployment for an extended period of time. There shall be included among the areas so designated any area—

(1) where the Secretary of Labor finds that the rate of unemployment, excluding unemployment due primarily to temporary or seasonal factors, is currently 6 per centum or more and has averaged at least 6 per centum for the qualifying time periods specified in paragraph (2); and (2) where the Secretary of Labor finds that the annual average rate of unemployment has been at least—

(A) 50 per centum above the national average for three of the preceding four calendar years, or

(B) 75 per centum above the national average for two of the preceding three calendar years, or

(C) 100 per centum above the national average for one of the preceding two calendar years.

The Secretary of Labor shall find the facts and provide the data to be used by the Secretary in making the determinations required by this subsection.

The Secretary shall also designate as 'redevelopment areas' those areas (including Indian reservations) within the United States which do not meet the requirements set forth in subsection (a) but which he determines are among the highest in numbers and percentages of low-income families, and in which there exists a condition of substantial and persistent unemployment or underemployment. In making the designations under this subsection and before extending any financial assistance as the result of designations under this subsection, the Secretary shall, by regulation, prescribe detailed standards upon which the designations under this subsection shall be based. In the formulation of such standards the Secretary shall consider, among other relevant factors, the number of low-income farm families in the various rural areas of the United States, the proportion that such low-income families are of the total farm families of each of such areas, the relationship of the income levels of the families in each such area to the general levels of income in the United States, the extent to which 'rural development' projects have previously been located in

any such area under programs administered by the Department of Agriculture, the current and prospective employment opportunities in each such area, the availability of manpower in each such area for supplemental employment, the extent of migration out of the area, and the proportion of the population of each such area which has been receiving public assistance from the Federal Government or from the State or States in which such area is located or from any municipality In making the designations under this subsection. the Secretary shall endeavour to distribute the projects widely among the several States, so far as is feasible and proper, in order that actual experience with this program may be had in as many States and in as many areas and under as many different circumstances as possible. In making these determinations the Secretary shall be guided, but not conclusively governed, by pertinent studies made, and information and data collected or compiled, by (1) departments, agencies, and instrumentalities of the Federal Government, (2) State and local governments, (3) universities and land-grant colleges, and (4) private organizations.

(c) Upon the request of the Secretary, the Secretary of Labor, the Secretary of Agriculture, the Secretary of the Interior, and such other heads of agencies as may be appropriate are authorized to conduct such special studies, obtain such information, and compile and furnish to the Secretary such data as the Secretary may deem necessary or proper to enable him to make the determinations provided for in subsection (b) of this section. The Secretary shall reimburse when appropriate, out of any funds appropriated to carry out the purposes of this Act, the foregoing officers for any

expenditures incurred by them under this section.

(d) As used in this Act, the term 'redevelopment area' refers to any area within the United States which has been designated by the Secretary as a redevelopment area."

SOURCE: Public Law 87-27, 87th Congress, S.1.
May 1, 1961. Washington, D.C.:
Government Printing Office, 1961.

FEDERAL LOANS TO INDUSTRIAL OR

COMMERCIAL PROJECTS IN

REDEVELOPMENT AREAS.

The most controversial feature of the legislation has been the program of federal loans to industrial or commercial projects in designated areas. Conflicting opinions were evident during each set of hearings between 1956 and 1961. Among organizations that opposed the program were the National Association of Manufacturers, the Chamber of Commerce of the United States, and the American Bankers The Association of Manufacturers contended Association. that if federal loans ameliorate the pressures to adjust or to migrate, depressed areas will be perpetuated. At the same time, the Association did not believe that the program could produce a worthwhile reduction in local unemployment because federal loans are not usually likely to be the decisive influence in decisions about the location of plants. unqualified emphasis on "individual initiative and local resourcefulness" led the Chamber of Commerce to profess that unemployment should be overcome by local effort, and to insist that it is "inequitable" to assist selected areas to compete for industry. Running through the testimony of the Chamber was the belief that it is not possible for a potentially profitable enterprise to be hamstrung by a lack of capital: federal loans would tend merely to under-pin enterprises of a marginal The American Bankers Association prescribed greater use of credit corporations and local investment companies; the legislation was dismissed as "substitution of a government subsidy for sound and imaginative business enterprise as the measure of success in our economic system."1

These organizations were hostile to federal intervention, either in factor markets or in product markets, to

1. U. S. Congress. Senate, Committee on Banking and Currency. Area Redevelopment - 1961. Hearings. 87th Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 403.

stimulate output in selected localities. These organizations objected to any extension of federal activity that would either increase the size of the public sector, or increase the role of the federal government:

Under the provisions of this bill, the federal government would assume responsibility for maintaining prosperity in each individual community in the country. This raises a clear danger that the federal government would subsidize and thus reward any area that was in economic difficulty at the expense of those which solve their own problems.²

The adjustments advocated by these organizations were migration of labour, an increase in local, private, entrepreneurship, and federal policies that "foster greater stability and job opportunities by promoting general conditions of high economic activity and by providing technical assistance of the kind which helps communities to help themselves." These national organizations were supported by most of those members of the Congress who voted against the legislation. However, during hearings, far more organizations and individuals supported the legislation than opposed it; a procession of witnesses stressed the failure of local effort, and of emigration, to solve chronic unemployment and chronic poverty. By 1955, many districts that were to become designated areas had experienced a decade or more of local and state efforts to stimulate activity. Communities that formerly had been prosperous on the basis of textiles, of coal, or of railroads, had in some cases been able to attract new activities of various kinds but, as representatives of many development organizations asserted, the limits of local sources of credit were often reached before all opportunities had been exhausted. In areas long dependent on one or two types of activity, financial institutions may not have a tradition of participation in a wide variety of commercial projects. In any case, pervasive relative poverty and pessimism discourage risktaking and enterprise; lenders outside the area are reluctant to assume risks that local lenders will not assume.

2. U. S. Congress. Senate, Committee on Labor and Public Welfare. Area Redevelopment. Hearings. 84th Cong., 2d. Sess., 1956. Washington, D.C.: Government Printing Office, 1956. pp. 874 - 875.

energetic development organizations had found that the preparation of industrial sites and the construction of advance or shell plants, could attract certain types of manufacturing and warehousing. Obviously, the effectiveness of such methods also depends on other conditions. the most vital of which may be the location of the plant in relation to its markets. But, the supply of equity funds and of second mortgage funds eventually becomes inadequate: the widespread appearance in the 1950's of local credit corporations indicated that existing financial institutions had not been meeting fully the local opportunities. During the hearings, private development organizations asserted that as local capital becomes committed to projects, and that as local banks reach their ceilings for long term credit, lower loan ratios come into effect, necessitating larger subscriptions by the community. Many development organizations, including local branches of the Chamber of Commerce, testified to difficulties of this kind.3 The prevalence of such circumstances in some states does not imply that every area of chronic unemployment, or of low income, has a shortage of local capital at any given time. But financial institutions that operate on a regional, or on a national, basis are often not interested in small companies starting life in areas of relatively slow growth; witnesses emphasized that insurance companies had often insisted on such short terms, 10 or 12 years, that the rate of repayment in relation to earnings would be excessive.

At the time of the first hearings, 1956, the most extensive area development program within the United States was in Pennsylvania. Local organizations had recently convinced the State government that further improvement in the supply of credit might enable many communities to generate additional economic activity. In 1956, the Pennsylvania Industrial Development Authority was established. The main stimulus that it provided was the acceptance of second mortgages, at a rate of interest of 2 or $2\frac{1}{2}$ per cent, for up to 30 per cent of the cost of construction of new plants in cases where the local development agency and the tenant provided, separately or jointly, at least 20 per cent of the cost; the balance to be obtained from commercial sources as a first

3. See, for example, Ibid., pp. 464 - 469; also, U.S. Congress. Senate, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 86th Cong., 1st Sess., 1959. Washington, D.C.: Government Printing Office, 1959. pp. 1277 - 1290.

mortgage. The Authority was also empowered to accept second mortgages for up to 30 per cent of the cost of projects that had been partially financed by local organizations before the creation of the Authority. By 1961, the Authority had loaned more than \$17,000,000 among 69 communities; its experience confirmed that there was frequently a severe shortage of local credit, even at much higher rates of interest.⁴

By 1956, the Republican Administration and the main group of sponsors of the legislation in the Congress had reached the conclusion that federal financial assistance could stimulate economic activity in some of the retarded areas. At the same time, it was apparent that continous agitation from these areas had convinced a growing number of members of the Congress that individual, private, decisions to create or to expand an enterprise, or to migrate, were not yielding a sufficiently rapid reduction in local unemployment and relative poverty. In short, arguments that stressed continuing hardship for large numbers of people carried the day against arguments that stressed market forces and long-run efficiency.

Supporters of the legislation advocated other types of federal assistance to complement the loan program; these matters are discussed in later chapters. The remainder of this chapter deals with the amount of funds to be authorized for the program of loans, with the conditions to be attached to the loans, and with the implementation of the loan program.

Congressional Action, 1956-1961. The two main bills considered during 1956 did not propose either the same volume of federal funds or the same regulations concerning loans. The Administration's bill, S. 2892, suggested a revolving fund of \$50,000,000 for loans to approved projects in designated labour market areas; maximum duration of a loan to be 20 years and maximum federal share of the cost to be 25 per cent. S. 2663, sponsored by a group of Democratic senators, proposed a revolving fund of \$100,000,000 for projects in depressed, presumably urban, areas; loans could be for periods of up to 40 years and for up to two-thirds of the cost. Neither bill

4. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 87th Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. pp. 197 - 226.

permitted federal participation in either working capital or in the purchase of machinery and equipment. The chief reasons cited for the exclusion of machinery and equipment were the fear of obsolescence, and the possibility of attracting companies with a propensity for repeated mobility. Working capital was apparently regarded as insufficiently secured for a second mortgage. The Administration's bill required that not less than 15 per cent of the aggregate cost of a project be in equity funds, supplied by a state, or local, development organization. A contribution by local citizens was henceforth regarded as an essential feature of the legislation. A requirement for local participation was included in a revised version of S. 2663 and successor bills.

During the first series of hearings there was no attempt to appraise the size of the suggested loan funds, although a few witnesses did urge a larger fund. Some witnesses proposed that the federal share be limited to 25 per cent, some supported the two-thirds proposal, others suggested higher maxima.

Among witnesses who contended that the Administration's proposals were excessively restrictive was Mr. William J. Batt, who was to become the first Administrator of the Area Redevelopment Act. Apart from his belief that S. 2892 did not permit a sufficient federal share, and that the maximum term of the loan was too short, Mr. Batt urged that the legislation permit federal guarantees. The bills offered by the Administration were drafted by the Department of The chief witness for the Administration, Assistant Secretary Frederick H. Mueller of the Department of Commerce, expected that "a typical arrangement" under the legislation would be a first mortgage to be supplied by an insurance company, equivalent to 60 per cent of the eligible cost, and a second mortgage, to be provided by the federal government, equivalent to 25 per cent. The state, or local, development organization, occupying the third position in terms of collateral, would provide the remainder as equity, or as a In an exchange of views with the Chairman of the hearings, Mr. Mueller was adamant that the federal share should not exceed 25 per cent. The exchange is an illustration of the inadequate information on which it is at times necessary to design an economic policy. Thus, Mr. Mueller cited instances of areas of labour surplus that had been able to obtain 75 per cent of the cost of projects from insurance companies and local subscriptions. The Chairman, on the other hand, emphasized testimony from development organizations that claimed

75 per cent to be much in excess of what they had any chance of obtaining from these sources. 5

At the committee stage, rural areas were included in S. 2663, and the reports recommended two revolving funds. One, of \$100,000,000 was to be for <u>industrial</u> redevelopment areas; the other, of \$50,000,000, was to be for <u>rural</u> areas. Because there was virtually no possibility to accurately assess the extent of untapped opportunities in designated areas, the committees regarded the funds as sufficient, with the associated multiplier effects, to demonstrate the feasibility of the program.

During the evolution of the legislation, the relevant committees of the Senate and the House of Representatives on no occasion agreed on every aspect. In 1956, for instance, the committee of the Senate recommended that not less than 10 per cent of the eligible cost of a project be obtained from local sources; in addition, not less than 5 per cent of aggregate cost was to be provided by non-governmental The report of the committee of the House of Representatives included neither restriction, but it did include the comment that "it would be better to have no program at all than to have one so hedged about with restrictions that it is sure to fail."7 Nevertheless, on this occasion the committee excluded machinery and equipment from the permissible purposes of a loan, whereas it was included by the Senate's committee. The report of the Senate's committee recomended that loans be authorized for up to 75 per cent of the eligible cost, whereas the report to the House of Representatives adopted the two-thirds limit. Both committees adopted 40 years as the maximum period of repayment.

- 5. U.S. Congress. Senate, Committee on Labor and Public Welfare. Area Redevelopment. Hearings. 84th Cong., 2d. Sess., 1956. Washington, D.C.: Government Printing Office, 1956. pp. 844 847.
- 6. U.S. Congress. Senate. Committee on Labor and Public Welfare. Area Redevelopment Act. Report. 84th Cong., 2d Sess., 1956. Washington, D.C.: Government Printing Office, 1956. p. 10.
- 7. U.S. Congress. House of Representatives, Committee on Banking and Currency. Redevelopment of Industrial and Rural areas. Report. 84th Cong., 2d Sess., 1956. Washington, D.C.: Government Printing Office, 1956. p. 11.

The report of the Senate included a specific statement on the rate of interest; loans should bear a rate equal to that paid by the Administrator on funds obtained from the Treasury, in this instance at the current average rate on outstanding marketable obligations of the United States, plus 1/2 of 1 per cent per annum. The report to the House of Representatives left it to the Administrator to determine "an appropriate rate". An important feature of the successor bills to S. 2663 was the provision for low rates of interest; if long-term second mortgage funds can be obtained at a rate slightly above the borrowing rate of the Treasury of the United States, there will be a considerable differential between the rate charged on the federal loan and the rate on a second mortgage from conventional sources.

Three amendments, sponsored by Senator J.W. Fulbright (Arkansas), were accepted prior to passage of the bill by the Senate. One of these increased the loan fund for <u>rural</u> areas to \$100,000,000; Senator Fulbright argued that rural areas should receive at least as much as industrial areas. Another provided for an extension of up to 10 years in the term of a loan, should such an extension be necessary to facilitate repayment; this feature had been included in the Administration's bill. The other amendment deleted the prohibition of loans that would assist relocation of employment. The offending clause read:

the borrower will not cause a transferral to, or relocation in, any plant or facility, the construction, rehabilitation, or alteration of which is assisted under this section, of business operations otherwise conducted by such borrower so as to effect a reduction in employment in any other area within the United States. 8

Throughout the evolution of the legislation, its possible influence regarding the location of economic activity was a major target for opponents. Areas that had experienced a loss of employment were sensitive to any additional threat; areas that had gained employment suspected that the legislation might retard what was for them a beneficial process. From the earliest discussions it seemed likely that the legislation would have to include a clause intended to prevent the use of federal funds to assist relocation. Many witnesses pointed out that a variety of local and state subsidies were specifically designed to encourage relocation; these witnesses

8. U. S. Congress. <u>Congressional Record</u>. Washington, D.C.: Government Printing Office, 1956. pp. 14,439 - 14,446.

would not accept the view that in imperfect markets, local capital and local enterprise can be supplemented by federal action without necessarily robbing more prosperous areas either of existing or of future employment. Senator Fulbright regarded the wording of the relocation clause as so strict that it would be interpreted to mean that any expansion of employment by a federal loan could only be at the expense of employment elsewhere. In contrast to extensive discussion during the hearings, the Senate agreed to the deletion with virtually no discussion. Senator Kennedy said he regretted this action by the Senate but that it was his opinion that had the deletion not taken place, the bill would not have passed. He pointed out that the phrase "without reducing employment in other areas of the United States", remained in the bill as the principle on which loans would be granted.9

The bills considered at the 1956 hearings had been drafted with the minimum appraisal of the implications of many of the features that they contained. But, by the time S. 2663 passed the Senate in July, 1956, it was, in its main features, in the form that was to become the Area Redevelopment Act of 1961.

During 1958, redevelopment legislation was passed by the Congress but was vetoed by the President. During the hearings there was an extensive discussion of the employment effects of the loan funds. The following exchange took place between the Assistant Secretary of Commerce and two members of a Committee of the Senate:

> Senator Douglas: How many jobs do you think \$50 million would create? Mr. Mueller: The \$50 million, if entirely invested by the government or loaned by the government, would be 35 per cent of the total investment of the companies that would be involved, which, of course, would be 35 per cent of approximately \$145 million? Senator Douglas: Mr. Mueller: About \$145 million. Senator Douglas: That is assuming you could get private participation for the other 65 per cent. Mr. Mueller: That is right. Senator Clark: Excuse me just a minute. you doing this for the first time now? not the Department of Commerce have any estimate as to how many jobs the \$50 million would provide?

^{9.} Ibid. pp. 14,637 - 14,640.

Mr. Mueller: We have not analyzed it exactly because of the statement I have made that you cannot pinpoint the amount of investment per worker that is necessary, because you do not know the type of investment of which you are talking about. Senator Douglas: The average is about \$10,000 per worker per manufacturing plant, is it not? That is about a rough average - \$10,000 per worker.

Mr. Mueller: No, I would not agree with that. I can get the exact figure for you from the Office of Business Economics.

Senator Clark: Mr. Mueller, if you do not know how many jobs this \$50 million will provide, how die you ever fix the figure at \$50 million?

how many jobs this \$50 million will provide, how did you ever fix the figure at \$50 million?

Mr. Mueller: We fixed it because, in our interpretation of the amount of money - this was developed in the various areas in which investment has been made and employment secured as the result of such investment - it was our best estimate of the amount of money that would be necessary to do this job.

Senator Douglas: In other words, you made this estimate because you made this estimate? Is that correct, sir?

Mr. Mueller: Well, sir I think in the minds of men you must at some time or other make a good guess. Senator Douglas: You must have some facts on which to make it. Were you assuming that it took \$10,000 for a job, or \$7,000, or \$5,000, or how much? Mr. Mueller: We made no particular assumption as to the amount of money per job.

Senator Douglas: The question is, how much priming of the pump do you have to do? You say \$50 million is adequate?

Mr. Mueller: Right.

Senator Clark: What I cannot understand is what analysis you have made. It does not seem to me that you have made any analysis at all, but have just pulled this out of the air. I may be doing you a grave injustice. Please correct me if I am. From what you said to Senator Douglas, it looks to me as though you have not made any analysis at all.

Mr. Mueller: I have tried to bring out that I do not believe you can use any figure for the cost of establishing new jobs on an average.

Senator Douglas: You have the Eureau of the Census do you not, in your Department?
Mr. Mueller: Yes, sir.

Senator Douglas: It collects figures on the amount of capital invested in industry.

Mr. Mueller: Yes, sir.

Senator Douglas: You also have figures on the number employed?

Mr. Mueller: We do.

Senator Douglas: Dividing the former by the latter,

what is the average that you get?

Mr. Mueller: I would have to refer to my figures to

get that accurately.

Senator Douglas: Would you supply that for the record?

Mr. Mueller: Yes, we would, sir.

Senator Douglas: It seems to me to be a very fundamental fact in this whole connection. 10

The data submitted by Mr. Mueller gave \$11,980 as the average for capital invested per production worker in all manufacturing in 1952. The lowest category was \$3,601 for apparel and fabric products; the highest was \$76,358 for petroleum. 11 Several other crude estimates of the possible employment effects of the federal loan funds were presented at the hearings. But even a crude estimate depends on several assumptions: types of industry, the extent to which machinery and equipment are financed by a federal loan, the cost of machinery and equipment relative to cost of the land and buildings, the average federal percentage contribution, and the multiplier effects. The result of such estimates was to increase Congressional awareness that \$100,000,000 for industrial areas was likely to be precursory to much larger federal expenditures, although some members contended that there were not likely to be sufficient opportunities to absorb even \$100,000,000.

The National Association of Manufacturers continued to oppose the legislation, insisting that the best opportunity for a community to reach full employment is for it to attract as much industry as possible from other areas, this being "the principal aim of all local, regional, and state development programs." 12 The Association contended that the relocation

- 10. U.S. Congress. Senate. Committee on Banking and Currency. Area Redevelopment. Hearings. 85th Cong., 1st Sess., 1957. Washington, D.C.: Government Printing Office, 1957. pp. 335 345.
- 11. Ibid. p. 345.
- 12. U. S. Congress. House of Representatives, Committee on Banking and Currency. <u>Legislation to Relieve Unemployment</u>. Hearings. 85th Cong., 2d Sess., 1958. Washington, D.C.: Government Printing Office, 1958. p. 634.

clause of the bill prohibited federal funds for this purpose; it would be difficult to find instances in which a new facility would not draw some production from another plant in another locality.

It will be recalled that the committee of the Senate recommended a compromise bill, S. 3683. The report endorsed the two revolving loan funds of \$100,000,000 each; it expected that at least \$300,000,000 of additional private and public funds would be associated with projects assisted by federal loans. The report accepted the opinion that in an expanding national economy "ample opportunities" can be found to assist depressed areas, without creating unemployment in other areas. Under S. 3683, the maximum term of a loan was to be 40 years with renewal for up to 10 years, the maximum federal share was to be 65 per cent with contributions by non-governmental sources, and by state and local sources, of 5 per cent and 10 per cent, minima, respectively. Among other conditions that were specified were: the federal loan was to be subordinate to other loans involved in the project, and the loan was to be approved by state and local authorities as consistent with a development plan for the area. Chairman of the Committee, Senator J.W. Fulbright (Arkansas), and six other members of the fifteen member Committee, signed a minority report. The minority regarded the legislation as, "an attempt to substitute the judgement of the federal government for the judgement of our free enterprise system", regarding the economic prospects of particular areas. deterioration of an area is the basis for a federal decision that the area can and should be developed "it will be almost impossible to estimate the many billions of dollars that would be necessary for the federal government to pour into these communities to make them prosperous under this program". 13

In the debate that preceded passage of the bill, Senator Prescott S. Bush (Connecticut) was unsuccessful in an attempt to tighten the relocation clause. The Senator pointed out that the bill did not forbid the use of a loan to build a <u>shell</u> plant; if this were to be complemented by subsidies from local taxation authorities, relocations might

13. U.S. Congress. Senate, Committee on Banking and Currency. Area Redevelopment Act. Report. 85th Cong., 2d Sess., 1958. Washington, D.C.: Government Printing Office, 1958. p. 59.

occur. The integrity of Senator Bush, a leading opponent of the legislation, was challenged by Senator Douglas on the ground that Senator Bush knew full well that an outright prohibition of relocation would alienate "a large sectional group of votes", and so jeopardize passage of the bill. 14 This attempt to tighten the restraint was repeated at the next Session, and was again defeated by a vote of the Senate.

The House of Representatives made two significant amendments to the loan provisions of S. 3683. 'The word "substantial" was struck from the relocation clause that prohibited a federal loan, if it would be to the "substantial" detriment" of another area. The House insisted that funds should be appropriated by the Congress, not borrowed from the It will be recalled that the Senate agreed to the Treasury. It was unlikely that the House House version of the bill. would retreat from the principle of Congressional appropriation, and the sponsors in the Senate decided that it was not worth delaying the legislation. The bill was promptly vetoed by the President; the veto message emphasized that a federal share of up to 65 per cent would mean inadequate local participation, that interest rates were "artificially low", and that a loan period of 40 years was excessive. 15 Republican Administration offered a maximum federal participation of 35 per cent and a maximum term of 25 years; these conditions to apply to a single loan fund of \$50,000,000.

The 2,200 pages of testimony at the third series of hearings, during 1959 and 1960, covered familiar ground. The bills under discussion, and the views of sponsors as well as of opponents, were similar to those of previous sessions. The Administration again defended the \$50,000,000 loan fund, and the conditions to govern its use. A maximum federal share of 35 per cent of the cost of land and buildings only was based on the expectation that loans from commercial sources could be expected to provide 50 per cent. The Department of Commerce, in drafting the Administration's bill, based these proportions on advice from "insurance company executives" and on the

- 14. U. S. Congress. <u>Congressional Record</u>. Washington, D.C.: Government Printing Office, 1958. p. 8565.
- 15. Memorandum of Disapproval. Washington, D.C.: The White House, 1958.

experience of the Pennsylvania Industrial Development Authority. The cost of land and buildings per additional job had been \$2,020 for the 77 projects partially financed by the Authority up to the time of the hearings. On the assumption of one additional, indirect, job created by each direct permanent job in the 77 projects, the Department estimated that 213,000 jobs would be required to reduce unemployment to the national rate in areas likely to be designated under the Administration's bill. Using a federal contribution of 35 per cent, about \$75,000,000 would be required as the federal share. The Department minimized the number of jobs required by the exclusion of several large metropolitan areas, "known to be adequately provided with industrial land and buildings"; also excluded were all urban communities with a labour force less than 15,000, that is, with a population of up to about 40,000. The so-called rural areas were also excluded. The Department estimated that the more liberal terms of S. 722, the successor bill to S. 3683, could result in a drain on the loan fund of at least seven times that of the Administration's bill; S. 722 made eligible a larger number of areas, it included machinery and equipment as a permissible use of loan funds, and it offered a higher federal proportion of financing. In arriving at this estimate, the Department used 2.5:1 as the ratio of costs of machinery and equipment to costs of land and buildings; the Department pointed out that 4:1 was a ratio that might be more accurate. 16

Supporters of S. 722 pointed out that the need for a larger federal share had been proven in many areas, and that the assumption of \$2,020 for costs of land and buildings per additional job was too low, because most of the projects in Pennsylvania had been extensions, on the same site, of light manufacturing plants. The exclusion of machinery and equipment from eligible costs was unrealistic, not only because land and buildings are frequently not the main part of the cost, but also because rates of interest on loans for equipment are often relatively high. The assumption that one additional job would be generated by each new manufacturing job was too optimistic. In any case, the experience of Pennsylvania could not be generalized, because the state has many locational and other attractions for light manufacturing; it is not only an industrialized state, at the centre of the eastern United States. but it has probably more experience in the techniques of industrial development than almost any other state. Discussion

16. U. S. Congress. Senate, Committee on Banking and Currency.

Area Redevelopment Act. Hearings. Washington, D.C.:

Government Printing Office, 1959. pp. 382 - 408.

of the total amount of employment that might be generated by a federal loan program was, necessarily, conjectural because there was no information available on the rate at which opportunities in designated areas could be formulated and evaluated.

Discussion of the rate of interest was more extensive in 1959 than during the previous hearings. commitment of the federal government to the second mortgage position was now recognized as a significant aid to new projects. Again, the experience of the Pennsylvania program. where the rates on loans by the Authority ranged between 2 and 3 per cent, indicated that lending by local sources could be stimulated if a state organization became a partner in the credit arrangements and in feasibility studies for new ventures. The Republican Administration consistently excluded machinery and equipment from the purposes for which a federal loan might be used. The first bill to pass the Senate, S. 2663, permitted this use, as did the vetoed versions of S. 3683 and S. 722. At the hearings on S. 722, the Department of Commerce insisted that the Small Business Administration and manufacturers of machinery were the proper sources for this type of finance, although it was admitted that rates charged by manufacturers would probably be 7 or 8 per cent. 17

The reports of the committees of the Senate and the House of Representatives reiterated the view that existing institutions often do not supply sufficient funds on reasonable terms to small businesses. The reports mentioned the widespread use of public, and semi-public, state and local credit organizations, and the recent establishment of the Small Business Administration. Shortage of capital can be an acute problem in areas of chronic unemployment because even local capital is not immune to apparently greater opportunities elsewhere, and a large proportion of local credit is often already committed to developmental and relief efforts. The minority reports marshalled their opposition around the principle of federal influence on the location of industry, and around the implications of a move toward "substituting a federally assisted planned economy for the free enterprise system".18

- 17. Ibid. p. 392.
- 18. U. S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Report. Washington, D.C.: Government Printing Office, 1959. p. 37.

The hostility of the Rules Committee delayed passage of the bill by the House of Representatives until May, 1960. The version that was eventually received by the President for signature was, once more, the House version. The major difference in loan provisions was that it provided for two loan funds of \$75,000,000 each. The bill did not include an outright prohibition of relocation, but federal assistance was to be prohibited if the project "will result in an increase of unemployment in the area of original location". The Veto Message regarded federal financing of machinery and equipment as "unwise and unnecessary", and the degree of federal participation provided by S. 722 to be so excessive that it would inhibit local, state, and private initiative. 19 Within a week of the veto, a new bill was introduced in the Senate on behalf of the Administration, S. 3569. The loan fund, still restricted to industrial areas, was increased to \$75,000,000 and the maximum period of a loan to 30 years; machinery and equipment were still ineligible. The sponsors of S. 722 were not willing to accept what they regarded as an ineffective program; apart from the terms on which loans would be available to industry and commerce, there was still no agreement either on eligibility criteria or on assistance to public facilities. On this occasion, the sponsors of S. 722 decided to attempt to over-ride the veto by a vote of the Senate but they were not able to obtain the necessary two-thirds majority. By this time, the Presidential election was less than three months away and it was expected that a Democratic President would approve a bill containing the terms of S. 722.

In January, 1961, Senator Douglas and 43 other sponsors introduced a redevelopment bill, S. 1. The loan provisions were similar to those of the bill vetoed in 1960. Several other bills were introduced but these varied from S. 1 in respects that had become familiar: Amount of funds for loans, eligibility of machinery and equipment, eligibility of rural areas, the proportion of cost to be financed by the federal loan, and the maximum duration of such a loan.

The experience of the Pennsylvania Industrial Development Authority was again discussed and attention focused on the growing difficulties experienced in raising 20 per cent of cost in the form of equity. For the type of company usually involved, this had to be done at the local level and it was

19. Veto Message. Washington, D.C.: The White House, 1960.

now beyond doubt that many communities had exhausted their supply of equity and loan capital. The National Association of Manufacturers, and the Chamber of Commerce, continued to oppose federal participation in decisions that affect the location of economic activity. Nevertheless, these organizations believed that federal loans would be ineffective because credit conditions are only one element in the location decision, and, in any case, the Administrator is forbidden to assist relocation, despite the fact that encouragement of relocation is a mainstay in local and state industrial development efforts.

Differing views continued to be held on the influence of the relocation clause on voting decisions in the Congress. Members who urged prohibition of federal loans to projects that would cause a decrease in employment elsewhere, maintained that unless this were included, many votes would be cast against the bill. Those who resisted an outright prohibition, maintained that Southern votes would be alienated because an explicit prohibition would imply that the well established migration of industry from north to south would be inhibited. In the form that it was vetoed, S. 722 had included a partial prohibition of relocation:

Such financial assistance shall not be extended for working capital, or to assist establishments relocating from one area to another when such assistance will result in an increase in unemployment in the area of original location. ²¹

In the Senate, 15 Southern votes had been cast against passage of the bill, 11 for passage; in the House of Representatives, of the Southern votes, 70 were against, 37 for. ²² In the form that S. 1 had been introduced, the relocation restrictions reverted to the wording of earlier bills; that federal loans shall not be extended:

- 20. U. S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 87th Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 210.
- 21. U. S. Congress. Senate, Committee on Banking and Currency. <u>Area Redevelopment Legislation</u>. Hearings. 86th Cong., 2d Sess., 1960. Washington, D.C.: Government Printing Office, 1960. p. 61.
- 22. Ibid. p. 5.

for working capital, or to assist establishments relocating from one area to another when such assistance will result in substantial detriment to the area of original location by increasing unemployment. 23

On this occasion, the Committee on Banking and Currency of the Senate, at the urging of Senator Prescott Bush (Connecticut) and of Senator Edmund S. Muskie (Maine), substituted:

Such financial assistance shall not be extended (1) for working capital, or (2) to assist establishments relocating from one area to another. 24

However, qualifying language was also added to the bill to indicate that the relocation prohibition was not to be construed to prohibit assistance for the expansion of an existing business from its original location or for the establishment of a new branch, affiliate or subsidiary; provided that such assistance will not substantially decrease employment in the area of original location. The Committee stressed its intention that the Administrator should guard against attempts to evade the purpose of the relocation restrictions.

The Committee on Banking and Currency of the House of Representatives also rephrased the relocation clause. As amended by the Committee, federal assistance could not be given to "assist establishments relocating, totally or partially, from one area to another". 25

The debates in the Congress prior to passage of the legislation were repetitive of previous debates. The Senate,

- 23. U. S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment 1961. Hearings. 87th Cong., 1st Sess.,

 1961. Washington, D.C.: Government Printing Office,

 1961. p. 5.
- 24. U. S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment 1961. Report. 87th Cong., 1st
 Sess., 1961. Washington, D.C.: Government Printing
 Office, 1961. p. 35.
- 25. U. S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Report. 87th Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. pp. 5 6.

by a margin of only 4 votes rejected an amendment that would have deleted from the Act the authority for the Secretary of the Treasury to borrow funds for the loan program. passed by the House provided for Congressional appropriation on an annual basis, but the Committee of Conference adopted the Senate's version. 26 The Appropriations Committee of the House of Representatives and the full House later refused to authorize borrowing by the Treasury; the result has been that the program has been financed by direct appropriation by the The Committee of Conference also adopted the Senate's version of the language that dealt with loans for machinery The Senate's bill had attached the phrase, and equipment. "in cases of demonstrated need", whereas the corresponding phrase in the version passed by the House was, "in exceptional cases". The Conference also agreed on minor changes in the wording of the relocation prohibition. The Report of the Conference was accepted by both the Senate and the House, and the bill received Presidential assent on May 1, 1961. terms on which federal loans are available under the legislation are reproduced in the appendix to this chapter.

Implementation of the Loan Program. From the time of the first hearings, it had been evident that the processing of applications would be administratively complex. The legislation assumes that sufficient credit for new ventures is not always available on "reasonable" terms. Thus, the feasibility of each project and the availability of credit must receive detailed evaluation. In such circumstances, it was inevitable that a new agency would proceed cautiously; it was also inevitable that caution would be interpreted by some applicants as unnecessary delay.

Although the advantages of an independent agency had been discussed during the evolution of the legislation, the Act established the A.R.A. as an agency within the Department of Commerce, and directed the Secretary of Commerce to delegate appropriate functions to existing departments of the federal government. The major day-to-day task of the Small Business Administration (S.B.A.), an independent agency of the federal

- 26. U. S. Congress. House of Representatives, Committee of Conference. Area Redevelopment Act. Report. 87th Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 21.
- 27. See Section 24 of the Area Redevelopment Act, 1961.
 Public Law 87 27. Some of the difficulties associated with this method of administration are touched on in Chapter VI.

government, is to process applications for loans under the Small Business Investment Act of 1953. Since 1961, the S.B.A. has also conducted the financial, engineering, and legal appraisals of the industrial or commercial projects submitted to the A.R.A. The S.B.A. also disburses and services the loans that are made by A.R.A. Although detailed evaluation culminates in a recommendation by the S.B.A., the A.R.A. has retained control of loan policy, and the final decision is the responsibility of the Administrator of the A.R.A. Because there are features unique to each new venture, the A.R.A. has negotiated each loan in the light of particular circumstances: the pattern of financing, the types of collateral, the terms on which the funds are to be disbursed and repaid, the type of venture, and the permanent employment effects.

The A.R.A. is intended by the Act to be the lender of last resort, and a large proportion of applications is from relatively small companies; for these reasons the S.B.A. is also a possible source of federal credit. However, some of the conditions that govern loans by the S.B.A. are more stringent than is the case for loans by the A.R.A. For individual enterprises, a loan by the S.B.A. is limited to a maximum of 10 years, and a maximum of \$350,000, and there are stricter requirements for collateral. In other respects, the S.B.A. conditions are less stringent than those of the A.R.A. The S.B.A. is able to provide loans for working capital (usually limited to six years), and provides a proportion of the necessary funds to many of the projects that are financed in part by the A.R.A.

The Act permits up to 65 per cent of eligible cost to be financed by a loan from the A.R.A. In addition to the costs of land and of construction, the A.R.A. has interpreted eligible cost to include a wide range of other items usually associated with a new venture, such as professional services, utility extensions to the site, insurance costs during construction, etcetera. The Act permits the inclusion of machinery and equipment among eligible costs "in cases of demonstrated need"; this cost can be critical for the applicant. files are not open to public inspection. The A.R.A. does not publish data on the proportion of eligible cost allocated to machinery and equipment, or on the proportion of total project cost accounted for by this category, but it is probable that part of almost every industrial or commercial loan has been used for machinery and equipment. When working capital, inventory, and certain other costs are excluded from eligible cost, it is not likely that a loan by the A.R.A. can exceed 40 per cent of the total cost of financing a new venture. As indicated in

Table II, the loans approved up to June 30, 1965, accounted, in aggregate for 57.7 per cent of eligible cost. Of the aggregate eligible cost, bank credit had accounted for only 14.4 per cent despite the fact that banks would normally hold the first liens, and despite the fact that banks have participated in approximately two-thirds of the projects. 28

28. Data supplied by Program Evaluation Section, Area Redevelopment Administration, Washington, D.C.

TABLE II INDUSTRIAL OR COMMERCIAL PROJECTS, TYPES OF FINANCING AS A PROPORTION OF ELIGIBLE COSTA

Type of Financing	\$1000	Per Cent
Loans by the A.R.A.	176,669	57.7
Banks	44,17,3	14.4
Local development organizations	32,279	10.5
Applicants (companies)	23,289	7.6
Municipalities, counties, states	10,724	3.5
Other sources	19,049	6.2

Program Evaluation Section, Area Redevelopment Administration, United States Department of Commerce, SOURCE: Washington, D.C.

aAggregates for 402 projects; as of June 30, 1965.

·TABLE III

INDUSTRIAL OR COMMERCIAL LOANS APPROVED BY THE A.R.A.

Period	Number	\$1000,000
Prior to June 30, 1962a	35	 8.1
July 1, 1962 - June 30, 1963	173	64.9
July 1, 1963 - June 30, 1964	146	80.4
July 1, 1964 - June 30, 1965	48	23.2
TOTAL	402	176.7

SOURCE: Area Redevelopment Administration <u>Directory of Approved Projects</u>. Washington, D.C.: United States Department of Commerce, monthly.

aAppropriations not available until October, 1961.

The A.R.A. has estimated that the 402 loans that had been approved up to June 30, 1965, have assisted the creation of 40,100 jobs. 29 Each job represents a contribution by the A.R.A. of \$4,405 in the form of a loan; the total expenditure associated with each new, permanent, job (direct employment only) appears to be closer to \$8,000 because the contribution by the A.R.A. is not likely to often exceed 40 per cent of the total cost of initiation of a new enterprise or of an expansion. Up to September 30, 1964, 272 designated areas had obtained at least one industrial or commercial loan; 30 that is, approximately one of every four areas that have been designated. Table III indicates the rate of approvals by the A.R.A.

The employment estimate is based on anticipated full-time employment, after each facility is fully operational or fully expanded. The estimate does not include an allowance for indirect employment; also, it does not include allowances for the expansion of some projects and for the contraction of The A.R.A. anticipates that each new, direct, job will generate .65 of a job in the form of indirect, permanent, employment. The cost per job is considerably reduced if indirect employment effects are taken into account, and is greatly reduced as loans are repaid. The cost per job is discussed further in Chapter VI. A distribution of loans up to June 30, 1965, among thirty-five categories of the Standard Industrial Classification, indicated that the loan per job (direct employment only) has varied from \$600 for a project classified as tobacco manufacture, to \$9,780 for projects classified as paper and allied products. 31 Because of the uncertainties of new enterprises, and of the possibility that some applicants might inflate expected employment, the A.R.A. estimates have not been accepted without scepticism. However, in March, 1964, 60 projects had been in operation for a full year; actual employment in these projects was 5 per cent higher than had been estimated at the time that the loans were approved. 32

- 29. Area Redevelopment Administration. <u>Directory of Approved Projects</u>. Washington, D.C.: United States Department of Commerce, July, 1965.
- 30. Ibid.
- 31. Op. Cit. Program Evaluation Section.
- 32. Ibid.

The A.R.A. is reluctant to devise ratios for the number of jobs that it requires to be associated with a loan of a given amount. There are wide variations in processes, as well as in local needs and opportunities. Adverse criticism of certain loans has concentrated on recreation and tourist projects that appear to have small multiplier effects. For this type of project, the A.R.A. has indicated ratios that it regards as rule of thumb guides to applicants. Such loans are not to exceed 50 per cent of eligible cost or \$6,000 per job, depending on the rate of income, or the rate of unemployment, in the area. However, there are exceptions that permit upward adjustment of these limits. An important exception is the re-structuring of an area's economy into tourism, rather than a tourism project within a diversified, or otherwise specialized, local economy. 33

A large proportion of projects have been indigenous to the designated areas in which they have originated. branch plants, the A.R.A. has insisted on a variety of evidence of the permanency of existing operations, as well as on evidence of the need for expansion in the new location. In addition, the applicant is required to certify that relocation of jobs is The A.R.A. has denied a number of applications not involved. because relocations have been involved; the largest group of such denials has been in the garment trades. When hearings were held in 1963 on amendments to the Act, no evidence was presented of a loan by the A.R.A. that had violated the prohibition of assistance for relocation. Among hundreds of A.R.A. projects to retrain workers, there had been only one substantial instance of a small proportion of workers, trained under an A.R.A. program, finding employment in a plant that had relocated without of course, financial assistance from the A.R.A. At the hearings in 1961, the future Administrator of the Act had remarked that the wrath of elected representatives would soon indicate if a relocation had occurred. At the hearings in 1963, a member of the Banking and Currency Committee of the House of Representatives, Mrs. Florence P. Dwyer (New Jersey), berated the Administrator, on this instance, of indirect benefit to a firm that had relocated. 34 The Report of this Committee admitted that the

- 33. Area Redevelopment Administration. <u>Policy Guideline No. 23</u>. Washington, D.C.: United States Department of Commerce, June, 1963.
- 34. U. S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act Amendments of 1963. Hearings. Washington, D.C.: Government Printing Office, 1963. pp. 104 112.

Administrator had been scrupulous in enforcing the prohibition, but urged that strict enforcement continue.

It was inevitable that the A.R.A. would be accused of using public funds to intensify competition; several cases having been aired at the hearings in 1963. The Report of the Banking and Currency Committee of the Senate discussed the difficulties involved in assessing the impact of a new producer and concluded:

In short, A.R.A. should take great care to ensure that any new production capacity created will not be obviously excessive or drive other efficient producers in the industry out of business. 35

Of course, it is usually the less efficient producers that are the most vocal when competition is intensified; such producers not always accurately assessing the causes of their difficulties. Assessing the impact of a new project on efficient existing producers may require costly industry studies, if the loan is to be a large one, but in the main, the A.R.A. loans have been extremely small, relative to aggregate capacity in an industry on a national, or even a regional basis. The A.R.A. has found it necessary to refuse financial assistance for new capacity in industries that already have an excess of capacity, unless (a) the excess capacity is obsolete, or (b) the new capacity will provide stronger competition for imports, or (c) the excess capacity is temporary, or (d) the applicant can prove that the new capacity will expand present markets. 30

All industrial or commercial loans by the A.R.A. have been made at a rate of interest of 4 per cent, with the A.R.A. holding the second lien; approximately four out of every five loans having been for fifteen years or longer. Obviously, long term loans to new enterprises in designated areas at 4 per cent are not likely to be attrative to commercial banks. The applicant will prefer the lower interest rates of the A.R.A.,

- 35. U. S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment Act Amendments of 1963. Report.

 Washington, D.C.: Government Printing Office, 1963. p. 14.
- 36. Area Redevelopment Administration. <u>Policy Guideline No. 26</u> (Revised). Washington, D.C.: United States Department of Commerce, January, 1964.

and of state and local credit corporations, than the higher rates offered by local banks. Banks and insurance companies also usually insist on shorter periods for repayment. On the other hand, there are many instances where banks are only willing to participate in a project because it has survived scrutiny by the A.R.A. and by the S.B.A., and is to be supported by public funds.

The statutory requirement that at least 10 per cent of the aggregate cost of a project is to be obtained from public or private organizations, within the State, has caused difficulty in many cases. Surprisingly few States contributed funds to local projects, although by 1963 several States had passed legislation to permit the State to finance the full 10 per cent. The A.R.A. concluded that the statutory requirement for the local contribution to be repaid, if in the form of a loan, only after repayment of other loans associated with the project, has been a major impediment in raising the 10 per cent. At the 1963 hearings, the A.R.A. asked the Congress to authorize the repayment of this component of the financial structure in no shorter a period, and at no faster a rate, than that of the This, of course, did not remove the problem that A.R.A. loan. the A.R.A. loans, being long term, impose an equally long term repayment on local funds.

The large number of designated areas, encompassing a wide variety of opportunities has already produced many types of projects. Table IV indicates those types of activity (Standard Industrial Classification) that account for 10 or more loans by the A.R.A.

TABLE IV

DISTRIBUTION OF INDUSTRIAL OR COMMERCIAL

LOANS BY TYPE OF ACTIVITY^a

Type of Activity	Standard Industrial Classificațion	Number of Loans
Food and kindred products	20	41
Textile mill products	22	12
Apparel and finished goods	23	24
Lumber and wood products	24	51,
Furniture and fixtures	25	18
Paper and allied products	26	12
Chemicals and allied products	28	12
Rubber and miscellaneous plastics	30	26
Stone, clay, and glass	32	25
Primary metal industries	33	1.4
Fabricated metal products	34	19
Electrical machinery, equipment and supplies	36	17
Transportation equipment	37	. 14
Hotels and motels	70	29
Recreational services (including tourism)	79	21
Eighteen other categories of the S.I.C.		. 67

SOURCE: Program Evaluation Staff, Area Redevelopment Administration. United States Department of Commerce, Washington, D.C.

and of June 30, 1965.

The following is an incomplete list of products and services produced by enterprises that have obtained loans from the A.R.A.³⁷

gypsum wall board plywood shingles lumber mill paper cups mop and broom handles carpeting hospital linen gloves steel rolling mill metal stampings plastic moldings fruit storage and processing poultry processing feed and grain mill meat packing and processing milk processing rice processing synthetic marble gypsum products lime concrete blocks enamel and porcelain products office building coal and coke processing boat building ski facility marina plastic envelopes charcoal grain storage terminal hardboard

power tools soap pads vehicle bodies and parts. kitchen equipment wire drawing transformers conveyor equipment electronic equipment polyethylene products magnetic sound film candy soft drink bottling dog and cat food calcite crystals peat moss clay missile components and propellants tires organic chemistry research boat repair motel insulated glass panels display containers Polyvinyl (chloride and acetate-copolymer) potato processing particleboard fibreboard paper mill business forms printing

37. Area Redevelopment Administration. <u>Directory of Approved Projects</u>. Washington, D.C.: United States Department of Commerce, September, 1964.

cedar fencing furniture sawmill. box partitions plywood doors clothing draperies bar steel watches and clocks steel sinks luminous signs electrical equipment lens grinding. steel tubing heating and air conditioning equipment granite bricks fertilizer vinyl flooring drydock hotel apple warehouse

shoes varn mill helicopters hand tools gas stoves mobile homes hospital equipment electrical conduit glass containers computers textiles plastic toys canning and processing sugar refinery macaroni gelatin glass sand tiles lighting fixtures rayon and acetate plastic ignition components polystyrene paper fish storage plastic cups

Tables V, VI, and VII, indicate the distribution of industrial or commercial loans, by size of loan. In March 1963, the Administration asked the Congress to increase the revolving funds to \$250,000,000 each. At that time it was anticipated that at least \$658,000,000 would be required for industrial or commercial loans before the expiration of the Act in June, 1965. The estimate included loans that would be approved by that date, and an allowance for applications under In September, 1964, the revolving fund for loans under Section 5(b) became exhausted; applications under scrutiny The Senate, but not the totalled \$85,000,000 at that date. House of Representatives, had approved additional funds for both revolving funds by the time the Congress adjourned, shortly before the elections of 1964. The large number of areas designated under Section 5(b), together with the likelihood that many such areas possess less than adequate credit organizations, indicate that the revolving loan funds might not be expected to continue to be of the same size. Scrutiny of Table VIII indicates that relatively small centres (population less than 25,000), have accounted for 39 per cent of industrial or commercial loans by the A.R.A.

TABLE V

INDUSTRIAL OR COMMERCIAL LOANS, DISTRIBUTION BY SIZE

OF LOAN, AS AT JUNE 30, 1965^a

Size of Loan \$'000	Total	New	Expansion	Reopen	New Branch	Investment by the A.R.A. \$'000	Jobs
Less than 50	64	32	24	1	7	1,933	1,555
50 and under 150	110	55	3 8	7	10	10,321	4,890
150 and under 250	60	26	19	8	7	11,79,8	5,65,5
250 and under 350	46	26	12	4	4	13,893	4,255
350 and under 550	44	24	10	3	7	18,519	4,180
550 and under 750	20	10	4	3	3	12,778	2,890
750 and under 1,000	14	10	2	1	1	12,161	2,505
1,000 and over	44	25	. 8	, 1	10	95,266	14,170
TOTAL	402	208	117	2 8	49	176,669	40,100

SOURCE: Program Evaluation Staff, Area Redevelopment Administration, United States Department of Commerce, Washington, D.C.

^aIncluded projects where employment potential is uncertain.

TABLE VI
INDUSTRIAL OR COMMERCIAL LOAMS, DISTRIBUTION BY SIZE
OF LOAM, areas designated under section 5(a),
AS AT JUNE 30, 1965a

Size of Loan \$ 000	Total	New	Expansion	Reopen	New Branch	A.R.A. Loans \$'000	Employment Potential
Less than 150	72	38	27	1	6	5,409	2,990
150 and under 250	24	11	9	2	2	4,793	2,145
250 and under 550	38	17	11	5	5	13,970	3,835
550 and under 1,000	13	5	6	1	1	8,923	2,685
1,000 and over	21	13	2	1	5 .	43,188	6,060
TOTAL	168	8.4	55	10	19	76,283	17,715

SOURCE: Program Evaluation Staff, Area Redevelopment Administration, United States
Department of Commerce, Washington, D.C.

aIncludes projects where employment potential is uncertain.

TABLE VII

INDUSTRIAL OR COMMERCIAL LOANS, DISTRIBUTION BY SIZE

OF LOAN, AREAS DESIGNATED UNDER SECTION 5(b),

AS AT JUNE 30, 1965a

		, ·.				A.R.A.	
Size of Loan, \$1000	Total	New .	Expansion	Reopen	Branch	Loans \$1000	Jobs
Less than 150	102	49	35	7.	11	6,845	3,455
150 and under 250	36	15	10	6	5.	7,005	3,510
250 and under 550	52	33	11	2	6	18,442	4,600
550 and under 1,000	21	15	0	3	3	16,016	2,710
1,000 and over	23	12	6	0	-,5	52,078	8,110
TOTAL	234	124	62	18	30	100,386	22,385

SOURCE: Program Evaluation Staff, Area Redevelopment Administration, United States Department of Commerce, Washington, D.C.

^aIncludes projects where employment potential is uncertain.

TABLE VIII

INDUSTRIAL OR COMMERCIAL LOANS, DISTRIBUTION BY POPULATION SIZE OF DESIGNATED AREA

AS AT JUNE 30, 1965

Population Size of Designated Area	Per Cent of Total Number of Projects	Per Cent of Total Investment (Industrial and Commercial Loans) by the A.R.A.
Under 25,000	39.0	38.5
25,000 and under 100,000	34.3	27.6
100,000 and under 500,000	22.0	24.1
500,000 and over	4.7	9.8

SOURCE: Program Evaluation Staff, Area Redevelopment Administration, United States Department of Commerce,

Washington, D.C.

As at June 30, 1965, more than half (56.6 per cent) of the funds available under Section 5(a) had been allocated to 21 large loans (each of \$1,000,000 or more). Loans of less than \$150,000 each, accounted for 42.8 per cent of all loans under Section 5(a), but these relatively small loans, absorbing only 7.1 per cent of funds committed, provided 16.9 per cent of the jobs credited to loans by the A.R.A. in these areas. A small number of large loans (each of \$1,000,000 or more), also absorbed a large proportion of funds available to areas designated under Section 5(b); thus, 23 loans each of \$1,000,000 or more, accounted for less than 10 per cent of all loans under this Section of the Act, but absorbed 52 per cent of the In both types of area, the amount of the funds committed. A.R.A. loan per job increases with the size of the loan. in areas designated under Section 5(b), the average value of loan per job, for loans of less than \$150,000 each, has been \$1,981; for loans of \$1,000,000 or over, the average loan per job has been \$6,421. Of course, it is probable that the indirect employment effect may be larger, the larger the loan, but data are not adequate to support this contention.

Table V indicates that branch plants have accounted for 12 per cent of loans. The prohibition against assistance for relocation, the relative self-sufficiency of many manufacturing companies that establish branch plants, and the avoidance of speculative shell plants by the A.R.A., make it unlikely that branch plants will form a large proportion of loans. New enterprises and expansion of existing plants have accounted for 52 per cent and 29 per cent, respectively, of industrial or commercial loans by the A.R.A. We have already noted the high proportion of loans to enterprises in relatively small communities and the high proportion of loans under \$150,000 each. The S.B.A. had, by December 31, 1963, approved over 40,000 loans; the revolving fund of the agency had reached \$1,666 million.38 Two-thirds of loans by the S.B.A. up to that time had been for amounts of \$50,000 or less, whereas loans of this size had accounted for only 16 per cent of loans by the A.R.A. The rate of interest on loans by the S.B.A. to enterprises in designated redevelopment areas is also 4 per cent, and it is evident that the A.R.A. is a source of loans for

38. Small Business Administration. Annual Report - 1963.
Washington, D.C.: Government Printing Office, 1964.
Section III. During 1963, 763 loans were made by the S.B.A. in designated redevelopment areas, compared with 179 by the A.R.A.

amounts that exceed the maximum size of loan permitted by the S.B.A. In 1963, the upper limit for the S.B.A. was \$350,000 but in that year only 13.5 per cent of loans by the agency was for \$100,000 or more. Up to June 30, 1965, 57 per cent of loans by the A.R.A. was for amounts of \$150,000 or over; such loans accounted for 93 per cent of the aggregate dollar value of loans by the A.R.A.

The industrial and commercial loan program of the A.R.A. is a conservative approach to local development. only the S.B.A., but hundreds of public and semi-public credit organizations had utilized this type of developmental assistance prior to 1961; the A.R.A. program attempts to provide the same type of assistance to designated areas to an extent that was not available from existing organizations. During the evolution of the legislation, alternative, or additional forms of federal assistance to private enterprises received scant attention. The Act does instruct the Administrator to furnish the procurement divisions of the federal government with a list of firms that wish to obtain government contracts. In 1953. the Congress had shown strong hostility to an attempt by the Republican Administration to obtain preferential treatment for areas of labour surplus in the award of defence contracts and it was not possible to include in the Area Redevelopment Act a meaningful preference for designated areas. A majority of members of the Congress regarded preferential procurement as a direct penalty on efficient firms in more prosperous areas. original version of S. 2663 included accelerated write-off for the cost of plant and equipment in designated areas but the chief sponsor of the bill, Senator Douglas, was not an advocate of this incentive. The provision was deleted rather than attempt to push through another controversial feature of the legislation; a majority in the Congress appeared to regard this incentive as tolerable for defence purposes, but not for federal intervention in areas of low income or high unemployment.

Such federal incentives as a differential rate of income tax, cash grants, relief from import duties, or investment allowances are acceptable to only a minority of members of the Congress. Such devices have also not been advocated by the Administration. The federal credit available through the A.R.A. is a timid approach to a major social problem and, in any case, the scope of the lending operations of the S.B.A. dwarf those of the A.R.A. During the past 15 years, it has not been possible to persuade either the Administration or the Congress that private enterprises in designated areas should be eligible for additional assistance.

Appendix to Chapter III

CONDITIONS ATTACHED TO FEDERAL LOANS TO ASSIST INDUSTRIAL OR COMMERCIAL ENTERPRISES IN DESIGNATED REDEVELOPMENT AREAS; AREA REDEVELOPMENT ACT, 1961.

The Secretary is authorized to purchase evidences of indebtedness and to make loans (which for purposes of this section shall include participations in loans) to aid in financing any project within a redevelopment area for the purchase or development of land and facilities (including, in cases of demonstrated need, machinery and equipment) for industrial or commercial usage, including the construction of new buildings, the rehabilitation of abandoned or unoccupied buildings, and the alteration, conversion, or enlargement of existing buildings. Such financial assistance shall not be extended (1) for working capital, or (2) to assist establishments relocating from one area to another. The limitation set forth in clause (2) shall not be construed to prohibit assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary of such entity if the Secretary finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment in the area of original location or in any other area where such entity conducts business operations, unless the Secretary has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

- (b) Financial assistance under this section shall be on such terms and conditions as the Secretary determines, subject, however to the following restrictions and limitations:
- (1) The total amount of loans (including purchased evidences of indebtedness) outstanding at any one time under this section (A) with respect to projects in redevelopment areas designated under section 5(a) shall not exceed \$100,000,000 and (B) with respect to projects in redevelopment areas designated under section 5(b) shall not exceed \$100,000,000.
- (2) Such assistance shall be extended only to applicants, both private and public (including Indian tribes), which have been approved for such assistance by an agency or instrumentality of the State or political subdivision thereof in which the project to be financed is located, and which agency or instrumentality is directly concerned with problems of economic development in such State or subdivision.

- (3) The project for which financial assistance is sought must be reasonably calculated to provide more than a temporary alleviation of unemployment or underemployment within the redevelopment area wherein it is, or will be located.
- (4) No such assistance shall be extended hereunder unless the financial assistance applied for is not otherwise available from private lenders or other Federal agencies on reasonable terms.
- (5) The Secretary shall not make any loan without a participation unless he determines that the loan cannot be made on a participation basis.
- (6) No evidence of indebtedness shall be purchased and no loans shall be made unless it is determined that there is a reasonable assurance of repayment.
- (7) Subject to section 12(5) of this Act, no loan, including renewals or extension thereof, may be made hereunder for a period exceeding twenty-five years and no evidences of indebtedness maturing more than twenty-five years from date of purchase may be purchased hereunder: Provided, that the foregoing restrictions on maturities shall not apply to securities or obligations received by the Secretary as a claimant in bankruptcy or equitable reorganization or as a creditor in other proceedings attendant upon insolvency of the obligor.
- (8) Loans made and evidences of indebtedness purchased under this section shall bear interest at a rate equal to the rate of interest paid by the Secretary on funds obtained from the Secretary of the Treasury as provided in section 9(a) of this Act, plus one-half of 1 per centum per annum to cover administrative expenses and to provide for losses on loans made and evidences of indebtedness purchased under this section.
- (9) Such assistance shall not exceed 65 per centum of the aggregate cost to the applicant (excluding all other Federal aid in connection with the undertaking) of acquiring or developing land and facilities (including, in cases of demonstrated need, machinery and equipment), and of constructing, altering, converting, rehabilitating, or enlarging the building or buildings of the particular project, and shall, among others, be on the condition that -
- (A) other funds are available in an amount which, together with the assistance provided hereunder, shall be sufficient to pay such aggregate cost;
- (B) not less than 10 per centum of such aggregate cost be supplied by the State or any agency, instrumentality, or political subdivision thereof, or by an Indian tribe or a community or area organization which is nongovernmental in character, as equity capital or as a loan repayable only after the Federal financial assistance extended under this section

has been repaid in full according to the terms thereof and, if such loan is secured, its security shall be subordinate and inferior to the lien or liens of such Federal financial assistance:

- (C) in extending financial assistance under this section with respect to a redevelopment area, the Secretary shall require that not less than 5 per centum of the aggregate cost of the project for which such assistance is extended shall be supplied by nongovernmental sources as equity capital or as a loan repayable only after the Federal financial assistance extended under this section has been repaid in full according to the terms thereof and, if such loan is secured, its security shall be subordinate and inferior to the lien or liens securing such Federal financial assistance; and
- (D) to the extent the Secretary finds such action necessary to encourage financial participation in a particular project by other lenders and investors, and except as otherwise provided in subparagraphs (B) and (C), any Federal financial assistance extended under this section may be repayable only after other loans made in connection with such project have been repaid in full, and the security, if any, for such Federal financial assistance may be subordinate and inferior to the lien or liens securing other loans made in connection with the same project.
- (10) No such assistance shall be extended unless there shall be submitted to and approved by the Secretary an overall program for the economic development of the area and a finding by the State, or any agency, instrumentality, or local political subdivision thereof, that the project for which financial assistance is sought is consistent with such program: Provided, That nothing in this Act shall authorize financial assistance for any project prohibited by laws of the State or local political subdivision in which the project would be located."

SOURCE: Public Law 87-27, 87th Congress, S.1. May, 1961.
Washington, D.C.: Government Printing Office, 1961.

FEDERAL ASSISTANCE TO PUBLIC FACILITIES

IN REDEVELOPMENT AREAS

In localities where unemployment or underemployment is endemic, public facilities are likely to be obsolete or inadequate; certain facilities, such as water, sewage, and power, are essential to industrial and commer-There are also other public services, cial activities. including roads, schools, and hospitals that are important for the long-run viability of an area. The longer that regional and local rates of economic growth lag the national rate, the more this is likely to be reflected in the range and quality of public facilities and services; budgets of local governments become inflexible as taxable capacity ceases to expand. Throughout the hearings and debates of the Congress on redevelopment legislation, improvement of public facilities was widely accepted as a necessary condition for the expansion of local employment.

Congressional Action, 1956-1961. The redevelopment legislation proposed by the Republican Administration did not include <u>rural</u> areas. However, the Administration realized that inadequate public facilities can retard economic activity in industrial areas but preferred to modify existing legislation, rather than to introduce a new program. the first bill submitted to the Congress by the Administration, S. 2892, included an amendment to the federal Housing Acts that, for redevelopment areas, would have removed a clause that restricted federal loans and grants for urban renewal to "predominantly residential" projects. The effect of the amendment would have been to assist municipalities to purchase obsolete properties in the centres of towns; after demolition, the land could be offered for commercial development. The bill also provided priority in the processing of applications by redevelopment areas for public facility loans available from the Community Facilities Administration (C.F.A.), a constituent agency of the federal Housing and Home Finance Agency. This program had been established in 1955 to assist small communities that had experienced difficulty in obtaining credit in the bond market. The population maximum was raised from 10,000 to

50,000 in 1958; by February, 1959, approximately \$56,000,000 of loans had been approved by the C.F.A.

Between 1956 and 1961, four series of hearings and eight reports of the relevant committees of the Congress produced little discussion or criteria for public facility The Republican Administration refused to go beyond the amendments to the Housing Acts; grants were said to be inconsistent with local responsibility. Debate centred on the sufficiency of these amendments, rather than on precise criteria for the allocation of loans and grants. Many members of the Congress regarded public facility assistance as a means to improve the local business environment; they stressed the importance of the public facility infrastructure, rather than specific inadequacies of utilities that were necessary to support an expansion of private enter-Some witnesses urged initiation of public facility projects by the federal government to overcome widespread local indifference. In fact, the first bill to be introduced by the main group of Democratic supporters in the Senate, S. 2663, authorized the Administrator to conduct continuing studies of the need for public facilities and, after consulation with state and local authorities, to initiate projects and to proceed with construction. Strong opposition led to deletion of this feature from the bill.

Although the removal of public facility bottlenecks became a continuing feature of the bills sponsored by the main group of Democratic supporters, the direct connection between a specific commercial opportunity and a public facility was not unequivocal in the Area Redevelopment Act of 1961. Many local development organizations were to be disappointed when, for instance, the A.R.A. would not assist in the installation of utility lines to locally organized industrial estates, unless sufficient private investment was committed to the estate. Even with assured tenants, the A.R.A.has insisted on an appraisal of the probable, permanent, increase in employment associated with the assistance that it might be able to provide for public facilities.

1. In the first six years of the C.F.A. program, 337 loans were made with an aggregate value of \$96,500,000. Nearly all were for water or sewer facilities in communities of under 5,000 population.

When S. 2663 passed the Senate in 1956, it included rudimentary criteria for the use of federal funds for public facilities in redevelopment areas: in the case of loans, a maximum term of 40 years, a maximum federal share of 75 per cent, and a minimum local contribution of 10 per cent. The basic criterion for a federal loan was that funds were not otherwise available "on reasonable terms". The criteria for grants were that there be a "pressing need", that there be "little chance" of the facility being provided without a grant, and that there be a local contribution "if possible". The funds were to be \$75,000,000 for loans and \$50,000,000 for grants, but both industrial and rural areas were to be eligible for the assistance. 2

After the second series of hearings, the Report of the Banking and Currency Committees of the Senate recommended that the revolving fund for public facility loans be increased to \$100,000,000, and that the fund for grants be raised to \$75,000,000 annually. The loan terms were also revised. The maximum federal contribution was to be 65 per cent, for up to 40 years, accompanied by administrative discretion to extend the loan for up to 10 years. The federal loan could be subordinate to other loans involved in the project; the bill that had passed the Senate in 1956 had given the first lien to the federal loan. The minimum state or local contribution was to be 10 per cent; a local contribution in the case of grants was to be "in proportion to its ability to so contribute". Amendments to the Housing Acts similar to those proposed by the Administration were also recommended.3

- 2. U.S. Congress. <u>Congressional Record</u>. Washington, D.C.: Government Printing Office, 1956. p. 15,292.
- 3. U.S. Congress. Senate, Committee on Banking and Currency.

 <u>Area Redevelopment Act.</u> Report. 85th Cong., 2d. Sess.,

 1958. Washington, D.C.: Government Printing Office, 1958.
 p. 31.

There had been opposition during the hearings from those who believed that grants might permanently lighten the tax burden of firms that located or expanded in designated areas; such firms might be able to undersell firms in other areas "that carry their legitimate share" of public facility costs. After enactment of the legislation in 1961, the A.R.A. had to quickly devise criteria for the proportion of public facility assistance which it could offer in the form of a grant, bearing in mind the employment effects of the facility, the revenue from the facility, and the policy of the community regarding tax concessions to industry.

The Report of the Committee on Banking and Currency of the House of Representatives recommended that public facility loans be omitted from the bill; it was considered that adequate funds and terms were available under the C.F.A. program. However, the Report did recommend that \$75,000,000 be provided annually in grants because this type of assistance was not available under existing programs. 5

The Senate and the House of Representatives passed versions of the legislation that adhered to the recommendations of their respective committees. Mainly to ensure that the legislation would be passed by the Congress before the end of the Session, the Senate agreed to the version of the House. This meant that the legislation, in the version that was to be vetoed by the President, did not include public facility loans, but did provide \$75,000,000 annually for grants. The veto message of 1958, signed by President Eisenhower, objected in principle to federal grants for public facilities. However, the fact that a local contribution was not mandatory, and that the criteria were "loosely drawn", also made grants for public facilities unacceptable to the Administration.

- 4. U.S.Congress. Senate, Committee on Banking and Currency.

 <u>Area Redevelopment</u>. Hearings, 85th Cong., 1st Sess.,
 1957. Washington, D.C.: Government Printing Office, 1957.
 p. 413.
- 5. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Report. 85th Cong., 2d. Sess., 1958. Washington, D.C.: Government Printing Office, 1958. p. 20.
- 6. Memorandum of Disapproval. Washington, D.C.: The White House, 1958.

'S. 722, the successor bill to that vetoed in 1958, reverted to the public facility provisions that had been passed by the Senate in 1958, except that grants were not to exceed \$75,000,000, rather than \$75,000,000 annually. The third series of hearings produced sparse discussion of public facilities. The main points raised were the alleged deficiencies in the existing programs: high interest rates, insufficient funds, absence of grants, and the necessity for designated areas to utilize a program that had not been designed to mesh with local economic development. At the time of the hearings, the interest rates charged by the C.F.A. on public facility loans were 4-1/4 per cent for 30-year general obligation bonds, and 4-7/8 per cent for 30-year revenue bonds. It was pointed out that a community with a good credit rating could borrow in the open market at a substantially lower rate; however, the evidence presented on the credit rating of urban areas of chronic unemployment was not sufficient to prove that the C.F.A. terms would not be attractive to many distressed communities.

The problem criteria of assistance to public facilities interested both opponents and advocates of the legislation. The Report of the Banking and Currency Committee of the Senate stipulated that a loan or grant must provide:

more than a temporary alleviation of unemployment or underemployment and must tend to improve the opportunities in the area for the successful establishment or expansion of industrial or commercial plants or facilities. 8

The Report of the Committee on Banking and Currency of the House of Representatives included a similarly imprecise criterion. The reports contained a clear implication that the contribution of a public facility would in itself be a sufficient encouragement to industrial or commercial expansion to justify federal assistance:

- 7. U.S. Congress. House of Representatives, Committee on Banking and Currency. <u>Area Redevelopment Act</u>. Report. 86th Cong., 1st Sess., 1959. Washington, D.C.: Government Printing Office, 1959. p. 44.
- 8. U.S. Congress. Senate, Committee on Banking and Currency. Area Redevelopment Act. Report. 85th Cong., 1st Sess., 1959. Washington, D.C.: Government Printing Office, 1959. pp. 32-33.

if an adequate water supply and other public facilities were available, along with other measures such as are provided for in this bill, business actually would expand, justifying the present investment through the direct taxes that such businesses would pay and the employment that would be generated.

Thus, the Administrator was not to be given clear criteria to assess the relationship between federal aid to public facilities and specific increases in local employment. Committee of the House reversed its earlier view; loans were now recommended, and a revolving fund of \$50,000,000 was to provide up to the full amount of the project cost, rather than up to 65 per cent, as in the Senate's bill. Among other differences in the recommendations of the two Committees was the method to determine the rate of interest; the effect of the Senate's provisions would have been to provide loans at a maximum of 4-3/8 per cent, whereas the House bill would have resulted in a maximum 2-7/8 per cent. 10 In the case of grants, the chief difference was that the House version provided for \$35,000,000, rather than \$75,000,000. The Senate and the House of Representatives passed different versions of the bill, but the Senate again agreed to accept the version of the House.

- S. 722 was the second redevelopment bill to be vetoed by the Republican Administration. The veto message insisted that grants for local public facilities "far exceed any appropriate federal responsibility". The message also repeated the opinion that the exemption of interest payments on local bond issues from federal income tax, made it possible for a community "in almost every case to borrow on reasonable terms from private sources". In case of serious difficulty, a community could resort to the existing program; the
- 9. U.S. Congress. House of Representatives, Committee on Banking and Currency. <u>Area Redevelopment Act</u>. Report. 86th Cong., 1st Sess., 1959. Washington, D.C.: Government Printing Office, 1959. p. 15.
- 10. Ibid. p. 44. The maximum rate of interest permitted under the Senate's bill would have been equal to the current average yield on outstanding obligations of the United States, of comparable maturities, plus 1/4 of 1 per cent; the maximum rate permitted under the House bill would have been equal to the average rate on all interest-bearing obligations of the United States at the end of the preceding fiscal year, adjusted to the nearest 1/8, plus 1 per cent.

Administration had requested an increase in the borrowing authority of the C.F.A. from \$100,000,000 to \$200,000,000. 11

In August, 1960, a Subcommittee of the Committee on Banking and Currency of the Senate met with the Secretary of Commerce, to explore again the possibility of compromise between the Administration and the Congress. The Secretary was adamant that the Administration could not accept the principle of grants: an area that could be rehabilitated could repay a loan; grants would be a commitment that might be costly in the future; and grants would also be "discriminatory". 12 The attitude of the Administration was illustrated by an exchange between the Chairman of the Sub-Committee (Senator Douglas), and the Secretary of Commerce (Mr. Mueller). The Senator had pointed out that certain areas of chronic unemployment might be able to attract heavy industry if they were able to offer supplies of industrial water:

Mr. Mueller: But I also submit that there are also other communities that may be endeavoring to get that same large industry that you have referred to that may also require the same sort of help. You are assisting one by a grant from the Federal government, competitively, to get that as against the other community. I submit to you, is that fair?

Senator Douglas: Life is a matter of judgment, Mr. Mueller.

Mr. Mueller: I appreciate that, but I wonder if competitively that is not just as unfair. 13

Senator Douglas went on to point out that almost all the applications on hand at the C.F.A. during 1960 were for community water and sewage systems; the provisions of S. 722 were designed to attract industry, rather than to provide facilities for the population of the area. The Secretary maintained that the Administration's proposal to give priority in processing to redevelopment areas was sufficient,

- 11. <u>Veto Message</u>. Washington, D.C.: The White House, 1960.
- 12. U.S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment Legislation. Hearing. 86th Cong.,
 2d. Sess., 1960. Washington, D.C.: Government Printing
 Office, 1960. p. 49.
- 13. Ibid. pp. 49-50.

because the industry-supporting type of facility was also eligible for loans by the C.F.A. Finally, Senator Douglas again drew attention to the exclusion of rural areas, and to the fact that the fiscal circumstances of many designated areas made it impossible for them to raise the revenue required to service 3-1/2 per cent bonds, let alone those at higher rates.

The hearing of August, 1960, concluded nearly five years of effort by a large group of Democrats, as well as by varying numbers of Republicans, to obtain redevelopment legislation. Although the Republican Administration was prepared to undertake some expenditure for the purpose, the differences between the two factions were so persistent that enactment of the bill had to await the return to office of a Democratic Administration.

A bill numbered S.1 was introduced by Senator Douglas and 43 other sponsors in January, 1961. contained provisions for public facility assistance similar to those of predecessor bills. A revolving fund of \$100,000,000 was to provide loans of a maximum term of 40 years, with a maximum federal share of 65 per cent of the aggregate cost, and with a minimum local, or state, contribution of 10 per cent. A second fund, of \$75,000,000, was to be established for grants; the criteria were "pressing need", impossibility of undertaking the project without a grant, and, if possible, a local contribution. The bill also included the familiar amendments to the Housing Acts. As at earlier Sessions, less comprehensive bills were also sponsored in the Congress. The new Administration submitted its version of a redevelopment bill, H.R. 4569:14. The public facility provisions differed from those of S.1 in that the full cost of a facility could be covered by a federal loan; the C.F.A. already provided loans for up to the full cost, but did not make grants. The Administration's bill limited grants to 65 per cent of the difference between the funds that could be "practicably obtained" from loans, including a federal loan, and the amount required to complete the facility.

14 U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 87th Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. pp. 2 - 13

In March, 1961, the Senate and the House of Representatives each passed versions of S.1. The immediately preceding hearings had produced nearly 1,700 pages of testimony but little new evidence and no new opinion on federal aid to public facilities. The Report of the Banking and Currency Committee of the Senate was slightly more definitive on the purpose of public facility assistance:

The projects themselves would have to be primarily for use by industrial or commercial establishments in the area and necessary for those establishments - for example, a sewage system to serve the area of a new industrial area. However, such projects would not be ineligible for assistance merely because they to a lesser extent also generally served the population of the redevelopment areas. 15

This Report recommended loans and grants on the terms that had been set out in S.1, but the Report of the Banking and Currency Committee of the House recommended adoption of the provisions proposed by the Administration.

The House and Senate versions included slightly different methods of determining the rate of interest on public facility loans; at the date of the reports, the version recommended to the House would have resulted in a rate of interest of 3.50 per cent, whereas that recommended to the Senate would have resulted in 4.125 per cent. The signatories of the minority report of the Committee of the House, as well as many other members of the Congress, believed that "most" depressed areas, with the benefit of exemption from federal income tax on the income from municipal bonds, could borrow in the capital market at rates lower than 3.50 per cent. While it was true that some areas had recently borrowed at lower rates, the minority report did not present evidence to refute the fact that there were many areas, especially rural areas, that could

- 15. U.S. Congress. Senate, Committee on Banking and Currency. Area Redevelopment 1961. Report. 87th Cong., 1st. Sess. 1961. Washington, D.C.: Government Printing Office, 1961. p. 17.
- 16. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Report. 87th Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 22.

not borrow at 3.50 per cent because of fiscal stringency. The nub of complaints by such organizations as the Investment Bankers Association was that the rate of interest to be charged by the redevelopment agency might be "un-reasonably" low in relation to market rates, and thereby reduce the demand in the capital market. 17

Prior to signature by the President, differences between the versions passed by the Senate and by the House of Representatives were resolved in a Conference. The Senate's bill limited public facility assistance to projects that "will serve primarily industrial and commercial needs"; this phrase was not included in the House version. However, each version did include a provision that:

the project for which financial assistance is sought will tend to improve the opportunities, in the redevelopment area where such project is or will be located, for the successful establishment or expansion of industrial or commercial plants or facilities which will provide more than a temporary alleviation of unemployment or underemployment in such area. It

The managers agreed that the provisions appeared "similar in purpose", and the phrase contained in the Senate's version only was withdrawn. The bill passed by the House had limited a public facility grant to 65 per cent of the difference between the cost of the project and the amount obtainable from other sources. The Conference agreed to substitute the provision of the Senate's bill to permit a grant to cover the difference between the cost of the project and the amount obtainable from other sources. During earlier debate, the Senate had dropped the provision that had limited loans to 65 per cent of the aggregate cost. The Act included two amendments to the Housing Acts designed to give a slight preference to redevelopment areas; the proportion of grant funds

- 17. U.S. Congress. House of Representatives, Committee on Public Works. Standby Capital Improvement Act of 1962. Hearings. 87th. Cong., 2d. Sess., 1962. Washington, D.C.: Government Printing Office, 1962. pp. 338 345.
- 18. U.S. Congress. House of Representatives, Committee of Conference. Area Redevelopment Act. Report. 87th. Cong., 1st. Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 19.

available for urban renewal projects of a non-residential character, was increased from 20 per cent of such funds to 30 per cent to facilitate grants to redevelopment areas, and redevelopment areas became eligible for urban planning grants on preferential terms. 19 After acceptance of the Report of Conference by the Congress, the legislation was signed by the President. The public facility provisions of the Act are reproduced in the Appendix to this chapter.

Implementation of Public Facility Provisions of Area Redevelopment Act and of Public Works Acceleration Act. The designation of a large number of areas, the scrutiny of local development plans, the evolution of criteria for loans and grants, the tardiness with which local officials approached the program, and the fact that an appropriation was not available until October, 1961, contributed to an initially slow rate of approvals. For the fiscal year ending June 30, 1962, the Congress had appropriated \$40,000,000 for grants by the A.R.A. but by that date approvals had reached only \$7,200,000. The Appropriations Committee of the House of Representatives refused to reappropriate the unused portion, but the Congress did provide the remaining \$35,000,000 for the fiscal year ending June 30, By that date, the A.R.A. had approved grants for almost all of this amount, and the Administration had recently requested an additional \$100,000,000 for grants. The Administration had also requested an increase of, \$50,000,000 in the funds for loans for public facilities, anticipating that the original \$100,000,000 would be exhausted by June 30, 1964.20 At the adjournment of the Congress in 1964, the House had still not approved additional funds for the A.R.A. The exhaustion of the funds for grants in the summer of 1963 virtually halted assistance for public facilities. When grants were no longer available, the A.R.A. could find few designated areas that were both willing and able to finance a facility with a loan from the A.R.A., but without a grant. The attitude of the House of Representatives, and the lack of opportunity for use of the loan funds of the A.R.A., were partly the result of concurrent legislation that provided a large

- 19. Ibid. pp. 11 12.
- 20. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act Amendments of 1963. Hearings. 88th. Cong., 1st. Sess., 1963. pp. 10 13.

volume of funds for public facilities under other federal programs. In 1961, the Congress had increased the borrowing authority of the Community Facilities Administration to \$650,000,000; at that time the population limit for a community to be eligible for a public facility loan by the C.F.A. was raised to 150,000, if the community had been designated as a redevelopment area. For designated redevelopment areas the same rate of interest is charged by the A.R.A. and by the C.F.A. However, the C.F.A. does not require that its assistance be directly related to an increase in local employment, but the C.F.A. does not offer grants. The employment criterion for assistance to a public facility by the A.R.A. is discussed below.

In March, 1962, the Democratic Administration had requested the Congress to enact a new public facility program; 22 eligible areas were to be those that had experienced substantial unemployment for 12 consecutive months or longer, and areas that had been designated under the Area Redevelopment Act. A modified version of this program, that authorized \$900,000,000 for grants-in-aid and for direct federal expenditure, was enacted as the Public. Works Acceleration Act of 1962. Although this represented a sharp increase in federal aid for public facilities, it was considerably smaller than another program that the Administration had submitted to the Congress in February, 1962; this bill, on which the Congress did not act, would have authorized the President to allocate \$2,000,000,000 in loans and grants for public facilities, among all areas of the United States. 23 The allocation was to be triggered by a specified rate of increase in the national rate of unemployment. This legislation was intended to be part of a broader federal program to combat recessions; the other main proposals of the Democratic Administration were a temporary reduction in income taxes, and an extension of the coverage and duration of unemployment benefits.

- 21. During the fiscal years 1962, 1963, 1964, and 1965, the interest rates charged on loans for public facilities by the A.R.A. and by the C.F.A. were 3-3/8 per cent, 3-1/2 per cent, 3-5/8 per cent, and 3-3/4 per cent respectively. Information obtained from Office of the Commissioner, C.F.A.
- 22. Op. Cit. Standby Capital Improvement Act of 1962. Hearings. pp. 19 20.
- 23. Ibid. p. 23.

At hearings of the Committees that dealt with the new programs, the Chairman of the Council of Economic Advisers pointed out that although it was not the intent of the A.R.A. program to assist a general rehabilitation of public facilities, the designated areas "can become better places to live and work through the improvement of public facilities"; at the same time, the new programs would provide urgently needed employment. The Administrator of the A.R.A. stressed the need to rebuild the "foundation" of the designated areas, and drew attention to the Report of the Presidential Task Force on Area Redevelopment that had recommended an emergency program of small public works to provide immediate employment and improve the infrastructure of depressed areas. change in administration enabled federal departments to submit evidence of the need for a major increase in this type of expenditure. For instance, the Department of Health, Education, and Welfare indicated that in January, 1962, there were more than 5,000 communities in the United States that required either new or improved plants for sewage treatment; such a program would cost about \$2,000,000,000. In addition, about \$2,800,000,000 could be expended immediately for health facilities and for water pollution control. 24 The most important restraints on such expenditures were the inability of communities to finance their share of the costs and, for some programs, insufficient federal funds. The National Association of Manufacturers, the Chamber of Commerce, and the Investment Bankers Association opposed these programs on the grounds that: existing federal public facility programs were adequate, another program of grants would further deter local and state incentive, and that economic growth is best assisted by reduced taxation of private enterprises and not by an increase in government expenditure. 25

In this context, it is not necessary to trace in detail the modification of these new programs by the Congress. The stand-by program was rejected, but the Congress did enact a short-term program of grants for the improvement of public facilities in redevelopment

- 24. Ibid. pp. 80 82.
- 25. U.S. Congress. Senate, Committee on Public Works.

 <u>Public Works Acceleration</u>. Hearings. 87th. Cong.,

 2d. Sess., 1962. Washington, D.C.: Government

 Printing Office, 1962. pp. 167 173.

areas, and in other areas of substantial unemployment, known as the Public Works Acceleration Act of 1962. contrast to the history of the Area Redevelopment Act, only seven months elapsed between the introduction to the Congress of the Public Works Acceleration Act, and its signature by the President. The preamble to the Act emphasized the intent to provide immediate employment, to encourage industrial development, and to make eligible areas "better places in which to live and work". By June, 1964, when spending under this Act was suspended, Congressional appropriations had reached \$880,000,000.26 The appropriations were granted to the President for allocation among federal public works programs; the A.R.A. (formally, the Secretary of Commerce), was selected as the agency responsible for the co-ordination of the new program, for the determination of eligible areas, and for final approval of each project. The funds were allocated to twelve federal agencies; the A.R.A. itself did not receive funds, nor was it responsible for the initiation of projects. The scale of approvals by the A.R.A. under the accelerated public works program was largely the result of the availability of grants, and of the non-profit nature of the projects. Each public facility assisted by A.R.A. funds has had to be directly and immediately related to commercial or industrial opportunities. The main allocations, by agency, are indicated in Table IX.

26. Area Redevelopment Administration. <u>Directory of Approved Projects Accelerated Public Works Program</u>. Washington, D.C.: United States Department of Commerce, July, 1964. P. 3.

TABLE IX

ACCELERATED PUBLIC WORKS PROJECTS,

APPROVED, BY AGENCY. a

Department or Agency	Number of Projects	Estimated A.P.W.	Cost (\$,000) Total
Agriculture (Mainly Forest Service)	1,566	62,615	64,734
Health, Education and Welfare (Public Health Service)	1,115	226,843	580,479
Housing and Home Finance Agency (Community Facilities Administration)	3,250	461,434	987,551
Interior (Mainly Land Management, Indian Affairs, Park Service, and Sports Fisheries and Wildlife)	1,541	63,725	75,311
Others	297	37,503	40,341
TOTAL	7,769	852,120	1,748,416

SOURCE: Area Redevelopment Administration.

Accelerated Public Works Program, Directory of Approved Projects, July 1, 1964. Washington, D.C.: United States Department of Commerce,

1964. p. 9.

^aAs at July 1, 1964.

The federal expenditure on public works was of two types. If the federal government is responsible for the entire project, it is known as a direct federal project, the other type of federal expenditure being a grant-in-aid for a state or local project. The intent of the Act was that the projects to be assisted would supplement the intended rates of expenditure by the various levels of government. It was assumed, correctly, that there existed an ample inventory of projects that could be started at once, and be substantially completed within one year of initial expenditure. The A.R.A. interpreted the legislation to intend priority for grantsin-aid, rather than for direct federal expenditure. The administration of the Public Works Acceleration Act was a major task for the A.R.A. It was ironical that the Congress permitted the modest public facilities program of the A.R.A. to lapse at a time when the administrative capacity of the agency was able to co-ordinate a rate of spending that was appropriate to the inadequate standards of public facilities in the designated areas. Table X indicates the volume of approvals in designated areas under the Area Redevelopment Act and the Public Works Acceleration Act.

TABLE X

FUNDS OBLIGATED FOR PUBLIC FACILITIES IN AREAS DESIGNATED UNDER SECTION 5(a) AND SECTION 5(b) OF THE AREA REDEVELOPMENT ACT. a

	Area Redeve	lopment Act	Public Works Acceleration	Act
Number of Projects	Loans (\$,000)	Grants (\$,000)	Grants (\$,000)	
6,434 153	49,786	39,829	619,593 -	. ,

SOURCE: Area Redevelopment Administration.

Accelerated Public Works Program, Directory of Approved Projects, July 1, 1964, and Directory of Approved Projects, June 30, 1964. Washington, D.C.: United States Department of Commerce, 1964.

"Up to July 1, 1964.

A stipulation of the Public Works Acceleration Act was that funds should be obligated by June 30, 1964; at that date, \$852,120,000 had been obligated. The Administration of President Johnson did not request an extension of this aspect of federal public works expenditure prior to the election of 1964. A scrutiny of Presidential messages to the Congress during 1964 indicates that the Economic Opportunity bills and the Appalachian Regional Development bills were considered to be more urgent legislation than the provision of funds either for the A.R.A.or for the public works program. By September, 1964, the A.R.A. had exhausted its 3 appropriation for industrial or commercial loans to enterprises in areas that had been designated under Section 5(b) of the Area Redevelopment Act. The public facilities program of the A.R.A. was also at a standstill mainly because the agency was no longer able to offer grants. It is notable that the House of Representatives appropriated \$450,000,000

of the funds authorized by the Congress for the accelerated public works program, despite the objections of its Appropriations Committee. 27 However, the House was not prepared to overrule the Committee in order to provide funds for the A.R.A.

For an area to be eligible for accelerated federal grants-in-aid, either it had to be a designated redevelopment area or it had to have recorded a rate of unemployment of at least 6 per cent during 9 of the preceding 12 months (discounting seasonal or temporary factors). The Public Works Acceleration Act provided that at least one-third of the funds was to be allocated to areas designated under Section 5(b) of the Area Redevelopment Act, and that any one state was not to receive more than 10 per cent of the total funds provided by the Act. When this program was suspended, June 30, 1964, 186 labour market areas were eligible under the unemployment criterion, in addition to 1,052 areas eligible as designated redevelopment areas. 28

The Public Works Acceleration Act provided federal grants-in-aid for public works of 50 per cent of the cost of the project, although this might be increased to 75 per cent if the community was not able to assume 50 per cent of the cost. The disbursing agencies and the A.R.A. agreed that criteria were necessary to determine those communities eligible for grants in excess of 50 per cent. The compromises arrived at were as follows:

- 1. Areas eligible for grants of 58 per cent of the total cost of the project: Median family income of \$1,700 oremore, but less than \$1,800, or a rate of unemployment of at least twice the national rate for three of the past four years for which data are available.
- 27. U.S. Congress. <u>Congressional Record</u>. Washington, D.C.: Government Printing Office, 1963. p. 5806.
- 28. Area Redevelopment Administration. Area Designation Status Report No. 13. Washington, D.C.: United States Department of Commerce, July, 1964.

- 2. Areas eligible for grants of 66 per cent of the total cost of the project: Median family income between \$1,600 or more, but less than \$1,700, or a rate of unemployment of twice the national rate for each of the four years for which data are available.
- 3. Areas eligible for grants of 75 per cent of the total cost of the project: Median family income under \$1,600, or a rate of unemployment of at least three times the national rate for each of the past four years for which data are available.²⁹

Approximately 27 per cent of areas that became eligible under the Act were also eligible for grants in excess of 50 per cent. The Act provided that consideration. must be given to "the relative needs" of eligible areas; the A.R.A. therefore allocated funds approximately in direct proportion to the <u>number</u> of unemployed in each eligible area. However, this allocation was subordinate to the limits contained in the Act that not more than 10 per cent of all funds be allocated to any one state, and that at least one-third of total funds be allocated to areas eligible because of their designation under Section 5(b) of the Area Redevelopment Act. Almost \$700,000,000 was allocated to the Public Health Service and the Community Facilities Administration for projects that required a contribution of local funds. By October, 1963, at least one project had been approved in 1,343 of the 1,576 eligible counties. Table XI indicates the distribution of projects by type of facility; almost half of flederal expenditures were allocated to water, sewer, and related facilities.

Area Redevelopment Administration. Eligible Areas and Maximum Grants-in-Aid Accelerated Public Works Program. Washington, D.C.: Government Printing Office, April, 1964. pp. iv - x. The national median family income in the United States \$5,660 in 1959.

ACCELERATED PUBLIC WORKS PROJECTS APPROVED,
BY TYPE OF PROJECT, AS OF JULY 1, 1964.

TABLE XI

Type of Project	Number	Estimated A.P.W.	Cost (\$.000 Total
Hospital and Health		• ,	
Facilities	296	113,423	302,475
Administrative Buildings	558	74,289	146,388
All other buildings	334	27,829	44,361
Roads and Streets	1,206	109,912	173,888
Airports	20	3,444	7,356
Water Supply and other	20	, 3, 777	7,550
public utilities	1,256	185,356	400,366
Waste Treatment and	200	1.00,000	400,000
Sanitation Facilities	1,505	221,894	523,587
• • • • • • • • • • • • • • • • • • • •	•		34,679
Recreational Facilities	241	27,410	34,079
Water Resources	. 76	30.000	18,796
Projects	76	12,025	· 10,/90
Fish and Wildlife		10.000	00 500
Facilities	939	12,929	23,592
Conservation Projects	461	26,102	34,959
All other construction	877	37,507	37,969
TOTAL	7,769	852,120	1,748,416
			·.

SOURCE: Area Redevelopment Administration.

Accelerated Public Works Program, Directory of
Approved Projects, July 1, 1964. Washington,
D.C.: United States Department of Commerce, 1964.

The A.R.A. has estimated that the accelerated public works program provided 220,000 man-years of employment, equivalent to 11 per cent of the unemployment, in the eligible areas. 30 By October, 1963, the A.R.A. had virtually committed all funds that had been appropriated by the Congress for the program. At that date applications that fulfilled the requirements of the Act but which could not be approved, exceeded \$700,000,000. By the same date, it was evident that the areas eligible for grants in excess of 50 per cent were often not able to meet even the smaller proportion of the cost, and consequently were filing relatively few applications.

During the year prior to enactment of the Public Works Acceleration Act, the A.R.A. had evolved guide-lines for loans and grants for public facilities under the Area Redevelopment Act. Indeed, the inclination of the designated areas to seek as large a grant as possible impelled the A.R.A. to devise principles of allocation. Such principles had to be derived from the limited criteria that had been included in the Act: that the project will improve the opportunity for successful expansion of industrial or commercial operations; that there is an urgent need for the public facility, but that construction is unlikely without a grant; that the facility is consistent with the economic development program of the area; and that the entity requesting the grant will contribute to the cost of the facility "in proportion to its ability to so contribute". The A.R.A. has interpreted these criteria to mean that public facility assistance is to be closely related to industrial or commercial activities; in fact, the chief sponsors of the legislation had frequently indicated that this was the intent of the public facility provisions. Thus, a Report of the Committee on Banking and Currency of the Senate stated:

The projects themselves would have to be primarily for use by industrial or commercial establishments in the area and necessary for those establishments -

30. Area Redevelopment Administration. Statement by Acting
Deputy Administrator for Public Works Acceleration Before
Subcommittee of Committee on Labour and Public Welfare,
United States Senate. Washington, D.C.: United States
Department of Commerce, October, 1963. Mimeo. p. 12.

for example, a sewage system to serve the area of a new industrial area. However, such projects would not be ineligible for assistance merely because they, to a lesser extent, also generally served the population of the redevelopment area. 31

The developmental opportunities, and the obstacles to development, within the designated areas are so heterogeneous that the A.R.A. was forced to assess applications on a case-by-case basis. The employment criterion has been limited to the instruction that "the causal connection between the project and the creation of new, continuing, jobs must be more than conjectural". The applicant is asked to prepare "positive evidence" of the relationship between the preservation or expansion of employment, and the funds requested from the A.R.A.

The A.R.A. also had to devise criteria for grants that take into account the various tax concessions by local governments. A large number of municipalities use the proceeds of tax-exempt municipal bonds for subsidies to local industry; often such a subsidy is in the form of a plant, constructed from the proceeds of a bond issue, leased at a The A.R.A. has opposed this type of subsidy, low rental. particularly when it is adopted by relatively prosperous urban municipalities. From a national viewpoint, the agency believes the practice to be non-productive if one area obtains a plant by raiding another area. The A.R.A. has been particularly cautious in assessing eligibility for, and the amount of, a grant whenever the community has provided concessions to private enterprises.33

This interpretation has enabled the A.R.A. to assume that each community can charge "fair user-rates" for

- 31. Op. Cit. <u>Area Redevelopment 1961</u>. Senate. Report. p. 17.
- 32. Area Redevelopment Administration. <u>Financial Assistance Guidelines</u>. Washington, D.C.: United States Department of Commerce, May, 1962. p. 11.
- 33. Area Redevelopment Administration. Address by Economic Adviser to the Administrator, April 20, 1964. Washington, D.C.: United States Department of Commerce. Mimeo. pp. 2 4.

the service to be provided by the public facility. initial scrutiny assesses the relationship between new, permanent, jobs in the community, and the need for and the cost of the facility. A small permanent employment effect is likely to yield low revenues from user-charges. The A.R.A. has required the community to offer bonds for sale; the portion that cannot be sold on terms close to those of the A.R.A. being then purchased by the federal government. If the charges are insufficient to cover the loan, the A.R.A. may provide a grant to cover the portion that cannot be financed in any other way. approach recognized that a community might attempt to subsidize a private enterprise by charging low rates. such a case, the A.R.A. applies "fair user-charges" to determine the amount of federal aid. There are, of course, obscure features in this policy. The Act does not require a contribution, either by the municipality or by the State to the cost of a facility; a community will not only seek the maximum grant, it will also seek the largest possible loan because the terms of the A.R.A. are likely to be more favourable than those of alternative sources. Among designated areas there are wide differences in ability to finance a public facility; the application of "fair usercharges" to each facility shifts the criterion for assistance by the A.R.A. from local ability to finance a facility, to employment effects of the facility in relation to its cost. If it is assumed that estimates of revenue from user-charges are likely to be accurate, there are many types of public facilities where expectations of long-run, indirect, employment are a more important criterion than immediate direct employment and user-charges.34

Table XII illustrates the type of facility that has been assisted by the A.R.A.; approximately 70 per cent of public facility projects assisted by the A.R.A. have involved water or sewer facilities, sometimes in association with other facilities, such as an access road, but frequently a sewage system only, or a water system only.

34. Information supplied by Financial Assistance Division, Area Redevelopment Administration.

TABLE XII

EXAMPLES OF PUBLIC FACILITIES ASSISTED BY THE AREA REDEVELOPMENT ADMINISTRATION

	•	Contribution by the A.R.A.		
Facility	Loan Grant (\$'000))	
Natural gas system	410		` .	
Sewage system	299	32		
Railroad spur	-	$\overset{\circ}{\overset{\circ}{\overset{\circ}{2}}}\overset{-}{\overset{\circ}{\overset{\circ}{4}}}$		
Water facility	164	108		
Port facility	1,500	_		
Water and gas lines	_	75		
Water and sewage facility	582	410		
Water and sewage facility	215	615		
Sea wall and beach front	300	158	1	
Road relocation for reservoir	-	550		
Airport facilities	77	77		
Historic village, preservation	2,000	- '.		
Hospital	· -	3,900		
Hospitals	4,100	· -		
Deep sea port	-	500		
Skilfacilities	250	150		
Arena	<u>-</u>	3,000		
Pourist centre	9,000	1,331		
Industrial park	· -	118		
Research centre, marine sciences	-	96 0		
Research centre, electronics	-	400		
Dam	280	453		
Sewage system	243	465		
Research centre, wood products	_	9 5 8		
lospital	1,170	2,430		
State Park (recreational)	7,225	2,591		

SOURCE: Area Redevelopment Administration. <u>Directory of Approved Projects, June 30, 1964.</u> Washington, D.C.: United States Department of Commerce, 1964.

TABLE XIII

PUBLIC FACILITY LOANS/GRANTS, BY TYPE OF PROJECT, STANDARD INDUSTRIAL CLASSIFICATION, a AS OF JUNE 30, 1965

SIC	No.					
79	19	48,461	3,545	\$2,.	550,584	\$1 3,670
49	79	15,263	14,795	\$:	193,197	\$ 1,032
80	4	12,017	2,610	\$3,0	004,250	\$ 4,.604
	37	11,307	7,265	\$;	305,586	\$ 1,556
89	5	3,280	.960	\$ (656,041	\$ 3,417
44	6	5,815	1,030	\$ 9	969,167	\$ 4,185
45	3	234	585	\$	77,875	\$ 399
	79 49 80 - 89	79	Investment (Loan/Grant) SIC No. (\$'000) 79	Investment (Loan/Grant) SIC No. (\$'000) Jobs 79 19 48,461 3,545 49 79 15,263 14,795 80 4 12,017 2,610 - 37 11,307 7,265 89 5 3,280 960 44 6 5,815 1,030	Investment (Loan/Grant) Jobs Per 79 19 48,461 3,545 \$2, 49 79 15,263 14,795 \$ 80 4 12,017 2,610 \$3,6 - 37 11,307 7,265 \$ 89 5 3,280 960 \$ 44 6 5,815 1,030 \$	Investment (Loan/Grant) Jobs Per Project 79

SOURCE: Program Evaluation Section, Area Redevelopment Administration, United States Department of Commerce, Washington, D.C.

a Excludes 35 projects where employment effects are uncertain or where project is inactive.

PUBLIC FACILITY PROJECTS ASSISTED BY THE AREA REDEVELOPMENT ADMINISTRATION, CUMULATED TO JUNE 30, 1964.

	Number	Aggregate Amount (\$1000)	Amount per Project
Loans	22	14,757	670,773
Grants Combination of	66	17,828 35,036 (Loans)	270,000 539,015
Loans and Grants	65	22,000 (Grants)	338,460
TOTAL	153	89,615	585,719

SOURCE: Compiled from Area Redevelopment Administration.

<u>Directory of Approved Projects. June 30. 1964.</u>

Washington, D.C.: United States Department of Commerce, 1964.

^aGrant authority exhausted at June 30, 1963. Only a small number of loans were approved after June 30, 1964.

The statutory criterion of "pressing need" is reflected in a wide variation among the number of new, permanent, jobs attributed by the A.R.A. to public facility projects. This variation is associated with type of project (Table XIII), and with amount of assistance, (Table XV). Thus, 18 projects have received assistance of more than \$1,000,000 each. These projects accounted for 70 per cent of public facility assistance by the A.R.A., up to June 30, 1965, and were equivalent to \$7,131 per job, compared with \$3,289 per job for the total number of public facility projects (156), that had been assisted up to that date. 35

35. Area Redevelopment Administration. <u>Directory of Approved Projects</u>. Washington, D.C.: United States Department of Commerce. July, 1965.

The A.R.A. has committed almost \$24,000,000 in loans and grants to 4 recreational projects in West Virginia which is equivalent to \$18,000 per new, permanent, job. The agency has justified federal assistance to recreational projects, including convention centres, arenas, and state parks, as a stimulus to private investment in an area. Thus, the A.R.A. has made combined loans and grants that exceed \$10,300,000 for the initial development of a tourist centre in Oklahoma, at a per job contribution of \$20,666. The project includes two hotels; the A.R.A. encountered criticism of this project but has indicated that the hotels are a demonstration project to lure additional private investment to the area. Similarly, the agency has made public facility grants to establish research centres that are necessary for the development of a redevelopment area, such as a wood research centre at the University of West Virginia, and a marine research centre at the University of Oregon. The new, permanent, employment associated with these two projects is estimated to be 177, or \$10,831 per job. 30 These are examples of "pressing need", coupled with long term employment benefits that cannot presently be mea-Hospitals and nursing homes, not necessarily owned by a public authority, have also received public facility funds from the A.R.A.; the continued operation and improvement of such institutions in certain communities is considered to be an essential part of the infra-The A.R.A. received many applications for structure. assistance for utility connections and access roads to industrial <u>parks</u> or <u>estates</u>. In each case, the A.R.A. has had to assess the probable, eventual, increase in employment. Local organizations are frequently excessively optimistic about the attractions of estates, and the A.R.A. has insisted that there must be a firm employment commitment from tenants. As it has also done in the case of loans for plant construction, in advance of a commitment from a tenant, the A.R.A. has sometimes been willing to make a preliminary commitment, contingent upon employment commitments from tenants that can be related to the assistance from the A.R.A.37

- 36. Ibid.
- 37. Area Redevelopment Administration. <u>Policy Guideline</u>
 <u>No. 5</u>. Washington, D.C.: United States Department of
 Commerce. January, 1962.

TABLE XV

DISTRIBUTION OF PUBLIC FACILITY LOANS AND GRANTS BY

SIZE OF LOAN OR GRANT, CUMULATIVE TO JUNE 30, 1965, (\$'000)

Size of Loan or Grant, (\$1000)	Number of Loans and Grants	A.R.A. Loans (\$'000)	Investments (\$'000)	nt Per Cent Grants	Number of Jobs	Investment by A.R.A. per Job (\$'000)
Less than \$50	29	127	659	83.8	3,530	0.2
\$50 and under \$150	40	982	2,293	70.0	7,020	0.5
\$150 and under \$250	22	1,512	2,778	64.7	4,725	0.9
\$250 and under \$350	14	1,078	3,043	73.8	2,865	1.4
\$350 and under \$550	20	4,376	4,224	49.1	2,955	2.9
\$550 and under \$750	8	1,672	3,483	67.6	1,530	3.4
\$750 and under \$1,000	5	1,602	2,909	64.5	1,050	4.3
\$1,000 and over	18	50,530	20,066	28.4	7,130	9.9 ^a
TOTAL	156	61,880	39,455	38.9	30,805	3.3

SOURCE: Program Evaluation Section, Area Redevelopment Administration, United States Department of Commerce, Washington, D.C.

^aIncludes one project where employment is uncertain.

The public facility program of the A.R.A. has emphasized the preservation and expansion of employment in existing plants. A scrutiny of projects approved up to June 30, 1965, indicates that only 47 designated areas could record both at least one <u>private</u> enterprise activity assisted by the A.R.A., and at least one <u>public</u> facility project also assisted by the A.R.A. In some of the areas the relationship between the private activity and the public facility is extremely tenuous.

The agency has not published data that indicate the extent to which projects have been financed entirely by a grant. Although Table XIV indicates that 66 grants were not accompanied by a loan from the A.R.A., information is not available on the extent to which the communities have borrowed elsewhere. The concentration of public facility projects in small communities (Table XVI), suggests that many of these 66 grants were for the full cost of the project. The aggregate data of Table XVII show that A.R.A. assistance has been equivalent to 74 per cent of the aggregate cost of all projects. Only 23 public facility projects received a loan from the agency, not accompanied by a grant.

Among the 132 public facility projects that were assisted by grants from the A.R.A., only 7 received grants in excess of \$1,000,000; these 7 accounted for 47 per cent of grant expenditures by the agency. In each case, the project was of an infra-structural nature -- purchase of a hospital, and construction of a hospital, an arena, a tourist centre, a state park, a resort, and a recreational Concentration of public facility funds in large, infra-structural projects is also apparent in the case of loans; 78 per cent of loan funds were allocated by the A.R.A. among 13 projects that each received a loan in excess of \$1,000,000. Large loans and large grants were the chief cause of a concentration of public facility assistance by the A.R.A. in West Virginia; this state received 32 per cent of public facility funds, compared with only 5 per cent under the Accelerated Public Works program. 38

38. Op. Cit. <u>Directory of Approved Projects</u>, July, 1965; <u>Directory of Approved Projects Accelerated Public</u>
Works Program, July, 1964.

TABLE XVI

PUBLIC FACILITY LOANS/GRANTS, DISTRIBUTION BY POPULATION SIZE OF DESIGNATED AREA

Population Size of Designated Area	Per Cent of Total Number of Projects	Per Cent of Total Investment by the A.R.A. (of Loans and Grants by the A.R.A.)
Under 25,000	45.2	43.4
25,000 and under 100,000	39.0	39.5
100,000 and under 500,000	13.2	15.9
500,000 and over	2.6	1.2

SOURCE: Program Evaluation Section, Area Redevelopment Administration, United States Department of Commerce, Washington, D.C.

^aAs at June 30, 1965.

TABLE XVII

OTHER SOURCES OF FUNDS FOR PUBLIC FACILITIES ASSISTED BY THE A.R.A. (\$1000)

Number of approved projects	156
A.R.A. Funds	101,335
Federal funds, non-A.R.A.	9,965
Local development companies	814
Company equity or cash ^b	3,305
Private investment	3,902
Bank investment	ena
Municipal investment	8,445
County or state investment	8,814
Total investment	136,580
A.R.A. investment, as percentage of project cost	74.2

SOURCE: Program Evaluation Staff, Area Redevelopment Administration, United States Department of Commerce, Washington, D.C.

a As of June 30, 1965.

b Represents equity where applicants are universities.

The evaluation of the technical features of each facility, and the appraisal of the financial capacity of the local government, were delegated to the C.F.A. There are indications that the administrative arrangements between the A.R.A. and the C.F.A. for the processing of applications for public facility assistance proved to be less satisfactory than the relations between the A.R.A. and the S.B.A. The Area Redevelopment Act of 1961, and the Public Works Acceleration Act of 1962, each included provisions for grants, although the C.F.A. program does not. In the case of the A.R.A. program, there is no statutory limit to the grant, expressed as a percentage of the cost of the project. However, there has been a limit of 75 per cent in the case of the Public Works Acceleration Act, with the majority of communities eligible for not more than 50 per cent. The C.F.A. favoured a maximum of 75 per cent for grants by the A.R.A. The C.F.A. also favoured criteria to determine the ability of the community, and of the state, to contribute to a project. this purpose, the C.F.A. suggested that the proportion of the cost of a project to be covered by a grant be related to property tax rates, property evaluations, per capita income, and per capita public debt. The A.R.A. refused to accept such criteria, and has insisted on a case-by-case application of user-charges, needs, and employment potentials.39

The loan program of the C.F.A. has been an important source of funds for public facilities in redevelopment areas (Table XVIII).

39. Information supplied by Financial Assistance Division, A.R.A.

TABLE XVIII

PUBLIC FACILITY ASSISTANCE TO REDEVELOPMENT AREAS - A.R.A. AND C.F.A.

Agency	Number	Loans (\$'000)	Grants (\$'000)
a A,R.A.	153	49,786	39,829
b C.F.A.	347	118,673	

SOURCE: Area Redevelopment Administration.

<u>Directory of Approved Projects</u>. Washington, D.C.:

United States Department of Commerce. July, 1964.

Data for C.F.A. supplied by Office of the Commissioner, C.F.A.

Approximately 44 per cent, by value, of public facility loans approved by the C.F.A. during recent years, 40 have been for facilities in designated redevelopment areas.

Up to the time of the virtual suspension of the A.R.A. public facility program in 1963, at least one project had been approved in approximately one of each ten designated areas. Between 1961 and 1965, the public facility provisions of the Act can have had no more than a marginal effect on the designated areas as a whole. This conclusion is reinforced by the fact that at June 30, 1965, funds had been fully disbursed for only 63 projects. 41

- 40. Information supplied by Office of Commissioner, C.F.A.
- 41. Op. Cit. <u>Directory of Approved Projects</u>, July, 1965.

Cumulated to June 30, 1964.

bAggregates for the three fiscal years 1962, 1963, 1964.

The virtual cessation of the public facility program of the A.R.A. in June, 1963, despite the fact that approximately 50 per cent of loan funds remained unallocated, is not necessarily fully explained by the inability of designated areas to service a loan from the agency, unassisted by a grant. Public facility projects, assisted by the A.R.A., have not proved to be an integral, essential, complement to the industrial or commercial projects assisted by the agency. It is significant that 35 per cent of grant funds allocated by the agency were for five projects that were approved during the last If these funds had month for which funds were available. not been allocated, they would have been forfeited, as was a large proportion of the grant appropriation for use by the agency during its first fiscal year. In June 1963, the A.R.A. made grants totalling \$14,128,000 to four projects in West Virginia and to one in Kentucky; three of these were recreational developments, the other two were for the construction or purchase of hospitals. concentration of resources in two states, for projects of these types, suggests that there has been a severely limited number of public facility projects that directly support an expansion of employment in industrial or commercial enterprises.

Despite the concentration of grant funds by the agency in a few large infra-structural projects, there are some projects that could have been initiated if an A.R.A. loan could have been reduced, or replaced, by a grant. However, the scale of the public facility program is not appropriate to the deficiencies of public facilities in the designated areas. The inadequate scale of the program is not only the result of inadequate funds; it is also caused by the employment criterion. The A.R.A. has been forced into infra-structural projects whose main developmental effects will be felt only in the long-run. Before it is possible to comment further on this aspect of redevelopment policy in the United States, it is necessary to review other aspects of the legislation.

Appendix to Chapter IV.

- CONDITIONS ATTACHED TO FEDERAL LOANS FOR PUBLIC FACILITIES; AREA REDEVELOPMENT ACT, 1961.
- "Sec. 7. (a) Upon the application of any State or political subdivision thereof, Indian tribe, or private or public nonprofit organization or association representing any redevelopment area or part thereof, the Secretary is authorized to make loans to assist in financing the purchase or development of land for public utility usage, and the construction, rehabilitation, alteration, expansion or improvement of public facilities, within a redevelopment area, if he finds that -
 - (1) the project for which financial assistance is sought will tend to improve the opportunities, in the redevelopment area where such project is or will be located, for the successful establishment or expansion of industrial or commercial plants or facilities which will provide more than a temporary alleviation of unemployment or underemployment in such area;

(2) the funds requested for such project are not otherwise available on reasonable terms:

(3) the amount of the loan plus the amount of other available funds for such project are adequate to insure the completion thereof;

(4) there is a reasonable expectation of repayment; and

(5) such area has an approved economic development program as provided in section 6 (b) (10) and the project for which financial assistance is sought is consistent with such program.

Subject to section 12 (5), the maturity date of any such loan shall be not later than forty years after the date such loan is made. Any such loan shall bear interest at a rate equal to the rate of interest paid by the Secretary on funds obtained from the Secretary of the Treasury as provided in section 9 (a) of this Act, plus one-quarter of 1 per centum per annum.

The total amount of loans outstanding at any one time under this section shall not exceed \$100,000,000.

(d) No financial assistance shall be extended under this section with respect to any public facility which would compete with an existing privately owned public utility

rendering a service to the public at rates or charges subject to regulation by a State regulatory body, unless the State regulatory body determines that in the area to be served by the public facility for which the financial assistance is to be extended there is a need for an increase in such service (taking into consideration reasonably forseeable future needs) which the existing public utility is not able to meet through its existing facilities or through an expansion which it agrees to undertake."

- CONDITIONS ATTACHED TO FEDERAL GRANTS FOR PUBLIC В. FACILITIES; AREA REDEVELOPMENT ACT, 1961.
- "Sec.8. (a) Upon application by any State, or political subdivision thereof, Indian tribe, or private or public nonprofit organization or association representing any redevelopment area or part thereof, the Secretary is authorized to make grants for land acquisition or development for public facility usage, and the construction, rehabilitation, alteration, expansion, or improvement of public facilities, within a redevelopment area, if he finds that -
 - (1) the project for which financial assistance is sought will tend to improve the opportunities, in the redevelopment area where such project is or will be located, for the successful establishment or expansion of industrial or commercial plants or facilities which will provide more than a temporary alleviation of unemployment or underemployment in such area;

(2) the entity requesting the grant proposes to contribute to the cost of the project for which such grant is requested in proportion to its

ability so to contribute;

(3) the project for which a grant is requested will fulfil a pressing need of the area, or part thereof, in which it is, or will be, located, and there is little probability that such project can be undertaken without the assistance of a grant under this section; and

(4) the area for which a project is to be undertaken has an approved economic development program as provided in section 6 (b) (10) and such

project is consistent with such program.

The amount of any grant under this section for any such project shall not exceed the difference between the funds that can be practicably obtained from other sources (including a loan under section 7 of this Act) for such project, and the amount which is necessary to insure the completion thereof.

(b) The Secretary shall by regulation provide for the supervision of projects with respect to which grants are made under this section so as to insure that

Federal funds are not wasted or dissipated.

(c) No financial assistance shall be extended under this section with respect to any public facility which would compete with an existing privately owned public utility rendering a service to the public at rates or charges subject to regulation by a State regulatory body, unless the State regulatory body determines that in the area to be served by the public facility for which the financial assistance is to be extended there is a need for an increase in such service (taking into consideration reasonably foreseeable future needs) which the existing public utility is not able to meet through its existing facilities or through an expansion which it agrees to undertake.

(d) There is hereby authorized to be appropriated not to exceed \$75,000,000 for the purpose of making grants

under this section."

SOURCE: Public Law 87-27, 87th. Congress, S. 1.
May, 1961. Washington, D.C.: Government
Printing Office, 1961.

OCCUPATIONAL TRAINING, TECHNICAL ASSISTANCE,

LOCAL ECONOMIC PLANS, AND

ADMINISTRATION OF THE ACT

The preceding Chapters have dealt with aspects of the Area Redevelopment Act that account for most of the appropriations under the legislation. There are two other features of the Act for which specific funds were authorized; occupational training, and technical assistance.

Occupational Training. An increase in industrial or commercial activity in a redevelopment area may require skills that the unemployed of the area do not possess. In many designated areas, the volume of unemployment greatly exceeds any likely increase in activity; during four series of hearings there was virtually no discussion of the numbers of unemployed that might be trained for opportunities outside the redevelopment areas. Neither the Republican Administration, nor the main group of sponsors in the Congress, was precise on this point. opponents of the legislation urged emigration as the most effective method to reduce a chronic surplus of labour. However, it was often pointed out that accelerated emigration from major urban areas can exacerbate economic and social conditions for those who remain. Evidence submitted by organizations from such regions as Kentucky and West Virginia, indicated that relatively heavy emigration, since 1945, had not removed chronic unemployment and severe poverty from these states.

The first redevelopment bill to pass the Congress, S. 3683 in 1958, included assistance for retraining. The bill implied that training courses could qualify a person for a job outside the area of residence, although the reports of the relevant committees emphasized that:

Developing new industries in the area will accomplish little and will, in fact, be impossible, unless the available labor can meet the needs of the industry.

1. U.S. Congress. Senate, Committee on Banking and Currency.

Area Redevelopment Act. Report. 86th Cong., 2d. Sess.,

1958. Washington, D.C.: Government Printing Office,
1958. pp.27-28.

When the successor bill passed the Congress in 1960, it specified that any training "shall be designed to enable unemployed individuals to qualify for new employment in the redevelopment area". In the form that it was introduced to the Congress, the Area Redevelopment Act of 1961 was also explicit:

any vocational training or retraining provided under this section shall be designed to enable unemployed individuals to qualify for new employment in the redevelopment area in which they reside or were last employed.³

Nevertheless, when the Democratic Administration submitted a revised version of the legislation it omitted this restriction. During the hearings in 1961, the recently appointed Secretary of Labor confirmed that it was intended that the legislation would "permit" training of unemployed persons, residing in redevelopment areas, for job opportunities elsewhere, to the extent that suitable opportunities and applicants for training can be matched. The Area Redevelopment Act does include the principle that unemployed or underemployed persons are to be selected for occupational training if they can "be reasonably expected to obtain employment as a result of the skill they will acquire"; the Act does not state that such training must be limited to local opportunities. This principle was interpreted by each of the committees of the Congress that dealt with the Act to mean that:

- 2. U.S. Congress. Senate, Committee on Banking and Currency.

 <u>Area Redevelopment Legislation</u>: Hearing. 86th. Cong.,

 2d. Sess., 1960. Washington, D.C.: Government Printing

 Office, 1960. p. 66.
- 3. U.S. Congress. Senate, Committee on Banking and Currency.

 <u>Area Redevelopment 1961.</u> Hearings. 87th. Cong., 1st

 Sess., 1961. Washington, D.C.: Government Printing

 Office, 1961. p. 11.
- 4. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 87th. Cong., 1st Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 423.

to the extent that suitable opportunities for employment and opportunities for training can be matched, training of unemployed individuals residing in redevelopment areas for job opportunities in other areas is authorized.⁵

In the United States, the major responsibility for the initiation and operation of training programs is at the local and state levels. This means that it has been unusual for local programs to emphasize training for emigration.

Early in the history of the legislation it was apparent that some persons may not be insured against unemployment, some may have exhausted their entitlement to unemployment compensation, and others may forfeit their compensation if they enroll in a training course and are not available for immediate employment. In 1961, 45 states denied unemployment compensation to those enrolled in training courses. 6 To overcome these difficulties, as well as the inability of some states, and of most redevelopment areas, to finance training programs, it was urged that the legislation include subsistence payments to persons enrolled in training courses. The Area Redevelopment Act provides for such payments, up to a maximum of 16 weeks, at rates equivalent to the average weekly rate of unemployment compensation payable in the state. In 1963, training allowances for adults ranged from \$43.00 weekly in three Western States, to \$23.00 weekly in West Virginia and North Carolina. average payment was \$36.00.7

- 5. U.S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment 1961. Report. 87th. Cong., 1st. Sess.,

 1961. Washington, D.C.: Government Printing Office, 1961.

 p. 23.
- 6. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Report. 87th. Cong., 1st. Sess., 1961, Washington, D.C.: Government Printing Office, 1961. p. 16.
- 7. U.S. Department of Labor. <u>Manpower Research and Training.</u>
 Washington, D.C.: Government Printing Office, 1964. p. 11.

Although it was widely realized that some skills cannot be acquired in 16 weeks, it was also known that many can be acquired in that time. The Republican Administration had favoured training courses, but had insisted that subsistence payments are the responsibility of each state; the Adminis⊷ tration was sensitive to any possible increase in federal expenditure. During the early history of the legislation, the Department of Labor opposed subsistence payments because "eligibility for unemployment compensation benefits is always dependent on the claimant being able to work"; 8 it was not appropriate to associate the payments with a system of unemployment compensation "that had been constructed in accordance with incurance principles". 9 The Department of Health, Education, and Welfare contended that subsistence payments discriminated in favour of the unemployed in redevelopment areas. 10 This was a special case of an objection in principle, advanced by such organizations as the National Association of Manufacturers; supporters of the legislation believed that the unemployed in depressed areas are already severely discriminated against because opportunities for employment are particularly poor.

Prior to passage of the Area Redevelopment Act, federal departments were already involved in occupational training, as were other federal departments in assistance to local public facilities, and in loans to private enterprises. From 1956 onwards, the redevelopment bills assigned primary responsibility to the Department of Labor and to the Department of Health, Education, and Welfare.

- 8 U.S. Congress. House of Representatives, Committee on Banking and Currency. Legislation to Relieve Unemployment. Hearings. 85th. Cong., 2d. Sess., 1958. Washington, D.C.: Government Printing Office, 1958. pp. 1219 1220.
- 9. Ibid.
- 10. U.S. Congress. Senate, Committee on Labor and Public Welfare.

 Area Redevelopment. Hearings. 84th. Cong., 2d. Sess., 1956
 Washington, D.C.: Government Printing Office, 1956. p. 13.

Each bill to pass the Congress provided that the Secretary of Labor is to determine the training and retraining needs in designated areas; although the bills did not spell out the relationships between departments at the federal and state levels, it was taken for granted that the traditional emphasis on the state agencies would continue. The Secretary of Health, Education, and Welfare provides the appropriate courses, by arrangements with the vocational agencies of the state. 1958, the Department of Labor had objected to an implication that the training needs of all unemployed persons in every designated area were to be evaluated; it regarded such a process as too costly. The Department urged that a survey of training needs be restricted to the labour requirements associated with projects that form part of a local development plan, 11 At the hearings of 1959, the Department upheld this view, and confirmed that the Administration intended to limit occupational training to unemployed residents of designated, industrial areas who required training for employment opportunities within the locality. 12

When the first redevelopment bill was passed by the Congress, in 1958, it did not include subsistence payments. At that time, the Congress had recently approved an extension of unemployment compensation benefits for an additional 13 weeks. The Chairman of the Rules Committee of the House of Representatives insisted that the federal government had gone far enough; to encourage the Committee to release the bill for debate by the House, the sponsors dropped a provision for subsistence pay-The second bill to be passed by the Congress provided \$1,500,000 annually for training, and \$10,000,000 for subsistence payments. The sponsors believed these sums to be sufficient to commence the programs; they also allayed the unease of those who complained that the costs of training were unknown. Redevelopment Act provides \$4,500,000 annually for training courses, and \$10,000,000 annually for subsistence payments to trainees, In each case the funds are used to reimburse the appropriate state agencies for the costs and payments involved.

- 11. Op. Cit. <u>Legislation to Relieve Unemployment</u>. Hearings 1958. p. 1219
- 12. U.S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment Act. Hearings. 86th. Cong., 1st. Sess.,
 1959. Washington, D.C.: Government Printing Office, 1959.
 p. 1366.

During the various hearings, trade union representatives urged that removal loans be available, in association with the training program. Some witnesses stressed that 16 weeks of subsistence payments would be inadequate for many programs, others stressed the need to improve the educational level of many of the unemployed in the designated areas. few witnesses advocated special assistance for workers over the age of 45. Unfortunately, none of these suggestions was included in the Act. However, in more recent training legislation, applicable to all areas of the United States, the period of subsistence payments has been more than tripled, and courses in basic literacy have been included. The provisions of the Area Redevelopment Act, reproduced as an Appendix to this Chapter, were precursory to a major increase in federal expenditure on occupational training. The immediate result of the more recent legislation was that the designated redevelopment areas forfeited their preferential treatment in occupational training. Before commenting on this it is necessary to review the implementation of the training provisions of the Area Redevelopment Act.

Implementation of the Occupational Training Provisions of the Act. In the United States, governmental services to improve the efficiency of the labour market are undertaken jointly by state and federal governments. Thus, the Department of Labor of the federal government utilizes, at the local level, the facilities of the employment agencies of the states. In redevelopment areas, the local (state) employment office has usually established a technical committee, representing various agencies and organi-The purpose of the committee is to undertake contine uous investigation of local training requirements, and to initiate requests for training programs. The federal department provides guidance to state agencies in the technique of labour market The local office of the vocational education agency of the state arranges to provide facilities and instructors. Local school officials often participate in the process. proposed training program, including the budget, placement expectations, and evidence of selection procedures, is then transmitted by the vocational education agency of the state to the relevant federal departments. In Washington, the proposal is processed by an inter-departmental committee, representing mainly the Department of Labor, and the Department of Health, Education, and Welfare. 13

13. Bureau of Employment Security. Procedures for Establishing Occupational Training or Retraining Under Section 16 of the Area Redevelopment Act. Washington, D.C.: United States Department of Labor, 1961.

The Area Redevelopment Act did not assign primary responsibility to the A.R.A. for training programs, and this aspect of the legislation has been a minor part of the work of the agency. Usually, there has not been more than one professional person assigned to the implementation of the training provisions; this person has merely been responsible for liaison between the A.R.A. and relevant federal departments.

The A.R.A. program confirmed the belief that in a large proportion of the redevelopment areas, the existing facilities for occupational training were not adequate to provide the current demand for skills. Up to the end of the third fiscal year, the inability of many local training facilities to accommodate the A.R.A. programs was a major handicap. Inadequate buildings and equipment, and a shortage of instructors, reinforced the need for careful scrutiny of the use of federal funds; on numerous occasions the federal agencies have pared local requests for expenditures that were not essential to the A.R.A. courses. The generally inadequate vocational training facilities resulted in full utilization of the annual authorization of \$4,500,000 for training course expenses. Up to June 30, 1964, the A.R.A. training programs had not been able fully to utilize the funds available for subsistence payments. It was virtually inevitable that co-operation between officials of two agencies, at each of three levels of government, would entail a lengthy administrative process. The need for a training course is delineated at the local level, and some local officials have regarded the processing of proposals by state and federal agencies as an unnecessary scrutiny of local action. 14

Most supporters of the legislation had expected that new industrial and commercial activities would require training of workers. But only occasionally has a training program been required to provide skills for an enterprise that is being assisted by a loan from the A.R.A. At the time that a loan for an industrial or commercial project is approved, the A.R.A. informs the Department of Labor, so that an adequate supply of labour can be assured. It is well known that many more workers are required each year, in most occupational groups, to fill vacancies caused by deaths, retirements, and other separations, than are required to fill positions created by new or expanding enterprises.

14. For a more extensive discussion see Levitan, Sar. Federal
Aid to Depressed Areas. Baltimore: The Johns Hopkins Press,
1964. Chapter 6.

In any case, employment in the projects that have been assisted by loans from the A.R.A. represents an extremely small fraction of unemployment and underemployment in the designated areas. The slow rate of growth in many of these areas restricts the number of job openings for which trainees can be prepared. A further limitation has been the 16 weeks maximum for subsistence payments.

At the end of the third fiscal year of the A.R.A. program, 753 training courses had been initiated for 33,729 trainees, for 151 skills. 15 By this time it was apparent that the immediate employment effects per dollar of federal expenditure were relatively high for this aspect of the program, see Table XIX.

TABLE XIX

DIRECT EMPLOYMENT EFFECTS OF EXPENDITURES

BY THE A.R.A., CUMULATED TO JUNE 30, 1964

Type of Expenditure by A.R.A.	Direct Jobs	A.R.A. Contribution Per Job, Dollars
Loans to industrial or commercial enterprises	39,924	. 3,842
Loans and grants for public facilities	30,471	2,941
Training expenditures (includes subsistence)	33,729	561 ^a

SOURCE: Computed from Area Redevelopment Administration

Directory of Approved Projects. Washington, D.C.: United

States Department of Commerce, July, 1964.

a Assumes all trainees are placed in employment.

^{15.} Area Redevelopment Administration. Directory of Approved Projects. Washington, D.C.: United States Department of Commerce, 1964. Monthly.

By the end of the third fiscal year, 290 redevelopment areas had benefited from at least one training program under the Area Redevelopment Act. Table XX indicates the occupational distribution for which trainees have been prepared. 10

16. Ibid. Areas designated under Section 5 (a) comprise 58 per cent of the population of all designated areas.

TABLE XX

AREA REDEVELOPMENT ACT OCCUPATIONAL DISTRIBUTION OF TRAINEES, CUMULATED TO JUNE 30, 1964/

Occupations for which prepared	Number of Trainees
Professional, semi-professional, technical	587
Clerical and sales	4,561
Services, including trade and medical	5, 8 5 9 .
Agriculture and related activities	2,616
Electrical and electronic equipment	1,680
Metalworking	6,202
Textiles and textile products	3,864
Lumber and lumber products	987
Production, miscellaneous	3,214
Construction, transportation, mining	1,624
Mechanics and repairmen	1,924
Miscellaneous	1,198

SOURCE: Office of Manpower, Automation and Training.

Occupational Training Under the Area Redevelopment Act.

Reports. Washington, D.C.: United States Department of Labor, 1963, 1964, and 1965.

The wide range of skills (151) is disguised in Table XX. In the metalworking trades, continuous technological change may require persons to be retrained several times. The textile trainees have been concentrated in small rural areas; a large proportion of the service category reflects a growing demand for personnel in the health services. 17 It is evident that the effectiveness of the program has been restrained by lack of demand in the redevelopment areas, by inadequate training facilities, by the limited duration of the subsistence payments that were available under the act, and by the inability, at the local level, to initiate courses that provide skills in demand in areas not designated under the Act. By the end of the first fiscal year, it was widely recognized that occupational training facilities were generally inadequate throughout the United States.

The Manpower Development and Training Act of 1962. As recently as 1959, the federal government's annual expenditure on vocational education had not exceeded \$41,000,000 per year; associated with this was about \$186,000,000, contributed by other levels of government. 18 About two-thirds of the trainees were at that time enrolled in either agricultural or home economics courses; the under-emphasis on the industrial and service occupations was a major deficiency of this type of education. Despite the relatively fragmentary evidence then available, the Congress was more impressed by potential unemployment associated with technological changes, than it was by unemployment and underemployment associated with differential rates of regional growth. Two Congressional Committees had each recently urged a major effort to improve the quality, and to increase the volume, of vocational training and retraining programs. 19 The single most significant fact of which the Congress was reminded by these committees was that the labour force aged 14 - 24 would increase at an unprecedented rate during the 1960's.

- 17. See Office of Manpower, Automation and Training. <u>Training for Jobs in Redevelopment Areas</u> and <u>Occupational Training</u>. Washington, D.C.: Unites States Department of Labor,, 1963 and 1964.
- 18. U.S. Congress. House of Representatives, Committee on Education and Labor. Manpower Utilization and Training. Hearings. 87th. Cong., 1st. Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 111.
- 19. U.S. Congress. Senate, Committee on Labor and Public Welfare. Manpower Development and Training Act of 1961. Report 87th. Cong., 1st. Sess., 1961. Washington, D.C.: Government Printing Office, 1961. pp. 2 3.

In the same month that the President signed the Area Redevelopment Act, the Democratic Administration submitted to the Congress a bill to provide \$700,000,000 of federal funds for occupational training, spread over four years, and not restricted to redevelopment areas. By March, 1962, a revised version had passed the Congress. The Administration accepted the premise that technological change is the primary cause of a sustained increase in output per man-hour, as well as of the continuing appearance of new products and services. At the same time, technological change can make redundant certain categories of workers, and bring economic stagnation to many communities; the educational and vocational preparation of displaced workers is often inadequate for re-employment. experience of the Department of Labor of the State of Pennsylvania was typical of the labour market in many industrial areas. During 1960, this Department found that there was a significant increase in demand in 282 occupations, a continuing demand in 159 occupations, but a decline in 237 occupations. In general, the levels of education and training required were markedly higher in occupations of continuing and of increasing demand. 20 A high rate of aggregate employment certainly assists absorption of displaced workers and of new, relatively unskilled, entrants to the force. But a high rate of aggregate, national, employment may not yield full employment in all areas; hard-core groups are of significant size in many redevelopment areas and, ofcourse, take the form of underemployment in many rural areas.

Despite widespread support for a major expansion of occupational training, the Administration's bill did not pass unscathed through the Congress. The Act authorized only \$435,000,000,spread over three years, ending June 30, 1965. During the third fiscal year, the states were to be required to match federal expenditures for training costs and training allowances. The Act assigned priority to training persons for skills required "within, first, the labor market area in which they reside and, second, within the State of their residence". 21

- 20. Op. Cit. Manpower Utilization and Training. Hearings. p. 78.
- 21. U.S. Congress. Public Law 87 415. 87th. Cong., 2d. Sess., 1962. Washington, D.C.: Government Printing Office, 1962.

The Administration had proposed that persons unemployed for more than six months be eligible for relocation allowances, but this was not acceptable to the Congress. It was the intention of the Administration to pay 50 per cent of the expenses incurred in transportation of a person and of household effects, if two conditions were fulfilled: that the person "cannot reasonably be expected" to secure full-time work in the community in which he lives, and that the person has an offer of a full-time job in another locality. the Act applies to persons in all areas of the United States it assigns priority to heads of families, or heads of households, with at least three years of past employment. The Act provides subsistence payments to trainees for up to 52 weeks. An important feature of the Act is the authorization of \$8,000,000 to be used by the Department of Labor to investigate the impact of technological changes, the restraints on the mobility of labour, and the methods of supplying future manpower requirements. As in the case of the Area Redevelopment Act, the matching of persons with training courses and with job opportunities, is the responsibility of the Department of Labor; the provision of training facilities is arranged by the Department of Health, Education, and Welfare.

TABLE XXX

COURSES, TRAINEES, AND COSTS UNDER MANPOWER DEVELOPMENT AND TRAINING ACT

Calendar Year	Courses	Trainees	Training Cost (\$1000)	Allowances (\$°000)
1962	430	16,907	10,324	826
1963	2,452	103,564	65,203	66,477
1964	3,785	199,240	137,289	135,714

SOURCE: United States Department of Labor, Manpower Research and Training. Washington, D.C.: Government Printing Office, 1965, p. 177.

The Department of Labor does not publish data on courses provided under The Manpower Development and Training Act in redevelopment areas. However, it is evident that where a large proportion of a state is a designated area, activity under the Manpower Development and Training Act dwarfs the training program of the Area Redevelopment Act. Thus, up to June 30, 1964, in Kentucky, Pennsylvania, and West Virginia, the cost of the training programs under the Area Redevelopment Act totalled \$3.3 millions. Up to December 31, 1963, expenditures in these states under the Manpower Development and Training Act totalled \$30.3 millions. 22

In December, 1963, the Congress approved amendments to the Manpower Development and Training Act that had been requested by the Administration. In addition, the Congress made certain changes in the Act that, although favoured by the Administration, had not been directly requested.

22. U.S. Department of Labor. Manpower Research and Training. Washington, D.C.: Government Printing Office, 1964. pp. 165 - 166.

The chief amendments sponsored by the Administration extended the Act for one year, postponed the date of state participation by matching of federal funds, increased the total authorization from \$435,000,000 to \$805,000,000, included authorization for training in basic literacy, and relaxed the eligibility requirements for young persons. 23 The amendments sponsored by the Congress included a reduction of the employment experience required (for a person to be eligible for training) from 3 years to 2 years. These amendments also permitted other members of a household, the head of which is unemployed, to be eligible for training; increased subsistence allowances to trainees; and authorized pilot projects to increase the mobility of labour. 24

In 1963, 20 per cent of the unemployed in the United States had not completed the eighth grade of schooling; this percentage is considerably higher in many of the redevelopment areas. Obviously, inadequate basic education is a serious obstacle to eligibility for training programs; the relevant amendment to the Manpower Development and Training Act permits courses in basic literacy, with subsistence allowances payable for up to 72 weeks. The amendment that permits a limited number of small, experimental, projects to facilitate labour mobility is of long-term significance for the redevelopment areas. A person may obtain a grant of 50 per cent of the cost of transportation for family and effects, and may obtain a loan for the balance. Local and state agencies are usually at least hesitant to finance costs of training and transportation prior to emigration. At the same time, the federal government has been frequently informed by spokesmen for many of the redevelopment areas that emigration, frequently on a relatively heavy scale, has by no means solved unemployment and poverty. As in many other aspects of economic life, generalizations are not appropriate. One purpose of the research expenditures, and of the experimental programs for increasing mobility, is to define the place of emigration in federal redevelopment policy, including preparation of reliable estimates of the cost and benefits, private and social, of policies designed to encourage interregional, and intra-regional, migration.

^{23.} U.S. Congress. Public Law 88 - 214. 88th. Cong., 1st. Sess., 1963. Washington, D.C.: Government Printing Office, 1963.

^{24.} Ibid.

In December, 1963, the Congress also passed a Vocational Education Act, to supplement previous legislation on the subject. The Act authorizes \$356,000,000 during the first three fiscal years, and \$225,000,000 for each fiscal year thereafter; 90 per cent of the authorizations are in the form of grants to the states to improve vocational education. 25

An analysis of the relationships between aggregate demand, technological change, occupational training, and migration, is beyond the scope of this monograph. It is often asserted that the labour force is not sufficiently prepared for a lengthening list of occupations. The problem appears to be widespread, and is common to redevelopment areas and to more prosperous districts. The redevelopment areas now have The Adminino significant advantage in training facilities. stration did not request any revision of the training provisions in the amendments to the Act that were submitted to the Congress in 1963. This suggests that the A.R.A. has regarded the Manpower Development and Training Act as a sufficient source of training programs for the redevelopment areas. Manpower Development and Training Act greatly increased the funds available for retraining in redevelopment areas, but it does not give preference to such areas; areas with the greatest demand for skills derive the greatest benefit from the In 1964, for example, there were almost 40,000 M.D.T.A. trainees in California and New York, compared with only 3,718 in the seriously retarded states of West Virginia and Kentucky. Trainees under the A.R.A. program in these pairs of states were 4,369 and 688 respectively. The extremely meagre expenditures on training under the Area Redevelopment Act, only \$25,594,000 up to June 30, 1965, reflect the modest demand for labour by industrial or commercial projects assisted under the Act, as well as the fact that up to that date, virtually no attempt had been made to assist emigration of the unemployed from designated areas.

25. U.S. Congress. Public Law 88 - 210. 88th. Cong., 1st. Sess., 1963. Washington, D.C.: Government Printing Office, 1963.

Technical Assistance. Almost every redevelopment bill that has been considered by the Congress has included provisions for technical assistance. In 1956, a Congressional report indicated the range of research that is urgently required in designated areas: market research, cost reduction investigations, inventories of natural resources, techniques for utilization of natural resources, and inventories of manpower skills. 26

By 1958, the concept of the technological audit of designated areas appeared in Congressional reports. It was urged that the basis for a redevelopment program should be an audit "to determine the types of economic activity which would contribute to sound and lasting growth". 27 The assessment of locational advantages, and of the optimum use of resources, were regarded as the main part of the audit; feasibility studies of specific processes and projects, and assistance to improve the efficiency of existing firms, were mentioned as other forms of technical assistance. The first and second redevelopment bills to pass the Congress, S. 3683 and S. 722, each authorized an annual appropriation of \$4,500,000 for technical assistance.

It will be recalled that the Republican Administration did not include rural areas in its redevelopment program. However, the Administration was willing to offer technical assistance to three types of areas in addition to those designated on the basis of unemployment: low income rural areas, small towns that could serve as centres for economic diversification in rural areas of underemployment, and towns predominantly dependent on one industry. By 1960, the Administration was prepared to spend \$3,500,000 annually on technical assistance.

- 26. U.S. Congress. House of Representatives, Committee on Banking and Currency. Redevelopment of Depressed Industrial and Rural Areas. Report. 84th. Cong., 2d. Sess., 1956. Washington, D.C.: Government Printing Office, 1956. p. 14.
- 27. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Report. 85th. Cong., 2d. Sess., 1958. Washington, D.C.: Government Printing Office, 1958. p. 13.

When the Redevelopment Act was introduced to the Congress in 1961 it repeated the provisions for technical assistance that had been passed by the Congress in 1958 and 1960. At the committee stage, it was recommended that areas that have a "substantial need" for technical assistance, although they do not meet the eligibility criteria of the Act, should be eligible for technical assistance at the discretion of the Administrator.

The Report of the Presidential Task Force on Area Redevelopment included a statement on technical assistance by the federal government:

Technical assistance must be provided to local bodies to enable communities and areas to plan intelligently their long term economic development, explore fully the most constructive lines for their expansion, and create new locational advantages within their communities to attract private and public enterprise. 28

The report urged that efforts be made to develop methods of early detection of trends that indicate the onset of local retardation. The Senate did not adopt this proposal but the version of the Act that was passed by the House of Representatives included a directive to the Secretary of Commerce to conduct "a continuous program of study and research to determine the causes of unemployment, underemployment, underedevelopment, and chronic depression in the various areas of the Nation". 29 The Committee of Conference adopted the provision, but the Act did not provide specific funds for research.

Many local development organizations anticipated that the A.R.A. would promptly provide technical assistance to discover and to evaluate private and public projects, and to assist the preparation of local development plans. With over 1,000 designated areas, but only \$4,500,000 annually for technical assistance, the A.R.A. has been cautious in the use of these funds.

- 28. Op. Cit. Senate. Area Redevelopment 1961. Hearings. p. 58.
- 29. U.S. Congress. House of Representatives, Committee of Conference. Area Redevelopment Act. Report. 87th. Cong., 1st. Sess., 1961. Washington, D.C.: Government Printing Office, 1961. p. 23.

The agency adopted the policy that technical assistance funds may supplement local efforts to prepare a development plan but may not supplant local funds; this form of technical assistance is given only in cases where it can be shown that such assistance is not available within the community's resources, or from state or regional sources. The chief criterion for the selection of technical assistance proposals has been the likelihood that the project can generate immediate employment opportunities.³⁰ In 1963, the A.R.A. asked the Congress to increase the authorization for technical assistance to \$10,000,000 annually; the Senate agreed to \$5,500,000 annually but the House of Representatives did not act on the request.

The A.R.A. has regarded technical assistance as "growing out of the overall economic development programs as they are being developed by the individual redevelopment areas". 31 Specific needs for technical assistance are identified during the preparation of the development program at the local level, and during the reviews at the state and federal levels. Once more, a case-by-case approach has been adopted by the A.R.A. In the main, technical assistance projects have been carried out by organizations other than the A.R.A., on a contract basis.

By June 30, 1965, the A.R.A. had allocated \$15,418,000 to 467 technical assistance projects. Of these, only 37 exceeded \$100,000 each. The number of designated areas, and the wide range of opportunities and of problems have produced a great variety of projects.³² Table XXII illustrates the types of projects financed by the A.R.A.

- 30. Area Redevelopment Administration. <u>Technical Assistance</u> in Area Redevelopment. Washington, D.C.: Government Printing Office, 1963. p.9.
- 31. Area Redevelopment Administration. Annual Report, 1962. Washington, D.C.: Government Printing Office, 1963. p. 20.
- 32. Op. Cit. A.R.A. Directory of Approved Projects. 1964.

TABLE XXII

PARTIAL LIST OF TECHNICAL ASSISTANCE PROJECTS

Project	Cost A.R.A. (\$°000)
Feasibility, port development	, , , , , , , , , , , , , , , , , , ,
Feasibility, pulp and paper mill	2.5
Feasibility, sugar beet	32
Feasibility, shell fish	82
Feasibility, plastics and chemicals	50
Feasibility, industrial estate	4
Feasibility, steel mill	13
Feasibility, hardwood products	98
Feasibility, civic auditorium	•
Feasibility, research and training institute	2.
Economic impact of ferry system	4.
Location study, clay products	3
Location study, industrial sites	4
Evaluation of new drill bit	<i>z</i> . 5
Analysis of mineral deposit	3 20
Pilot plant, iron ore Planning, reservoir	4.5
Planning, marine terminal	98
Forest inventory	$\frac{1}{2}$
Aerial, survey	5
Grant to regional development centre	17
Design of regional development program	36
Action program for specific counties in Appalachia	30
Input-output analysis, one state	4
Evaluation of A.R.A. training programs	12
Technical assistance to existing sawmills	5
Utilization of colleges and universities for	
local development	
Research to improve zoning and planning practices Installation of accounting system for a private enterprise	5
enterprise Utilization of former missile base	3
OEDP follow-up analysis	ა

SOURCE: Area Redevelopment Administration. <u>Quarterly Cumulative</u>
Report of Technical Assistance. Washington, D.C.: United
States Department of Commerce, July, 1965.

Many technical assistance projects are of mainly local significance. Feasibility studies for industrial parks, or for expansion of port facilities, can fall into this category. Others go beyond local significance. Thus the feasibility of a wood-processing complex, or the establishment of a wood-using demonstration centre, is likely to have relevance in other areas that possess similar forest resources. long-term projects of wide significance are the technical assistance grants by the A.R.A. to universities for regional development centres. In many areas the quality of local entrepreneurship is not adequate and some projects are designed to develop and to test techniques of local enterprise, as well as to increase involvement of citizens in the execution of state and federal programs. Other projects, of more than local significance, are those intended to improve the efficiency of small businesses (including research services), to demonstrate the design and implementation of multi-county development programs, to prepare and to evaluate the usefulness of an input-output table for a state, to design a program to reduce unemployment in the centre of a large city, to prepare a program to minimize the effects of the closure of a defence establishment, and to demonstrate techniques to identify and to prepare industrial sites.33

33. Ibid.

Table XXIII indicates the allocation of technical assistance funds, up to January 31, 1965.

TABLE XXIII

ALLOCATION OF TECHNICAL ASSISTANCE FUNDS, CUMULATED TO JANUARY 31, 1965a

6. Zim Virial and medium management and and and anti-control and anti-cont		
Type of Project	Cost A.R.A. (\$°000)	Number
Mineral industry and ore processing	2,042	4.7
Locational feasibility and site engineering	1,994	55
Tourism and recreation	1,631	51
Regional action programs	1,298	22
Identification of area growth potential	1,082	60
Forest resources utilization	947	43
Central city action programs	1,472 .	35
Food processing and marketing	67.7	31
Development of new products	1,046	17
Commercial fishery development	441	11
Others	301	8
TOTAL :	12,931	380 .

SOURCE: Area Redevelopment Administration, A.R.A. Chart Book 6. Washington D.C.: United States Department of Commerce, March, 1965.

a Funds obligated.

Assistance to private enterprises, to public facilities, and to occupational training are conventional activities that yield relatively certain results. A technical assistance program to ameliorate economic conditions in over 1,000 heterogeneous redevelopment areas is not only much more uncertain of results, but the effects may be long-term as well as diffused through a large number of areas. Nevertheless, a wide range of technical assistance is essential to economic growth in many localities and, of course, presents many of the opportunities and difficulties that have become well known in the technical aid programs to underdeveloped countries.

Up to June 30, 1965, there have been only a few instances of assistance by the A.R.A., in the forms of loans to private enterprise, the feasibility of which had been investigated by technical assistance funds. 34 Of course, if a project is found to be economically sound and potentially profitable, it is more likely that private funds can be found to finance it.

By June, 1965, there were still over 500 areas that had been designated, but had not yet obtained technical assistance, in the sense that funds had been allocated to a project at a specific location. Of course, a large number of technical assistance projects have implications for, and applications to many states, and to more than one location in certain states.

Research. The program of basic research was not fully established until 1963; only a few major projects had been completed by June, 1964. The A.R.A. evaluates research proposals, and negotiates and monitors contracts; most research is done on a contract basis. The Act did not include a specific amount for research, and such funds have been included in the administrative budget of the agency. By June, 1965, approximately \$1,370,000 had been allocated to economic research, distributed among 41 projects. The agency anticipates that the direction and emphasis of the program will be under continual

34. Ibid.

modification. By 1964, five major topics had been selected for investigation. These had been winnowed out from several hundred proposals submitted by research organizations or individuals. 35

The causes and measurement of structural unemployment is a major topic; research projects are likely to come centrate on analysis of the existing structure of utilis, and projections of skills that will be required at the national and regional levels. This topic is likely to include analysis and growth projections of many industries. The main contract under this topic has been with the Brookings Institution to measure structural unemployment on a geographic basis, including short-term projections of structural unemployment to assist decisions on the most appropriate mix of policies:

The second general topic is the deficiency of skills in many redevelopment areas, including barriers to the acquistion of skills, and the effects of a deficiency of skills on local and regional growth. Included in this topic is migration. Migratory adjustments may solve some problems but can create others, such as the rural underemployed who, after migration, become unemployed in urban areas. A major study under this topic has been conducted at the University of Michigan; the study indicates the variety and extent of economic circumstances, as well as the personal and social motivations that help or hinder the movement of people to meet changes in opportunities for work.

Regional growth forms a third topic, with emphasis on methods to identify and to develop unexploited resources, and to energize local enterpaise. A contract with the University of Washington is designed to elucidate entrepreneurial

35. Area Redevelopment Administration. The Economic and Social Research Program of A.R.A. Washington, D.C.: United States Department of Commerce, 1964. Up to date, 1965, seven research studies had been published by the A.R.A.: The Cost of Geographic Mobility; The Propensity to Move; Megro-White Differences in Geographic Mobility; Miscation Into and Out of Depressed Areas; The Geographic Mobility of Labor; Population, Labor Force and Unemployment in Chronically Depressed Areas; Area Redevelopment Policies in Britain and the Countries of the Common Markot.

roles and other factors affecting the success of business formation in redevelopment areas. The dynamics of the process of regional growth are likely to receive much attention, including analysis of many areas that have reversed a declining secular trend, and of the significance of external economies. An important contract with Brown University, expected to be completed in 1967, is intended to measure interpretional capital flows and the relationships between migration of capital and migration of labour. Several studies have also been commissioned to devise and appraise methods of delineating economic development districts and regions.

Another topic for basic research emphasizes technological change in combination with other influences. A major contract (\$77,000) with Columbia University is to investigate a number of causes of depressed areas, including the thesis that technological change by itself does not create depressed areas but that its effects are felt only in combination with certain other causes. Examples of other forces at work with technological change are the effects of federal and state tax policies on local and regional growth, the effects of special tax and loan programs, and the role of existing financial institutions. The process of community development generated by local citizens and by local institutions will receive intensive investigation, under this topic.

The fifth topic for research is the evaluation of the A.R.A. program, and the cost and benefits of alternative policies for redevelopment. The University of Wisconsin has been commissioned to appraise the extent of and differences in the costs and benefits of plant expansion and public works in certain rural development counties.

Of course, each topic for continuing research has relationships with the others, each also has many facets, involving details that may not seem to be important, but when associated with other details in other projects can be significant.

It is appropriate that the Area Redevelopment Administration be the main centre in the United States for investigation of problems of local and regional retardation. However, research funds available to the A.R.A. between 1961 and 1965 did not compare favourably with the scale of the research effort conducted under the Manpower Development and Training Act.

Local Economic Plans. Throughout four series of hearings, the Republican Administration, as well as most opponents of the legislation, insisted that local development is largely dependent on the initiative and efforts of local citizens. It is ironic that the widespread inclination among those of Republican persuasion during the 1950's to decry any increase of federal effort to overcome local and regional retardation, encouraged a rapid acceptance of the need for, and the techniques of, developmental planning at the local level.

The Birst bill submitted to the Congress by the Republican Administration included a provision that "an overall program for the economic development of the area must be prepared locally"; 30 the bill also proposed that an appropriate state agency certify that any project for which federal financial assistance is sought, is consistent with the program. These provisions were adopted by the Democratic sponsors of redevelopment legislation, and were included in the bills that passed the Congress in 1958 and in 1960, as well as in the Area Redevelopment Act of 1961.

The bill passed by the Senate in 1956 stressed the importance of local sponsorship and of local direction, but instructed the Administrator to appoint a local committee of at least seven members for each redevelopment area. Each committee was to include representatives of industry, commerce, labour, and agriculture, as well as members of any existing committee willing to serve. The committee was instructed to obtain the support of residents, and of public and private lending institutions to help finance and implement the development program of the committee. The term development plan was not used in the legislation at this stage, but the committee:

shall prepare plans and cost estimates, to the extent deemed desirable by it for (1) the development of the resources of, and processing and marketing facilities in, the area which such committee represents (2) the construction, rehabilitation, and alteration of industrial facilities in such area, and (3) the purchase of machinery or equipment for use in such area, with a view to attracting new industries thereto and otherwise to stimulate economic activity therein. 37

- 36. Op. Cit. Senato. Area Redevelopment. Hearings. 1956. p. 839.
- 37. U.S. Comgress. Congressional Record. Washington, D.C.: Government Printing Office, 1956. p. 14,641.

At the request of the local committee, the Administrator was to provide professional and technical assistance, although a specific fund was not allocated in the bill. However, the bill did provide \$1,500,000 towards administrative expenses of local and regional committees; the Administrator was forbidden to contribute to salaries or to travel expenses of members of these committees.

Although the Republican Administration insisted on local organization as the basis for local development, it opposed both appointment and approval of the membership of the organization by a federal agency; this would imply a shift away from local initiative, and might be resented at the local level. As the implications of federal intervention in the composition of the local committee became recognized, after 1956, the role of the local committee became less explicit in the proposed legislation.

Trade union representatives, as well as many witnesses from areas that had suffered severely after the decline of a leading local industry, were sharply critical of reliance on local effort, and urged a strong federal initiative. This was well stated by the Director of Research, Textile Workers Union of America:

Prolonged unemployment has depressing psychological effects, resulting from inertia. It smothers local enterprise and initiative. The people become resigned and discouraged. Their feelings of pessimism and frustration drain the community's physical energies. 38

The commercial middle class, on which such efforts heavily depend, hardly exists in many centres that were once prosperous on the basis of coal or textiles; a similar condition prevails in many rural areas of low income. A major acceleration of economic activity in many regions of the United States requires prolonged exploration, evaluation, and planning to exploit undeveloped resources and locational advantages that may become the nuclei for economic growth; for hundreds of communities, local organization and initiative are insufficient for such a task.

38. U.S. Congress. House of Representatives, Committee on Banking and Currency. Area Redevelopment Act. Hearings. 86th. Cong., 1st. Sess., 1959. Washington, D.C.: Government Printing Office, 1959. p. 44.

By 1961, the local development program had become an important feature of the legislation:

The requirement for such a program will assure that the community has reviewed carefully the various economic solutions open to it before any request is made for assistance; that the projects submitted to it are in the proper priority with respect to the community's program; that the community is embarking on a program which is within the available financial, manpower, and technical resources; and that the program contributes towards a permanent solution of local problems. 39

The Area Rodevelopment Act of 1961 does not mention the local committee; it merely requires that "each area" shall prepare an overall economic development program, that the program shall be approved by the Administrator (formally the Secretary of Commerce), and that a project for which financial aid is sought shall be certified by an appropriate agency of the state, or political subdivision, as consistent with the development program. Nevertheless, the Λ .R. Λ . has regarded the local organization as a critical part of the legislation, and has urged the local organization to accept responsibility for formulation and implementation of the development program. The A.R.A. has urged local committees to broaden their memberships beyond those interests that congregate in Local Chambers of Commerce. Of course, the inclusion of representatives of. say, organized labour or of agriculture, does not necessarily increase the effectiveness of a developmental organization, 40

- 39. Op. Cit. House. Area Redevelopment Act. Report. 1961
- 40. Despite the persistent opposition of the Chamber of Commerce to redevelopment legislation, a large number of officials of the Chamber at the local level have served on area organizations. At the hearings in 1963 the Secretary of Commerce stated that there were over 500 officials of the Chamber of Commerce serving on committees that are asking for assistance from A.R.A. The Secretary believed that there were hundreds more not identified as officials of the Chamber.

The A.R.A. has recognized area organizations that are legally profit-making organizations, provided that the primary purpose is community development, that there is a broad base for the funds of the organization, and that the profit purpose is incidental. The area organization is permitted to contribute to an industrial or commercial project, both the 5 per cent and the 10 per cent (minima) contributions specified in Section 6 of the Act. It will be recalled that these relate to contributions repayable only after repayment of the federal contribution. 41

By 1955, developmental organizations of various kinds had attained varying degrees of success in local development, 42 The most successful organizations had usually emerged in areas relatively close to a metropolis. The less than successful were usually in small, outlying communities that had often been heavily dependent on a single industry and that had imported capital and enterprise. Of course, many flourishing communities had also tried to further increase their prosperity by promotional efforts, and by offering financial incentives to manufacturing companies. 43

The minimum initial effort that the A.R.A. requires from the citizens of a designated area is the formation of a committee, known as the <u>area organization</u>, to prepare a description of the problems and the prospects of the area; this document is the initial overall economic development program (0.E.D.P.). One of the first tasks of the A.R.A. was to provide guidance in the preparation of the O.E.D.P.

- 41. Area Redevelopment Administration. <u>Policy Guideline</u>
 <u>No. 2</u>. Washington, D.C: United States Department of
 Commerce, January, 1962.
- See Gilmore, Donald R., <u>Developing the "Little" Economies</u>.

 New York: Committee for Economic Development, 1960.

 Also, U.S. Congress. Senate, Committee on Banking and Currency. <u>Development Corporations and Authorities</u>.

 Committee Print. Washington, D.C.: Government Printing Office, 1959.
- 43. An important contribution to recent analysis of these efforts is Moes, John E. <u>Local Subsidies for Industry</u>. Chapel Hill, N.C.: University of North Carolina Press, 1962.

The A.R.A. has reserved its technical assistance funds for projects that are likely to be significant either for the development of many areas, or for feasibility studies of projects that will provide immediate employment within an area. The area organization can obtain the advice of a field representative of the A.R.A., 44 and there are numerous federal, state, and private agencies that provide assistance of various kinds. The A.R.A. has published several manuals to assist an area organization to prepare its O.E.D.P.45

The A.R.A. has interpreted the statutory requires ment for an O.E.D.P. to mean a document that can be prepared, as a voluntary effort, by a group of citizens. Under the legislation, it is necessary for an O.E.D.P. to be prepared, and approved by the A.R.A., before an area can qualify for financial assistance. To expedite processing of applications for financial assistance, the A.R.A. decided to approve preliminary O.E.D.P. 's, on the understanding that the local organization would prepare a more comprehensive program within one year. By 1963 this policy had been replaced by the concept of a continuing O.E.D.P.; that is, a program that is undergoing continuous implementation and adaptation to meet changing needs and conditions. In the form of its initial submission to the A.R.A., the O.E.D.P. usually described the economic base of the area, and included a discussion of local unemployment and low income. Frequently, the initial document omitted estimates of trends in the supply of, and the demand for, manpower, and omitted possible courses of action to increase employment.

- 44. Unfortunately the number of field representatives was severely inadequate; an A.R.A. <u>field co-ordinator</u> requires exceptional entrepreneurial qualities.
- 45. Area Redevelopment Administration. The Overall Economic Development Program; Planning for New Growth New Jobs; Continuing Overall Economic Development Programs; The Community and Economic Development. Washington, D.C.: Government Printing Office, 1961, 1962, 1964, and 1965 respectively.

The A.R.A. has indicated that it does not accept a regional development program as a substitute for programs that deal with each designated area within the region. However, the A.R.A. does encourage regional groupings of designated areas and the joint preparation of supplementary regional programs. By the end of 1964, 75 regional plans had been developed. The A.R.A. has also believed that the need for regional planning can best be appreciated after experience with local programs. For certain aspects of development, such as forestry, water use, tourism, and transportation, regional or inter-state programs are essential.

In its interpretation of the legislation, the A.R.A. has repeatedly stressed the importance of the area organization:

To a great extent, the thoroughness and aggressiveness of this organization governs the overall success of area redevelopment efforts'. . . it is essential that a single organization assume primary responsibility for the future of an area.46

The area organization is expected to be able to delineate the strengths and weaknesses of the local economy and to be able to anticipate changes. The A.R.A. has urged area organizations to assess the obstacles to economic growth, and the lines of attack to be initiated at the local A large proportion of the initial O.E.D.P.'s was grossly deficient in basic statistics and analysis. A.R.A. has appraised each O.E.D.P.; this appraisal becomes a guide to the work that faces the area organization. The main themes of the appraisal have been the clarity with which the problems and opportunities of the area have been defined, the quality of the data, and the extent to which the data have been utilized. The analyses in the O.E.D.P. of any earlier attempts by the locality to solve its problems, the kinds of solutions proposed in relation to resources and opportunities, the order of priority, and the roles assigned to private and public organizations in each phase of the program, are also appraised.

46. Area Redevelopment Administration. Continuing Overall Economic Development Programs. p. 5. Washington, D.C.: United States Department of Commerce, 1964.

Chronically low rates of income and employment were reflected in the quality of the provisional O.E.D.P's. Hundreds of local organizations, often recently organized, are in areas where professional persons are extremely scarce. In many instances, the provisional O.E.D.P. reflected an understandable reluctance by the area organization to face the fact that no other organization is likely to make a major effort to behabilitate or to develop the community. In many instances, local officials and local businessmen regarded the O.E.D.P. as a tedious formality to obtain eligibility for financial aid. The provisional O.E.D.P. was frequently inadequate or superficial. The relationship of the designated area to adjoining districts and regions in terms of markets, inputs, and migration was not analysed; the distribution of responsibility between local, state, and federal agencies, and between public and private institutions, was not analysed; developmental targets were not defined in quantitative terms that relate the scale of a project to the amount and types of labour required; analysis of costs, returns, and financial arrangements of any specific project tended to be omitted; there was an overemphasis on manufacturing employment, accompanied by insufficient analysis of opportunities associated with agriculture, fishcrica, tourism, and services; the efficiency of local government and its financial arrangements and debt carrying capacity were not analysed; data on population trends, labour force churacteristics, income and investment trends, and input costs were usually inadequate, 47

Many of the provisional O.E.D.P.s indicated that economic reversal does breed extreme conservatism in local business. The area organization is not only hampered by pervasive caution and pessimism but it is, after all, a group of volunteers. Although few preliminary O.E.D.P.s discussed the problem, early decisions that face the area organization are the extent to which salaried personnel are to be engaged, and the extent to which the organization is prepared to develop its capital—raising ability in order to assist establishment and expansion of private enterprises. In many instances, a worthwhile result of the preparation of the O.E.D.P. is the realization that much can be done to improve

47. Discussion with officials of the Area Plans Division of the A.R.A. and scrutiny by the author of representative O.E.D.P.s on tile at A.R.A.

the prospects of existing firms: provision of land for expansion, modernization of equipment, assistance in diversification, and so on. Many area organizations at first placed too much emphasis on the hope of attracting branch plants of national corporations; at the same time, the growth possibilities for local businesses were often underestimated.

To deal successfully with complex problems of economic development, the area organization must be composed of able leaders in the political, business, and community life of the district. In the early years of the legislation, area organizations have ranged from newly established groups, with virtually no knowledge of the processes of development, to sophisticated organizations in major urban centres.

By 1964, the A.R.A. had prepared detailed guidelines to improve the effectiveness of the area organization and the comprehensiveness of the O.E.D.P.48 The main work of the local organization is carried out by appropriate committees; for each type of committee, the A.R.A. suggests a suitable membership, the most likely action program, and the types of surveys and analyses to be carried out. The main types of committees are agriculture, commerce, fishery, community improvement, finance, industry, manpower and training, minerals, tourism and recreation, transportation, and woodland resources. The A.R.A. indicates to the local organization the other main sources of federal advice, such as the technical panels of the Department of Agriculture, the technical advisory services of the Housing and Home Finance Agency, and the labour market data services of the Department of Labor. 49 | Each state government has designated an agency responsible for A.R.A. activities within the state; these agencies may be primarily co-ordinating organizations, but many do provide financial assistance of various kinds.

- 48. Op. Cit. <u>Continuing Overall Economic Development Programs</u>.
- Area Redevelopment Administration. Handbook of Federal
 Aids to Communities. Washington, D.C.: Government
 Printing Office, 1963; also Bureau of Employment Security.
 Manpower Guidelist for Preparation of O.E.D.P. Washington,
 D.C.: United States Department of Labor, 1961.

By August, 1964, 978 O.E.D.P.s had been submitted to the A.R.A.; of this number, 614 had been approved and the comments of the A.R.A. had been sent to the area organization.50 Despite wide variations in quality, each O.E.D.P. is moving towards a standard format. The first section describes the area organization: membership, legal authority, financial resources, and accomplishments. This is followed by a description of the local economy: boundaries, natural resources, social and private capital, population and labour force, sources of employment, extent of unemployment and of underemployment, causes of retardation, projections of demand for, and supply of labour, and previous local efforts to accelerate growth. The third section discusses the basis for growth: quality of the labour force, costs of inputs, access to markets, availability of sites, and potential expansion in various sectors. The fourth section of the O.E.D.P. is difficult to prepare, in that the local organization is expected to indicate the obstacles that impede development. This discussion is likely to include venture capital, entrepreneurial initiative, rental space and sites for industry, occupational training facilities, public services, physical deterioration of the district, and deficiencies of various kinds in local government. final section of the O.E.D.P. deals with developmental The first task is to assess the demand for labour, and the supply of labour, in selected future years. The most frequent items on the list of appropriate local actions are new possible activities based on local resources and on local markets, expansion of service industries such as tourism, preparation of sites, construction and improvement of buildings, establishment of occupational training programs, highway planning, improvement of land use, urban and rural renewal programs, and research projects related to developmental opportunities. The O.E.D.P. also includes details of assistance that may be obtained from state and federal agencies.

50. Area Redevelopment Administration. <u>OEDP Status Report</u>. Wasnington, D.C.: United States Department of Commerce, December, 1963, and supplements

The O.E.D.P is intended, then, to represent the current, periodically revised, judgment of the local organization as to what should be done to increase rates of income and employment. The most likely omissions and inadequacies are listed in the A.R.A. manuals, so that the local organization is aware of the evaluation that the document will receive at the A.R.A.

The appropriate state agency is required to certify that the local organization is representative of the area, and that it is qualified "to implement and/or coordinate the program". The agency is also required to certify that data included in the O.E.D.P. appear to be reliable and to be reasonably interpreted, and that the major elements in the program appear to be realistic, considering the resources and potential of the area. An incidental purpose of this review is to ensure consistency with programs of other localities within the state. Developmental projects that involve financial assistance by the A.R.A. are also reviewed by the state agency to ensure consistency with the O.E.D.P., and with the development program of the state. Of course, the efficacy of state development agencies varies widely. Some are primarily advertising agencies. Those with a staff of specialists, with adequate budgets, and with experience in local development, can provide assistance in the preparation of realistic O.E.D.P.s. The degree of participation by the state agency in local development also varies widely. Despite the intent of the Area Redevelopment Act, the state This is agency may have virtually prepared the O.E.D.P. most likely for rural areas afflicted by severe and chronic poverty. Of course, when little has been done by the state to establish an efficient developmental agency, many local organizations within the state are likely to be inadequately organized and financed. In such cases, approval by the state agency of an O.E.D.P. can merely be the mechanism of transmittal of a poorly prepared document to the A.R.A.

Early in 1964, 152 designated areas were notified by the A.R.A. that their eligibility would be terminated unless they submitted an O.E.D.P., or recorded their intention to do so. The eligibility of 16 areas was subsequently terminated because this requirement was not met.51

51. Area Redevelopment Administration. Area Designation
Status Report No. 13. Washington, D.C.: United States
Department of Commerce, July, 1964.

The A.R.A. has not been able to acquire sufficient professional resources for on-the-spot consultation in the preparation of the O.E.D.P.s. for more than 1,000 designated areas. In the first three years of operation, the agency has usually been able to give only a check-list type of critique to each O.E.D.P. This has been supplemented in several ways. The principles of local development are now under continuing study by means of technical assistance funds and research funds; the field co-ordinators of the A.R.A. give a limited amount of time to on-the-spot advice on the O.E.D.P. The A.R.A. has also organized visits to selected designated areas by an expert or a group of experts, intended to give further on-the-spot advice. results of such visits are published as A.R.A. Field Reports, intended to guide not only the selected area but to assist communities with comparable problems and resources. June, 1965, fifty-four Reports had been published. Certain technical assistance studies appear as A.R.A. Case Books; others are published as A.R.A. Technical Assistance Studies. The Case Books are usually short accounts of developmental opportunities of widespread significance; the Technical Assistance Studies are usually detailed feasibility studies of specific projects.

In many cases, the O.E.D.P. confirms that retardation is accompanied by inadequate economic and social infrastructures. Despite the intent of the Congress that area redevelopment be a voluntary program, the A.R.A. and the Administration of President Johnson are aware that in hundreds of localities, local initiative is simply not enough. Despite the refusal of the House of Representatives, during 1963 and 1964, to vote additional funds for the A.R.A., the Congress did enact the Economic Opportunity Act in 1964 and the Appalachian Regional Development Act in 1965. These measures continue the long-term task of creating conditions for economic progress in blighted localities; the nature of this additional legislation is touched on in the next Chapter.

Many designated areas have prepared only token 0.E.D.P.s and most have received little financial assistance during the first three years of the life of the legislation. But it is unwise to be cynical. The removal of severe retardation is work for a generation, or longer. As the severity of the barriers to growth in many localities becomes apparent at the local and state levels, it is likely to encourage the designation, under state initiative, of multi-county regions that include centres of potential growth. This approach has been encouraged by the successor legislation to the Area Redevelopment Act and is discussed in the next Chapter.

Administration of the Act. The selection of a department or agency to administer the area redevelopment legislation was a point of persistent conflict between the main group of Democratic supporters in the Congress, and the Republican Administration. The first redevelopment bill to receive Hearings, S. 2663, proposed that a Depressed Areas Administration be established as a new department of the federal government, but the Republican Administration preferred to create an Area Assistance Administration within the Depart-The Department of Commerce is the main ment of Commerce. federal agency devoted to the service of private enterprise. There already existed within the Department an Area Development Division, established in 1947, mainly at the request of the state development agencies. Its activities were not restricted to labour surplus areas. In 1955, the Division became the Office of Area Development, but it remained within the Department of Commerce. Exhibits of new products, the collection and distribution of information on the locational requirements of growth industries, and the facilitation of contacts between local development organizations and individuals influential in plant location decisions, were the main efforts of the Office.52

At the Hearings of 1956, arguments were set out that were to recur until the changeover to the Democratic Administration in 1961. Witnesses who urged the creation of an independent redevelopment agency pointed out that the Department of Commerce was primarily interested in large, national, corporations and was not likely to vigorously administer legislation that, in the main, would encourage small, often local, firms. This view had prevailed in 1953 when the Small Business Administration was established as an independent federal agency. By that time the subservience of the Department of Commerce to the views of the directors of a group of the largest corporations had become well known.53

- 52. In 1956, the appropriation for the Office was \$120,000 annually; the Congress had recently refused a request by the Republican Administration that this be raised to \$370,000 annually. By the fiscal year 1961 1962, the annual budget of the Office had reached \$470,000.
- 53. U.S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment 1961. Hearings. 87th. Cong.,

 1st. Sess., 1961. Washington, D.C.: Government Printing

 Office, 1961. pp. 651 658.

Labour organizations were hostile to administration of the legislation by the Department of Commerce. Numerous witnesses pointed out that the Departments of Agriculture, Commerce, and Labor, had each been created to advance the interests of a specific group, rather than to rehabilitate local or regional economies. The legislation proposed by the Republican Administration excluded areas predominantly rural. The Administration insisted that the existing pilot program of the Department of Agriculture was sufficient and that, in any case, the legislation was primarily designed to encourage manufacturing activities not suited to rural areas. Also, the Administration insisted that the Department of Commerce alone had sufficient knowledge of business trends to assist private enterprise in urban areas.

Those who believed that local and regional retardation requires the sole interest of a major federal agency, supported by the continuous interest of the President, were not able to convince the Republican Administration. While the Administration did move from the position that the problem should be dealt with only by junior governments, to the position that the federal government might properly give minor assistance to urban areas of chronic unemployment, it did not consider the problem to be one of more than secondary magnitude. Thus, the Administration could emphasize that for reasons of administrative efficiency, it did not wish to add to the number of agencies that report directly to the President.

There is no doubt that many members of the Congress favoured a new agency because existing programs which impinged on local development, such as rural development, procurement policy, rapid tax amortization for defence facilities, surplus food distribution, S.B.A. loans, and the Office of Area Development, had not been sufficiently co-ordinated. The Reports of the relevant Committees in 1956 concluded that the disadvantages of a new, independent, agency would be outweighed by its ability to co-ordinate, expedite, and expand the various federal programs that impinge on local development. When S. 2603 passed the Senate in 1956, it provided for an independent redevelopment agency. However, the first bill passed by the Congress, in 1959, assigned responsibility to the Housing and Home Finance Agency, an independent agency of the federal government. This decision avoided a choice

between the Departments of Commerce, Agriculture, and Labor. The existing federal programs for assistance to community facilities and urban renewal were handled by the Agency; the processing of loans to private firms would have been delegated to the S.B.A.

The second bill to pass the Congress reverted to an independent agency. During testimony on this bill, Senator Douglas remarked:

We provide for independent administration because we have found that the Department of Commerce is on the whole opposed to area redevelopment legislation. It is no secret that the veto by the President was made upon the advice of the then Secretary of Commerce, Secretary Weeks, and we do not wish to confide the baby to the hands of those who are hostile to its life.54

The Reports that dealt with the bill concluded that the problem of depressed areas was sufficiently widespread, complex, and of chronic urgency to require the attention of a new agency responsible directly to the President. But the second Presidential veto indicated that a new agency was not acceptable because it would "mean many unnecessary additions to the Federal payroll, and a considerable delay in the program before the new agency could be staffed and functioning effectively".55 When the Area Redevelopment Act was introduced to the Congress in 1961, as S.1, it also included a new agency. However, the Committees recommended the creation of an agency within the Department of Commerce, headed by an Administrator, to be appointed by the President. This method had been included in a revised version of the legislation submitted to the Congress by President Kennedy, while Hearings were in progress. In addition to utilization of the facilities already developed within the Department of Commerce, the Democratic Administration anticipated that the Department would not continue to be as closely associated with the largest corporations.

- 54. U.S. Congress. Senate, Committee on Banking and Currency.

 Area Redevelopment Act. Hearings. 86th. Cong., 1st.

 Sess., 1959. Washington, D.C.: Government Printing
 Office, 1959. p. 93.
- 55. Veto Message. Washington, D.C.: The White House, 1960.

The newly appointed Secretary of Commerce, in testimony on S.1, emphasized that the Administration intended the Secretary of Commerce to delegate the processing of applications for financial assistance to the professional staffs of the Housing and Home Finance Agency and of the Small Business Administration. The Senate and the House of Representatives accepted an agency within the Department of Commerce, and it thus became part of the Area Redevelopment Act of 1961.

Much of the division of opinion on the administration of the legislation centred on the degree of leadership to be expected from the federal government. The major labour organizations, and representatives of many distressed communities, advocated strong federal initiative and leadership. But, the principle of federal responsibility for local and regional prosperity was not likely to be widely accepted in the United States during the 1950's. The fact that the Democratic Administration adopted the delegate agency approach suggests that it did not regard area redevelopment as a major endeavour of the federal government.

A scrutiny of the redevelopment bills passed by the Congress, and of transcripts of Hearings, indicates that most advocates of an independent agency expected that the A.R.A., if independent, would quickly acquire its own professional personnel to administer all aspects of the program. However, each bill to be passed by the Congress has instructed the Administrator to utilize existing services of other departments, presumably on a reimbursable basis. The utilization of the S.B.A. and of the C.F.A. to process applications for financial assistance has had the major advantage of utilizing the experience which these agencies have gained in administering federal loans and grants. There are also disadvantages. The relatively small size and uncertain future of the A.R.A. have prevented any major reorganization within the delegate agencies and the scheduling of work has not always satisfied The easier collateral requirements and the longer terms of the A.R.A. loans, compared with the S.B.A. loans, coupled with the concentration of the A.R.A. loans in designated areas, has meant that a larger proportion of the A.R.A. loans is clearly marginal, than is the case for the S.B.A. program.

The recommendations by the S.B.A. are more likely to reflect its relatively stringent criteria rather than the relatively lenient criteria of the A.R.A. This, together with virtually inevitable recriminations concerning delays in the processing of applications that have to negotiate the area organization, the state agency, the delegate agency, and the A.R.A., resulted in the system becoming a major point in the review of the legislation that took place prior to its renewal in 1965.

It has so far been unlikely that any fundamental change in administrative arrangements would occur until the A.R.A. is clearly in a permanently established position and sufficiently large to justify separate divisions within the delegate agencies to handle applications for assistance by the A.R.A. Despite the difficulties of co-ordination, it is likely that the advantages of close association of all federal loan and grant programs of similar types outweigh the advantages of an entirely independent program. To evaluate the efficiency of the method of processing applications for assistance by the A.R.A. is beyond the scope of this study. However, the size of the A.R.A. program, and the types of assistance which it provides, are so conservative that it would be difficult to justify an independent agency with completely self-sufficient technical staffs, on grounds of administrative efficiency. By June 30, 1964, industrial or commercial loans of an aggregate value of \$153,416,000 had been approved by the A.R.A., after technical processing by the S.B.A. In contrast, loans approved under the S.B.A. program had, by that date, reached an aggregate value of \$1,813,129,000.

The administration of the Act, and the evolution of the legislation in the future, can be influenced by the two advisory committees established by Section 4 of the Act. The Advisory Policy Board is composed of senior representatives of Federal departments that are concerned with the legislation. Although the Board has met only occasionally, continued attempts have been made within its framework to improve the process by which applications for financial assistance are reviewed. The Act also established a National Public Advisory Committee, of 25 members, representing "labor, management, agriculture, state and local governments, and the public in general". This Committee was intended by the Act to make recommendations to the Secretary of Commerce; however, the character of the committee is suggested by the fact that it is appointed by the Secretary,

In 1964, the Committee published a Report on the first three years of work by the A.R.A.56 The Report included three recommendations: that the Congress extend the legislation beyond the termination date of June 30, 1965; that the Congress pass the amendments to the Act that were first requested by the Administration in March, 1963, particularly the additional funds; and that no restriction be placed on the authority of the A.R.A. to make loans for development of the tourist industry. When the Senate passed the amendments, prior to preparation of this Report, it had instructed the Administrator not to permit the cost per job to the A.R.A. for a tourist project to exceed the cost per job to the A.R.A. for other types of projects. The Committee has also urged the A.R.A. to form teams of specialists to visit those areas that have not been able to formulate adequate development plans. The A.R.A. has attempted to do this, but a shortage of suitable personnel, and the necessity of teams staying in an area long enough to be effective, has made the recommendation difficult to implement.

The internal organization of the A.R.A. cannot be given reliable assessment without first-hand knowledge of the relevant alternatives. The size of the program, and the delegation of processing to the S.B.A. and the C.F.A., indicated that the personnel of the A.R.A. were not likely to exceed a few hundred. At June 30, 1964, the number of full-time personnel was 428; this figure included 85 field co-ordinators but it excluded personnel in the S.B.A. and C.F.A. who dealt with A.R.A. applications. In contrast, the staff of the S.B.A. was, in December, 1963, 3,216 excluding 153 assigned to work for the A.R.A.57

After many years of altercation in the Congress, the Area Redevelopment Act became the first major legislative measure of the Administration of President Kennedy. In many designated areas, excessive expectations had been aroused and the A.R.A. had no alternative but to channel its main effort towards the generation and processing of applications for financial assistance. There is no evidence that President

- National Public Advisory Committee on Area Redevelopment.

 <u>Interim Report Area Redevelopment Three Years in Review</u>
 Washington, D.C.: United States Department of Commerce,
 1964.
- 57. Small Business Administration. <u>Annual Report, 1963</u>. Washington, D.C.: Government Printing Office, 1964.

Kennedy, President Johnson, and the Secretary of Commerce have made any special efforts on behalf of the A.R.A. President Kennedy and President Johnson each became closely identified in their public statements with other programs; President Kennedy with the Appalachian regional development legislation, and President Johnson with the Economic Oppor-The Secretary of Commerce did not bolster the tunity Act. A.R.A. with teams incorporating the highest grades of civil servants; in fact, Section 24 of the Act provided only five positions in Grades 16, 17 and 18 (the so-called super-grades), and staffing difficulties of the new agency were increased by this absolute scarcity of senior positions. When the amendments for the legislation were submitted to the Congress in 1963, no attempt was made to increase the number of senior professional personnel in the A.R.A. By 1963 new legislation was before the Congress that would develop the federal attack on local retardation on a much broader front than that of the These new approaches are discussed in the next Chapter; which also reviews the form that the Area Redevelopment Act has taken when it was renewed by the Congress in 1965.

Appendix to Chapter V.

OCCUPATIONAL TRAINING PROVISIONS INCLUDED IN AREA REDEVELOPMENT ACT, 1961.

- "SEC. 16. (a) The Secretary of Labor is authorized, upon request and whenever he determines such studies are needed, to undertake, or to provide assistance to others for studies of the size, characteristics, skills, adaptability, occupational potentialities, and related aspects of the labor force of any redevelopment area.
- When a redevelopment area has an approved economic development program as provided in section 6 (b) (10), the Secretary of Labor, in consultation with the Secretary and the Secretary of Agriculture, shall determine the occupational training or retraining needs of the unemployed and underemployed individuals residing in the redevelopment area. The Secretary of Labor shall notify the Secretary of Mealth, Education, and Welfare of the occupational training or retraining requirements of the area, and shall provide for the orderly selection and referal of those unemployed or underemployed individuals residing in the area who can reasonably be expected to obtain employment as a result of the skill that they will acquire in the training which is to be made available. The Secretary of Labor shall co-operate with the Secretary of Health, Education, and Welfare and with existing State and local agencies and officials in charge of existing programs relating to vocational training and retraining for the purpose of assuring that the facilities and services of such agencies are made fully available to such individuals.
- (c) Whenever the Secretary of Labor finds that additional facilities or services are needed in the area to meet the occupational training or retraining needs of such individuals, he shall so advise the Secretary of Health, Education, and Welfare. The Secretary of Health, Education, and Welfare shall provide assistance, including financial assistance when necessary, to the appropriate State vocational agency in the provision of such additional facilities or services. If the Secretary of Health, Education, and Welfare finds that the State vocational agency is unable to provide the facilities and services needed, he may, after consultation

with such agency, provide for the same by agreement or contract with public or private educational institutions.

- (d) The Secretary of Labor shall arrange to provide any necessary assistance for setting up apprenticeships, and to promote journeyman and other on-the-job training.
- (e) There are hereby authorized to be appropriated such sums, not in excess of \$4,500,000 annually, as may be necessary to carry out the provisions of this section.
- (f) In providing assistance under this section with respect to unemployed and underemployed individuals residing in redevelopment areas, the Secretary of Labor and the Secretary of Health, Education, and Welfare shall give consideration to the special needs of individuals who are agricultural workers or are engaged in other seasonal occupations and who require occupational training in order to qualify them to engage in supplementary employment during the off season and during other periods of reduced activity in the field of their regular or primary occupations."

PROVISIONS FOR RETRAINING SUBSISTENCE PAYMENTS INCLUDED IN AREA REDEVELOPMENT ACT, 1961.

"SEC. 17. (a) The Secretary of Labor in consultation with the Secretary and the Secretary of Agriculture may, on behalf of the United States, enter into agreements with States in which redevelopment areas are located, under which the Secretary of Labor shall make payments to such States either in advance or by way or reinbursement for the purpose of enabling such States, as agents of the United States, to make weekly retraining payments to unemployed or underemployed individuals residing within such redevelopment areas who are certified by the Secretary of Labor to be undergoing occupational training or retraining under section 16 of this Act. Such payments shall be made only for the period the individual is receiving occupational training or retraining under section 16 of this Act, but not in any event to exceed sixteen weeks, and the amount of any such payment for any week shall be equal to the amount of the average weekly unemployment compensation payment (including allowances for dependents when appropriate)

payable for a week of total unemployment in the State making such payments.

- (b) No weekly retraining payment shall be made to any person otherwise eligible who, with respect to the week for which such payment would be made, has received or is seeking unemployment compensation under title XV of the Social Security Act or any other Federal or any State unemployment compensation law, but if the appropriate State or Federal agency finally determines that a person denied beniffits for any week because of this sub-section was not entitled to unemployment compensation under title XV of the Social Security Act or such Federal or state law with respect to such week, this subsection shall not apply with respect to such week.
- (c) Any agreement under this section may contain provisions (including, so far as may be appropriate, provisions authorized or made applicable with respect to agreements concluded by the Secretary of Labor pursuant to title XV, of the Social Security Act) as will promote effective administration, protect the United States against loss, and ensure the proper application of payments made to the State under such agreement. Except as may be provided in such agreements, or in the rules and regulations prescribed pursuant to subsection (d) of this section, determinations by any duly designated officer or agency as to the eligibility of individuals for weekly retraining payments under this section shall be final and conclusive for any purposes and not subject to review by any court or any other officer.
- (d) The Secretary of Labor and the Secretary shall jointly prescribe such rules and regulations as they may deem necessary to carry out the provisions of this section.
- (e) There are hereby authorized to be appropriated such sums, not in excess of \$10,000,000 annually, as may be necessary to carry out the provisions of this section."

PROVISIONS FOR TECHNICAL ASSISTANCE, AREA REDEVELOPMENT ACT, 1961.

In carrying out his duties under this Act the "SEC. 11. Secretary is authorized to provide technical assistance which would be useful in alleviating or preventing conditions of excessive unemployment or underemployment (1) to areas which he has designated as redevelopment areas under this Act, and (2) to other areas which he finds have substantial need for such assistance. Such assistance shall include studies evaluating the needs of, and developing potentialities for, economic growth of such areas. Such assistance may be provided by the Secretary through members of his staff or through the employment of private individuals, partnerships, firms, corporations, or suitable institutions, under contracts entered into for such pur-Appropriations are hereby authorized for the purposes of this section in an amount not to exceed \$4,500,000 annually."

PROVISION FOR RESEARCH, AREA REDEVELOPMENT ACT, 1961.

"SEC. 27. To assist in the long-range accomplishment of the purposes of this Act, the Secretary, in co-operation with other agencies having similar functions, shall establish and conduct a continuing program of study and research designed to assist in determining the causes of unemployment, underemployment, underemployment, under-development, and chronic depression in the various areas of the Nation and in the formulation and implementation of national, State, and local programs which will raise income levels and otherwise produce solutions of the problems resulting from these conditions. The Secretary shall include in his annual report under section 22 a detailed statement concerning the study and research conducted under this section together with his findings resulting therefrom and his recommendations for legislative and other action."

SOURCE: Public Law 87-27, 87th. Congress, S.1. May 1, 1961. Washington, D.C.: Government Printing Office, 1961.

AREA DEVELOPMENT, 1955 - 1965

The first Congressional hearings on redevelopment legislation took place in 1955. Since that time, federal economic policy has been increasingly concerned with the distribution of economic opportunity. The Area Redevelopment Act of 1961 was the first attempt by the federal government to deal with problems of income distribution, other than by relatively orthodox methods of taxation and welfare payments. After 1961, the Congress rapidly enacted other legislation to complement the Area Redevelopment Act, culminating in the revision and renewal of the Act in 1965.

The modest financial resources and the conservative techniques of the Area Redevelopment Act made it obvious that, by itself, this legislation could not greatly accelerate the rate of growth in many of the 1,000-odd designated areas. During 1963 and 1964, the House of Representatives, particularly members of the Committees of Rules and of Appropriations, refused funds for the Area Redevelopment Administration. resulted in suspension of the programs of grants for public facilities, and of loans for industrial and commercial enterprises located in the so-called Section 5(b) areas. But the hostility of the two Committees became ineffective after the federal elections of 1964; in the main, this hostility had reflected the views of senior Republican and of senior, Southern, Democratic members of the two Committees. The accretion of Democratic strength in the federal election of 1964 made it likely that the Congress would renew the Area Redevelopment Act, due to expire June 30, 1965. By March, 1965, the Administration had drafted an astute bill; the most striking feature of which was the virtual renewal, for the designated areas, of the Public Works Acceleration Act. The large-scale grants under this Act had, of course, been far more popular than the complex, but minor, assistance of the Area Redevelopment Act. The shift in emphasis of the revised legislation is indicated by its title-The Public Works and Economic Development Act of 1965.

To assess the original and the revised area development legislation it is necessary to touch on the complementary legislation that has been enacted since 1961. A unique feature of the Area Redevelopment Act was its provision for occupational training. Unfortunately, not only were subsistence payments limited to 16 weeks, but it was unlikely that

the provision would facilitate a significant movement of surplus labour from the designated areas. By the time the Area Redevelopment Act passed the Congress, it had become evident to the Democratic Administration and to the Congress that there was a general, urgent, need for expansion of occupational training facilities throughout the United States. The training provisions of the Area Redevelopment Act served as a successful pilot program for the Manpower Development and Training Act of 1962. The occupational training provisions have been deleted from the revised Area Redevelopment Act but the designated areas are entitled to the same federal assistance for occupational training as is the remainder of the United States. However, the training provisions of the Area Redevelopment Act have been incorporated in the Manpower Development and Training Act; the main effect of this is that the designated areas can benefit by training schemes that are financed entirely by the federal government, and without apportionment among the states. The Manpower Development and Training Act does, however, open up the possibility of relocation of some unemployed persons. Although the assistance to migration in this Act is officially described as experimental, migration will continue to be limited more by local hostility to federal assistance to emigration, and by a shortage of suitable volunteers for training and relocation, than by insufficient resources under the Act.

By March, 1965, the A.R.A. had been able to provide only a trickle of grants for public facilities. The Area Redevelopment Act instructed the Administrator to assess the ability of a community to contribute to the cost of a facility. The Administrator has indicated that this instruction proved to be impossible to administer:

What we found impossible to determine was whether or not a community was able financially to take on the additional costs of this public facility. Each one in effect - this was a highly subjective judgment - required a kind of means test for a community, and was always subject to negotiation and differences of opinion.

We found this slowed up the program immeasurably. Nobody knew what the ground rules were, and we felt strongly if you were to make a readily administerable program, you ought to be able to determine the ground rules in advance, so that every applicant community would know exactly what proportion, or substantially what proportion, was available in terms of federal

help.1

The criterion of community ability to pay, led to a strong emphasis by the agency on what it interpreted to be an employment criterion of the Act. In fact, this criterion could have been interpreted loosely, rather than tightly:

...the project for which financial assistance is sought will tend to improve the opportunities, in the redevelopment area where such project is or will be located, for the successful establishment of industrial or commercial plants or facilities which will provide more than a temporary alleviation of unemployment or underemployment in such area ... 2

The strict interpretation adopted by the Area Redevelopment Administration has meant that a large proportion of the requests for grants could not meet the criterion.

Between 1961 and 1965, the Area Redevelopment Act had no significant effect on the standard of public facilities in the designated areas. However, large scale federal funds were channelled to the areas in the form of grants for public facilities under the Public Works Acceleration Act of 1962. This legislation originated as part of an anti-recessionary program; the Act lapsed in 1964. The intent of the Act was to provide immediate employment by raising the standard of public facilities; the grants were not tied to increases in "permanent" employment in local private enterprises. However, each grant, as a proportion of the cost of a facility, was related to the per-capita income of the area. By 1964, over \$600,000,000 had been disbursed under this Act for projects in designated redevelopment areas. The Act confirmed that a major backlog of public facility projects exists in the areas; most of these projects are essential if the standard of living is to be raised.

- 1. U. S. Congress. House of Representatives, Committee on Public Works. Hearings. Public Works and Economic Development Act of 1965. 89th. Cong., 1st. Sess., 1965. Washington, D.C.: Government Printing Office, 1965, p. 43.
- 2. Public Law 87-27. 87th. Cong., 1st. Sess., 1961. Washington, D.C.: Government Printing Office, 1961, Section 8(a), (1).
- 3. Op. Cit., Public Works and Economic Development Act of 1965. p. 181.

Over 60 per cent of the sharply increased authorizations for the revised Area Redevelopment Act is in the form of grants for public facilities. The aggregate amount provided for grants is to be \$500,000,000 per year for four The Administration of President Johnson had requested \$250,000,000 per year but the duration of the revised Act was left to decision of the Congress. This amount was determined by the backlog of projects that had been documented under the Public Works Acceleration Act "that could be related to economic development", and by the eligibility criteria of the revised Act. 4 The relevant Committees of the Congress raised the amount to \$400,000,000. a year for five years. However, during final debate in the House, the amount was raised to \$500,000,000 a year for four years. This change was part of an amendment that also increased the number of areas eligible for public facility grants by adopting the eligibility principle of the earlier Public Works Acceleration Act: that grants be made to redevelopment areas, and to areas of substantial unemployment during the preceding calendar year. The amendment passed the House by two votes and was accepted by the Senate.5

The rate of allocation of grants under the revised legislation is thus likely to be similar to that of the public works legislation that was in effect from 1962 to 1964. The usual direct grant will be 50 per cent, but there is a provision that this can be raised to 80 per cent by means of a supplementary grant. The revised Act instructs the Secretary, in his determination of the supplementary grant, to take into account the relative needs of the area, the nature of the project to be assisted, and the amount of fair user-charges. The revised Act also enables the agency to raise to 80 per cent the federal share of existing grant-in-aid programs; the federal government had previously extended this form of assistance to the Appalachian region. Although

- 4. Under the Public Works Acceleration Act, grants were available to labour surplus areas that did not qualify as redevelopment areas.
- 5. The vote in the House of Representatives (August 12, 1965) on passage of the Public Works and Economic Development Act of 1965 was 246:138; in the Senate (June 1, 1965), 71:12. The annual authorization under the original Act was \$112,750,000; under the revised legislation this figure becomes \$760,000,000 for each of four fiscal years ending 1969.

the employment criterion will now be interpreted loosely, the agency has already indicated that only one-fifth of the annual authorization for grants will be allocated to bringing the federal share from 50 to 80 per cent, either for existing grant-in-aid programs or for facilities assisted under the Public Works and Economic Development Act. The Area Redevelopment Act did not apportion funds to any one state; under the revised legislation, the amount of grant authorization that may be expended in any one is 15 per cent.

To give maximum flexibility, the Act permits grants for public facilities that

... directly or indirectly (i) tend to improve the opportunities, in the area where such project is or will be located, for the successful establishment or expansion of industrial or commercial plants or facilities, (ii) otherwise assist in the creation of additional long-term employment opportunities for such area, or (iii) primarily benefit the long-term unemployed and members of low-income families or otherwise substantially further the objectives of the Economic Opportunity Act of 1964.7

At the Congressional hearings in 1965, the Administrator of the Area Redevelopment Act indicated that the agency intended to publish "objective standards and regulations" covering the types of facility that would be eligible for grants, and the amount of assistance that they might expect to receive; this would be similar to the procedure that had been followed under the accelerated public works legislation. The agency submitted to the Public Works Committee of the Senate the following examples of projects that could receive grant assistance under the revised Act:

All types of publicly owned public utilities related to economic development, like water works, water and sewer lines, waste treatment plants.

Streets and roads needed for industrial or commercial development.

Harbour facilities, railroad sidings, water reservoirs, dams, bridges.

- 6. Op. Cit. Hearings, Public Works and Economic Development Act of 1965. p. 32.
- 7. Public Law 89-136. 89th. Cong., 1st. Sess., 1965. Washington, D.C.: Government Printing Office, 1965, Section 101 (a), (I), (A).

Airports not adequately financed by R.A.A. Industrial parks (land improvement and site utilities). Tourism facilities.

Area vocational schools.8

The agency cited the following examples of facilities that would not be eligible for assistance:

Courthouses and town halls. Swimming pools. Playgrounds. 9

The Administrator contended that the grants under the revised Act would require "a relationship to the general economic development" of an area, the relationship to be indicated by the types of eligible projects.

The General Accounting Office has on numerous occasions disagreed with the interpretation of the Area Redevelopment Act by the Area Redevelopment Administration. 10 At the hearings in 1965, the Office indicated that it was not satisfied with the criteria for public facility grants that were to be included in the Public Works and Economic Development Act. The following exchange took place between a member of the Public Works Committee of the House of Representatives (Mr. Harsha) and the Associate General Counsel of the General Accounting Office (Mr. Ramsey):

Mr. Harsha. May I ask you this question? One of the things that industry looks for, in looking for a new location, is adequate recreational facilities for its employees. Now, if the community had a swimming pool this could very well be a recreational feature which may be an inducement to the industry to locate in that area, and surely you can say that it indirectly contributes to the establishment of the industry in that area, can you not?

- 8. U. S. Congress. Senate. Committee on Public Works. Hearings, Public Works and Economic Development Act of 1965. 89th. Cong., 1st. Sess., 1965. Washington, D.C.: Government Printing Office, 1965, p. 46.
- 9. Ibid.
- 10. A review of seventeen such disagreements has been prepared by the Committee on Public Works of the House of Representatives. See Op. Cit., House, Hearings, <u>Public Works and Economic Development Act of 1965</u>, pp. 323 334.

Mr. Ramsey. I would think that that might very well be so under the provisions - Mr. Harsha. Let me ask you this question? Supposing the community wants to build a fire station on the mere hope that the lower insurance rates would attract some industry to the community although they had no actual prospects. Would this be permissible under the legislation? I don't think we really know, sir. is one of our problems. "If the assistance sought will directly or indirectly tend to improve opportunities". Now, that is rather broad and I suppose it would not require a specific commitment from anybody. It would not necessarily do that unless in the administration of it some regulation were set up to that effect.

The original Act provided separate loan funds for public facilities, and for industrial and commercial loans. The revised version provides a single loan fund, to assist public facilities and private enterprises. Again, the funds are sharply increased, to \$170,000,000 per year for five years; this is almost triple the authorization for loans of both types under the original Act. 12 There is no major change in the terms of loans for public facilities; the link to Federal borrowing costs will initially, 1965, produce an interest rate of 3.5/8 per cent. 13 The maximum term remains at 40 years and such loans may complement grant assistance from a federal agency.

Throughout the Congressional hearings on area redevelopment, many witnesses from several states in Appalachia contended that the techniques and resources of the legislation would not be sufficient to ameliorate the endemic poverty of the region. It is not necessary to recount at length the evolution of the Appalachian Regional Development Act of 1965. In 1960, the Governors of the Appalachian States

- 11. Ibid. p. 342.
- 12. The Area Redevelopment Act authorized three revolving loan funds of \$100,000,000 each. One of these funds was for public facilities, the others for loans to private enterprises in the so-called 5(a) and 5(b) areas.
- 13. U. S. Congress. House of Representatives Report.

 Public Works and Economic Development Act of 1965. 89th.

 Cong., 1st. Sess., 1965. Washington, D.C.: Government

 Printing Office, 1965, p. 11.

initiated a continuing Conference on regional development. In 1963, the Conference requested federal participation, and President Kennedy appointed an Appalachian Regional Commission, composed of representatives of the States, and of the federal government; the Commission reported in 1964. In 1965, the Congress enacted legislation that approximately conformed to the recommendations of the Governors and of the President. 14

The Appalachian region -- population sixteen million -has responded only sluggishly to the growth of the national economy since 1945. Most of the region has been designated under the Area Redevelopment Act, and has accounted for 30 per cent of expenditures by the agency. The Report of the Appalachian Regional Commission 16 reviewed the causes of the destruction and pollution of the landscape, the impact of technological changes on the traditional activities of the region, and the effects of chronic poverty and of labour immobility. The Report was both explicit and adamant that private enterprise will not be able to sustain the population, at an acceptable standard of living, until the quantity and quality of public services are brought much closer to national standards. Despite a regional population of 8.5 per cent of the national population, federal expenditures in the region, as recently as 1964, were only 4.9 per cent of federal expenditures in the United States. 17 The relatively low rate of federal expenditures, and the inadequate regional tax base, contribute to the distress of the region by the consequent neglect of social capital and social services.

The Appalachian Regional Development Act established a Regional Commission, made up of the Governors (or designees),

- 14. Public Law 89-4. 89th. Cong., 1st. Sess., 1965. Washington, D.C.: Government Printing Office, 1965.
- 15. Op. Cit. House, Hearings. Public Works and Economic Development Act of 1965. p. 68.
- 16. President's Appalachian Regional Commission. Report.

 <u>Appalachia</u>. Washington, D.C.: Government Printing

 Office, 1964.
- 17. Ibid., p. 28-29. Excludes trust fund and interest expenditures.

and one federal representative. Decisions of the Commission require an affirmative vote, both of a majority of the state members and of the federal representative. Of course, a state must give its consent before any part of the program is implemented within its boundaries. The Commission is formally responsible for development of the region, for preparation of plans and priorities, and for encouraging the formation of development districts within the region.

The Act provides grants-up to 70 per cent-for construction of trunk highways and local access roads, the location of which is the responsibility of the Commission. During the period 1965 - 1971, the federal government is to provide \$840,000,000 for highways and access roads. expenditures under the Act are more modest: capital and operating grants for multi-county and regional health facilities; grants for construction of vocational school facilities; grants for sewage treatment works; loans and technical assistance to improve woodlot management on a co-operative basis; grants to seal abandoned mines, to extinguish mine fires, to restore landscape that has been destroyed by strip mining, to overcome pollution of streams, and to encourage The Act also authorizes preparation of a land conservation. plan for the water resources of the region, and investigation of the economic potential of the region, especially possible The Act increases the authorizations under uses for coal. existing federal programs for vocational schools and for sewage treatment facilities. Finally, the Act increases, to 80 per cent, federal grants-in-aid for public facilities under existing programs, subject to a limitation during the first two years of \$90,000,000. These measures, other than highways and roads, account for an expenditure of approximately \$250,000,000 during the first two years. The Act will almost certainly be extended and modified; it is probable that by 1970, federal expenditures in the region under this legislation will reach \$500,000,000 per year. The Act begins the long term task of restoration of the landscape but it does not compel existing mining enterprises to accept an appropriate share of the social costs involved in current mining activities; a single state within the region is not likely to introduce effective legislation and a regional approach will be necessary.

18. U. S. Congress. Senate. Hearings. Appalachian Regional Development Act of 1964. 88th. Cong., 2nd. Sess., 1964. Washington, D.C.: Government Printing Office, 1964, p. 121.

When the Administration's version of the Appalachian development legislation was introduced to the Congress, it included grants to farmers to develop pastures; this feature was deleted after opposition from western cattle interests. and after complaints that it gave special treatment to farmers in one region, when there are farmers in similar need elsewhere in the United States. The Act does, however, provide grants to landowners and others for the encouragement of conservation practices. This early version of the legislation also included a Development Corporation. An institution of this type had been recommended in the Report of the Appalachian Regional Commission. 19 The Administration suggested that the Corporation could provide indirect financial assistance to local, private, enterprises. This was to be done by the creation of new organizations to be called "local development districts". It was intended that the local organizations would be financial intermediaries between private enterprises and the federal government. The federal Corporation was to lend to the local organizations, as well as purchase obligations issued by them. The nature and the role of the proposed development districts were obscure, especially in relation to the existing local development organizations working with the Area Redevelopment Administration. During the hearings, there was strong opposition to the Corporation, mainly because it appeared to be an entirely federal agency, outside the control of the Commission. The proposal was deleted by the Congressional committees. 20 Nevertheless, it is likely that new forms of regional financial intermediaries will emerge. So far, the inclination of the federal government has been to operate agencies that deal directly with local, private, enterprises. Examples of this are the Small Business Administration, and the Area Redevelopment Administration. The sensitivities of the states, particularly Pennsylvania, towards this relationship suggests that the next experiment will be a regional intermediary that receives funds from both federal and state governments.

^{19.} Op. Cit, Appalachia. pp. 63-64.

^{20.} Op. Cit. House. Hearings. Public Works and Economic Development Act of 1965. p. 210.

The intent of the Appalachian Regional Development Act is to put each community within twenty miles of a first class highway. The access roads are not to be limited to natural resource developments but can include tourist and recreational areas, industrial plants, housing estates, and the linkage of presently inaccessible valleys to major highways. The number of components of the Act tends to veil its emphasis on centres of growth. It is not the intent of the Act to redevelop each community but to improve living standards in relatively large urban areas that are already prosperous by There will probably be between fifty and regional standards. one hundred such centres that will eventually account for a large proportion of the regional population. The Appalachian Regional Commission is empowered by the legislator to make grants for administrative expenses to non-profit "local development districts". Such districts do not necessarily coincide with areas designated under the Area Redevelopment Act. extent to which federal funds will be concentrated in localities of potential growth is impossible to estimate. will vary with the sociological and political environment of each state. In much of the region, the relative advantages of an emphasis on centres of potential growth are now so obvious that the demise of many tiny, isolated, communities is increasingly taken for granted, subject to continuing relief for those not able to move. An approximate allocation of funds for highway and access roads among the states was achieved before the legislation was signed by the President. Of course, it is likely that the Regional Commission will give greater attention to the process of compromise between the states having claim to federal funds, than to conflicting claims of particular areas within a state. It is not likely that the opportunities for growth made available by the legislation will be utilized equally successfully by each state.

The implementation of legislation dealing with area redevelopment, manpower training, and acceleration of public works, together with the Governors' Conference on Appalachia, drew attention to the extent of poverty in the United States. In 1964, the Council of Economic Advisers adopted a rule-of-thumb criterion for poverty: a family income of \$3,000, or less, per year. Despite this criterion being arbitrary and

21. Statement by John L. Sweeney, Federal representative Appalachian Regional Commission, New York Times, March 10, 1965.

inflexible, it has since been widely used. Data for 1962 indicated that one-fifth of families in the United States could be described as poor. 22 In 1963, President Kennedy requested several federal departments to explore the extent of poverty and to make recommendations. The Economic Opportunity Act of 1964, sponsored by the Democratic Administration, is mainly an attempt, on a large scale, to increase the employability of young persons reared in conditions of obviously low income, wherever they live in the United States. The main features are youth programs (basic literacy, vocational training, work experience), and assistance to communities for local programs to combat poverty. The community aspects of the Act also emphasize education and training of young persons. The Act includes measures to assist low-income farm families (including migrant workers), as well as loans to very small businesses. The initial, one year, authorization of the Congress was for \$947,500,000; for the second year, the Administration requested \$1,500,000,000.23 Almost every community includes some persons eligible for assistance. and the Act includes several virtually new programs. However, a large number of staffing and administrative problems have arisen, many of them intertwined with the traditions and personalities of local politics. 24

Unlike the Economic Opportunity Act that deals with eligible individuals, and unlike the Appalachian legislation that deals with a region, the successor legislation to the Area Redevelopment Act still deals with designated geographical areas. The eligibility criteria of the revised Act are likely to be significant in the long-run, rather than immediately. The Area Redevelopment Administration has investigated two criticisms of its designation policy: (i) that too many areas have been designated, and (ii) that the designated areas which are worst off should be entitled to special

- 22. Op. Cit. House. Hearings. Public Works and Economic Development Act of 1965, pp. 291-294. A recent critique of the problems involved in a definition of poverty is Rose D. Friedman, Poverty: Definition and Perspective. Washington, D.C.: American Enterprise Institute, 1965.
- 23. Public Law 88-452. 88th. Cong., 2nd Sess., 1964. Washington, D.C.: Government Printing Office, 1964, and New York Times, July 23, 1965.
- 24. For an indication of the difficulties that have arisen see U.S. Congress, Senate, Report. Economic Opportunity Act of 1964. 88th. Cong. 2nd. Sess., 1964. Washington, D.C.: Government Printing Office, 1964, p. 69-132.

incentives. 25 Discriminant analysis indicates that relatively few areas have been wrongly classified; the same broad ranking of areas is obtained when more than a dozen socio-economic variables are applied to the areas that have been designated on the basis of either the rate of unemployment or the rate of income. 26 The designation of more than 1,000 areas has been the result of Congressional prescriptions embodied in the Act of 1961. In the main, these prescriptions reflected contemporary convictions that chronic unemployment and chronically low income should not be perpetuated indefinitely. To shut off traditional relief policies is not possible as aggregate monetary and fiscal policies have not yet proved to be sufficient.

The eligibility criteria of the Public Works and Economic Development Act of 1965 may reduce the number of areas that had previously been designated under the Area Redevelopment Act, by about 150; virtually all of the reduction will be accounted for by removal of the group of relatively high income counties that had been inherited by the A.R.A. from the rural development program which had been established earlier by the Department of Agriculture. However, areas of substantial unemployment will be eligible for the public facilities aspect of the revised legislation and this is likely to offset the reduction. Neither the Democratic Administration, nor the Congress, is inclined to sharply restrict the number of areas by the application of arbitrary criteria that would result in the eligibility of only those areas that record either extremely low income or extremely high unemployment and, probably, extremely poor prospects.

The unemployment criteria of the Area Redevelopment Act have been retained in the Public Works and Economic Development Act of 1965. The income criteria are simplified to a single measure; a median family income of 40 per cent or less of the national median family income. Testimony at the hearings in 1965, indicated that at that time there were 670 counties in the United States with a median family income of \$3,000 or less, and 205 counties with a median family income of \$2,264 or less (the rate equivalent to 40 per cent of the national median).

- 25. Sar A. Levitan <u>Federal Aid to Depressed Areas</u>. Baltimore, Md.: The Johns Hopkins Press, 1964, pp. 60-64, 250.
- 26. John M. Mattila and John F. Concannon. A study of A.R.A. Designated Counties. A.R.A. Research Project No. 82.

Under the revised Act, termination of eligibility can occur only after an "annual review". Unemployment data for a caleniar year are not available until the spring of the next year, and the Report of the Committee on Public Works of the Senate recommended that the review occur by June 30. Formerly, termination was based on an area not meeting the employment criteria for six consecutive months. Eligibility on the hasis of income will continue to depend on the decennial Census; the most recent data are for 1960. The Area Redevelopment Administration has encouraged attempts to refine taxation data to the extent necessary for taxation data to replace the decennial income data. By 1965, these attempts had not suc⇒: ceeded and it is unlikely that, without a change in the eligible rate of income, the eligibility of areas of low income can be reviewed before 1971.

There are other, minor changes in eligibility pro-An area cannot now be designated unless it has a population of at least 1,500 (1,000 in the case of Indian Reservations); an area can now be designated, upon request by the area, if it suffers a major economic reverse that will raise its rate of unemployment to at least 50 per cent above the national average. The revised Act also stipulates that the boundaries of eligible areas are to be either "labor areas" (as defined by the Secretary of Labor), counties, or cities of 250,000 or above. In the form recommended by the Administration, and passed by the Senate, the new Act omitted the provision for at least one area in each state to be eligible. However, this provision was adopted by the House of Representatives, and later agreed to by the Senate. The House also adopted an additional category for eligiblity: those areas in which there has been a "substantial" loss of population due to lack of employment opportunity; the Senate also agreed to this amendment. In July, 1965, the A.R.A. was renamed the Economic Development Administration; later in the year the agency began to designate areas on the basis of the revised criteria. 1,068 former A.R.A. designations were confirmed to which were added 99 areas of substantial unemployment, 52 areas that have suffered "substantial" loss of population, 32 that had recently suffered severe unemployment, and 29 with low family income. "Substantial" loss of population was interpreted by the agency to be a loss of 25 per cent or more during the period 1950-1960.27

27. New York Times, November 14, 1965.

There is considerable support in the Congress for incentives and benefits that are differentiated according to the degree of local retardation. It will be recalled that the original Act, in practice, assisted only those areas where federal aid could facilitate immediate increases in employment in the private sector. Areas that lack opportunity had little The revised likelihood of obtaining federal loans and grants. Act carries this policy one step further, although the title of the Act does reflect a major anomaly. For the designated areas, the revised Act is a renewal of both the Public Works Acceleration Act of 1962 and the Area Redevelopment Act of 1961; the public facility provisions are tied much less to shortterm economic prospects than are the economic development provisions. It is likely that every designated area will now benefit by public facility grants, the degree of geographic concentration of these funds being dependent on policies of state governments.

The Area Redevelopment Administration is aware of the advantages of centres and points of growth ... such communities do not necessarily record either low income or high The acceleration of growth in such centres can unemployment. harness strong forces of urbanization and external economies. But, in a federal system it is not appropriate for a federal program to designate either development regions, or local centres at which federal aid is to be concentrated within a Local and state sensitivities ensure that development regions and centres of growth evolve from the political subdivisions concerned. The designation of the Appalachian region under a federal program might have been expected to be hamstrung by local sensitivities; however, the federal government avoided the problem by asking the Governors of the states, that 'lie wholly or partly within what was then the undelineated region, to designate that part of their state to be included. The revised Act includes a new category of designated area, to be known as development districts. A district is to be designated only with the concurrence of the state or states involved; it must contain two or more redevelopment areas, and within the district there must be designated one or more The centre is to be of suffi-"economic development centres". cient size and potential that it will facilitate adjustment of the redevelopment areas within its hinterland. The maximum population for a development district is to be 250,000. ther the centre nor the district is to be designated on the basis of either the rate of income or the rate of unemployment.

The new Act includes a separate annual authorization of \$50,000,000 for assistance to projects located in economic development districts. The Act does not specify a division of this amount between loans and grants, but it does specify that the fund is to be used either for grants, loans, and guarantees for projects in economic development centres, or to increase the amount of grant assistance by an amount not to exceed 10 per cent of the aggregate cost, to public facility projects in the redevelopment areas that form part of development districts. 28

The concept of a regional commission, adopted as the primary developmental agency in the Appalachian Regional Development Act, has also been included in the Public Works and Economic Dévelopment Act of 1965. The justification for regional commissions is well stated in a Report of the Committee on Public Works of the Senate:

The peculiarities of American government and political development have resulted in political boundaries which ignore a common economy and an interdependency in developing regional resources. As technology has advanced and the world has become smaller by virtue of fast transport and communications, regions long bypassed by economic development have fallen deeper into distress. These areas have a substantial need for projects and programs which must be planned across sizable geographic areas and which no local unit or group of units within one state can do alone or without regard to the effect of their efforts on similar areas in adjoining states.

This problem is further complicated by the fact that the initiative for many of these programs comes from federal policy and federal funds. Thus not only is it necessary for the states to work together, but for the states together to work in partnership with the federal government.²⁹

- 28. Subject to the minimum non-federal share of 20 per cent.
- 29. U. S. Congress. Senate. Committee on Public Works Report.

 Public Works and Economic Development Act of 1965. 89th.

 Cong. 1st. Sess., 1965. Washington, D.C.: Government

 Printing Office, 1965. p. 17.

Under the new Act, the Secretary 30 is to "invite and encourage" the states to form "multistate regional action planning commissions"; with the concurrence of the states, the Secretary is authorized to designate economic development regions. commissions are to advise the Administrator and the states on appropriate boundaries for development regions and for development districts, to initiate long term development programs (including the research necessary for specific projects and for legislative recommendations), and to promote increased private investment in the regions. The Act offers two incentives to encourage regional commissions. The federal government will pay the full administrative costs of the commissions up to June 30 of the second full federal fiscal year following date of establishment of commission; thereafter up to 50 per The Act also authorizes technical assistance to regional commissions; \$15,000,000 per year is authorized for financial assistance to regional commissions. It is probable that eventually federal assistance on a scale similar to that for Appalachia, and for similar purposes, will be available to other regions.

Although the phrase area redevelopment has been removed from the title of the legislation, and although there is now a modest differential in favour of development districts, the character of the legislation is still primarily an attempt to accelerate growth in a large number of geographical areas, delineated on the basis of either low income or high unemployment. The amalgam of complementary legislation dealing with economic opportunity in the United States that has emerged since 1960, suggests that soon it will be possible further to amend the area redevelopment legislation to more strongly emphasize the acceleration of growth in development districts. 31 A sustained acceleration of growth in a few areas within a state no longer implies disinterest in the individuals who continue to live in other retarded, stagnant, communities. The provisions of the Manpower Development and Training Act and

- 30. Formally, the Secretary of Commerce; in practice, the Assistant Secretary for Economic Development and the Administrator for Economic Development.
- 31. For discussion of the advantages of an acceleration of growth in industrial areas that can produce a much greater degree of self-sustaining growth, see, for example, Committee of Inquiry into the Scottish Economy. Report on the Scottish Economy. Edinburgh: Scottish Council, 1962, and P. E. P. Location of Industry. London: P.E.P., 1962, No. 466.

of the Economic Opportunity Act, together with the usual range of welfare programs, can facilitate absorption of individuals in centres of growth. In any event, to subsidize or support obsolete industries and communities in a region is an extremely costly national policy compared with an alternative policy of developing new towns, new industries, and new lines of communications within the region.³²

Of course, a sense of equity has been the main force which has produced the contemporary legislation on economic opportunity, including the Area Redevelopment Act. also a sense of equity that has led to the search for statistical vardsticks for eligibility. On grounds of equity, it is unfortunate that about one-third of eligible areas are designated on the basis of income, the remainder on the basis of unemployment. Economic distress, measured by the rate of unemployment in an area, is not necessarily as severe as it is in another area that is designated on the basis of income. Underemployment and low rates of participation in the work force can invalidate unemployment data for a large part of the geographical area of the national economy. On the other hand, income data can be as reliable for areas of high unemployment as they are for areas of low income. Of course, the choice of eligiblity criteria and the rigour of their application, can be less significant than the effectiveness of the developmental techniques that are included in the legislation. The implication remains, however, that designation does entitle an area to receive assistance until the local rate of income per head is considerably closer to the national average.

Under the new Act, the distinction between the Section 5(a) areas and the Section 5(b) areas has disappeared. The original Act reflected a widespread view in the Congress that so-called rural areas should receive "equal treatment" with so-called industrial, urban, areas. By 1964, the original \$100,000,000 revolving loan fund for the 5(b) areas had been exhausted, and it had not been possible to obtain additional funds because of opposition in the House of Representatives. Of course, it is extremely difficult to make a logical distinction between rural and urban areas; under the revised legislation, the distinction is dropped, and there is now the single loan fund of \$170,000,000 per year. However, this single fund

32. National Economic Development Council: <u>Conditions</u>
<u>Favourable to Faster Growth</u>. London: Her Majesty's
<u>Stationery Office</u>, 1963. pp. 14 - 30.

is also to be the source of loans for public facilities. Although the grants and loans for public facilities are no longer to be tied to the employment criterion, it is still the intent of the Act that public facilities are intended to facilitate expansion of private enterprises, and it is appropriate that the alternative uses for loan funds be immediately apparent.

The greatest single impediment to the industrial and commercial loan program of the Area Redevelopment Act had been the statutory requirement that 10 per cent of the cost of each project be contributed either by a local or state agency or by a local development organization, either as equity capital or as a loan subordinate in repayment of the federal loan. The revised Act reduces this contribution to 5 per cent, permits repayment concurrently with the federal loan, and provides that the contribution can be waived in circumstances of extreme economic distress. The other conditions attached to these loans are essentially unchanged from the Area Redevelopment a maximum federal share of 65 per cent of eligible costs; a maximum term of 25 years, and a rate of interest tied to In August, 1965, the rate of interest federal borrowing costs. on such loans under the revised Act was 4-1/8 per cent.

The revised Act does include a new technique to encourage expansion of private enterprises in designated areas. The agency is now permitted to guarantee loans for working capital obtained from private lenders. The guarantees are limited to 90 per cent of the loan, and are for working capital associated with direct loans by the agency to an industrial or commercial project.

The Administration requested the Congress to amend the Area Redevelopment Act to permit a rebate on interest payments by private enterprises. The rebate was to be equivalent to two percentage points, and was to apply to companies that did not require a federal loan. The Administration proposed that the rebates apply to loans for buildings, machinery, and equipment, and that they be amortized over not more than 10 years. The maximum annual cost to the federal government was to be \$5,000,000. The amendment was intended to provide an incentive to established corporations to locate a branch operation in designated areas; as lender of last resort, the A.R.A. had rarely been able to offer a meaningful incentive to such companies. The Committee on Public Works of the House of Representatives refused to accept the incentive and it was deleted from the revised Act.

The program of federal loans to private enterprises has been opposed since 1955 by leading financial and business organizations, and its acceptance by the Congress has always

been in much greater doubt than has been the program of grants for public works. Although the \$170,000,000 per year for loans that is authorized in the revised Act covers both loans for public facilities and for private enterprises, it represents a major increase in loan funds. Assuming an adequate, national, rate of growth, and assuming that the Congress will appropriate funds at the rate that it has authorized, this aspect of the legislation will become more significant to new employment than it has been during the early years of the legislation. By July, 1965, the Area Redevelopment Administration expected that 66,000 jobs (direct and indirect) would be created by the 402 industrial and commercial projects that had been assisted by loans approved under the Area Redevelopment Act up to that date. The agency has assumed that each direct job generates only 0.65 of an indirect job. This estimate was for employment potential when each facility is either fully operational or fully expanded. While it is possible that some projects would have become operational without assistance by the agency, the cost per job is extremely modest. Assuming that each loan is repaid, and making appropriate adjustments for administrative and other costs, the non-returnable cost per job is insignificant after reductions in unemployment compensation payments, and increases in tax receipts have been taken into consideration. The A.R.A. estimated, early in 1965, that the non-returnable cost per job to the federal government was approximately \$800; this estimate included jobs facilitated by the loan and grant aspects of the legislation. 33

The contribution of federally sponsored technical assistance to local employment is extremely difficult to measure. ³⁴ It is impossible to measure either the employment effects of the preparation of the local development plans or of the research program of the A.R.A. There is no doubt that the resources devoted to regional analysis have been grossly deficient, particularly analyses of costs and benefits of various policies as they effect a region and the national economy. But the problem of regional retardation has begun to

- 33. Op. Cit. House. Hearings. <u>Public Works and Economic Development Act of 1965</u>. p. 26.
- 34. Technical assistance may indicate such potential earnings that a federal loan is not necessary. Also, the benefits of technical assistance can be diffused to areas and organizations that face similar problems.

absorb a share of the federal budget, sufficient to justify research facilities that should be comparable in quality to those of, say, the National Bureau of Economic Research. Under the new Act, the program of research inaugurated by the A. R. A. is to continue, with the initiative for expansion of research activities resting with the agency.

Up to July, 1965, the A. R. A. had allocated over \$15,000,000 to 467 technical assistance projects. The agency has limited its estimates of job creation to its programs of loans and grants, although it has insisted that the prospect of an immediate increase in employment is the chief criterion for evaluation of requests for technical assistance. wide powers of discretion in the use of technical assistance funds, the Area Redevelopment Administration resisted requests by local organizations for help in the preparation of local One reason for this has been the possible political repercussions of direct federal participation at the local level. However, the new Act stipulates that technical assistance funds can be used to make grants-in-aid to state and local organizations for planning staff and for administrative expenses, provided that such payments do not exceed 75 per cent of the aggregate cost of any one year. The new Act authorizes \$25,000,000 per year for technical assistance, research, and expenses of local organizations. It is now apparent that local developmental planning will be much more positively encouraged than it has been up to 1965. The A. R. A., as well as hundreds of local organizations, has concluded that a wide range of technical assistance is essential if the local organizations are to continually improve the quality of the O. E. D. P., as well as to facilitate a rising number of employment-generating projects.

The effectiveness of the Area Redevelopment Act has been hampered by the agency being grossly understaffed and, since 1963, by a shortage of funds to implement major elements of the legislation. Unfortunately, the difficulties and the extent of the agency's task were not evident either in the level of appointment of the Administrator of the Act, or in the number of senior appointments within the agency. At the revision of the Act, the Democratic Administration did not request formal upgrading of the agency. However, the Reports of the relevant Congressional committees recommended the appointment of an Assistant Secretary of Commerce whose duties would be solely to assist the Secretary in his responsibilities under the Act; the Assistant Secretary would, of course, be senior

to the Administrator 35 This recommendation was adopted by the Congress. It is intended by the Administration that the area development program and regional development programs, of which Appalachia is the first, will be co-ordinated by the new Assistant Secretary (of Commerce) for Economic Development. The Public Works and Economic Development Act of 1965 leaves open the problem of the delegation of functions to such agencies as the S.B.A. and the C.F.A. If the delegations of authority to S.B.A. and C.F.A. are withdrawn, it is virtually certain that the E.D.A. will establish regional offices at which the main work of processing applications will take place.

Given appropriate incentives, sufficient funds, and sufficient senior administrators, the success of the legislation depends not only on conditions external to the agency, particularly an adequate national rate of growth and the existence of complementary programs, but also on two types of specialist within the agency: the Field Co-ordinator and the Industry Operations Specialist. Each of these specialists is an entrepreneur. The Field Co-ordinator must not only interpret federal and state incentives to officials and to private entrepreneurs at the local level but he must also be alert to opportunities and encourage local organizations to act. An effective Field Co-ordinator requires exceptional qualifications that include knowledge of the economics and politics of the area, promotional ability, and a sense of the appropriate roles for private enterprises, for development organizations, and for public agencies of several levels of government. His judgement is essential to decisions by the agency on financial assistance. Of course, the appointment of Field Co-ordinators is of local political interest, and the agency has attempted to devise criteria for these The Industry Operations Specialist has no appointments. particular interest in any one designated area. As an expert in a single category of economic activity, his responsibility is to inform established companies of the financial attractions of the legislation, particularly in association with bank financing. Simultaneously, he is able to provide information about trends and techniques in the activity of his concern, to the agency, particularly the Field Co-ordinators.

35. The Report of the Committee on Public Works of the Senate recommended that not less than 20 super-grade officials be assigned to the agency. This recommendation was not included in the Act; the Area Redevelopment Act provided for 5 super-grade appointments.

Since the enactment of the Area Redevelopment Act in 1961, new jobs, direct and indirect, have been facilitated in the designated areas at the rate of about 29,000 per year. 36 This estimate includes the industrial and commercial loan program, the public facilities program; it does not include contribution to job creation by other aspects of the legislation. The aggregate labour force in the designated areas is approximately 13,500,000. While the legislation may be interpreted to have made only a marginal contribution to employment, it is the result of conservative techniques, and has involved only a modest cost per job. The agency did not indicate, at the Congressional hearings in 1965, the number of jobs per year which might be facilitated under the slightly more liberal terms, and much larger funds, of the revised legislation.

The main significance of the Area Redevelopment Act in the amalgam of federal economic policy has not been its contribution to employment in the retarded areas of the nation. Rather, the legislation initiated a change in the course of federal policy by providing evidence of the disparities of economic opportunity in the United States, and of the urgency of monetary and fiscal policies to encourage a higher national rate of economic growth. During the past decade, it has again become evident that the costs and benefits of the market process are unevenly distributed among individuals and loca-A pervasive problem of economic policy is to prevent lities. some individuals and some communities from becoming permanently poor, without seriously affecting the rate of increase of income elsewhere in the economy. From time to time, the legislation that deals with the economic opportunities of individuals and areas seems to overshadow the primary task of federal economic policy: an adequate aggregate rate of growth.

There are two major constraints in the United States on policies to assist areas and individuals adversely affected by the market process: sensitivities and prerogatives of state governments, and prevalent opinions about the role of government in economic life. The area development legislation reflects these constraints. While the Area Redevelopment Act appeared to offer the same benefits to each designated area,

36. Area Redevelopment Administration. <u>Directory of Approved Projects</u>. Washington, D.C.: United States Department of Commerce, July, 1965.

in practice the chief benefits were contingent upon the availability of opportunities to increase employment in the private sector; loans and grants were dependent on the existence of viable, albeit marginal, opportunities.

Since 1961, the role of the states in area development has become much more positive. At the same time, federal policy in the field of economic opportunity has emphasized assistance to the individual, rather than to geographical areas. Since the first Congressional hearings on area development in 1955, there has been a continuous exhortation to local effort by opponents of federal action in this field, thus it was inevitable that the Area Redevelop-Act would assist local organizations, rather than initiate local development. Those areas within a state that, for various reasons, are not able to initiate effective development, continued to languish under the Area Redevelopment Act. In a federal system, the future of such areas must rest with the state government, and since 1961, most states have become aware of this responsibility. The Appalachian Regional Development Act gives strong emphasis to a network of highways connecting the major centres of growth, either within or close to The Public Works and Economic Development Act of 1965 gives the states the opportunity to delineate the development districts which include growth centres and associated redevelopment areas.

The pronounced shift of public interest towards the distribution of economic opportunity in the United States that has occurred since 1955, has now resulted in a mix of federal policies that stimulate state and local action in the fields of education and manpower training. Such policies possess the attraction of social investment in the diverse potentials of individuals rather than in institutions, whether they be called areas or companies.

Research and technical assistance can unveil opportunities in areas that presently languish. Loans, guarantees, interest rebates, and feasibility studies can accelerate the initiation of projects now near the margin of economic viability. But area development policies, as well as educational and vocational training policies, are secondary in importance to federal monetary and fiscal policies. While the Area Redevelopment Administration facilitated less than 10,000 additional jobs in the designated areas between March, 1964, and March, 1965, the modest acceleration of the national rate of growth was associated with a net increase of approximately two million jobs during this period. 37

37. Office of Business Economics. <u>Business Indicators</u>. Washington, D.C.: U. S. Department of Commerce, August, 1965.

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