

A REVIEW OF THE FEDERAL ROLE IN REGIONAL ECONOMIC DEVELOPMENT

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I. INTRODUCTION

The federal government has a huge hand in the economy. In 2004, it spent \$810 billion on everything from agriculture to zoos. The impact of this spending is traced mainly to the national economy. Indeed, macroeconomists have studied and debated the federal role in spurring the national economy since the Great Depression and before.

Though it has received somewhat less attention, a topic of mounting interest is the role that the federal government plays in the economic development of regions. The federal hand here is more limited but remains substantial. By one estimate, in 2004 the federal government spent \$17 billion on economic development programs aimed at specific areas and communities.

For a variety of reasons, this is a particularly good time to take a fresh look at the federal role in regional economic development. Globalization is forcing regions throughout the nation to find new competitive niches in rapidly changing markets. The resulting quest for new economic engines is different in every region, driven by a region's distinct economic assets and the specific markets it can tap.

At the same time, economic experts have discovered a whole new set of strategies that offer the greatest potential in helping regions compete in the global marketplace. These new strategies focus more on the region itself, namely, helping entrepreneurs and skilled workers innovate and seize new market opportunities—an approach strikingly at odds with past strategies that often aimed at recruiting industrial facilities to a region. Under the old strategy, regional development was often a zero-sum game—one region's gain was often another's loss. As a result, some analysts have styled traditional economic development as an ongoing “economic war among the states” (Burstein and Rolnick, 1995).

Amid these tectonic shifts in how regions grow their economies, federal policy for economic development goes on largely unchanged. The federal development effort is carried out through nine federal departments and five independent agencies, forming a sort of Rube Goldberg policy apparatus cobbled together over the past 50 years or so. There is little if any coordination across the legion of federal programs.

New questions are being raised about this policy apparatus, however. With big deficits in prospect for the federal budget, *every* federal program is under new budget scrutiny. The Administration's recent proposal to redesign economic development grant programs in the federal budget was perhaps the first effort to call attention to how the federal government shapes regional economic development. It will not be the last.

The purpose of this report is to frame in broad terms what the federal government's future role could be in regional economic development. Three steps are essential in framing that role.

The first step is to confirm what regional development policy is today. The first section of this report provides a comprehensive review of current federal programs and how federal dollars are spent on regional development. *It shows that federal programs are highly fragmented today, that programs largely assume that all regions grow the same way, and that federal spending is focused heavily on physical infrastructure.*

The second step is to identify what makes regional economies grow in the 21st century. The second section of the report reviews the economics literature and highlights state-of-the-art thinking on regional growth. *It shows that economists believe the drivers to regional growth have changed dramatically over the past decade. Regions now grow when they gain a*

competitive edge in rapidly changing global markets. Within this new context, a region's capacity to innovate and its ability to grow entrepreneurs are keys to success.

The final step is to consider how federal policy might change to help regions grow in the future. *The third section shows that three shifts in federal policy will be important if the nation wants to help regions hone their competitive edge:*

- 1. Make regional competitiveness the goal of federal regional development policy and align federal development programs accordingly;*
- 2. Design new efforts to help regions seize innovations and grow entrepreneurs;*
- 3. Create an effective delivery system for taking federal programs to regions around the nation.*

These are big steps, but so are the stakes. The federal government has a clear goal to spur growth in the national economy. But what is its stake in *regional* economic growth? Some would say that the federal government should be interested in ensuring economic opportunity for all corners of the nation—that equality of economic opportunity is a national goal. That may be, but today the federal government stake in regional economic growth is even more compelling. More experts now conclude that vibrant regional economies boost macroeconomic growth. What is more, other experts conclude that the ability of the U.S. economy to compete on the global stage increasingly is determined by how well individual regions of the nation compete. Put simply, the drivers of national economic competitiveness are now regional in character. Paying attention to federal policy for regional development, therefore, promises to pay dividends for everyone.

II. THE CURRENT FEDERAL ROLE IN REGIONAL ECONOMIC DEVELOPMENT

What is the federal government doing now to spur regional economic development? The answer is not at all obvious. There is no definitive list in Washington of economic development programs. What is more, the programs that do influence economic development have sprung up in virtually every corner of the federal government over the past half century or more. To answer the question, therefore, requires an extensive search through the nation's capital.

A good starting point is to define economic development. Unfortunately, even the economists that write the textbooks on this subject do not agree on a single definition. In general, however, there is agreement that economic development involves both the restructuring and growth of an economy to enhance the economic well-being of people that live in a particular place (IEDC). While jobs are often the means to this end, experts agree that key outcomes are rising income and wealth (Cheshire and Malecki 2004; Blair 1995). The *process* of economic development involves combining the labor, capital, and technology found in that place in innovative ways that lead to rising economic welfare (Blakely and Bradshaw 2002).

One of the key players in the economic development process is government. Government serves the role of “referee,” establishing the “rules of the game” through legal, business, and regulatory frameworks. It also makes pivotal investments the private sector would not make (economists call these “public goods”). These investments take many forms but generally serve to enhance a region's workforce, infrastructure, technology, or ability to innovate (IEDC). In the United States, all levels of government—federal, state, and local—are involved in shaping economic development.

The Center for the Study of Rural America conducted a comprehensive review of all federal programs having a clear connection with economic development as broadly framed

above. We started with the definition used by the General Accounting Office (GAO, 2000).

Under that definition, an economic development program does one or more of the following things:

- planning and developing economic development strategies;
- constructing or renovating nonresidential buildings;
- establishing business incubators;
- constructing industrial parks;
- constructing and repairing roads and streets; and
- constructing water and sewer systems.

This definition, however, leans heavily on *infrastructure* as the key element in economic development. Most experts today, however, take a much broader view of how government shapes development. Thus, we added to the GAO list the following items: workforce training, technical assistance and technology transfer, business development, and forms of infrastructure not included above. In the end, though, it must be admitted that defining federal programs that affect economic development remains more art than science.

Our sweep of the federal government turned up 180 programs in all sorts of places. Taken together, what do the 180 programs say about current federal economic development *policy*? To answer that question, two steps are helpful. First, recapping the purpose of existing programs and reviewing the legislative roots of the programs provide a collective sense of what the programs are intended to do. It also helps explain how the legion of programs ended up where they did. Second, following the money trail of the programs provides a sense of which federal initiatives policy officials value most in terms of appropriations.

A Recap of Federal Economic Development Programs

The federal government's 180 economic development programs suggest a very diffuse economic development policy. The programs are found in virtually every corner of the government, including the Department of Defense (Figure 1). No single department or agency oversees the entire effort. In fact, many departments engage in very similar activities. For example, there are three extension services in the federal government—one in the Department of Agriculture, one in the Department of Commerce, and one in the Department of Defense. The 180 programs have grown up around very widely scattered pieces of legislation. Development efforts centered on housing can be found in four different departments, for instance.

What are federal departments doing in economic development? This section provides a thumbnail sketch for each department. The Appendix contains a synopsis for each department, a brief history of the legislation that created programs in that department, and a brief description of the programs.

Simply put, federal economic development policy is a soup concocted by many chefs. Scores of Congressional committees and even more federal agencies have their hand in economic development. Here is an overview of what each department and federal agency is doing:

- The *Department of Agriculture* has principal responsibility for rural development.
- The *Department of Commerce* has one of the few federal agencies aimed specifically at regional and community development—the Economic Development Administration.
- The *Defense Department* manages waterway development, helps regions adjust to the opening or closing of military installations, and helps business participate in military procurement.
- The *Department of Health and Human Services* implements several economic development programs aimed at low-income Americans and promotes the commercialization of emerging health technology.
- The *Department of Housing and Urban Development* has principal responsibility for urban development and housing programs.
- The *Department of Interior* is responsible for economic development programs aimed at Native Americans.

- The *Department of Labor* trains workers, helps workers adjust to foreign competition, and aligns the workforce with emerging business opportunities.
- The *Department of Transportation* has primary responsibility for planning and public investment in ground and air transportation infrastructure.
- The *Department of Treasury* administers a handful of programs that improve the supply of development capital in distressed rural and urban areas.
- The *Appalachian Regional Commission* has primary responsibility for federal economic and social development programs in the 13-state Appalachian Region.
- The *Environmental Protection Agency* is involved in development efforts that involve water quality and new uses for old industrial sites (brownfields), especially ones complicated by pollution concerns.
- The *Small Business Administration* is the primary government agency for supporting small business throughout the nation.
- The *Tennessee Valley Authority*, the *Denali Commission*, and the *Delta Regional Authority* focus on development efforts in three defined regions of the nation.

Together, these programs lead to two important conclusions about the current federal effort. *First, many of the programs are aimed at building physical infrastructure—highways, housing, and airports, for instance.* The heavy emphasis on physical infrastructure clearly reflects the 20th century development principles widely believed when most of the programs were created. Programs aimed at knowledge infrastructure, which many economists regard as critical to the 21st century economy, are few and far between.

Second, federal policy assumes a development landscape across the nation that is largely homogeneous. Current federal programs are mostly founded on the belief that all regions grow in the same way. More specifically, the vast majority of federal programs appear to assume that most regions will develop as “industrial regions,” hence the emphasis on physical infrastructure. A case can be made that federal policy facilitates smokestack chasing, arguably the most widespread local strategy for economic development. In the case of rural America, a strong presumption persists in federal policy that all rural regions will develop as agricultural regions, hence the emphasis on federally funded agricultural experiment stations and an Extension Service still largely focused on agriculture.

America's regional development landscape is no longer homogeneous, however. It is highly diverse. Economic development strategies are now driven by a region's distinct economic assets and its unique market opportunities. That will call for industrial development in some regions, to be sure, but in far fewer regions than in the past. Tourism, services, and high technology now blossom as economic engines alongside industry. And in the case of rural America, fewer than one in ten rural regions now count agriculture as their leading source of income.

In short, federal policy for economic development is a far-flung activity in Washington, spreading across most of the federal government. That is not by accident, though. Hundreds of laws (as shown in the Appendix) have posited the vast array of programs where they are today. Nevertheless, the reach of the programs is impressive, as is their underlying assumption that America's economic development landscape is largely homogeneous. With many programs founded on the premise of developing an industrial economy, much more flexibility may be required for a 21st century development landscape that represents a much richer spectrum of development outcomes.

An Overview of Federal Spending on Economic Development

The vast reach of federal development *programs* makes it difficult to characterize federal economic development *policy*. One way to bring greater clarity to current policy is to examine programs through the lens of the federal budget. The Office of Management and Budget does more than simply track spending across federal departments and agencies. It also assigns each government program to one of 20 functional categories of spending. These functional categories allow OMB to determine how many dollars are being spent on key government objectives, such

as national defense and international affairs, regardless of the department spending the money (Table 1). One of the 20 categories is very useful for isolating what the federal government is doing in regional economic development: The category is *community and regional development* (category 450).

This highlights a useful way of thinking about federal policy on economic development. The federal government does a lot in supporting economic development. In fact, it is very hard to separate programs that affect economic development from those that do *not*. Educating students, training workers, financing small businesses, building highways, funding research, transferring technology, improving the delivery of electricity and phone service—all are major programs in Washington, and all influence economic development. Broad girders of the federal government, these and similar efforts certainly boost economic activity, but not always with a *place* in mind. Such programs might be called ***broad-based development programs***. Their effect is broad—they spur the national economy, but not necessarily the economy of any particular *region*.

Other federal programs focus on boosting economic growth in a *particular place*. For instance, the Appalachian Regional Commission focuses a mix of federal and state dollars on boosting economic performance in a clearly defined part of the nation (portions of 13 states united by the Appalachian Mountains). Similarly, the Economic Development Administration aims its programs at specific areas and uses a network of regional offices to do that. The U.S. Department of Agriculture has many programs aimed at rural areas, while the Department of Housing and Urban Development aims at cities. Such place-oriented programs might be called ***regional development programs***.

The OMB's community and regional development spending category (450) is a good proxy for such programs. Unfortunately, there is no corresponding budget catchall for *broad-based development programs*. One can be constructed, though, by combining selected OMB spending categories. Toward that end, we combined 13 government functions (highlighted in Table 1), all around a general definition of economic development that encompasses infrastructure, human capital, technology, and business development.

When broad-based and regional development categories are combined, the federal government spends about \$188 billion a year on economic development (the annual average for the past five years) (Figure 2). This means that roughly one in every four federal dollars is currently spent on economic development. More than 90 percent of development dollars are spent on broad-based development programs, leaving fewer than one in every 10 federal dollars for regional economic development.

Within the broad-based category, more than 90 percent of federal spending goes for infrastructure (including housing) and education. Much of the infrastructure spending goes for the federal highway system, although housing is another big commitment, accounting for about a sixth of federal development dollars. Education is a bit more than a third of development spending, with federal dollars about evenly split between K-12 and higher education. Research is about 5 percent of federal spending on economic development. This category takes into account federal research on many areas of science: agriculture, health, transportation, energy, and space, among others. Finally, providing technical assistance and technology transfer through extension programs of various stripes represents half of all that spent on research.

The federal government spends just under \$17 billion a year on regional economic development (Figure 3). Yet the federal commitment to *ongoing* development is actually much

less. The regional development category includes three subcategories: community development (451), area and regional development (452), and disaster relief and insurance (453). Of total federal outlays, \$7.6 billion goes to disaster relief and insurance—helping communities recover from tornadoes, hurricanes, and other unfortunate events. Such short-term responses to disaster are important and result in a flurry of construction and associated economic activity. However, such activity aims to *restore* the local economy, not *develop* it. Thus, it seems reasonable to set aside this portion of the budget category if the aim is to focus on regional economic development.

What is left is \$9.1 billion aimed at regional and community development (that is, categories 451 and 452). By OMB's tally, two-thirds of this goes to develop broader regions, with a third aimed at specific communities.

Among federal departments, HUD is the biggest source of regional development spending (Table 2). Much of this flows through the Community Development Block Grant (CDBG) program. The Department of Interior's tribal development programs are another large category. The USDA's rural development programs add up to about \$1 billion, while EDA initiatives in the Department of Commerce are about a third of that. The remaining programs are relatively thin slices of regional development spending.

Summary

The current federal hand in economic development is not easy to characterize. Programs have grown up in nearly every corner of government over the past 50 years or more. Nine federal departments and another four agencies all get involved in one form of economic development or another. This effort is largely unfocused—there is no overriding goal focusing

the effort. In that sense, it is far easier to list the 180 programs involved in economic development than to describe the policy driving them. However, what can be said is that many of the programs assume that regional economic development is largely homogeneous across the nation, and is driven by an industrial economic engine.

Economic development is a major undertaking of the federal budget. Consistent with the underlying emphasis on industrial development, funding for physical infrastructure is high priority. Over the past five years, nearly \$190 billion has been spent every year on development—more than one of every four federal dollars spent. Most of this spending goes into broad-based efforts like highways and education, programs that aim to develop the economy broadly, not in any given place. The federal role in programs aimed at economic development in particular places, or regional development, is much smaller. In the past five years, such spending has totaled about \$9 billion a year. Much of that has been spent through HUD's Community Development Block Grant program.

Table 1. OMB Federal Budget Function Codes

Highlighted rows indicate categories included in the Center's analysis of federal spending on economic development

50	National Defense
51	Department of Defense-Military
52	Atomic energy defense activities
54	Defense-related activities
150	International Affairs
151	International development and humanitarian assistance
152	International security assistance
153	Conduct of foreign affairs
154	Foreign information and exchange activities
155	International financial programs
250	General Science and Basic Research
251	General science and basic research
252	Space flight, research, and support activities
270	Energy
271	Energy supply
272	Energy conservation
274	Emergency energy preparedness
276	Energy information, policy, and regulation
300	Natural Resources and Environment
301	Water resources
302	Conservation and land management
303	Recreational resources
304	Pollution control and abatement
306	Other natural resources
350	Agriculture
351	Farm income stabilization
352	Agricultural research and services
370	Commerce and Housing Credit
371	Mortgage credit
372	Postal service
373	Deposit insurance
376	Other advancement of commerce
400	Transportation

401	Ground transportation
402	Air transportation
403	Water transportation
407	Other transportation
450	Community and Regional Development
451	Community development
452	Area and regional development
453	Disaster relief and insurance
500	Education, Training, Employment, and Social Services
501	Elementary, secondary, and vocational education
502	Higher education
503	Research and general education aids
504	Training and employment
505	Other labor services
506	Social services
550	Health
551	Health care services
552	Health research and training
554	Consumer and occupational health and safety
570	Medicare
571	Medicare
600	Income Security
601	General retirement and disability insurance (excluding Social Security)
602	Federal employee retirement and disability
603	Unemployment compensation
604	Housing assistance
605	Food and nutrition assistance
609	Other income security
650	Social Security
651	Social Security
700	Veterans Benefits and Services
701	Income security for veterans
702	Veterans education, training, and rehabilitation
703	Hospital and medical care for veterans
704	Veterans housing
705	Other veterans benefits and services
750	Administration of Justice
751	Federal law enforcement activities

752	Federal litigative and judicial activities
753	Federal correctional activities
754	Criminal justice assistance
800	General Government
801	Legislative functions
802	Executive direction and management
803	Central fiscal operations
804	General property and records management
805	General personnel management
806	General purpose fiscal assistance
807	Other general government
808	Deductions for offsetting receipts
900	Net Interest
901	Interest on Treasury debt securities (gross)
902	Interest received by on-budget trust funds
903	Interest received by off-budget trust funds
908	Other interest
909	Other investment and income
920	Allowances
924	Spectrum relocation
925	Debt collection initiatives
926	Adjustment to certain pass-through accounts to reflect projected Congressional action
927	Contingent offset for health care for the uninsured
950	Undistributed Offsetting Receipts
951	Employer share, employee retirement (on-budget)
952	Employer share, employee retirement (off-budget)
953	Rents and royalties on the Outer Continental Shelf
954	Sale of major assets
959	Other undistributed offsetting receipts

Table 2. Regional Economic Development Spending by Department*

	(\$ millions)
Department of Housing and Urban Development	5,763
Department of the Interior	1,508
Department of Agriculture	982
Department of Commerce	353
Executive Office of the President	140
Neighborhood Reinvestment Corporation	106
Department of the Treasury	76
Appalachian Regional Commission	70
Denali Commission	41
Delta Regional Authority	9
National Capital Planning Commission	8
Commission of Fine Arts	1
Grand Total	9,058

* Excludes disaster relief and insurance

Annual average for 2000 to 2004

Figure 1. Federal Departments and Agencies

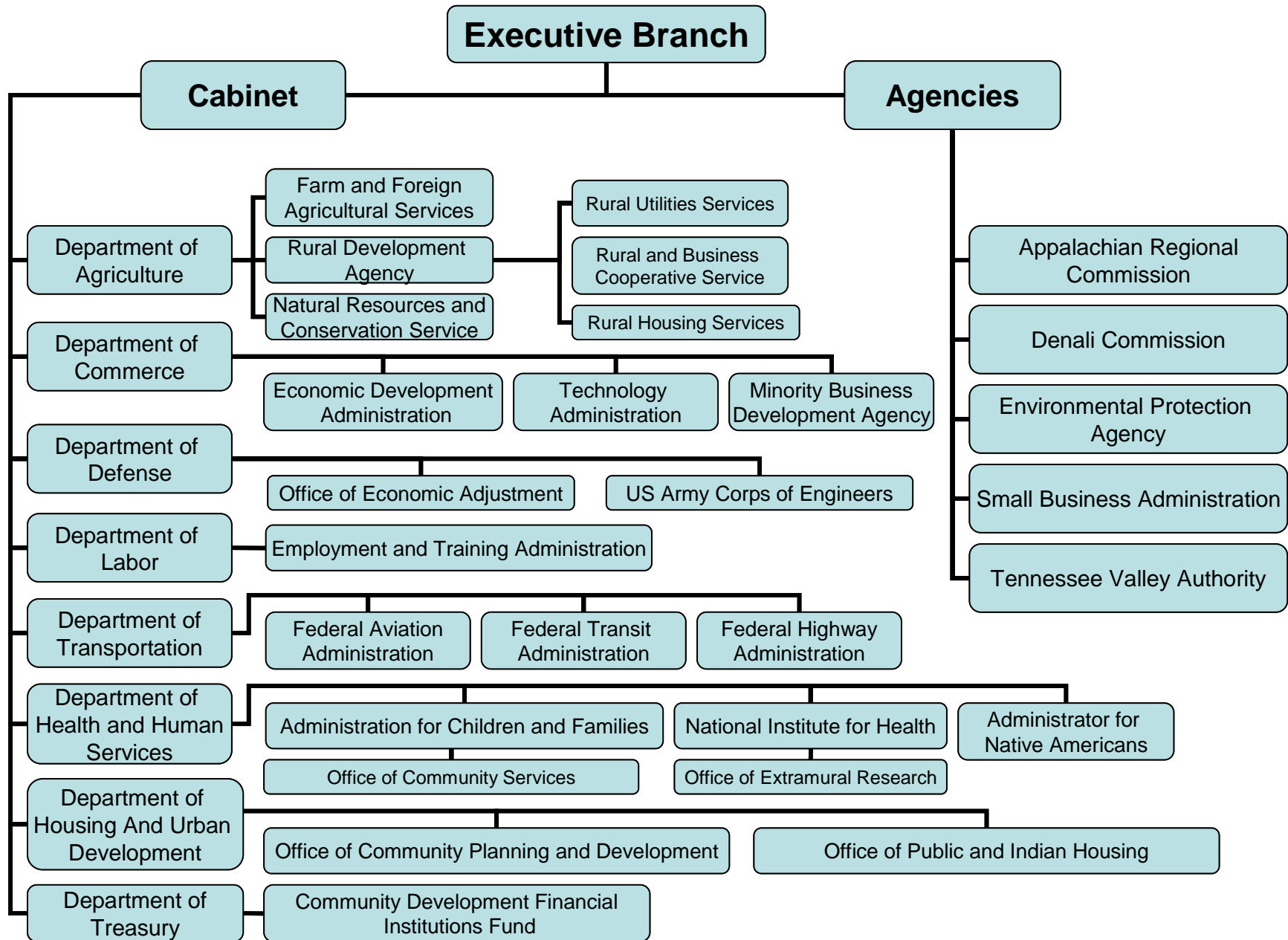


Figure 2. Total Federal Economic Development Spending (\$ billions)

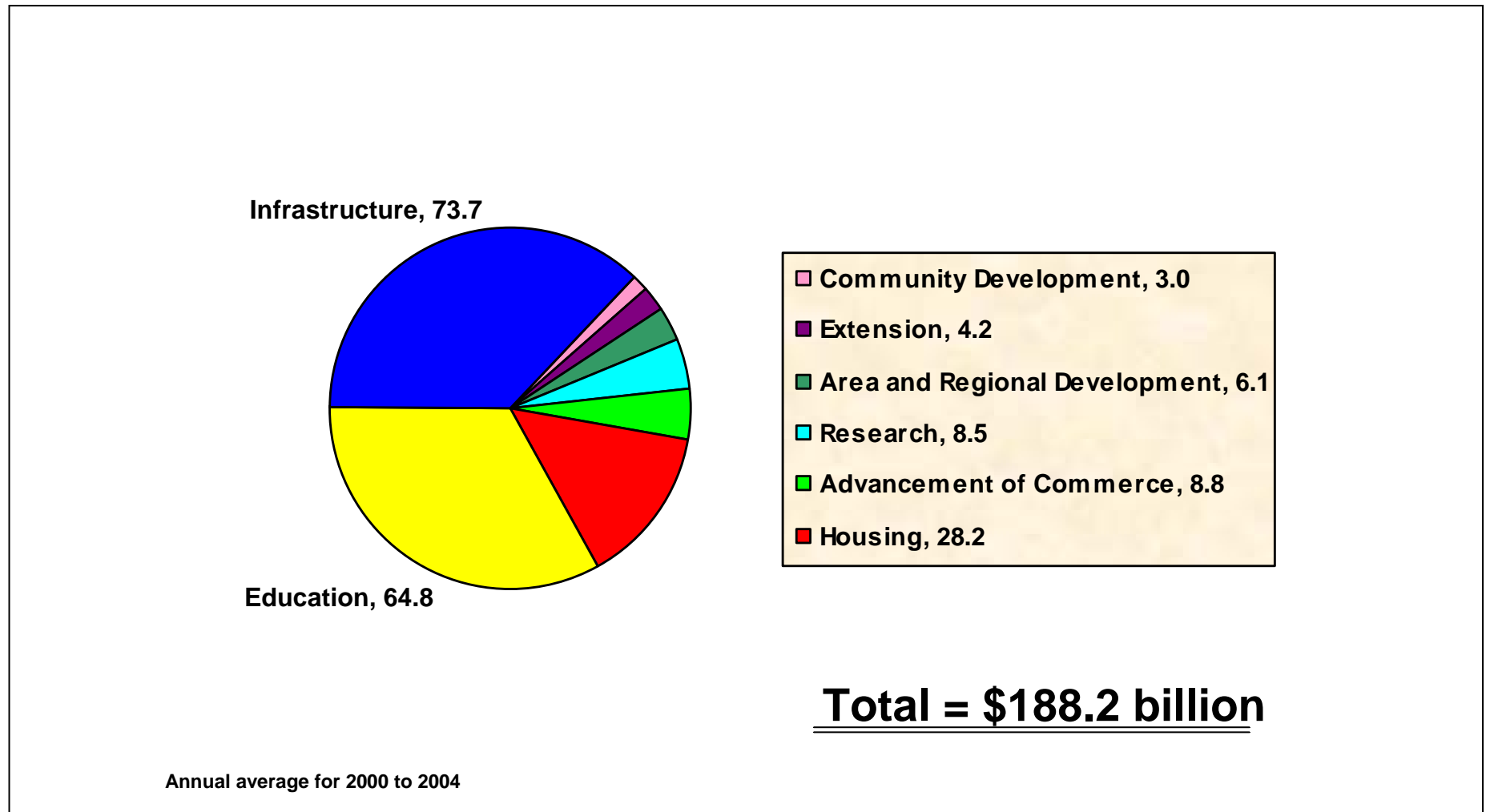
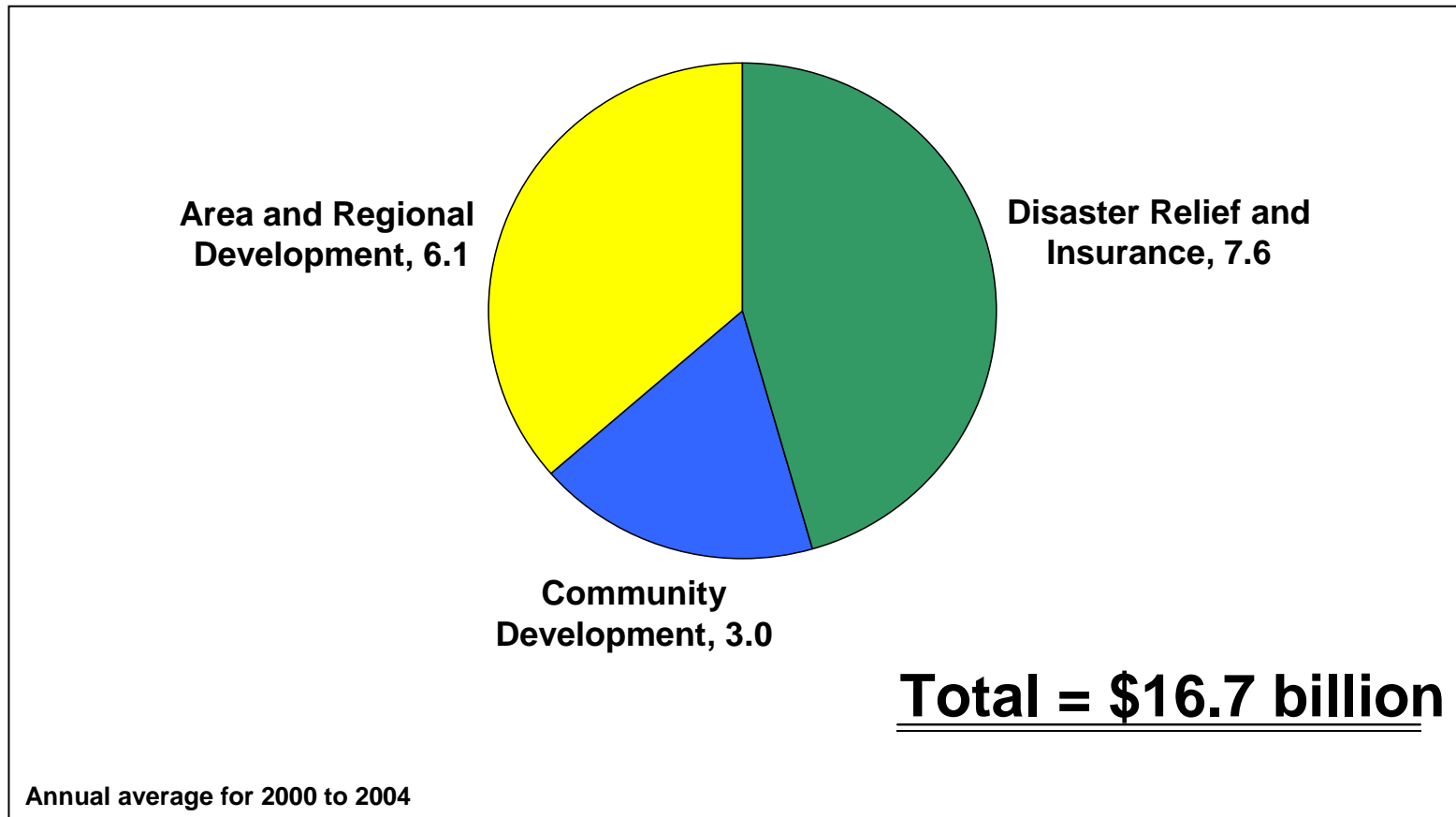


Figure 3. Federal Spending on Regional Economic Development (\$ billions)



III. THE END OF ONE-SIZE-FITS-ALL: THE EVOLUTION IN ECONOMIC DEVELOPMENT THINKING

Economists have been wrestling with economic development for a long time. It remains an ongoing field of discovery, constantly shaped by innovations in markets, technology, and human behavior. While many important questions are still being investigated, consensus is emerging that regional economic development is now driven by principles quite different from the ones that guided practitioners in the 20th century. These new principles have great value for public policy: They serve as a benchmark to evaluate where public policy is today and as a guide to where it might go in the future. This section takes a broad look at the emerging consensus among economists on what drives regional economic growth—and how that consensus has evolved over time.

Over the past half century, economic development thinking has passed through three eras. While there is considerable overlap among them, the three different periods of thinking and practice can be instructive for the future. *Industrial recruiting*, often called smokestack chasing, prevailed from the 1950s through the early 1980s. The goal here was to do whatever it took to lure a factory to town. The onset of deregulation in the early 1980s ushered in an era of *cost competition*. The goal then was to cut costs for firms in a region, especially for large industrial firms. In the 1990s, as globalization of markets accelerated, regions were forced to shift out of old industries and seize new market opportunities. Thus, the current era focuses on *regional competitiveness*, where innovation and entrepreneurship are the main drivers of growth.

These three eras correspond to strikingly different development strategies (Table 1). While economic development practice has not always evolved in step with the research, new knowledge about the economic development process ultimately influences how practitioners and policy officials act. Industrial recruitment and industrial park construction, for instance, were standard strategies to build a region's export base in much of the postwar period. These programs took full advantage of large, well-funded federal programs that helped keep local recruiting war chests full.

In the 1980s, though, as federal budgets for economic development were tightened and waves of deregulation began, industry consolidation and cost-cutting came to the forefront as strategies for regional growth. The health of a region's industries was a critical determinant of economic gains. For instance, the Rust Belt, with a concentration of aging industrial plants, struggled in the 1980s as consolidation swept through autos, steel, and other industries. The Sun Belt, on the other hand, prospered with the emergence of high technology and service industries.

In the 1990s, globalization forced regions to focus on new sources of competitive advantage. While new strategies to do that are still emerging, the principal strategy is stoking innovation and fostering entrepreneurs that exploit the region's endogenous assets. Because markets shift so sharply and swiftly, the capacity to innovate and to grow a robust seedbed of entrepreneurs increasingly separates regions that can keep pace from those that cannot. Human capital and the higher education institutions that help create it are crucial assets in this strategy.

The most recent era has been remarkable in that regional strategies are increasingly being shaped by scholarly research. This shift is occurring in part because

development practitioners, confronted daily by tectonic shifts in the global economy, are seeking new answers to pressing challenges. But it is also true that economic research is developing frameworks that can more naturally address the often conflicting development choices regions must make. While this emerging synergy between theory and practice is encouraging, it is still more evident in local strategy than in national policy.

In every era, the goal for economic development is the same—a prosperity that lifts the economic and social well-being of the residents in the place in question. While that goal has not changed, the three eras of development thinking highlight vastly different assets and strategies. In the first two stages, the focus was largely *external*—rooted in the belief that forces beyond the region were the drivers of development. By contrast, the current era puts the focus on the *region itself*, recognizing that regions can develop only by exploiting their distinct economic assets, seizing unique opportunities in rapidly shifting markets, and fostering the entrepreneurs that make both happen at once.

Another critical distinction between today and the earlier eras is that economic development is no longer a matter of one economic development strategy applied to all regions—what some might call a “one-size-fits-all” approach. Industrial recruitment was universal. Indeed, the remnants of this strategy still run far and wide. Competing on cost was a similarly far-flung approach. Regional competitiveness, by contrast, is highly idiosyncratic. Every region has a different set of economic assets, a unique capacity to innovate, its own crop of entrepreneurs, and its own opportunities in global markets. While some might argue it has ever been thus, the fact remains that the unrelenting pace of globalization now forces every region to reinvent its economic engine.

The new era of regional competitiveness has profound implications for regional development strategy and for federal policy. The biggest implications may well be at the regional level itself, since the onus for development now rests much more heavily on regions themselves. They must know their own strengths, the market opportunities before them, and craft a strategy that links one to the other. This is a much more demanding task than building a financial war chest and then recruiting factories. Simply stated, Regional competitiveness strategies demand leaders with a richer set of development skills than in the past.

There are significant implications for federal policy, too. Federal policy must be “flexible,” capable of supporting a much wider spectrum of regional development strategies than in the past. Many federal programs today fund infrastructure spending aimed to underpin an industrial recruitment local strategy. As regional strategies become more diverse, so will the demands on federal programs. Generally speaking, federal programs were not written with that diversity of outcomes in mind.

Industrial Recruitment: 1950s to Early 1980s

As America emerged from the Second World War, many of the nation’s regional economies were largely isolated from one another—geographically and economically. Rapidly developing communication and transportation infrastructures, however, were beginning to link regions in new ways. Indeed, the period was marked by an overall trend toward national economic integration. In many respects, this was the culmination of the ongoing belief that the federal government had a dominant role in economic development. Put another way, the seeds planted in the New Deal were now fully grown.

Big federal laws, like the Federal-Aid Highway Act (1956) and the Economic Opportunity Act (1965) aimed to ensure that no region was left behind. With the creation of the Appalachian Regional Commission, this thinking extended to the region with the highest poverty rates in the nation. In short, regional “islands” were effectively being pulled together into a more cohesive national economy.

A natural outgrowth of this economic view was a new framing principle for regional development—the export base model. North asserted that “the success of the export base has been the determining factor in the rate of growth in regions.” This theory essentially looked at economic development from a *demand* point of view, and stated that money must flow into a region for it to grow. The only way to get more money into the region is to export more. The resulting influx of income is spent locally, creating a cascading cycle of benefits, something economists called a multiplier effect.

Industrial recruiting became the leading development strategy in the export-base perspective. Regions tried to attract firms that could increase their exports to other regions. The principal “lures” in this recruiting game were subsidies, tax breaks, or other financial incentives that local government could offer a firm. Under this strategy, the regions with the most attractive incentives “won” more recruits, the region exported more, and the region’s economy grew more rapidly.

State and local governments were the primary agents of this strategy, doling out specialized incentives to firms. The federal government’s role was mainly one of investing in critical infrastructure and funding the welfare needs of communities. Several federal programs were created during the era to do just that. In addition to the highway and regional development acts noted above, other important program innovations

included the Community Development Block Grants, the Urban Development Action Grants, and the Economic Development Administration. Federal dollars for development were plentiful, peaking in 1978. Since then, budget outlays for regional economic development have fallen 60 percent in inflation-adjusted terms.

Industrial recruiting won so many development converts that it remains a highly popular development strategy to this day. While the practice has lingered, however, the theory has moved on. Indeed, much of the recent economic literature is devoted to critiquing industrial targeting. After reviewing many targeted industry studies and strategies, Buss (1994) concluded that industrial recruiting “is based on poor data, unsound social science methods, faulty economic reasoning, and is largely a political activity” (p. 321). Ledebur and Woodward found that economic development practitioners rarely recruit industries well-suited to the strengths of their particular region. Instead, development officials tend to “shoot anything that flies and claim anything that falls” (p. 53).

Experts concede that industrial incentives can make a difference when a firm is making a final location decision. Incentives can be a tiebreaker between two similar communities in a region that is being targeted by a firm. In general, though, economists conclude that industrial recruiting is mostly ineffective since government officials have little effect on an individual firm’s demand and costs—the ultimate determinants of a firm’s location. Finally, incentives have repeatedly been shown to be zero-sum games at best—one region’s gain is another’s loss (Ellis and Rogers 2000).

Cost Competition: Early 1980s to Early 1990s

The 1980s signaled a turning point in economic development (Kossy 1996). Two successive administrations progressively diminished federal involvement in local and regional economic development programs. Market-oriented strategies and privatization were encouraged, and deregulation became the policy rule. Active government involvement in economic development devolved to states and localities, a process that came to be known as “New Federalism.” This shift was, in fact, the key development policy innovation of the period. Regions were left with almost all of the responsibility to fund regional economic development. As a result, development practitioners began to engage more private sector players in development strategies.

Meanwhile, large capital-intensive manufacturing plants were seen to be particularly important drivers of economic growth. A widespread view was that firms could drive down costs by investing in more capital equipment—and regions would respond by creating a low-cost business environment. Moreover, analysts generally believed that promoting large investments in capital equipment would bring the promise of higher wages for almost all skill levels.

By now, regions were nearly all integrated into the national economy. While that enabled regions to hitch themselves to growth in the national economy, it also forced them to compete against each other to an even greater extent for the most prized firms. For instance, the South had become a significant low-cost destination for factories, like Saturn’s location in Tennessee. Responding to this intensifying competition, regions continued to offer a smorgasbord of financial incentives. But they also added a new line-up of programs to help firms cut costs and consolidate. Many of these programs involved relaxing regulations to make it easier for firms to merge. This approach was fortified

throughout the 1980s by efforts at the federal level to cut spending on economic development and to encourage the deregulation of various industries.

The focus on cost and consolidation implied a big shift in the keys to economic development success. The perceived keys to success in the 1980s were abundant and cheap factors of production, especially land and labor. But nothing was seen as more important than firms that were big and financially healthy. Regions tried to retain and attract capital-intensive firms by offering low-cost labor and a package of financial incentives to drive costs even lower. The goal was to help firms quickly seize economies of scale and thus drive down costs even lower. Given the general retreat of the federal government from the regional development arena, local and state governments continued to focus on poaching existing economic activity—one region's gain was still another's loss.

The focus on economies of scale had particular impacts on agriculture and manufacturing. The agricultural sector saw massive consolidation in farm numbers and agribusiness firms. Industrial cities like Pittsburgh and Detroit initially succeeded by focusing on single industries, accelerating their growth and exploiting the cost-reducing powers of mass production practices through the resulting scale economies. Florida (2000, p.8) noted that the “key to success in the old economy was simple—costs. In the mass production era, regions established competitive advantage via advantages in natural resource endowments, transportation access, the cost and productivity of physical labor, and by reducing the overall costs of doing business.”

However, regions soon discovered that cost advantages can be fleeting. Farm consolidation led to low costs and American supremacy in growing many farm

commodities, such as soybeans. Yet those cost advantages ultimately moved to other countries—Brazil and Argentina in the case of soybeans. Detroit, long synonymous with automobile manufacturing, lost its preeminence as a car-producing region as the Southeast states gained both domestic and international automobile manufacturing plants. In part, this reflected new technology displacing the old. Automotive plants in Detroit, where most car components were made in-house in large quantities (“just-in-case” inventories), were no longer the most efficient car manufacturing technique. Lean production of near-custom vehicles that relies heavily on outsourced components (“just-in-time” inventories) became more cost-effective and added significant value to the final products. Car manufacturers, therefore, increasingly chose to locate in the Southeast rather than in Detroit. The Southeast offers a much broader network of components, parts, and accessories suppliers than the narrower traditional Detroit operations (Weiler et. al. 2001).

In much the same way, Pittsburgh lost its regional hegemony in steel as production shifted from the Pittsburgh-Youngstown region to the Great Lakes and further eastward, as well as internationally. As the cost of steel from U.S. minimills and abroad continued to drop, steel production shifted geographically. As Pittsburgh’s steel technology became outdated and environmentally unfriendly, Pittsburgh lost its competitive advantage as the largest and lowest-cost producer of steel (Beeson and Giarratani 1998).

Just as the postwar integration of the national economy shaped the first stage, the widening sweep of globalization throughout the 1980s led to the disintegration of the rationale behind the second stage. Maintaining the title of “lowest-cost producer” is

manageable when the only contenders are a few other regions in the nation. Maintaining that title when the contenders come from every corner of the globe is truly Herculean.

The challenge became increasingly difficult in rural America in the 1980s. Rural communities “suffer because their employers tend to take the ‘low road’ of competitive strategy of cutting production costs” (Green 2002). Rural communities continued to recruit factories throughout the 1980s. But the costs of the associated incentives soared, and more and more rural factories began to close down and move overseas. As moving production overseas became more feasible, a regional strategy of consolidation to compete on the basis of low cost became increasingly fragile.

In sum, as the 1980s wore on, economic experts increasingly concluded that cost competition was a strategy coming to an end. More and more regions discovered they were essentially in a race to the bottom. As one analyst put it, for regions that watched their firms leaving, “the only alternative...appears to be lowering wages and [costs] to the lowest common denominator. Much of the stress on improving local ‘business climates’ in the United States in the past two decades is driven by the belief that localities have no other options” (Markusen 1996, p. 294).

Regional Competitiveness: 1990s to Present

Globalization proved to be the undoing of both industrial recruiting and cost competition. Regions that were still chasing smokestacks quickly discovered that recruiting was too expensive when the competing locations spanned the globe. And they learned that driving down costs was no guarantee of economic gains when costs were

dropping faster elsewhere in the world, or when turmoil in global markets eliminated the very markets that had been their mainstay.

Researchers now recognize that regional economies must constantly create new value in global markets by exploiting their indigenous strengths. This is a complex process, but one that many experts now refer to as *regional competitiveness*. The process is fueled by innovation—an ability to invent ideas and bases of knowledge that can open up new economic vistas. In the same way that automobiles displaced buggy whips, so regions now explore whether fields of pharmaceutical crops can displace commodity corn. If innovation is the fuel in the process, then entrepreneurs are the engines—turning ideas and knowledge into jobs, income, and wealth. Whereas past development strategies often aimed at big firms, small entrepreneurial companies are the pack mules for economic development in the 21st century.

This trend broadly corresponds to a major shift under way in the U.S. economy. The economy is transforming itself from producing goods to producing knowledge-driven services. Goods production favored big firms that could capture economies of scale; now those same firms are migrating overseas in search of lower costs. Knowledge-intensive services, on the other hand, are created by firms of many sizes, but small firms have an especially important role in commercializing new technologies. The high-tech electronics sector is a good case in point.

Economic development strategy shifts dramatically when regional competitiveness is the goal. The very root of competitiveness is a region understanding its inherent economic strengths—and the markets available to exploit them. Accordingly, development strategy is moving away from industrial recruitment and being a low-cost

competitor to strategies that help regions identify and exploit their distinct assets—things like human capital and scenic amenities.

This shift in development strategy is being led by some big strides in economic thinking. Until 1990, economic growth theory centered on increases in physical capital and the supply of labor as the main drivers of economic growth (Acs and Varga 2004). Romer (1990) stood growth theory on its head when he asserted that technology should no longer be taken for granted (that is, as being exogenous to a region's strategy). Instead, he argued that economies grow when they recognize that technology is *internal* to their strategy. Growth occurs, he concluded, when economies accumulate a lot of technical knowledge and find ways for this knowledge to “spill” across firms. With knowledge and technology at the center of this framework, Romer concluded that economies with more human capital will experience faster growth than regions with less. This hypothesis has repeatedly been proved true by researchers (for example, Marthur 1999). Romer's growth model was later extended to regions by several regional economists.

The theory that a region's growth depends on exploiting its indigenous assets is the critical foundation to *regional competitiveness*, the third stage of regional economic development. This framework for explaining how regions grow has developed in three distinct strands of economic research. Some economists are focusing on the importance of clusters, suggesting that a concentration of similar firms creates synergies that can fuel growth. Others describe a new economic geography, in which local amenities are critical determinants in creating a pool of skills and capital that can spawn new ideas and businesses and grow a region's economy. Still others focus more on entrepreneurs and

innovation, arguing that fresh technologies and the right climate can lead to a rich seedbed of businesses, spurring economic gains. While each strand has merit in its own right, together they form a strong consensus that regional competitiveness is becoming the accepted model for regional economic growth.

The Rise of “Regions”

Before discussing the thinking that has given rise to the regional competitiveness model, it is important to understand a concept that underlies the entire framework. All three strands of thought on regional competitiveness acknowledge a common starting point—regions have become the essential unit of economic development rather than individual communities or even counties.

Globalizing markets have been sweeping away the myth of long-term economic foundations for local economies, a process that accelerated in the 1990s. Export base analysis, the underpinning for the industrial recruitment era, implied a lasting comparative advantage in a relatively well-defined niche. Globalization, however, was quickly creating a previously unimaginable number of competitors through decreases in transportation costs, opening of markets, and the rapid spread of technology around the world. Local communities found previously unassailable factories and offices under siege, and began to realize that new specializations based on fresh competitive advantages would be necessary. The need to differentiate products and services to create the most value in the marketplace may ultimately be the key factor making regions the practical and analytical operational unit for economic analysis in the new millennium.

The process by which regions have become a critical unit of development can be

linked to evolutions in both scholarly and policy thinking starting in the 1980s. Regions were coming to an understanding of knowledge-driven growth. Policy was devolving from federal to state and local governments, making regions more integral to understanding the impacts of policy. And globalizing markets were sweeping away tenets of the export base model.

International economists began to apply their frameworks to regional economies, sensing that national boundaries were not the only demarcations that trace functional economic areas. Krugman's work is perhaps the most well-known example. His 1991 study on the geographic dimensions of trade is widely regarded as the fulcrum for much of the ensuing research on the importance of regions throughout the 1990s. Krugman's framework arrived at a fortuitous time. Synergies with Romer's new focus on technical knowledge opened a wide range of models with which to better understand the regional growth process.

A powerful impetus to refine economic understanding of regions was mounting evidence that economic performance in the 1990s ranged widely across regions and metropolitan areas. If regions are all performing alike, there is little need to think regionally—in policy or in analysis. Economists had long been interested in whether economic performance converges across nations. In the early 1990s, that interest shifted to the question of convergence across *regions* (Barro and Sala-i-Martin 1991).

In the early stages of analysis on this question, several studies suggested that performance was in fact converging across regions, albeit at a very slow and often halting pace. More recent evidence, however, indicates that indications of convergence may often be illusory (for example, Cheshire and Carbonaro 1995). At the same time, some

studies suggest that overall indications of convergence often mask persistent differences in wages and employment conditions across regions (for example, Weiler 2001).

A pivotal body of research emerged in the late 1990s that put still more focus on regions as a unit of economic development. Romer's work had already shown that accumulating knowledge is critical to growth. An exploding body of research in the late 1990s began to show that innovation is not at all equally distributed across regions. In fact, it tends to concentrate in places with greater density, where "agglomeration effects" are great. Larger cities tend to have disproportionately greater rates of innovation than diffuse rural areas (Verba, Orlando, and Weiler 2005). Knowledge spillovers are greater in cities but have a geographic limit, again underscoring the importance of a regional perspective (Anselin, Varga, and Acs 1997; Audretsch and Feldman 1996; Jaffe, Trajtenberg, and Henderson 1993). Finally, the importance of achieving some agglomeration effects has been reinforced by the complementary conceptual literature on the role and importance of business clusters (e.g. Porter, 1998).

Precisely what a "region" is in the context of economic development is not well-defined, but the answer is driven by two key characteristics.

The first is a hub city that creates agglomeration benefits. The focal point of any "region" tends to be one or more towns or metropolitan areas that act as a functional hub for commerce in the region. The city becomes a hub because its business networks, labor pool, and transportation costs give it cost advantages in providing goods and services (Krugman 1991). Empirical research confirms an astonishingly orderly pattern of hierarchy of such agglomerations, each serving some role as a central hub for regions of varying scales (Krugman 1996).

The second is the need to create a sufficient level of critical mass that can be usefully leveraged in the broader marketplace (Blair 1995). The notion of critical mass applies to a range of economic assets, from human capital to financial capital. In the 19th and early 20th centuries, effective regions may have comprised just one or two communities. However, both technology and the realities of the globalizing marketplace are making broader regional entities critical to regional growth prospects.

Devolution in federal policy has also put more emphasis on “regions.” In the early 1980s, considerable numbers of previously federal programs were devolved to state and local governments, a process described at the time as “New Federalism.” The motive behind this process was to move decisions down to the level of government which had the best knowledge of local contexts. Thus, devolution necessarily created a “regional” perspective on the provision of public goods and other government services but required a similarly clear perspective on regional economies. The policy community thus began to tap into the regional economics expertise that had quietly been developing since the 1950s (Boyce 2004).

Clusters and Regional Development

Some economists believe that vibrant economic clusters are the key to explaining prosperous regions. Under this view, clusters create synergies in tapping markets, adapting technologies, building a pool of skilled workers, and spurring the growth of new businesses. Places like Silicon Valley and Research Triangle are often studied as examples of this theory.

The cluster view is rooted in Romer's model. The idea is that knowledge tends to accumulate in particular regions, spawning beneficial synergies across firms in those regions (a phenomenon Romer calls knowledge spillovers). This has led economists to believe that knowledge-dependent firms (such as in high-tech industries) will tend to concentrate geographically. For example, Audretsch and Feldman (1996) showed that industries with knowledge spillovers have a greater likelihood to yield a pattern of geographical clustering than industries where spillovers are less pronounced.¹

Like Audretsch and Feldman, Porter has tried to explain concentrations, or clusters, of firms in a region. Porter believes that clusters are central to determining regional competitiveness and how it can be improved. He defines a cluster as "geographic concentrations of interconnected companies and institutions in a particular field" (1998, p. 78). Well-defined clusters take many forms: firms producing the same end-product or service; locally based suppliers for specialized inputs and services; financial institutions tailored to specific clusters; firms that make complementary products; and firms that specialize in building infrastructure. The concentration of carpet manufacturers in Dalton, Georgia is a good example of an established cluster.

Clusters are often supported by government programs or universities that provide specialized training, education, technical support, and information research for the cluster. For instance, the University of California-Davis has extensive research and technical support programs for the California wine industry. Clusters are also supported by a variety of private sector trade associations or entities (Porter and others 2004).

¹ Audretsch and Feldman made the key assumption that knowledge spillovers are more likely in industries where industry research and development, university research and development, and skilled labor are of particular importance. Knowledge and its spillovers continue to be acknowledged as critical foundations to the endogenous growth process.

Under Porter's approach, a well-defined cluster can increase the competitiveness of a region in three ways. First, clusters improve the overall productivity of the region, as industries have wide access to needed suppliers, information, and technology. Second, clusters foster innovation in the region. The sheer concentration of similar entities allows companies to recognize new products and processes quickly. In addition, the many suppliers and research institutions nearby make experimentation easier. Third, clusters help ideas flow quickly into the market because the cluster has all the necessary ingredients to commercialize innovation. Start-ups and spin-offs can readily tap technical and business expertise, critical inputs, and capital (Porter and others 2004). The new automotive industry in the Southeast cited above is a good example of these dynamics.

The cluster approach has clear implications for economic development strategy. Porter suggests that each region must evaluate its own assets and then develop them into clusters. The choice of clusters is unique to the region; regions should not compete with well-established rival clusters in other regions. In other words, one cluster does not fit all regions. "Cluster development initiatives should embrace the pursuit of competitive advantage and specialization rather than simply imitate successful clusters in other locations" (1998, p. 89).

Porter also believes that every region can find a cluster that will give it a competitive advantage in the market. For instance, he believes inner cities have cluster potential—assets such as strategic central locations, integrations with regional clusters, unmet local demand, and underemployed human resources all have the potential to fuel new growth (1999, p. 34). Similarly, he argues that rural regions should concentrate on specific strengths instead of trying to match the strengths of urban areas (2004).

Available land and labor are among the strengths rural regions hold when compared with urban markets that are highly congested. Isserman confirms this competitive attribute. “Rural America has great competitive advantages for development, not the least of which is abundant land available in large lots, generally uncontaminated and undeveloped, at relatively low prices” (2000, p. 126).

Strategies to develop clusters are strikingly different than those that promote industrial recruitment and low-cost production. The private sector plays a much bigger role. Porter asserts that markets, not governments, should determine successful clusters (1998). However, government—especially at the state and local level—can play a critical supporting role. They can foster a fertile seedbed for clusters by ensuring a well-educated citizenry and providing essential infrastructure. And universities can foster the success of local businesses by being sources of innovation and support services for entrepreneurs. In the end, the most successful clusters likely flow from strong partnerships universities, the private sector, and state and local government.

Saxenian (2002) extended the cluster model of development by studying how knowledge is shared within clusters. To explore what strategies lead to successful clusters, she studied the contrasts between two famous industry clusters—Silicon Valley and Boston’s Route 128. She discovered that the mere presence of firms was not enough to produce economic success in either region. Silicon Valley built a competitive advantage on the coordination and collaboration that developed from a culture of close relationships among its firms. By contrast, Boston’s Route 128 firms were more wedded to an older culture of strict allegiance to their own company. This resulted in much less sharing of knowledge. Saxenian further concluded that regions were better arenas for

policy decisions than the federal government, as regions are better able to assess their strengths and weaknesses. Regional policies should facilitate and coordinate collaboration rather than manage actors in the region.

Cluster analysis is not limited to industry clusters. Feser (2003) has developed a framework for identifying knowledge clusters based on occupation. But Feser is not alone in shifting the development focus from industry to occupations. Markusen sees “occupations, rather than industries, more directly captur[ing] the increasingly important human capital contribution to local economic development” (2004, p.7). She encourages regions to identify and target spatially clustered occupations that are highly skilled, show growth potential, connect with other sectors, promote entrepreneurship, and match the potential of the area workforce.

The New Economic Geography

Even as Romer, Porter, and others were focusing on clusters as drivers of new competitive advantage, Krugman focused his work on explaining the new geographic pattern of economic growth he saw emerging. In particular, he was interested in explaining why economic activity concentrates in some regions even as others remain underdeveloped. Like Porter, Krugman sees economic concentration arising from supply and demand linkages rather than purely from technological spillovers (Krugman 1991).

Krugman styled his model of regional economic growth *the new economic geography*. A central concept in this model is one long known to economists—agglomeration. Agglomeration describes the concentration of economic growth in a relatively small area, creating a dense hive of economic activity. Manhattan in New York

City is a clear example. Krugman explains agglomeration in two interconnected ways. First, a core value-added industry (in his example, manufacturing) tends to concentrate where there is a large market in which to sell the industry's finished products. Second, as society spends less income on agricultural goods, people who once lived in rural areas will tend to move to the city in search of a wider variety of consumer goods and services, satisfying their innate craving for variety. Thus, Krugman's model results in the core industry concentrating in one region surrounded by a depopulating periphery.

The new economic geography explains *why* economic activity concentrates, but says very little about *how* regions can make use of their assets to grow. Krugman readily admits the main goal of the new economic geography has been explanation and not policy conclusions (Fujita and Krugman 2004). Yet the new economic geography perspective sheds important light on the importance of variety to consumers. In essence, the model predicts that regions that have big core industries and which offer a wide variety of goods and services to consumers are likely to see a growing concentration of economic activity. And, importantly, this agglomeration tends to beget still more agglomeration, creating a virtuous development cycle.

The Krugman model paints a rather bleak picture for the "periphery." Kilkenny argues that the assumptions in the new economic geography model (such as costless agricultural transportation) render it incapable of simulating rural development (1998). She believes the key to rural development in an economy where other areas benefit from agglomeration is to find ways to boost real rural wages. In the Kilkenny approach, the best way to raise rural wages is to exploit the variety of rural amenities. In a sense, this lifts the noted preference for variety directly out of Krugman's model, but in this case

works to the *advantage* of a rural region. This amenity approach only works, though, if rural regions can offer lifestyle amenities and/or goods and services that high-skill workers cannot find or afford in metro areas. Finally, she suggests that regional partnering is a critical ingredient in this rural competitiveness strategy. Through complementarities and synergies, partnerships across traditional jurisdictional boundaries permit a rural region to create a wider menu of amenities for both workers and firms.

Kilkenny is not alone in suggesting local amenities are key assets in a regional competitiveness strategy. Florida claims that regions maintain a competitive advantage by creating, retaining, and attracting knowledge workers (2000). Natural, recreational, and lifestyle amenities are crucial in attracting and retaining workers in the high technology firms and industries. “The new economy dramatically transforms the role of environment and natural amenities from a source of raw material and a sink for waste disposal to a key component of the total package required to attract talent and in doing so generate economic growth” (p. 5). Florida’s “creative economy” approach has rapidly attracted many adherents in the urban political and policy mainstream.

Entrepreneurship, Innovation, and Growth

Many economists have been investigating the connection between entrepreneurial activity, innovation, and regional economic growth. The link between entrepreneurship activity and regional growth is difficult to pin down because it is hard to disentangle the flow of causation. Moreover, theorists have only just begun to explore the principles that wed the two concepts.

But economists have uncovered some important findings that do link entrepreneurship and regional development. Holtz-Eakin and Kao (2003) found that increased entrepreneurship (measured by firm birth rates) leads to higher productivity in a region. On a case study basis, Saxenian (2002) found skilled immigrant entrepreneurs generated jobs, exports, and new wealth for the Silicon Valley region. She concluded that skilled immigrants are a significant asset for the highly innovative California economy. Huffman and Quigley (2002) also found that government investments in high-quality higher education institutions were important in attracting and retaining human capital and entrepreneurial talent in Silicon Valley.

Other analysts have focused on the unique roles of innovation and entrepreneurs as engines of growth in building regional competitive advantage. Building on Romer and Krugman, Acs and Armington formed a model that explains regional employment growth rates as a function of three key factors: entrepreneurial activity, agglomeration effects, and human capital. Their empirical analysis found that higher rates of entrepreneurial activity were strongly associated with faster rates of regional economic growth. They also found that new firms are more important drivers of growth than the existing firms in a region, and that knowledge spillovers are a key ingredient in spurring business starts and regional growth (Acs and Armington, 2004). Theories of economic growth are thus giving more weight to entrepreneurship, trying to explain better how knowledge spillovers and new firms can help sustain regional growth.

Even as entrepreneurship is becoming a more important driver of regional growth, innovation is increasingly viewed as a critical driver of business formation. The links between entrepreneurs, innovation, and regional growth actually have very early roots in

economic thinking. In the early 20th century, Schumpeter suggested the process of “creative destruction” is a powerful driver of economic growth (Schumpeter, 1911). Put simply, he argued that vibrant economies are constantly churning, with some firms dying and others being born. Dynamic entrepreneurs that turn new ideas into markets, he argued, are the key to a dynamic economy.

Today, the concept of innovation and its spillovers is reviving Schumpeter’s growth theory. It is also providing a critical conceptual bridge between entrepreneurship and regional economic growth that to date has been missing. Under this view, entrepreneurs either create or transmit fresh innovations, which must stand the test of the marketplace. Success is defined by the ability of entrepreneurs to continually convert ideas into market profits, thus creating new value in a region’s economy. In a sense, innovation is the fuel that drives a region’s entrepreneurial engine. Greater amounts of knowledge accelerate innovation, create fresh opportunities for entrepreneurs, and result in robust economic growth for the region. Put simply, regions should stoke the fires of innovation if they want more entrepreneurial activity—and faster rates of economic growth (OECD 2003).

Innovation is an intangible and thus difficult to measure. One proxy is a region’s patent activity (Scherer 1984; Acs and Audretsch 1989; Griliches 1990). With innovation and economic growth in mind, however, patents actually fall into two distinct groups. The first group is *radical patents*, ground-breaking innovations that lead to entirely new products or services. In general, this type of innovation leads to a whole new class of patents, spawning a new product cycle and even a new industry in its wake (Henderson and Clark, 1990). The internal combustion engine is a prime example.

The second group is *incremental patents*, patents that add value incrementally by improving a product's features or lowering its production costs. Such patents normally occur in a maturing product (Feldman 1994) and large firms (Baumol 2004). While such innovation helps industries grow and become more efficient, they rarely lead to groundbreaking products and industries. Nevertheless, Baumol suggests that the cumulative effect of incremental patents can be as big or bigger than for radical patents.

Economists interested in regional development have generally focused on radical patents, believing that such innovations have a bigger economic impact. To date, much of the research has focused on understanding what factors make regions more likely to produce this type of innovation. One key finding is that larger cities tend to generate most of the radical patents (O'Hallachain 1999). In fact, radical patents tend to fall off sharply as you move away from metro areas (Anselin, Varga, and Acs 1997; Audretsch and Feldman 1996; Jaffe, Trajtenberg, and Henderson 1993).

Economists believe that urban centers create more innovation because they allow all kinds of information to be shared easily (that is, they are "thick markets"). For entrepreneurs, this means it costs less (especially in terms of transaction costs) to develop new products (Wood and Paar 2005; Glaeser 2000). These cost savings are especially important, given the high-risk nature of ground-breaking products. Cities are also more likely to spawn spillovers of knowledge across innovators—it is simply easier to share information in places like Silicon Valley. Finally, cities provide a bigger local market in which to sell new products (Schmookler 1966).

Incremental patents, on the other hand, lend themselves to more outlying areas. These innovations take longer to develop and are less risky to undertake, reducing the

advantages of cities. Moreover, since process patents focus on lowering costs, peripheral areas are prime places to benefit because they offer low costs of doing business themselves. Thus, mature innovations tend to emanate from more peripheral regions.

Other factors are also important in explaining which regions have more radical patents. Such regions tend to have high levels of private spending on research and development, as well as considerable concentrations of engineers and scientists (Orlando 2004). There is an ongoing debate on whether innovative regions are specialized or diverse in their industry mix. Some recent evidence suggests the most path-breaking radical innovations occur more readily in areas with complementary industry clusters that share a common pool of skilled workers (Feldman and Audretsch 1999).

Peripheral regions tend to have smaller amounts of all these driving factors, resulting in fewer radical patents. Yet a concentration of human capital can still make a difference. Even in rural regions, concentrations of human capital, such as where higher education institutions are located, often lead to a boost in innovative activity (O'Hallachain 1999; Verba, Orlando, and Weiler 2005).

Researchers and policy officials alike are recognizing that there is no one way to spur innovation in regions. Policies aimed at stoking innovation generally have a common starting point. They all build on Romer's growth theory and recognize that knowledge is a critical driver in regional growth (Todtling and Trippl 2004). Yet regions face distinct obstacles in their quest for innovation, and different combinations of public and private strategies are probably needed in each instance (Sampson 2004).

An important research finding for policymakers is that innovation apparently can be spurred in lagging regions. Public policy may be especially effective by helping

“knowledge networks” form. For example, despite the disadvantages of their location, rural regions may nevertheless be able to tap into the rich knowledge reserves of cities, perhaps by extending recent innovations or by complementing innovators with necessary supplies and services more easily generated in urban centers. For this strategy to succeed, networks are needed that help rural businesses partner with city counterparts. These support networks for innovation can be encouraged through policy initiatives, especially if public programs supply missing links in the network. For instance, Oklahoma State University helped launch the Northeast Oklahoma Manufacturing Alliance. This network helps small rural firms tap innovation they would not otherwise adopt.

At the same time, researchers generally provide a warning to regions that lead in innovation—watch your back! Leading regions generally only maintain their initial advantage by continuously reinventing themselves (Co 2002). A diverse industry mix appears to be helpful in this regard. Co’s results indicate that regions with diverse industries tend to generate faster rates of innovation. In leading or lagging regions, continual investment in human capital and knowledge creation is critical.

Summary

The most recent wave of regional development strategy is still evolving. Nevertheless, key research findings from the three strands of thinking seem to be converging in a single focus on helping regions build and sustain their competitive edge in global markets. Globalization has made regions the essential unit of development. Clustering can provide the foundations for economic growth of a region. These

foundations in turn can create significant and beneficial knowledge spillovers in a region. These knowledge spillovers can be translated into innovation-led regional growth by nurturing entrepreneurs. In the end, everyone agrees that regions must do more to exploit their indigenous assets in tapping new markets.

This marks a sharp contrast with the two prior eras of economic development thinking. Under industrial recruiting or cost-cutting, economic growth was essentially shifted from one region to another. In many respects, development was a zero-sum game. In contrast, putting the focus on innovation and entrepreneurship essentially leads to *new* economic activity. Thus, this approach brings benefit to both regional economies *and* the macroeconomy.

The three stages of economic development thinking are far from sharp, distinct steps. Indeed, the first two still dominate the development landscape, with efforts focused on innovation and entrepreneurship just emerging. Cities and states are still chasing smokestacks. Consolidation continues in agriculture, manufacturing, and other industries, helped along by deregulation and efforts to lower costs in many regions. Comparatively few regions are forging new strategies to spur more innovation and foster more entrepreneurs.

Federal policy itself is still shaped by all three eras. While federal funds to support industrial recruitment have declined from the peak reached in the 1960s and early 1970s, an alphabet soup of grant programs continues to enable recruiting efforts at the local level. Many federal programs are still focused on deregulation and helping industries cut costs. More recently, some parts of federal economic development policy have begun to shift to a regional competitiveness model. The Economic Development

Administration is taking a more regional approach to its funding in contrast to past support of more typical local city and county development plans. Nevertheless, measures to align federal policy with a regional competitiveness framework all appear to be in their very early stages.

While the policy shift is still limited in the United States, helping regions hone their competitive edge is becoming a more prominent focus for policy in other countries. A 2003 global conference on innovations in economic development policy concluded that policies aimed at building new sources of regional competitive advantage are of growing importance in many developed nations (OECD 2003).

Regional competitiveness is becoming a policy priority because many nations are now convinced that the drivers of national competitiveness have become more local. This has given rise to a broad spectrum of innovations in development policy. In general, these innovations have three things in common: They are built on regional strengths; they aim to exploit agglomeration effects; and they try to enhance the capacity and speed with which regions innovate. This policy framework aligns fairly well with the consensus emerging among economists on the framework for regional competitiveness.

The OECD's Territorial Development Policy Forum has served as a leading forum for discussing the emerging framework for thinking about regional development and the innovations taking place in development policy. The discussion has increasingly focused on two key factors (OECD forthcoming). The first is identifying the factors that most contribute to a region's *competitiveness*, especially those that can be influenced by public policy. The second is creating new processes whereby regions can effectively tackle the complex challenge of building new sources of competitive advantage.

Regional governance is the term often applied to the wide realm of processes that now fall under that umbrella.

Much remains to be learned about regional competitiveness as a development framework. On one thing, though, analysts agree: Globalization promises to remain the driving force in shaping regional development strategies—and in moving them in the direction of helping regions maintain a competitive edge. Globalization creates constant turmoil in markets for goods, services, capital, and currencies. While some decry resulting outcomes, such as outsourcing and offshoring, Schumpeter is probably just smiling. Globalization gives regions little choice but to find new ways to use the resources they have to exploit the markets they can reach. This is the very essence of regional competitiveness, and there is every sign that globalization will make it an even more important process in the period ahead. Strategies that help regions innovate and grow businesses with the resources at hand have become central features in state-of-the-art models of economic development. One size no longer fits all—today, it's every region for itself.

Table 1. Three Eras in Regional Economic Development Theory & Practice

	Industrial Recruiting: 1950s to early 1980s	Cost Competition: Early 1980s to Early 1990s	Regional Competitiveness Early 1990s to Present
Driver	Export base	Scale economies	Innovation & entrepreneurship
Strategies	Financial incentives to firms Industrial parks	Industry consolidation & cost-Cutting Deregulation	Entrepreneurship Clusters Commercializing Research
Keys to Success	Government funds for subsidies and tax breaks Industrial infrastructure	Health of existing industries	Distinct regional assets, such as: Human capital Higher Education Amenities

IV. FRAMING A NEW FEDERAL POLICY FOR REGIONAL ECONOMIC DEVELOPMENT

For more than a half century, the federal government has actively participated in regional economic development. Globalization, however, has essentially changed the rules of the game. Economic development is no longer about chasing smokestacks, nor is it merely about efforts to drive down the costs of doing business in a region. What is more, economic development is no longer about single communities or single sectors. To play the new game, firms and communities increasingly must partner as a region to muster the resources needed for the markets they can reach. And when the economic score is posted, the winning edge often depends on a region's capacity to innovate and to grow new businesses.

While regional economic development has undergone enormous change, federal policy aimed at economic development has not. This begs the question: How might federal policy align with the new growth paradigm?

A good starting point is to recap what regions must do to grow their economies. Every region in America must now meet one basic challenge: *the vigorous pursuit of a competitive edge in rapidly changing global markets*. In each case, building and retaining that edge will involve three steps: (1) understanding the region's critical economic assets; (2) identifying the best market opportunities for the region; and (3) crafting a strategy that exploits one to seize the other.

In carrying out this strategy, there are two critical ingredients. Innovation is the new fuel in creating regional competitiveness (Council on Competitiveness 2004). In a global market where the costs of producing basic products is often several times lower in

other countries, the key is to find the next *new* product, not compete on the *old* one. Innovation is the fuel to create the new ones. A lot of innovation flows from basic research. But every region needs more than just basic research—it must identify the strands of innovation that work best in that region. This "spatial linking" of research is mostly an untested frontier at present.

To be sure, innovation encompasses much more than just research and technology. In the future, successful regions must be willing to invent and build new economic engines. These new engines will include everything from basic industries like timber products to high tech industries like fiber optics. The key is being able to reinvent a region's economy in tune with the rapidly shifting tides of global markets. Agility and the willingness to embrace change will largely define a region's "innovative capacity." While difficult to quantify, this ability to innovate will be critical to regional economic gains.

Entrepreneurs are the second key ingredient. As old products reach a mature phase and competition intensifies, regions need more than the fuel of new technologies and fresh ideas. They also need entrepreneurial engines to drive new growth. Not all of these engines will keep on running, but those that do will define a region's competitive edge in the marketplace.

These two key ingredients have strong synergies. Drucker argues that innovation is the "specific tool of the entrepreneur" and the means by which change and innovation are brought to the marketplace (Drucker 1985). Moreover, he suggests that entrepreneurs can become more proficient in leveraging innovation—that a "purposeful and organized search for change" can yield more and better entrepreneurs. In many respects, the quest

for regional competitive advantage is all about a more systematic approach to innovation at the regional level.

If this is what regions need, how is the nation's current development policy helping them? The answer emerges at federal, state, and local levels. At the federal level, our review of economic development efforts turned up 180 development programs. Most were enacted with the *industrial* economy in mind, not the *entrepreneurial* economy. Most were created with a homogeneous development landscape in mind—a premise that all regions grow their economies in the same way. In short, many federal programs fail to recognize that innovation and change are the new order of the day, that entrepreneurs have become a much more important driver of regional growth, and that industrial recruitment is no longer the single path to regional development. In practice, this means that federal programs are not flexible enough to accommodate the full spectrum of development challenges facing regions in the 21st century.

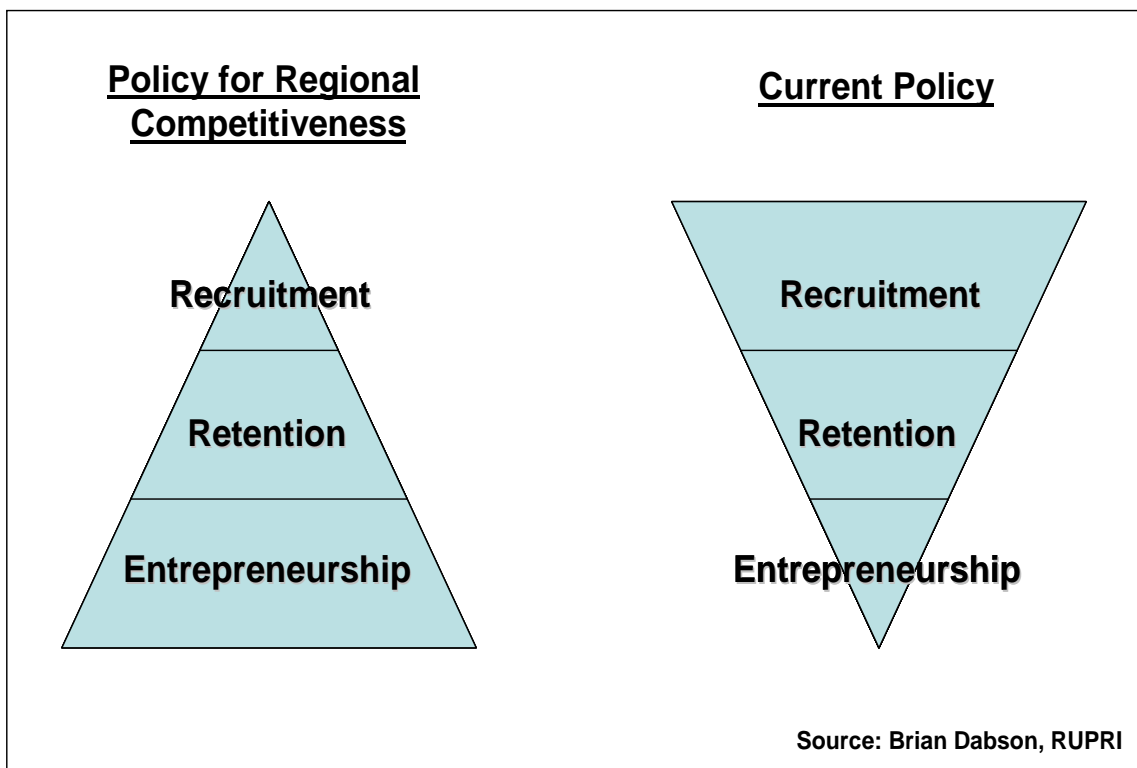
At the state and local level, meanwhile, policy is overwhelmingly aimed at recruiting businesses (Buss 2001; National Council of State Legislatures 2000). The dollars spent on these efforts run into the billions of dollars, while the impact is increasingly questioned by analysts. Some effort is aimed at retaining existing businesses, with limited attention to stoking innovation or growing entrepreneurs.

Dabson suggests a pyramid to describe a policy framework that supports regional strategies focused on innovation and entrepreneurship (Dabson, 2005). Policy is rooted in a broad effort focused on growing entrepreneurs (Figure 1). Some attention is given to retaining the businesses in a region. Only a small portion of effort is focused on recruiting, and then only those firms that complement the region's competitive strategy.

At the state and local level, at least, current policy is exactly the reverse. The entrepreneurial base is simply too narrow for the strategy to be sound. And in a global economy where competitors are everywhere, the cost of recruiting businesses can no longer be sustained.

While it is less easy to fit federal policy into this pyramid structure, it is certainly true that entrepreneurship is a comparatively small portion of the federal effort today. Moreover, with heavy emphasis on physical infrastructure, federal programs are often viewed by state and local governments as justifying their focus on business recruitment.

Figure 1. A Potential Realignment of Economic Development Policy



Put simply, federal, state, and local economic development policy is not currently designed to help regions build and sustain a competitive edge. Changing that will require policy shifts in Washington and in state and local governments. Federal policy is a good place to start, though, since it creates the broadest framing for public policy on economic development. Putting regional competitiveness at the heart of federal policy will align federal policy with what drives regional growth in the 21st century. It will also be the first time that federal policy has really had a unifying goal. In that respect, it should make federal programs both more effective and more efficient, a salutary outcome in a period of large budget deficits. The remainder of this section discusses three broad shifts in federal policy that could support regional competitiveness.

Before discussing them, though, it is useful first to consider *why* the federal government is concerned with regional development. Some may suggest that federal policy should be focused strictly on the national economy, leaving regional development to state and local governments. There are three clear arguments against that position.

Economists have long suggested that “equity” is a foundation for federal policy in regional development. Under this view, policy should support equal access to economic opportunity, regardless of where you live (Blair 1995). Such reasoning has underpinned many federal development efforts in the past—education programs and rural electrification programs, among others.

Economists have suggested a second key foundation for federal development policy is “efficiency.” According to this view, some investments in public goods are too big for a region or state to capture the full benefits, and thus would not be built (Scorsone and Weiler 2004). For instance, the federal interstate highway system creates significant

benefits beyond the regions through which it runs. Moreover, there are economies of scale in designing and building the system. Thus, the task became a federal one.

Economists now advance a third argument that is of more immediate interest. There is emerging consensus among economists and policy officials that globalization has changed the government's stake in regional growth. Many regional analysts now suggest that vibrant regional economies make for strong national economies (Barca). Put another way, the nation's ability to compete is becoming the sum of the competitiveness of its regions (Porter and Council on Competitiveness 2001). Competitiveness is the development challenge facing every region. But how that challenge is met increasingly defines the *nation's* ability to compete, too. Thus, the federal government's interest in national economic growth leads to a natural stake in helping *regions* grow.

Finally, with large federal budget deficits on the horizon, the federal government also has a clear stake in regional development policy that is both effective and efficient. To the extent that current programs are duplicative or focused on outdated models of regional economic growth, there is a clear opportunity to use federal funds more wisely.

If helping regions build and sustain their competitive edge is the new goal, how might federal economic development policy shift? Based on what is known today about how regions best build and sustain competitive advantage, three steps may be useful:

- 1. Make regional competitiveness the goal of federal regional development policy and align federal development programs accordingly;***
- 2. Design new efforts to help regions seize innovations and grow entrepreneurs;***
- 3. Create an effective delivery system for taking federal programs to regions around the nation.***

Together, these three steps hold the promise of spurring new economic growth throughout America, enhancing the nation's competitiveness, and making policy more efficient in the process.

Make Regional Competitiveness the Goal

If someone were to ask which of the three eras of economic development thinking is guiding federal policy today, the answer might easily be, "All of the above." Current policy remains rooted in recruiting and building infrastructure for mostly an industrial economy. Fresh thought needs to be given to the goal that should guide policy going forward.

Based on what is known about what makes regions grow in the 21st century, the best candidate for this goal is the following:

Helping regions find and sustain a competitive edge in rapidly changing markets.

If selected, this goal would align economic development policy with state-of-the-art economic theory. It would also be consistent with a commitment often reflected in past development efforts—equal access to economic opportunity for all. And it would elevate the need for the nation, as a whole, to engage what may be its biggest economic challenge—staying competitive on a global stage.

Making regional competitiveness a goal for federal development policy will require three steps: constructing a coherent policy framework, rethinking the federal (and state and local) role in regional development, and "proofing" other federal policies for their impact on regions.

Construct a Coherent Policy Framework

By any standard, federal economic development policy today is fragmented. It is the result of decades of initiatives spread across scores of congressional committees and more than a dozen federal departments and agencies. There is no unifying set of development principles for this huge federal effort. Most programs are guided by the law that created them, with few subsequent revisions.

A unifying purpose and goal for federal economic development policy is needed. As suggested above, helping regions build and sustain a competitive edge appears to be the best candidate as the goal that will bring coherence to federal policy. The goal is critical, since it will align efforts across the federal government and determine the desired results against which the contribution of individual programs can be measured.

Current federal policy for regional development can be likened to the lighting system for a Broadway theater. Federal policy represents a multitude of lights that shine on the actors of economic development, in the process trying to spur them on to better performance. The problem is that the lights are not currently aimed with the economies of 21st century regions in mind. No, the lights currently illuminate only a *few* parts of the stage—for the most part, just the actors representing “industrial” regions (and mostly helping those places that are chasing smokestacks). But the new stage has many more actors on it—high-tech regions, service-producing regions, tourism regions, and so on. Thus, the stage play that is the new economy needs a new lighting design. Making regional competitiveness the goal of federal policy for regional development would force the federal stage hands to come-up with a better design. To be effective, that new system needs to recognize *all* the regional actors, not just a few of them.

Other countries are taking steps to devise new lighting systems by elevating regional competitiveness as a goal in their governments. Australia, for instance, has made regional competitiveness a goal for all of its states. In carrying out that initiative, the federal government reinvented its Ministry of Transport, making it a new home for regional development policy (Key 2005).

Setting regional competitiveness as the goal for U.S. federal development policy would bring with it the need to find new ways to monitor and evaluate the performance of federal programs. While there is still debate among policy officials and economists on how best to evaluate the performance of public policies in a regional competitiveness framework, there is little debate on the ultimate goal of raising the prosperity of the residents in a region.

Monitoring programs on their performance against a common goal of boosting regional competitiveness holds the promise of reducing the cost of federal development policy. As shown in Section I, programs like housing, workforce training, and business development are currently sprinkled across Washington. The goal of boosting regional competitiveness may shed light on unnecessary duplication of effort.

Rethink the Federal Role in Regional Economic Development

Federal involvement in regional economic development today is founded largely on the belief that most regions grow in the same way. Globalization has brought that era to an end. Today, each region must craft its own strategy to be competitive. Federal government can help regions execute such policies, but the real answers are no longer in Washington—they lie in the regions themselves.

Regional development is no longer top-down—it's mostly bottom-up. The new reality essentially turns economic development policy on its head. To borrow again the analogy of Broadway, Washington becomes more of a supporting actor in regional growth, while regional leaders become the actors at the center of the stage.

In light of this shift, in what areas can federal policy make the best contributions? The central issue here is dividing up regional competitiveness policy into two parts—the federal part and the state and local part. The essential question is identifying comparative advantage across levels of government. If regional competitiveness is the goal, in what areas can federal government make the best contribution? Economists have not yet studied this area in depth, but in light of the equity and efficiency principles outlined above, there appear to be six roles worth exploring:

- *Spurring innovations in regional governance.* To succeed, regions must think and act as regions, crossing jurisdictional lines and spanning public and private sectors. Today, those jurisdictional lines often hinder the formation of new economic development strategies. Federal policy might be used to ensure that such barriers do not prevent new efforts to forge partnerships at a regional level. An open question is whether federal policy might provide financial incentives to help new regional partnerships to form. Some economists argue there are significant transaction costs to forming regional partnerships, especially when such partnerships span private and public sectors. Thus, it may be worth exploring whether federal funds might be used to defray these costs and provide incentives for local groups to partner across regions (especially when regions cross state lines).
- *Investing in the leadership capacity of regions.* Leaders in most regions have yet to fully seize the new paradigm for regional growth. And yet the capacity of regional leaders to lead new development efforts may be one of the most critical factors that determine a region's ability to mount a successful development strategy. The federal government, therefore, might want to set aside some funds in its overall regional development effort aimed specifically at helping regional leaders acquire the skills necessary to be effective in new competitiveness strategies. Some other countries, such as Italy, have made such training an integral part of new regional competitiveness policies. In the case of Italy, roughly 15 percent of the total funds supporting regional competitiveness

programs in southern Italy were earmarked just for training regional public officials.

- *Funding investment in public goods.* The federal government has a long history of funding public goods like highways and electric lines. Yet, these investments are rarely tied to the goal of supporting regional competitiveness. In the future, it will be essential to let regional strategies inform which public goods are funded—and then to hold regions accountable for making good use of the funds.
- *Investing in basic research.* The federal government has a natural interest in promoting research, the “innovation fuel” for the economy, if you will. It already does a lot of this, though the connection to regional competitiveness is far from clear.
- *Creating a national policy for entrepreneurship.* Entrepreneurs are critical in building and sustaining a region’s competitive edge, yet there is no stated federal policy to support them. This issue is discussed more fully below.

What roles can state and local governments play in making regions more

competitive? In a regional competitiveness policy framework, the roles for state and local governments will be quite different than the role for Washington. Establishing regional competitiveness as the national goal for development policy will, if anything, probably lead to an even bigger change in state and local policy. Regions are becoming the new unit of economic development, but the nation does not have regional governments, with possibly a few exceptions. Thus, state and local governments will be left to figure out how to support economic efforts that may not align with their own lines of jurisdiction. Six roles are promising areas to explore:

- *Building effective structures for regional governance.* A real challenge is recognizing that a “region” may not align with the jurisdictional lines of state or local government. The key for development policy in the future is supporting functional economic regions, many of which will bear no relation to the lines that now demarcate political jurisdictions, such as cities and counties. Moreover, most functional economic regions are discovering that some level of scale or critical mass is important to competing in global markets. Thus, many regions will probably be of a size that is somewhere between the size of a county and a state—multi-county in many cases. State and local governments, therefore, have to be both flexible and innovative in helping such regions coalesce. The process of

bringing together the key players in a region around a goal of forging a competitiveness strategy will be critical to success.

- *Ensuring public/private partnering.* Governance is about much more than governments partnering. It is about public and private economic players reaching agreement about a region's strategy to compete. Governments may be able to provide the table around which such partnerships emerge, but the discussion must engage higher education, government, businesses, and nonprofits.
- *Measuring and understanding regional economic assets.* Economic assets are the crucial inputs to a regional competitiveness strategy. Someone in the region has to take stock of these in a comprehensive, objective manner. This may be a role for state and local governments.
- *Identifying a competitive niche for the region.* At some point, every region must choose a market niche or niches that it is going to target. This calculus is complex and requires significant input from the region. Whether that analysis will be a public good, provided by government, or a private good, provided by consultants, is an important policy question going forward.
- *Creating an entrepreneurial development system for the region.* Every region must foster entrepreneurs in the future. The most successful regions will probably do that in a systematic way. Today, entrepreneurship support is largely ad hoc (Lyons). There are intriguing new business development systems now being tested.
- *Identify innovations that can leverage regional assets.* While basic research will largely be the province of the federal government, state and local governments will have a critical role in linking research discoveries to regional strategies. Which technologies best suit which regions? Answering this question may be a productive role for state government.

“Proof” other Federal Policies for Regional Impacts

Regional competitiveness moves geography center stage in federal policy—in regional development policy, yes, but for *other* policies, too. The “one-size-fits-all” approach to economic development has been widely practiced in crafting everything from healthcare to education. Many federal policies, and especially health and education, will be supporting actors in the playing out of any new federal policy on regional development. Thus, it is important that geography become a critical dimension in crafting and evaluating them, too.

“Proofing” is a concept that many analysts now use to describe a systematic effort to identify the spatial impact of public policy. The goal of such analysis is to determine if a particular policy affects one region (or type of region) differently than another. The underlying assumption is that such differential impacts can influence a region’s strategy for competitiveness in both positive and negative ways.

The concept has gained adherents in many quarters. In 2002, for instance, the Department of Health and Human Services completed an ambitious review of how all of its many programs affect rural areas (U.S. Department of Health and Human Services, 2002). The hope was to identify ways to ensure that rural areas have access to high-quality, affordable healthcare. Proofing is becoming standard practice in other countries that are giving greater attention to regional development policy. The UK, for instance, has implemented broad-ranging procedures to proof policies for the impact on rural regions (U.K. Department of the Environment, Transport, and the Regions, 2000).

Boost Efforts to Spur Innovation and Grow Entrepreneurs

To grow, regions must have the capacity to innovate and grow business enterprises. While the federal government touches both keys to regional competitiveness, it does so in an ad hoc way, and with no clear connections drawn to regional economic growth. To be sure, state and local governments will shoulder an important role on both fronts.

Nonetheless, if regional competitiveness were to become the defining framework for federal development policy, then new policy efforts on innovation and entrepreneurship will be an important part of the policy mix. Crafting a new national

policy on entrepreneurship and re-engaging higher education institutions are two clear steps in this direction.

Craft a National Policy on Entrepreneurship

Entrepreneurs will be critical drivers of regional competitiveness in the coming years. While the nation's commitment to supporting small businesses now stretches back 50 years, federal policy has not yet embraced the broader concept of entrepreneurship. Simply stated, entrepreneurship involves far more than simply managing a small business.

Many experts believe the time has come to craft a national policy on entrepreneurship. The National Commission on Entrepreneurship's comprehensive study on the links between public policy and entrepreneurship is a leading example of this point of view (NCOE 2002). They identified five policy arenas where federal action has a big impact on entrepreneurship:

1. Create financial markets for entrepreneurial growth companies (EGCs).
2. Invest in basic research and development, while protecting intellectual property for technologies that underlie many EGCs.
3. Invest in technically talented people and encourage mobility.
4. Open new markets and help EGCs enter them.
5. Establish a robust and dependable infrastructure.

Obviously, the federal government has been doing a lot in all five areas—from regulating the NASDAQ stock exchange to funding life science research. The real policy issue, however, is whether federal policy is paying attention to the sum of the parts—and to unintended gaps or conflicts in the disparate policies. If entrepreneurship is critical to competitive regions, then lifting up this priority through a coherent national policy makes sense.

A related issue is providing better data and benchmarks to track national and regional progress in growing entrepreneurs. Very little information about entrepreneurs is publicly available. In the words of the NCOE study, current entrepreneurial indicators are “dated, incomplete, and off-target.” Their report urges the federal government to invest in a system to collect and disseminate data that will “describe the entrepreneurial economy in real time.”

State and local governments also have an important role in any national policy on entrepreneurship. Experts believe that entrepreneurs will need public and private support in developing the core skills needed to succeed (Lyons 2003). The problem is that today’s efforts to help entrepreneurs are ad hoc and uneven. To succeed, Lyons believes that support must be “regional in scope and systematic in approach.” He compares growing entrepreneurs to running a minor league baseball team. In both cases, great coaches are needed to develop raw talent.

Re-engage Higher Education Institutions

If innovation is the fuel for regions to reinvent their economies, higher education is a critical source of that fuel. Education and training programs obviously play a big role in creating human capital, an essential ingredient in robust regions. But the question now getting more attention is whether public universities and colleges can support economic development in ways that engage the specific needs of regions (Jischke 2004). Educated students are highly mobile. University programs that aim to help regions build new economic engines are much more focused on the place in question.

If anything, public universities have become less engaged in regional economic development in recent years. This is largely a function of funding. Most state universities receive a smaller share of their funding from their host state than in the past. Meanwhile, a growing share of total funding is derived from grants received from sources well beyond the state, including federal sources (the National Institutes of Health, for example). It is not surprising, therefore, that universities pay more attention to excellence in research—which attracts even more grants—than how that research might impact the economy of regions in their own state.

Moreover, public universities are typically organized around disciplines and sectors. Land grant universities, for instance, have colleges of agriculture, where scientists cluster by scientific specialty, and agricultural experiment stations, where all the agricultural research is concentrated. Building competitive rural regions, however, is not limited to a single discipline or sector (Jischke 2004). The competitive challenge is complex, drawing on every asset in the region and often combining skills and entrepreneurs in innovative ways.

Public universities have enormous resources that can help regions, but new incentives and institutional arrangements are needed to unleash these resources. Fortunately, innovative models are emerging. Purdue University has consciously recognized the “innovation fuel” that the campus holds for the Indiana economy in the form of new technologies (Purdue University 2004). Working with the state legislature and Hoosier businesses, Purdue created an “innovation commons” at the heart of its campus called Discovery Park. This serves as a place to identify technologies with special promise for commercialization in the state. To ensure that these technologies

promote growth throughout the state, though, Purdue took one additional step. They created the Office of Engagement and the Center for Regional Development to ensure that university resources “engage” new regional economic development efforts.

Large public universities are not the only place where higher education can make a difference in regional development. Community colleges and regional universities in many ways represent the “front lines” in spurring innovation in regions (Sertich 2004). Such institutions have a natural stake in spurring economic growth in their region, since they depend on the region for both students and funding.

Due to this synergy, economic development should be a core mission for community colleges and regional universities. There is an encouraging trend in this direction. Creating a region-wide governing structure for its community colleges proved to be the start of an ambitious new regional development effort in the seven-county Arrowhead region of Northeast Minnesota. Northwest Missouri State University has been the catalyst in a new bid to create a life science cluster in their otherwise farm-dependent region. The community college in Walla Walla, Washington was a catalyst in developing a new wine industry in the valley.

Create a Strong Delivery System for Federal Programs

Finally, creating a strong delivery system for federal programs will be critical to ensuring that regional development policy is effective. As shown earlier, the federal development effort currently flows through 180 programs. In most cases, these programs flow through a different network of regional offices throughout the nation and often have different standards for evaluating performance. This adds to the cost of the programs.

Regardless which programs the federal government implements to help regions compete, the programs must be delivered to the regions themselves. In the past, the federal presence throughout the nation has developed strictly along department lines. From the point of view of helping regions compete, however, geography matters more than the department. (This is the same dilemma facing large public universities—regions are becoming more important, but the university is organized around single colleges). The region needs a variety of funds and supporting services from Washington, but it is less interested in which department's regional office they flow. Thus, a comprehensive review of the "geography" of existing federal offices throughout the nation would likely yield constructive opportunities to make the overall network more effective.

More fundamentally, clear standards for evaluating the performance of federal programs will be essential to making federal policy effective. Several federal agencies involved in economic development have made significant strides in setting clear standards for monitoring and evaluating results from federal programs aimed at regional development. For instance, EDA has developed new evaluation metrics to gauge the impact of its grants (EDA 2003). Economists are working on other metrics that may gain acceptance in Washington (Robinson and Johnson 2005). Such standards are critical for ensuring equity of administration across regions and for ensuring that federal dollars are put to good use. With so many federal economic development programs in Washington today, however, it is not surprising that there are scores of metrics for measuring performance. A major feature of moving to a more coherent federal policy will be establishing common metrics for measuring performance.

V. CONCLUSIONS

The federal government has a big hand in supporting economic development throughout the nation. The effort is so big, in fact, that it is hard to characterize. By our count, there are 180 federal programs aimed at one aspect of economic development or another. Together these programs account for roughly one of every four dollars spent in Washington, though the amount spent on *regional* development is far less than that.

The economic development policy issue for the nation is quite simple: *The drivers of regional economic growth have changed dramatically, but federal policy has not.* Globalization has essentially changed the rules of the game. Economic development is no longer about chasing smokestacks, nor is it merely about efforts to drive down the costs of doing business in a region. It is also no longer about single communities or single sectors. Regions have become the new unit of economic development. To play the new game, communities increasingly must partner as a region to muster the resources needed for the markets they can reach.

Regions will grow in the future when they exploit their distinct economic assets and seize emerging market niches. Gaining a competitive edge will be highly idiosyncratic to the region and will depend on the strategy forged in the region itself, not in Washington. Innovation—fresh ideas and new technologies—will be the fuel for this economic quest. And vibrant entrepreneurs will be the engines that propel the journey. Human capital is now the chief asset, with infrastructure playing a secondary role.

The nation's economic development policy is not aligned with this new vision of regional growth. Federal policy has been cobbled together over the past half century, with a heavy emphasis on physical infrastructure, the industrial economy, and a belief

that regional development is mostly the same throughout the nation. An underlying assumption was that economic development was carried out community by community. State and local governments, meanwhile, aim development efforts mostly at business recruitment, with little if any attention paid to growing entrepreneurs or stoking innovation. In the end, this is mostly a zero sum game, with one community's gain often representing another's loss.

Three big steps are needed to align federal economic development policy with the new paradigm for regional growth. The first step is making regional competitiveness the goal of federal policy. In turn this will require constructing a coherent policy framework, rethinking the federal role, and proofing other federal policies for regional impacts. Federal policy can play a highly supportive role in helping regions become more competitive, but it is largely a supporting role. This represents a big shift in policy focus.

The second is making entrepreneurship and innovation more central features of economic development policy. Federal policy has focused on small businesses for a half century, but entrepreneurship is a much bigger issue, and there is no federal policy for entrepreneurship. The federal government already makes significant investments in basic research, but these many efforts are rarely part of a goal of enhancing regional competitiveness. Higher education institutions are uniquely positioned to boost the innovative capacity in regions throughout the nation. To make regions competitive, however, university research will have to engage new development efforts. Finally, new efforts might be aimed at boosting the "innovative capacity" of regional leaders, giving them more skills and tools that can help in their quest to reinvent regional economies.

The third step is creating a strong delivery system for federal policy. Currently, federal development programs flow through nine federal departments and five independent federal agencies. Helping regions have quick, easy access to federal programs will be a key to success. And common metrics for measuring the performance of federally funded efforts will ensure that regions are using federal funds to good effect.

Together, these are big steps in federal regional development policy. But the stakes are correspondingly great. Many regions throughout the nation are falling behind in the global competitive race. Some might debate the federal government's role in creating economic opportunity in all corners of the nation. The federal stake in regional economic development is much clearer today. Many experts now conclude that the nation's ability to compete on the global stage depends critically on how well its *regions* compete. Simply put, the drivers of national economic competitiveness are more regional in character today. Paying attention to federal policy for regional development, therefore, promises to pay dividends for everyone.

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SECTION IV

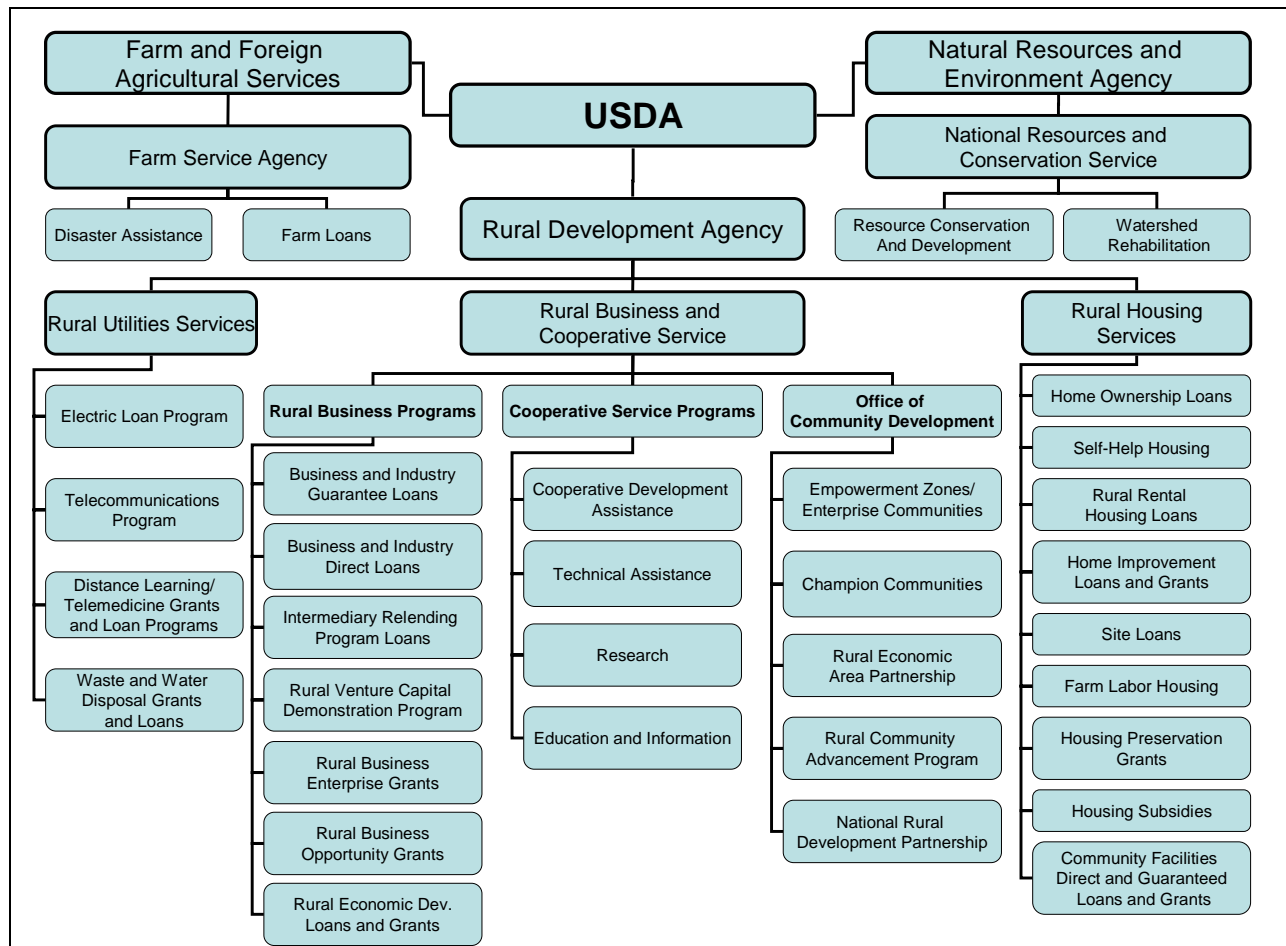
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APPENDIX 1

UNITED STATES DEPARTMENT OF AGRICULTURE



SYNOPSIS

USDA's 33 development programs cover a wide range of activities but focus on building rural infrastructure, helping rural businesses, or improving rural housing. USDA administers the rural Enterprise Zone/ Enterprise Communities (EZ/EC) program; the same program can be found in HUD—in that case aimed at cities—and in HHS. The USDA's Extension Service

focuses on providing technical assistance to farmers, but its offices are located in every county in the country and provide other services, too.

The farm bill is the primary legislative vehicle for rural development initiatives. The 2002 farm bill reaffirmed the nation's commitment to rural areas and authorized several new rural development initiatives, including the Rural Business Investment Program and new funds for expanding the availability of broadband in rural areas. In the end, however, much of the bill focused on farm programs. The Rural Development Acts of 1972, 1980, and 1990 were important steps in affirming USDA as the lead federal agency on rural development.

USDA LEGISLATION

Rural Development Act of 1972, Title V

Law: PL 92-419

Congressional Bill: HR 12931

Date Signed into Law: August 30, 1972

Purpose: PL 92-419 charged the Secretary of Agriculture to lead a nationwide rural development program by coordinating the efforts of the executive branch departments and agencies contained in and outside the Department of Agriculture and at the state and local development programs. The legislation also authorized the following programs:

- Community Facility Loan
- Rural Business and Industry Loan
- Rural Enterprise Grant

History: Title V was part of the larger Consolidated Farm and Rural Development Act of 1972, or more generally referred to as the ConAct. The Act was a Congressional compromise, and President Nixon was disappointed it did not include a revenue sharing program with the states and instead created a number of new categorical grant programs.

Rural Development Policy Act of 1980

Law: PL 96-255

Congressional Bill: S 670

Date Signed into Law: September 24, 1980

Purpose: PL 96-255 accomplished:

- Affirmed the USDA as the lead agency in rural development and established a under-secretary of agriculture for small community and rural development
- Started a process of consolation among federal, state, and local agencies on rural area's economic and health condition.
- Allowed \$15 million annually to government issues for rural development

History: This legislation also authorized Title V programs of the 1972 Act for another two years.

Rural Economic Development Policy Act of 1990

Law: PL 101-624

Congressional Bill: S 2830

Date Signed into Law: November 28, 1980

Purpose: The Act established the USDA Rural Development Administration (RDA). The RDA took over all non-farm functions of the Farmers Home Administration and additional given tasks include:

- Create a Rural Partnership Investment Board to provide credit for rural development from the Rural Business Investment Fund and local revolving funds.
- Provide waste and water facilities.
- Amended the ConAct to authorize loans of business telecommunications and emergency rural assistance loans.
- Amended the Rural Electrification Act of 1936 to allow technical assistance to rural business and set in motion the Rural Incubator Fund.

History: PL 101-624 was Title XII of the Food, Agriculture, Conservation and Trade Act of 1990, PL 101-624.

Omnibus Budget Reconciliation Act of 1993

Law: PL 103-66

Congressional Bill: HR 2264

Date Signed into Law: August 10, 1993

Purpose: Title VIII of the Act established the first rural Empowerment Zones and Enterprise Communities (EZ/EC). The bill included \$3.5 billion in tax breaks and other federal assistance to selected areas in poor communities. The EZ/EC program's purpose is to encourage private investment in low-income rural communities by giving tax breaks. The USDA administers the rural EZ/EC program and the HUD administers the urban EZ/EC program. In December 1994, three EZs and 30 ECs were named due to the 1993 Act.

History: Enterprise legislation had been discussed since 1982, but actual legislation failed in implementation in 1989 and was vetoed in 1992. By the time the 1993 federal legislation had come into place, 40 states had authorized enterprise zones. Since 1993, the following legislation had added more rural Enterprise Zones and Enterprise Communities:

- Taxpayer Relief Act (PL 105-34)
- Omnibus Appropriations Bill Fiscal Year 1999 (PL 105-277)
- Consolidated Appropriations Act of 2001 (PL 106-554)

Federal Crop Insurance Reform and Department of Agriculture Reorganization Act

Law: PL 103-354

Congressional Bill: HR 4217

Date Signed into Law: October 13, 1994

Purpose: Title II authorized a total reformation of the Department of Agriculture. The Undersecretary of Agriculture for Small Community and Rural Development became the Under Secretary of Agriculture for Rural Economic and Community Development. PL 103-354 also made rural development come under the three branches of the Rural Housing Service, the Rural

Business-Cooperative Service, and the Rural Utilities Service. The Rural Electrification Administration was also abolished by the Act.

History: Even though the objectives of the USDA had greatly changed since its inception in 1862, its management structure had not undergone significant change since the 1930s. The General Accounting Office in a September 1991 report suggested the department's structure be completely reorganized. The final bill included provisions to reduce total department employment by 7,500 staff positions and to close or consolidate over a 1,000 field offices.

Federal Agriculture Improvement and Reform Act of 1996

Law: PL 104-127

Congressional Bill: HR 2854

Date Signed into Law: April 4, 1996

Purpose: Title VII was the rural development section of the 1996 omnibus farm bill. The farm bill contained the following revisions:

- Financed the construction of facilities and systems for telemedicine and distance learning.
- Increased the amount of grants in the ConAct for water and waste facilities. Also defined the eligibility of rural areas to populations less than 10,000.
- Required mandatory funding for a Fund for Rural America for rural research, housing, and economic development.
- Started the Rural Community Advancement Program (RCAP) that provides a consolidated program of assistance to rural communities.

History: A landmark farm bill, the 1996 Freedom to Farm Act ended decades-old policies of set-aside and subsidy payments to farmers facing low prices. The legislation gave farmers the right to plant whatever commodities they choose and receive fixed and declining payments over a seven-year period. Concern over high prices and low yields propelled lawmakers into action in 1996. The legislation was seen as a major victory for free-market Republicans, but Democrats discredited the bill saying the payments were backwards—large when prices were high, smaller payments when market prices were likely to fall. Due to criticism, Senator Lugar (former Senate Agriculture Committee chairman) allowed the extended rural development and conservation programs to appease the Democrats.

Federal Security and Rural Investment Act of 2002

Law: PL 107-171

Congressional Bill: HR 2646

Date Signed into Law: May 13, 2002

Purpose: Title VI of the most recent omnibus farm bill contained rural loans and grants and also authorized several new rural development schemes that have mandatory spending. They included:

- Rural Strategic Investment Fund that establishes a National Board on Rural America that gives \$100 million in planning grants to certified Regional Investment Boards
- Rural Business Investment Program, overseen by the SBA, provides \$100 million in loan guarantees and subsidies to form Rural Business Investment corporations that will invest in small firms
- Provided \$10-\$20 million yearly to 2007 to improve rural areas access to broadband services
- Authorized \$80 million for Rural Local Television Broadcast Signal Loan Guarantees

- \$40 million a year for Value-Added Agricultural Product Market Development Grants, 5% going to organic production, and \$15 million total for 10 new Agriculture Innovation Centers
- One-time funding of \$360 million for pending water and waste applications
- \$10 million for the Rural Firefighters and Emergency Personnel Grant Program for training emergency personnel

History: While the 2002 Farm Bill did bring many new rural development provisions, most of the final bill's spending was authorized for farm subsidies. The 2002 legislation repealed the 1996 bill with the reintroduction of farm subsidies and renewed fixed annual payments. Proponents of the bill hoped the reintroduction of subsidies would end the emergency appropriations Congress had to pass yearly to deal with depressed farm prices that started with the Asian Financial Crises.

USDA PROGRAMS

Rural Development Agency

Rural Utilities Service

- **Electric Loan Program:** The Electric Loan Program makes insured loans and guarantees loans to nonprofit and cooperative associations, public, bodies, and other utilities. Insured loans primarily finance construction of facilities for distribution of electric power in rural areas.
- **Telecommunications Program:** Rural Development telecommunications lending creates public-private partnerships to finance the construction of telecommunications infrastructure in rural America.
- **Distance Learning/Telemedicine (DLT) Grants:** Grants and loans made under this program to encourage, improve, and make affordable the use of telecommunications, computer networks, and related technology for rural communities to improve access to educational and medical services.
- **Water and Waste Disposal Grants and Loans:** Water and Environmental Programs (WEP) provide loans and grants for water, sewer, and solid waste facilities in rural areas. WEP grants to nonprofit organizations provide technical assistance and/or training to entities in rural areas and to cities and towns of 10,000 or less.
- **Community Connect Program:** Provides loans and loan guarantees for the cost of construction, improvement, and acquisition of facilities and equipment for broadband service in eligible rural communities.

Rural Business and Cooperative Service

Rural Business Programs

- **Business and Industry Guaranteed Loans:** This program guarantees up to 90 percent of a loan made by a commercial lender to start or expand a rural business, especially in instances in which jobs will be saved or created. Proceeds may be used for working capital, machinery, and equipment, building and real estate, and certain types of debt refinancing.
- **Business and Industry Direct Loans:** Loans under this program are made to public entities, private organizations, and individuals to improve, develop, or finance business ventures in rural areas.
- **Intermediary Relending Program:** The Intermediary Relending program finances business and community development projects through loans made to intermediaries.

- **Rural Venture Capital Demonstration Program:** The program designates up to 10 community development venture capital organizations to demonstrate the usefulness of guarantees to attract increased investment in private business enterprises in rural areas.
- **Rural Business Investment Program (RBIP):** The USDA in partnership with the Small Business Administration (SBA) will select and license applicants to become Rural Business Investment Companies (RBIC), and provide financial assistance and grant awards under the RBIP. The processing of applications is administered by the SBA. This program is similar to the SBA's Small Business Investment Company Program.
- **Rural Business Enterprise Grants:** USDA makes Rural Business Enterprise Grants to public bodies, nonprofits, and Indian tribes to finance and facilitate development of small and emerging private business enterprises located in rural areas.
- **Rural Business Opportunity Grants:** Grants from this program provide for technical assistance, training, and planning activities that improve economic conditions in rural areas.
- **Rural Economic Development Grants:** Grants are provided to USDA-financed telephone and electric utilities to establish revolving loan funds for community facilities and infrastructure.
- **Renewable Energy and Energy Efficiency Program:** This program, created in Section 9006 of the Farm Bill, is a five-year program to help farmers, ranchers, and rural small businesses purchase renewable energy systems and make energy efficiency improvements.

Cooperative Service (CS) Programs

- **Cooperative Development Assistance:** CS provides a wide range of assistance to people interested in forming new cooperatives. Help ranges from initial feasibility studies to the creation and implementation of a business plan.
- **Technical Assistance:** CS provides technical assistance to existing cooperatives facing specific problems and challenges. Technical assistance examples include working with a cooperative to develop a strategic marketing plan, merger or joint venture decisions, and ways to turn raw products into value-added products.
- **Research:** CS conducts research on financial, structural, managerial, policy, member governance, legal, and social and economic issues surrounding cooperatives.
- **Education and Information:** CS provides a wide range of cooperative training programs, education materials, and publications.

Office of Community Development

- **Empowerment Zone/Enterprise Communities (EZ/EC):** EZ/EC communities in cooperation with state and local governments work together to write strategic plans to address the economic and social problems they face and identify public-private partnership and resources to implement the program. EZ/EC communities receive flexible grant dollars, are eligible for tax credits, and are given primary consideration for many other federal and state programs.
- **Champion Communities:** Through this program, communities that submitted strategic plans and failed to receive EZ/EC designation are given access to funds and USDA sponsored training conferences.
- **Rural Economic Area Partnership (REAP) Zones:** A pilot program designated to help rural communities that are facing geographic isolation and population loss receive USDA technical assistance and resources to help develop and implement their strategic plans. The REAP program also helps communities obtain funds from federal, state, local, private, and non-profit organizations.
- **Rural Community Advancement Program (RCAP):** USDA provides technical assistance, higher priority funding assistance, and conferences for RCAP communities. Special emphasis is placed on the smallest communities with the lowest per capita income.

- **National Rural Development Partnership:** The Partnership brings together partners from local, state, and tribal governments, for-profit and nonprofits sectors, through State Rural Development Councils.
- **Technical Assistance:** At the local level Community Development staff assists communities to create self-sustaining, long-term economic development in areas of pervasive poverty, unemployment, and general distress, and demonstrate how distressed communities can achieve self-sufficiency through innovative and comprehensive strategic plans developed and implemented by alliances among private, public, and nonprofit entities.

Rural Housing Service

- **Home Ownership Loans:** Section 502 homeownership loans enable low- and moderate-income rural residents to purchase their own homes. USDA both lends money directly and guarantees loans made by other lenders.
- **Mutual Self-Help Housing Loans and Technical Assistant Grants:** The loans help groups of six to ten low-income families building their own homes by providing materials and the skilled labor they cannot furnish themselves. The families must agree to work together until all homes are finished. Grants are available for groups providing technical assistance to low-incomeers who build their own housing.
- **Rural Rental Housing Loans:** This program allows individuals or organizations to build or rehabilitate rental units for low- and medium-income people. It also provides rental assistance for those who otherwise would be unable to afford to rent those units.
- **Housing Repair and Rehabilitation Loans and Grants:** Repair loans and grants enable rural homeowners to remove health and safety hazards in their homes and to make homes accessible for people with disabilities. Grants are available to homeowners 62 years of age or older who are unable to repay a loan.
- **Site Loans:** The loans allow purchase of adequate building sites for development of a desirable community by private or public nonprofit organizations.
- **Individual Waste and Water Grants:** This program provides Government funds to households residing in an area recognized as a colony before October 1, 1989. Grant funds may be used to connect service lines to a residence, pay utility hook-up fees, install plumbing and related fixtures, that is a bathroom sink, bathtub or shower, commode, kitchen sink, water heater, outside spigot, or bathroom, if lacking. These grants are available to households who own and occupy the dwelling. These grants are available only in Arizona, California, New Mexico, and Texas.
- **Housing Application Packing Grants:** This program provides government funds to tax-exempt public agencies and private non-profit organizations to package applications for submission to Rural Housing Service. Packagers assist very low- and low-income applicants with the application process by prescreening, making preliminary eligibility determinations, ensuring the application is complete, and helping the applicant understand the program.
- **Farm Labor Housing:** The program offers loans and grants to enable farmers, public or private nonprofit organizations, and units of state and local governments to build, buy, or repair farm labor housing in either dormitory or multifamily apartment style.
- **Housing Preservation Grants:** These grants help low-income homeowners repair and rehabilitate their homes. Rental property owners can use them to repair and rehabilitate their units if they agree to make such units available to low-income families.
- **Housing Subsidies:** The Rural Housing Service can help subsidize monthly mortgages and rental payments, limiting these costs to no more than 30% of the adjusted monthly income of the applicant.
- **Community Facilities Direct and Guaranteed Loans and Grants:** These loans and grants provide for construction, expansion, or other improvements to community facilities that provide essential services such as health and child care, fire protection, education, and assisted living in rural communities.

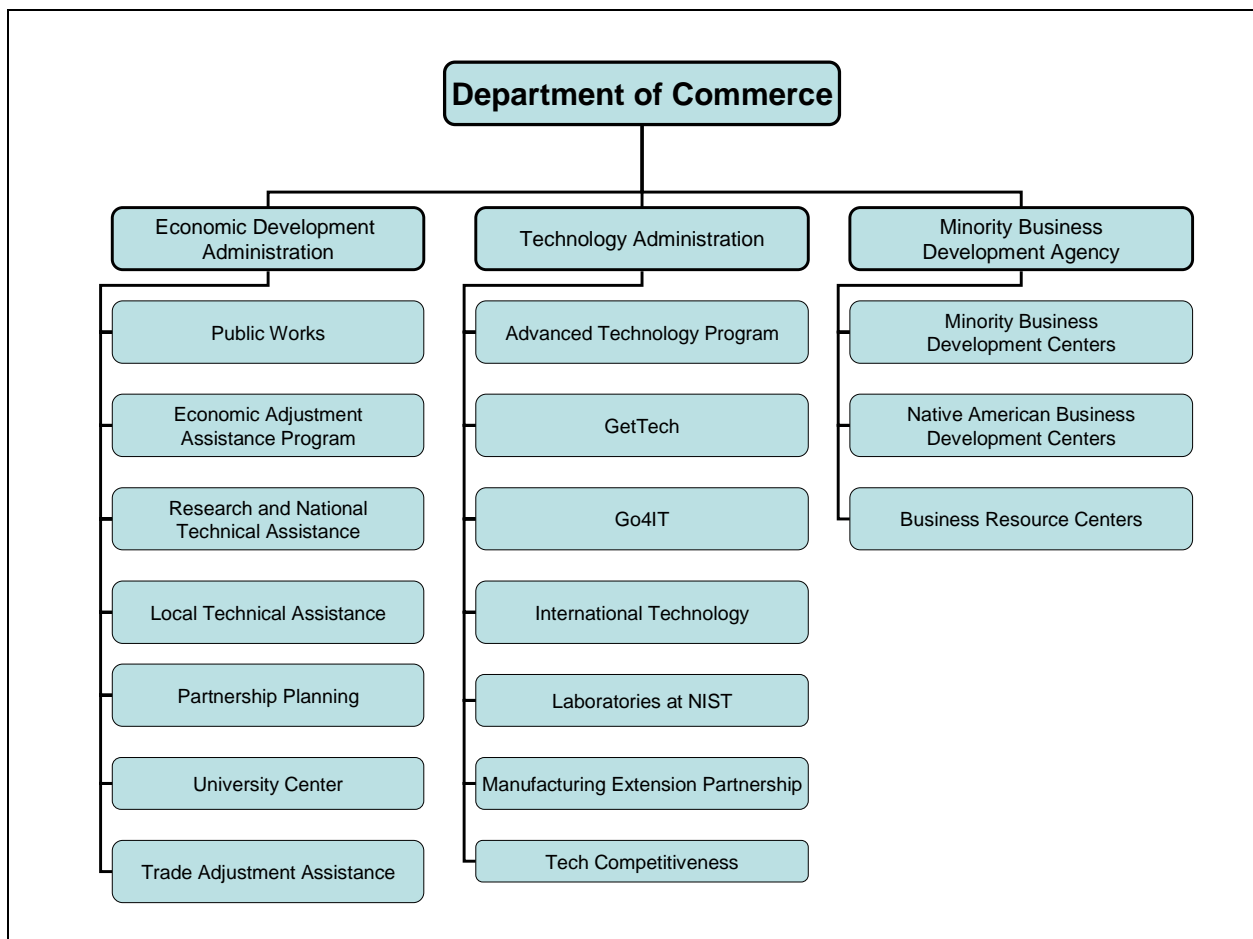
Farm Service Agency

- **Disaster Assistance:** The Farm Service Agency reimburses producers for qualifying losses to agricultural commodities due to damaging weather or related conditions.
- **Farm Loans:** FSA makes direct and guaranteed farm ownership and operating loans to family-size farmers and ranchers who cannot obtain commercial credit from a bank, the Farm Credit System institution, or other lenders. FSA loans can be used to purchase land, livestock, equipment, feed, seed, and supplies. Loans can also be used to construct buildings or make farm improvements.

National Resources and Conservations Service (NRCS)

- **Resource Conservation and Development (RC&D):** The program's purpose is to accelerate the conservation, development and utilization of natural resources, improve the general level of economic activity, and to enhance the environment and standard of living in designated RC&D areas. It improves the capability of state, tribal, and local units of government and local nonprofit organizations in rural areas to plan, develop, and carry out programs for resource conservation and development.

DEPARTMENT OF COMMERCE



SYNOPSIS

EDA programs support constructing infrastructure, planning for development, and improving the skills of development official in economically distressed regions throughout the nation. The DOC also supports technology transfer and commercialization through its Technology Administration. This agency contains an extension service that provides technical assistance to manufacturing companies. Finally, the Commerce Department's Minority Business Development Agency gives business assistance to minority-owned businesses throughout the nation.

EDA's roots date to the early post-war period. Congress expressed concerns that some parts of the nation were not sharing in economic gains. Bills to create a federal agency to promote regional economic development were stalled, however, by the Eisenhower Administration. In 1961, the Area Redevelopment Act was signed into law, creating a new federal agency to support businesses in depressed areas and increase funding for public goods tied to economic development, among other things. There was support for making ARA a separate federal department, but a compromise between Congress and the Kennedy White House resulted in its placement in the Department of Commerce. In 1965, the Public Works and Economic Development Act created the Economic Development Administration, successor to ARA. EDA was heavily focused on funding public works in its early life. In 1973, President Nixon proposed abolishing EDA, but Congress resisted. A series of short-term extensions to EDA's authority followed. From 1980 to 1998, EDA received funds from Congress but had no underlying Congressional authority. The Economic Development Reform Act of 1998 reauthorized the agency but required it to target its programs to "economically distressed" communities. The EDA was reauthorized in 2004.

COMMERCE LEGISLATION

Minority Business Development Agency

Executive Order: 11625

Date: October 13, 1974

Purpose: President Nixon issued this executive order to build on the Office of Minority Business Enterprises, which was organized in 1969. The President's order stated, "One important way of improving our efforts is by clarifying the authority of the Secretary of Commerce (a) to implement federal policy in support of the minority business enterprise program; (b) provide additional technical and management assistance disadvantage businesses; (c) to assist in demonstration projects; and (d) to coordinate the participation of all Federal departments and agencies in an increased minority enterprise effort.

History: In pursuit of entrepreneurial parity, MBDA has established a Strategic Growth Policy. The Strategic Growth Policy was designed to address the issue of sustainable business value for firms of size operating in growth industries. Programs focused on providing access to capital and markets will be the prime components of the Strategic Growth Policy. A new paradigm for minority business development required that the public and private sectors expand their present focus from outreach, certification, and dollars spent to include enabling minority business enterprises to achieve size, scale, scope, education, access to technology and capital.

Technology Administration

Law: PL 100-519, 15 U.S.C. 3704

Congressional Bill: H.R. 4417

Date signed into law: October 24, 1988

Purpose: The Technology Administration was established within the Department of Commerce to promote the Nation's economic competitiveness. Its mission was to maximize technology's contribution to economic growth, high-wage job creation, and the social well-being of the United States. As set forth in the National Institute of Standards and Technology Authorization Act (Public Law 100-519), an Under Secretary for Technology oversees the three agencies of the Technology Administration: the National Institute of Standards and Technology (NIST), the National Technical Information Service (NTIS), and an Assistant Secretary for Technology Policy who serves as policy analyst to the Under Secretary and who directs an Office of Technology Policy (OTP).

History: This legislation was originally held up over objections to a version of the bill that included making the NTIS a government corporation. Those calling for such a change were offered a new version of the bill that urged the service to modernize its operations. The bill then passed the House unanimously on September 26.

COMMERCE PROGRAMS

Technology Administration

- **Advanced Technology:** The program accelerates the development of innovative technologies for broad national benefit through partnerships with the private sector.

- **GetTech:** A public-private partnership designed by the Department of Commerce's Office of Technology Policy and the National Association of Manufacturers to inspire teens to prepare for the technology-driven jobs of the future.
- **Go4IT:** A Commerce website with information on IT training programs for adults who seek to enter the IT field or upgrade their skills, and a clearinghouse for IT training providers offering programs.
- **International Technology:** The program promotes international technology partnerships that strengthen U.S. competitiveness and advocates policies to advance U.S. technology leadership in the global economy.
- **Laboratories at NIST:** The laboratories conduct research in a wide variety of physical and engineering sciences, responding to industry needs for measurement methods, tools, data, and technology.
- **Manufacturing Extension Partnership:** The partnership provides technical and business assistance to smaller manufacturers.
- **Tech Competitiveness:** The program works closely with industry to identify critical issues, conduct and disseminate leading-edge research and analysis, and serves as an advocate for innovation in policymaking at all levels of government.

Minority Business Development Agency

- **Minority Business Development Centers, Native American Business Development Centers, and Business Resource Centers:** The Centers provide minority entrepreneurs with one-on-one assistance in writing business plans, marketing, management and technical assistance and financial planning to assure adequate financing for business ventures.

ECONOMIC DEVELOPMENT AGENCY

EDA LEGISLATION

Area Redevelopment Act

Law: PL 87-27

Bill Number: S 1

Date signed into law: May 1, 1961

Purpose: The act established the Area Redevelopment Administration (ARA) until 1965 and was given the following tasks:

- Use one-third of appropriations (total of \$394 million) to provide venture capital loans to businesses in depressed areas
- Offer loans and grants for public facilities in areas where projects were proven to promote business growth and additional employment
- Provide technical and market information to individuals, communities, and enterprises in developing areas
- Offer a program combining many other government agency resources to provide vocational retraining
- Develop a research component to study the causes of economic disparity in underdeveloped regions

History: Similar bills had been suggested since 1955 with many of them suggesting that the ARA be a separate agency. Two similar redevelopment bills were passed by Congress in 1958

and 1960 but were vetoed by Eisenhower, citing the bills lacked local responsibility and was too much of an extension of federal programs. The 1961 act was a compromise by the Kennedy administration and Congress that located the ARA within the Chamber of Commerce and not a separate department.

Public Works Acceleration Act

Law: PL 87-658

Congressional bill: S 2965 & HR 10113

Date signed into law: September 14, 1962

Purpose: Authorized the appropriation of \$900 million for immediately increasing federal spending on a public works project that created new employment for depressed areas. The \$400 million that was appropriated was coordinated by the ARA and was given to many agencies. The Housing and Home Finance Agency and the Department of Health, Education and Welfare received the bulk of the appropriations.

History: On February 2, 1962, President Kennedy sent a letter to Congress asking to be granted the standby authority to commit \$2 billion of government funds to help combat unemployment whenever he determined it was necessary to achieve the goals of the Employment Act of 1946. The Congress refused to let Kennedy have \$2 billion from the Treasury when he deemed necessary for the economy, but they did pass the act to help decrease the slow national economy and increase employment in depressed areas.

Economic Opportunity Act

Law: PL 88-452

Congressional bill: HR 11377 & S 2642

Date signed into law: August 20, 1964

Purpose: An omnibus bill that was dedicated to help President Johnson's "war on poverty." The law authorized 10 new separate federal programs and established the Office for Economic Activity in the Executive Office to oversee the program. Titles of the law included provisions for:

- Youth development—Job Corps, worker training, and work-study programs
- Urban and Community Action Programs—including adult education and voluntary assistance for needy children
- Low income rural families and migrant workers
- Business Incentives—loans for small business
- Work experience programs for household heads receiving government payments
- Recruitment, selection, and training of volunteers to fight poverty

History: As part of Johnson's Great Society, he proposed fifteen separate programs to fight poverty, nine of which were passed.

Public Works and Economic Development Act (PWEDA)

Law: PL 89-136

Congressional bill: S 1648

Date signed into law: August 16, 1965

Purpose: The Act established the Economic Development Administration (EDA) which had the following objectives:

- Take over the functions of the ARA

- Majority of the \$510 million annual spending was to provide grants for construction of public works project
- Loans to be mainly dedicated to the building of industrial plants
- Provide government working capital loans and help pay interest on certain loans for private firms
- Encouraged planning at the regional level and funding for development districts
- Increased focus on self-sustaining economic development and not just unemployment, increased planning for long-term development including infrastructure, and a rural focus to aid

History: The legislation for the ARA was to expire and had been subject to harsh criticism. After the formation of the Appalachia Regional Commission, President Johnson felt the EDA would help provide similar programs of the ARC to other distressed regions throughout the country.

Public Works and Appalachian Regional Development Program Extension

Law: PL 92-65

Congressional Bills: HR 9922 & S 2317

Date Signed into Law: August 5, 1971

Purpose: Appropriated \$2,445,000 to extend the Public Works and Economic Development Act of 1965 through June 30, 1973. It also authorized \$1,547,000 to continue the ARC for four more years. It also gave the EDA additional authority to combat short-term counter cyclical unemployment through the Public Works Impact Program (PWIP) that required 25 to 35% of all public works grants be spent in special impact areas that had low income and high unemployment.

History: The EDA and the ARC had continued to operate past their expiration date of June 30, 1971, by temporary appropriation resolutions. An omnibus bill with similar provisions as PL 92-65 was vetoed by Nixon earlier in the year.

Public Works and Economic Development Act 1973 Extension

Law: PL 93-46

Congressional Bill: HR 2246

Date Signed into Law: June 18, 1973

Purpose: The law extended the Public Works and Economic Development Administration for one more year, until June 1974. The bill authorized \$430 million for the EDA functions of:

- Public facility grant program, \$200 million
- Business development programs, \$55 million
- Technical assistance to increase employment, \$35 million
- Economic development centers, \$45 million
- Regional commissions, \$95 million

History: Early in 1973, President Nixon proposed abolishing the EDA, delegating its responsibilities to other government agencies, and stopping government assistance to the regional commissions. In 1972, Nixon vetoed a bill that allotted \$2.2 billion to the continuation of the EDA until 1974. Congress and Nixon compromised by allowing the continuation of the EDA for at least one more year with decreased funding.

Public Works and Economic Development Act 1974 Extension

Law: PL 93-423

Congressional Bill: HR 14883

Date Signed into Law: September 27, 1974

Purpose: Authorized the PWEDA for another 2 years with \$680 million in appropriations in 1975 and \$795 million in 1976. The extension allowed more areas to be available for assistance but also had new provisions for:

- Guarantee direct and working capital loans for business in depressed areas for up to 90% of the balance.
- State matching grants for EDA programs for that each \$1 paid by the state, \$3 of federal funds would be provided
- Allowed regional commissions to obtain federal property at no charge with the option to give or loan to states, hospitals, and other institutions for the promotion of economic development
- Granted \$100 million for special assistance for areas threatened with or facing economic depression allowing some funds to be used to pay unemployment compensation

History: The passage of the bill signaled the rejection of Nixon's proposal to end the EDA. Congress made changes such as reducing the amount of grants that was mandated to PWIP so President Ford would sign off on the bill.

Special Emergency and Unemployment Assistance Act of 1974

Law: PL 93-567

Congressional Bill: HR 16596

Date Signed into Law: December 31, 1974

Purpose: Part of an emergency three-part legislative package to help a national economy fight recession and inflation, HR 16596 set up a public works job program and expanded unemployment compensation to 12 million more citizens. Title X of the bill authorized the Job Opportunities Program that gave \$500 million for public works project likely to create jobs in areas where the jobless rate was 6.5% or higher or to areas designated as redevelopment areas under the PWEDA.

History: All throughout the 1974 year, all attempts at public jobs legislation had failed. The unemployment assistance bills were passed in last few days of the Congressional session in 1974 when November unemployment numbers were announced at 6.5%, the highest level it had been in thirteen years. Although President Ford was unhappy with parts of the bill (like Title X), he signed HR 16596 into law.

Trade Reform Act

Law: PL 93-618

Congressional Bill: 93-618

Date Signed into Law: January 3, 1975

Purpose: The trade bill allowed the EDA to provide trade adjustment assistance for firms and industries that have been negatively affected by increased imports. In 2003 and 2004, the EDA was been allotted \$13 million for trade assistance. Applicant firms must work with one of the twelve Trade Adjustment Assistance Centers to come up with a strategy to guide their economic recovery.

History: PL 93-618 was required for U.S. participation in a round of worldwide trade negotiations that took place in February 1975.

Public Works and Economic Development Act 1976 Extension

Law: PL 94-487

Congressional Bill: S 2228

Date Signed into Law: October 12, 1976

Purpose: Extended the 1965 PWEDA until fiscal year 1979. The bill authorized almost \$4.9 billion for the three years and continued existing programs at their current funding levels. Aid was expanded for greater allotments to urban areas. Nearly \$1 billion of the funding was dedicated for counter-cyclical job creation to be used during times high national unemployment.

History: In a separate action, the Congress extended the regional development commissions for one additional year until September 30, 1977.

Public Works Employment Act 1977

Law: PL 95-28

Congressional Bill: HR 11

Date Signed into Law: May 13, 1977

Purpose: Increased authorization to \$6 billion for the emergency public work projects that was established under Title I of the Public Works Employment Act of 1976, a yearly increase of \$4 billion.

History: This was the first part of President Carter's economic stimulus legislation. Despite an emergency public works job program passed in Congress in 1976 (PL 94-369), there was a backlog of public works projects denied by the Chamber of Commerce. PL 95-28 changed project application requirements and only accepted application already on file to help assure areas with the highest unemployment rates and economic depression would be helped. By far, 1977 has been the largest funded year in the EDA's history. The EDA funded more than 10,500 public work projects in 1977 due to PL 95-28. Between 1965 and 1997, approximately 43% of all EDA funding in that time span occurred within 1977.

Public Works and Economic Development Act 1976 Extension

Law: PL 96-506

Congressional Bill: S 3152

Date Signed into Law: December 8, 1980

Purpose: S 3152 extended current EDA programs for three years through fiscal year 1982 with an annual funding of \$1 billion annually. The legislation also allotted \$1.5 billion over three years for the Appalachian Regional Development Commission.

History: In 1979, President Carter proposed passage of the National Public Works and Economic Development Act and the Regional Development Act to repeal the PWEDA 1965. Carter's proposals would have greatly expanded the lending power of the EDA. While similar bills were passed in the House and Senate, attempts to expand the EDA died in conference committee as House Democrats lost interest and Republicans hoped to give election winner Reagan a chance to make his own economic development plans.

PL 96-206 was the last reauthorization of the 1965 PWEDA until 1998. Reauthorization of the EDA in 1982, HR 6100, failed to pass due to opposition from Senate Republicans and the administration. Reagan was a harsh critic of the EDA and called for its abolition. Reagan had many criticisms of the EDA:

- **Spread too thin:** When established in 1952, 12% of the United States was eligible for funding. With each reauthorization, Congress would expand the areas eligible. By 1982, 80% of the population was eligible for aid. The 1979 legislation proposed by Carter would have allowed 90% of the population to be eligible for EDA programs.
- **Too costly and inefficient:** The Department of Commerce estimated it cost \$40,000 to create one job, while other estimates were lower. Also, it was found that EDA's loan program was a source of problems. Of the \$1 billion in EDA direct and guarantee loans, almost half were delinquent.
- **Too slow:** EDA programs were often started by Congress as a way to combat temporary unemployment. It was suggested by the time the programs were started, recessionary unemployment problems no longer occurred. In 1982, the EDA was still overseeing public works projects to help with recessions from the 1976 and 1977 bills.

Economic Development Administration Reform Act of 1998

Law: PL 105-393

Congressional Bill: S 2364 & HR 4275

Date Signed into Law: July 28, 1998

Purpose: The Act authorized the EDA from 1999-2003 and the ARC from 1999-2001. The bill included provisions to:

- Establish eligibility requirements for EDA assistance to target such communities facing economic distress
- Allows the EDA to designate economic development districts
- Directs the Department of Commerce to serve as a clearinghouse for information on economic development and adjustment, defense adjustment, natural disaster, and trade assistance of federal, state, and local programs

History: The Clinton administration targeted the EDA to be a source of funding for regions impacted by defense cuts, base closings, and natural disasters.

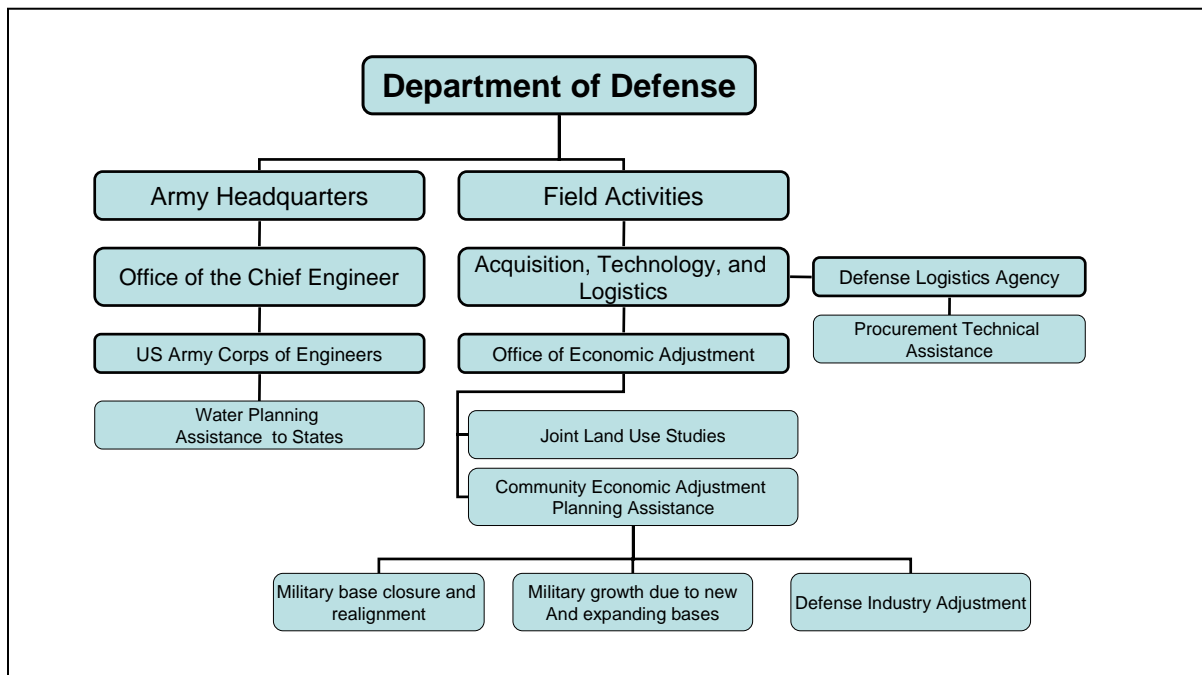
EDA PROGRAMS

- **Public Works:** The Public Works Program empowers distressed communities to revitalize, expand, and upgrade their physical infrastructure to attract new industry, encourage business expansion, diversify local economies, and generate or retain long-term, private sector jobs and investment.
- **Economic Adjustment Assistance Program:** The Economic Adjustment Program assists state and local interests to design and implement strategies to adjust or bring about change to an economy. The program focuses on areas that have experienced or are under threat of serious structural damage to the underlying economic base.
- **Research and National Technical Assistance:** The Research and Technical Assistance Program supports research of leading edge, world class economic development practices as well as funds information dissemination efforts.
- **Local Technical Assistance:** The Technical Assistance Program helps fill the knowledge and information gaps that may prevent leaders in the public and nonprofit sectors in distressed areas from making optimal decisions on local economic development issues.
- **Partnership Planning:** EDA's Partnership Planning programs help support local organizations (Economic Development Districts, Indian Tribes, and other eligible areas) with

their long-term planning efforts and their outreach to the economic development community on EDA's programs and policies.

- **University Center:** The University Center Program is a partnership of federal government and academia that makes the varied and vast resources of universities available to the economic development community.
- **Trade Adjustment Assistance:** EDA uses a national network of twelve Trade Adjustment Assistance Centers to help manufacturers and producers affected by increased imports prepare and implement strategies to guide their economic recovery.

DEPARTMENT OF DEFENSE



SYNOPSIS

The Department of Defense is involved in waterway development and helping regions adjust to the construction or elimination of defense installations. The Army Corps of Engineers cooperates with states in developing water resources, including dams, locks, and reservoirs. Many of these projects have multiple economic development impacts, ranging from tourism to water transportation. The Office of Economic Adjustment helps local communities plan and take economic advantage of the opening and closing of military installations. Closing military bases can have a big economic impact on a local area, and this agency helps identify new economic

uses. Finally, the Defense Logistics Agency serves as a sort of DOD extension service, helping businesses participate in military procurement.

The Army Corps of Engineers has a long history in economic development, dating back to its founding by the Continental Congress when the nation was formed. To address the economic impact of base closures, President Carter issued an executive order in 1978 that created an Economic Adjustment Committee at the DOD. President George H.W. Bush signed a similar order in 1992. The Defense Adjustment Act of 1990 created base closure commissions, providing further impetus to DOD programs to help communities adjust to changes in military installations.

DOD LEGISLATION

Water Resource Development Act of 1974

Law: PL 93-393

Congressional Bill: HR 15155

Date Signed into Law: August 28, 1974

Purpose: The law provided authority for the Corps of Engineers to assist the States, local governments, and other non-Federal entities in the preparation of comprehensive plans for the development, utilization, and conservation of water and related land. Section 208 of the Water Resources Development Act of 1992 amended the WRDA of 1974 to include Native American Tribes as equivalent to a State.

History: The Water Resource Development Act was part of a larger yearly appropriations bill. The Planning Assistance to States (PAS) Program was funded annually by Congress. Federal allotments for each State or Tribe from the nation-wide appropriation were limited to \$500,000 annually, but typically were much less. Individual studies, of which there may be more than one per State or Tribe per year, generally cost \$25,000 to \$75,000. These studies were cost shared on a 50 percent federal-50 percent non-federal basis.

Community Economic Adjustment

Executive Order: 12049

Date: March 27, 1978

Purpose: Carter's Executive Order was made to help communities, regions, and states alleviate serious economic consequence that result from the Department of Defense changes such as base openings and closing, contract changes, or personnel reductions or increases. The executive order named 23 agency heads as members of the Economic Adjustment Committee to help the Department of Defense with their economic adjustment activities.

History: President George H.W. Bush issued a similar Executive Order, 12788, on January 15, 1992.

Defense Economic Adjustment, Diversification, Conversion, and Stabilization Act

Law: PL 101-50

Congressional Bill: HR 3279

Date Signed into Law: November 5, 1990

Purpose: This yearly Department of Defense authorization established an eight-member, bipartisan commission for the next three Congresses to recommend a list of bases that should be closed. The bill also established the Community Economic Adjustment Planning Assistance for Reductions in Defense Industry Employment to help assist local and state governments undertake economic adjustment planning activities to respond to base closures. The program was given 1.5 million in funding in 2004. The Community Base Reuse Plans was also started to assist local government to conduct plans to find new purposes for military bases and installations that were being closed.

History: The commission to establish what bases to be closed in the future came after Defense Secretary's Dick Cheney's controversial list of 47 military bases he hoped to close.

DOD PROGRAMS

U.S. Army Corps of Engineers

- **Water Assistance to the States:** The Army Corps of Engineers cooperates with states in the preparation of comprehensive plans for developing, using, and conserving water and related land resources of drainage basins.

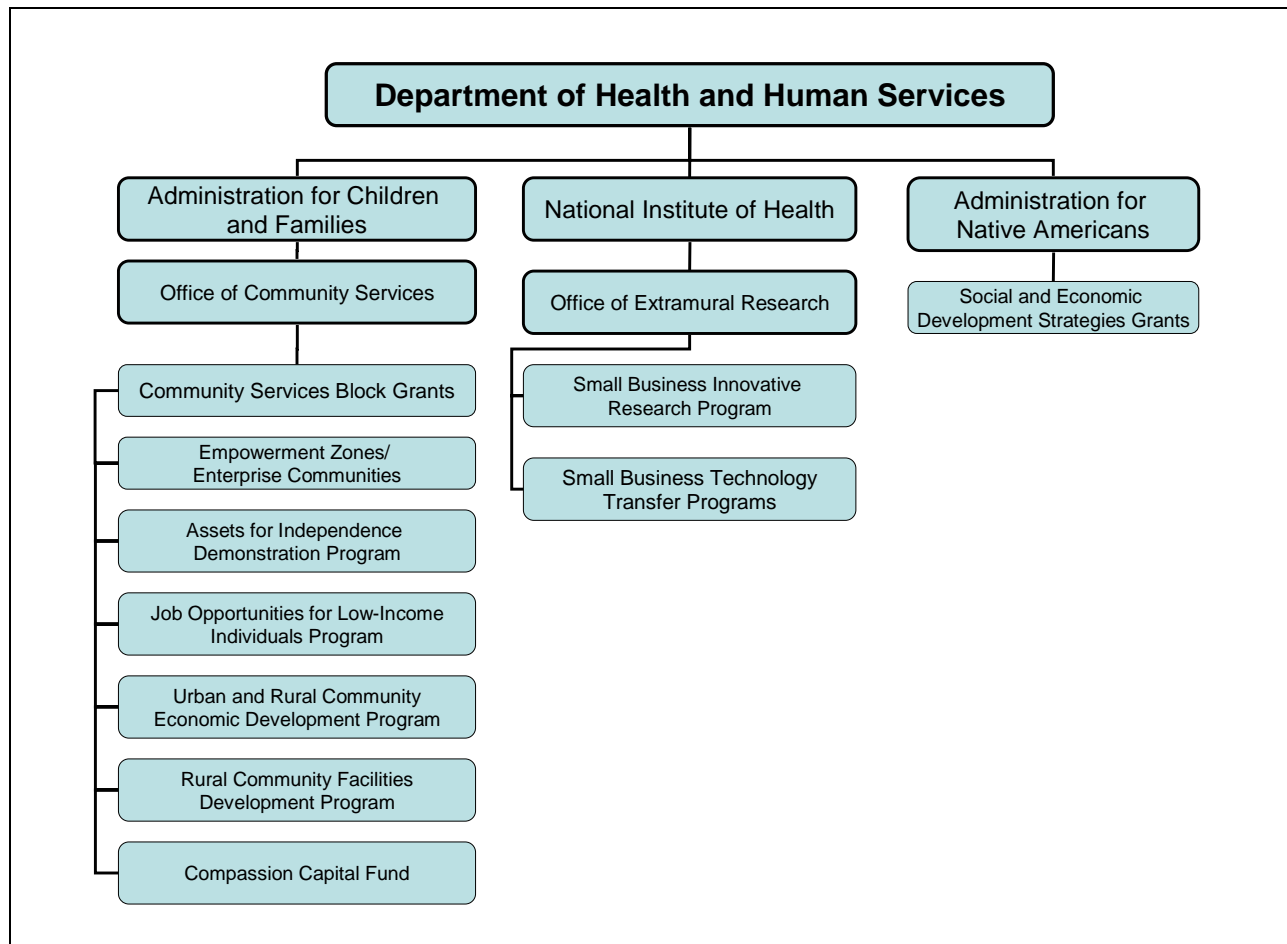
Office of Economic Adjustment

- **Joint Land Use Studies (JLUS):** The program encourages cooperative land use planning between military installations and the surrounding communities. The goal of the JLUS program is to assist communities in partnering with local installations and preparing development plans and regulations that are compatible with the training and operational missions of the military installations, airfields, and ranges.
- **Defense Industry Adjustment:** When major cuts in Defense industry contracts occur resulting in significant job loss, the OEA assists the community in developing an economic adjustment strategy and implementation plan. Strategies focus regionally on job creation through business development, attraction and expansion, workforce development and community economic diversification.
- **Military Base Closure and Realignment Assistance:** OEA offers technical and financial assistance to State and local governments for base reuse plans and studies, staffing, and operating and administrative costs required to facilitate reuse of former military property.
- **Growth Assistance:** The OEA provides economic adjustment assistance to state and local governments impacted by the sudden growth from new or expanding bases.

Defense Logistics Agency

- **Procurement Technical Assistance Program:** The program assists state and local government and other nonprofit entities activities in helping business firms market their goods and services to the Department of Defense and any other Federal agency.

DEPARTMENT OF HEALTH AND HUMAN SERVICES



SYNOPSIS

HHS administers several economic development programs aimed at low-income Americans. Through its Office of Community Services, HHS oversees seven programs that use federal funds to spur economic development in low-income areas. These include Community Assistance Block Grants for economic development in low-income rural and urban areas. The Small Business Innovation Research and Technology Transfer programs seek to increase participation of small businesses in federal research while also encouraging commercialization of

federal research through small businesses. Other programs focus on economic development for Native Americans.

The Community Services Block Grant Act of 1981 was a major legislative step that brought HHS into federal economic development efforts. That Act was renewed in the Community Opportunities, Accountability, Training, and Educational Services Act of 1998, which gave HHS additional development responsibilities.

HHS LEGISLATION

Stewart B. McKinney Homeless Assistance Act

Law: PL 100-77

Congressional Bill: HR 558

Date Signed into Law: July 22, 1987

Purpose: A comprehensive law authorizing millions of dollars for health, housing, food, and various types of assistance for the homeless. Particularly, for economic development, a Surplus Property Utilization program was formed to allow the giving or leasing of surplus government property for those eligible organizations that would use the property for health programs. Example applicable programs included hospitals, water and sewer systems, and health research centers.

History: Although Reagan felt the bill had too many duplicative programs, the legislation was passed in Congress after a seven-week camp out on the Capitol by the Community for Creative Non-Violence (a lobbyist group) and after the “Great American Camp Out,” which consisted of a dozen members of Congress and a few movie stars spending a highly-publicized night sleeping on the streets of Washington.

Community Opportunities, Accountability, Training, and Educational Services Act

Law: PL 105-285

Congressional Bill: S 2206

Date Signed into Law: October 27, 1998

Purpose: The bill reauthorized the Head Start Program, Low-Income Home Energy Assistance Program, and the Community Assistance Block Grants. Specifically, some of the Community Assistance Block Grants offer economic development assistance to urban and rural areas. The Urban and Rural Community Economic Development Program under the Block Grants has appropriated \$26.9 million dollars in 2004 for competitive discretionary grants to create employment and business opportunities for low-income residents. Also, the Rural Community Facilities Development Program granted over \$7 million in fiscal year 2003 on projects that focused on the development of affordable, safe water and waste water treatment.

History: The founding legislation for the Community Assistance Block Grant was the Community Services Block Grant Act of 1981. The 1998 legislation allowed faith-based organizations to receive grant funding.

Community Economic Development Act (Native American Program Extension Act)

Law: PL 93-644

Congressional bill: HR 14449

Date Signed into Law: January 4, 1975

Purpose: PL 93-644 extended the programs of the Office of Economic Opportunity through the creation of the Community Services Administration which would be part of the Department of Health and Human Services. The Act also established the Administration for Native Americans (ANA). In 2003, the ANA gave approximately \$20 million in grant awards to support social and economic development strategies. The ANA promotes the principles of self-sufficiency and self-government.

History: President Nixon tried to end all community action programs in 1973, but failed due to the large protest by state and city officials of all party backgrounds. Since 1975, legislation to continue special Native American programs has included:

- Older Americans Act Amendments of 1987, Public Law 100-175, HR 1451
- Indian Reorganization Act Amendments, Public Law 100-581, HR 2677
- Older Americans Act Amendments of 1992, Public Law 102-375, HR 2967

HHS PROGRAMS

Administration for Children and Families

Office of Community Services

- **Empowerment Zones/Enterprise Zones:** The Empowerment Zones/Enterprise Communities program is a federal government-wide effort to enable the self-revitalization and growth of distressed urban and rural areas throughout the nation. The EZ/EC designees are receiving flexible grants, tax incentives, and a commitment of additional types of Federal support to implement these plans over a ten-year period.
- **Assets for Independence Demonstration Program:** The program provides competitive grant funds to non-profit organizations that manage individual development account (IDA) projects. IDAs are dedicated savings accounts that participants may use for purchasing a first home, paying for post-secondary education, or capitalizing a business. The IDAs are comprised of participant savings from earned income and are matched by deposits of up to eight dollars for each dollar saved.
- **Job Opportunities for Low-Income Individuals Program (JOLI):** The JOLI program is a new job creation program that awards funds to organizations that create new full-time employment for Temporary Assistance for Needy Families and certain low-income individuals. Program funds are awarded in four project designs priority areas: 1) expansion of existing businesses through technical and financial assistance; 2) self-employment/ microenterprise; 3) new business ventures; and, 4) non-traditional employment initiatives that lead to economic self-sufficiency for eligible participants.
- **Urban and Rural Community Economic Development Program:** The program supports projects that create employment and business opportunities for low-income residents and their communities through business, physical, and commercial development. Generally the projects should improve the quality of the economic and social environment of TANF recipients, low-income residents including displaced workers, at-risk teenagers, custodial and non-custodial, individuals residing in public housing, individuals who are homeless, and individuals with developmental disabilities

- **Rural Communities Facilities Development Program:** This program supports low-income rural communities in the development of affordable, safe water and waste water treatment facilities. Activities may include training and technical assistance in developing and managing water facilities in rural areas; improving the coordination of federal, state and local agencies in water and waste water management; and distributing information.
- **Compassion Capital Fund (CCF):** CCF helps faith-based and community organizations increase their effectiveness and enhance their ability to provide social services. CCF works through intermediary organizations that serve as a bridge between the Federal government and faith-based and community organizations. CCF also awards one-time capacity-building grants of \$50,000 directly to faith-based and community organizations.
- **Community Services Block Grant:** The Community Service Block Grant program provides States and Federal and State-recognized Indian Tribes with funds to provide a range of services to address the needs of low income individuals to ameliorate the causes and conditions of poverty.

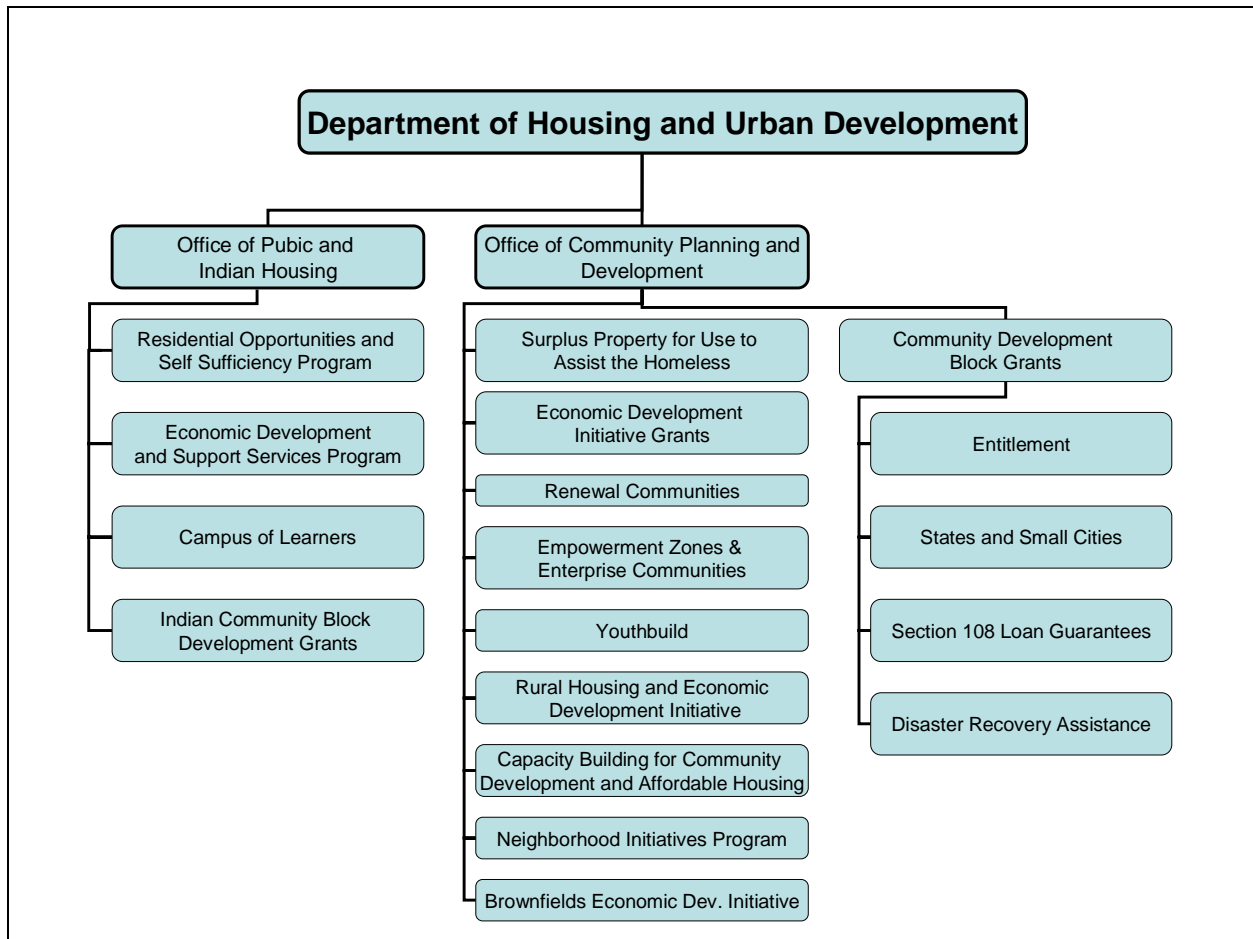
National Institute of Health

- **Small Business Innovation Research (SBIR):** The SBIR program is a set-aside program (2.5% of an agency's extramural budget) for domestic small business concerns to engage in Research/Research and Development (R/R&D) that has the potential for commercialization.
- **Small Business Technology Transfer Program:** Federal agencies with extramural R&D budgets over \$1 billion are required to administer STTR programs using an annual set-aside of 0.30%. STTR and SBIR programs are similar in that both programs seek to increase the participation of small businesses in Federal R&D and to increase private sector commercialization of technology developed through Federal R&D. The unique feature of the STTR program is the requirement for the small business concern applicant organization to formally collaborate with a research institution.

Administrator for Native Americans

- **Social and Economic Development Grants:** These awards are competitive financial assistance grants in support of locally determined and designed projects to address community needs and goals. This approach of promoting self-sufficiency supports native communities in their efforts to reduce dependency on public funds and social services by increasing community and individual productivity through community development.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT



SYNOPSIS

As its name implies, HUD has primary responsibility in Washington for urban development and housing programs. The Office of Community Planning and Development carries out an extensive list of programs aimed at economic development in the nation's cities. A major part of this effort is the Community Development Block Grant (CDBG) program. This program provides grants to states and cities to carry out an extremely wide range of community development activities—neighborhood revitalization, economic development, and improved community facilities and services. Among other programs, the Office also oversees the EZ/EC

program as applied to cities, invests in boosting the development skills and planning by local development officials, and encourages housing organizations to partner in broader economic development activities. The Rural Housing and Economic Development Program seeks to expand the supply of affordable housing and access to economic opportunities in rural areas. HUD's Office of Public and Indian Housing provides grants and services to improve housing and promote economic development for Native Americans.

HUD was created by the Department of Housing and Urban Development Act of 1965. Another key piece of legislation was the Housing and Community Development Act of 1974, which created the CDBG program. The department's involvement in rural housing and development was enlarged in the department's appropriation act in 2000.

HUD LEGISLATION

Housing Act of 1961

Law: PL 87-70

Congressional bill: S 1922 & HR 6028

Date signed into law: June 30, 1961

Purpose: The comprehensive housing bill had three main purposes:

- Reduce urban poverty and congestion
- Improve housing for low and moderate income families
- Offset the 1960-61 recession by increased government spending and building activity

The law includes provisions for new housing mortgage programs, elderly and public housing, urban renewal and planning, college housing, community facilities, open spaces for parks and recreation, and farm housing. Critics of the program claimed the final cost of the Act was close to \$9 billion.

History: During the Eisenhower Administration little housing legislation was passed. This legislation was passed at the request of President Kennedy. It was the largest housing legislation passed since the Housing Act of 1949, which provided \$1 billion worth of federal programs for urban renewal and \$250 million for rural housing loans.

Housing and Urban Development Act of 1965

Law: PL 89-117

Congressional bills: S 2213 & HR 7984

Date Signed into law: August 10, 1965

Purpose: A more expanded act than the 1961 legislation, PL 89-117 designated \$8.7 billion to fund new and extend current housing and urban development programs. Rent supplements was a

new provision not seen in previous housing bills. Under the program, an individual was to only pay 25% of his/her income for rent in a non-profit, private housing and the government would subsidize the rest. Eligible individuals for the program had to meet specific criteria such as: must qualify for public housing, be over 62 years of age, physically handicapped, displaced by government construction, or living in substandard housing. The law also allowed placement of low-income individuals into private housing that was comparable in costs.

History: While most of the bill's provisions held wide support, the rent supplements and eligibility requirements were highly controversial. The bill had several Republican supported-programs like low down payments and federal insurance of home mortgages for veterans. The Administration had initially proposed federal assistance for the creation of entirely new towns and communities, but this was heartily opposed by Congress.

Department of Housing and Urban Development Act

Law: PL 89-174

Congressional bill: HR 6927 & S 1599

Date signed into law: September 9, 1965

Purpose: The law created the Department of Housing and Urban Development (HUD), a cabinet level department. The secretary of HUD is appointed by the President and confirmed by the Senate and was given the duties of the former Housing and Home Finance Agency (HHFA).

History: From 1961 to 1964, President Kennedy and President Johnson tried unsuccessfully to establish a housing department. The legislation did not introduce any new housing programs; it mainly promoted the 1947 founded HHFA into a Cabinet-level status.

Housing and Community Development Act of 1974

Law: PL 93-383

Congressional Bill: S 3066

Date Signed into Law: August 22, 1974

Purpose: The major provision of the law was the establishment of the Community Development Block Grants (CDBG). CDBG are the major source of funding for HUD's community development and funding functions. CDBG has funded many different grants and programs:

- **Entitlement Grants, Small Cities Program, and State's Program**

Purpose: To develop viable urban communities, by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for persons of low and moderate income

2004 Funding: Entitlement--\$3,100,300,000, Small Cities-- \$5,979,150,
State's--\$1,322,720,850

- **Section 108 Loan Guarantees**

Purpose: Provide communities with a source of financing for economic development, housing rehabilitation, public facilities, and large scale physical development projects

2003 Funding: \$570,833,000

- **Economic Development Initiative**

Purpose: To help public entities that are eligible for Section 108 Loan Guarantee to carry out economic development projects for qualified brownfield projects.

2003 Funding: \$24,838,000

- **Indian Program**

Purpose: To provide block grants for Indian tribes and Alaska Native villages to improve housing, provide community facilities, make infrastructure improvements, and expand job opportunities by supporting the economic development of their communities.

2004 Funding: \$72,500,000

Housing and Community Development Act of 1992

Law: PL 102-550

Congressional Bill: HR 5334

Date Signed into Law: October 28, 1992

Purpose: The bill was a \$66.5 billion two-year reauthorization of HUD's housing programs. The legislation also authorized the Community Outreach Program (COPC). COPC funds partnerships between communities and institutions of higher learning to solve urban problems through research, outreach, and information exchange. COPC had approximately \$7 million available for yearly grant funding.

History: The reauthorization was seen as way to fix the new housing programs started in the 1990 omnibus housing bill. In 1990, the Bush administration's programs of Homeownership and Opportunity for People Everywhere (HOPE) and the Democrats' HOME investment Partnership Acts were started, but the programs were hampered by design flaws and lack of funding. Momentum increased to help cities after the Los Angeles riots in April of 1992. Jack Kemp, HUD secretary, was apposed to the bill claiming it went against the previous two year reforms attempt to decrease defaults on government mortgage funds. The COPC was reauthorized in 2000 by PL 106-377.

Departments of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriations Act of 2000

Law: PL 106-377

Congressional Bill: HR 4635

Date Signed into Law: October 27, 2000

Purpose: The Act was a large appropriations bill for Veterans Affairs, HUD, and 20 federal agencies including NASA and the EPA. The bill had over 1,183 earmarks for economic development, university research, and water and sewer construction projects totaling more than \$1 billion dollars. The bill became the authorizing legislation for the Rural Housing and Economic Development Program. The Rural Housing and Economic Development Program mission is to expand the supply of affordable housing and access to economic opportunities in rural areas and was appropriated \$25 million in 2003.

History: The appropriations bill was large and generous, increasing HUD's funding by 18%. The Rural Housing and Economic Development Program was allowed to continue through yearly appropriations, but it is unclear year from year if the program will be funded.

HUD PROGRAMS

Office of Community Planning and Development Community Development Block Grants (CDBG)

- **Entitlement:** Provides annual grants on a formula basis to entitled communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. Some of the activities

that can be carried out with community development funds include the acquisition of real property; rehabilitation of residential and nonresidential properties; provision of public facilities and improvements, such as water and sewer, streets, and neighborhood centers; clearance; homeownership assistance; and assistance to for-profit businesses for economic development activities.

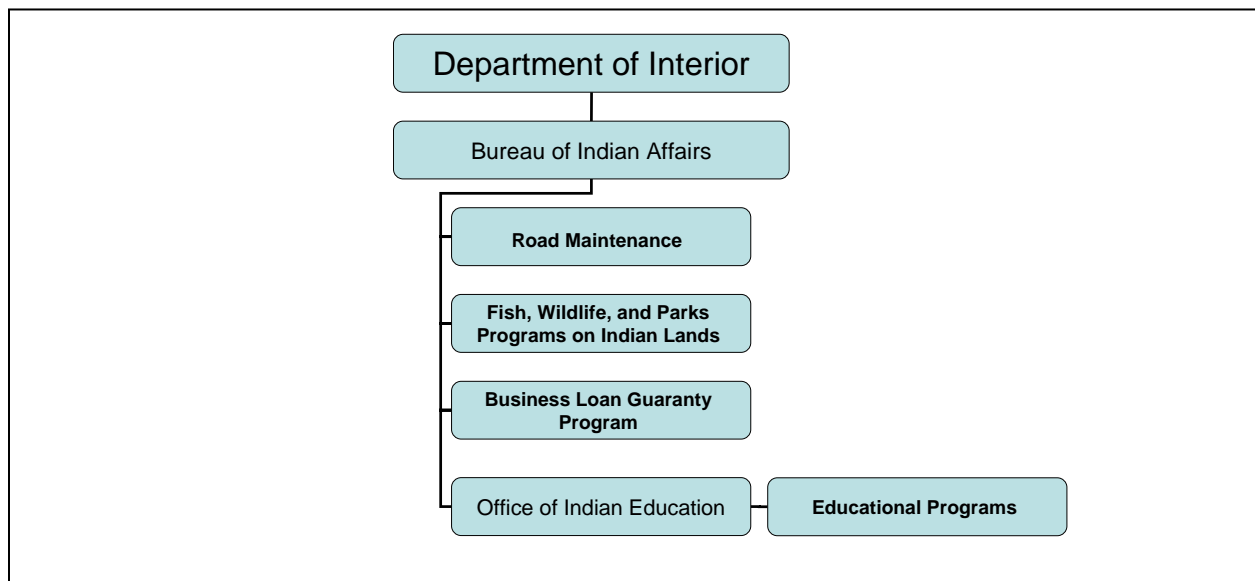
- **States and Small Cities:** The program provides grants to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. Each state has the option to administer the block grant funds provided for its non-entitlement areas.
- **Section 108 Loan Guarantees:** The loans offer communities a source of financing for housing rehabilitation, economic development, and large-scale physical development projects.
- **Disaster Recovery Assistance:** HUD provides flexible grants to help cities, counties, and states recover from Presidentially-declared disasters, especially in low- and moderate-income areas.
- **Surplus Property for Use to Assist the Homeless:** The program makes suitable federal properties, which are categorized as unutilized, underutilized, excess, or surplus, available to states, local governments, and nonprofit organizations for use to assist homeless persons for homeless individuals and families, to operate these facilities and provide essential supportive services, and to help prevent homelessness.
- **Economic Development Initiative:** HUD may make economic development grants to CDBG recipients in connection with notes or other obligations guaranteed under Section 108 for the purpose of enhancing either the security of the guaranteed loans or the viability of the projects financed by those loans. EDI enables localities to carry out eligible economic development activities where public and private dollars can be leveraged to create jobs and other benefits, especially for low- and moderate income persons, and reduce the risk of potential future defaults on Section 108 loan guarantee-assisted projects.
- **Renewal Communities:** The HUD Secretary is authorized to designate up to 40 “renewal communities” from areas nominated by states and local governments; at least 12 must be in rural areas. Renewal Communities are given tax incentives for rejuvenation of economically disadvantaged areas.
- **Empowerment Zones & Enterprise Communities:** Program provides grants and/or tax incentives to locate businesses in, and hire residents of, economically disadvantaged areas.
- **Youthbuild Grants:** The Youthbuild program provides economically disadvantaged young adults with opportunities to obtain education, employment skills and meaningful on-site work experience, and to expand the supply of affordable housing for homeless and low- and very low-income persons.
- **Rural Housing and Economic Development Initiative:** Recent appropriations acts have provided funding for this grant program that is used to encourage new and innovative approaches to serving the housing and economic development needs of the nation’s rural communities.
- **Capacity Building for Community Development and Affordable Housing:** The program offers grants to develop the capacity and ability of community development corporations and community housing development organizations to undertake community development and affordable housing projects and programs.
- **Neighborhoods Initiatives Program:** Grants provide funding for neighborhood initiatives that are utilized to improve the conditions of distressed and blighted areas and neighborhoods, to stimulate investment, economic diversification, and community revitalization in areas with population out migration or a stagnating or declining economic base, or to determine whether housing benefits can be integrated more effectively with welfare reform initiatives.
- **Brownfields Economic Development Initiative (BEDI):** BEDI provides competitive economic development grants to CDBG recipients in connection with notes or other obligations guaranteed under Section 108 of the Housing and Community Development Act of 1974 for the purposes of enhancing either the security of the guaranteed loans or the viability of the projects financed with these Section 108 loans. Grants are used to redevelop industrial or commercial

sites known as brownfields due to the presence or potential presence of environmental contamination.

Office of Public and Indian Housing

- **Residential Opportunities and Self Sufficiency Program (ROSS):** ROSS links public housing residents with supportive services, resident empowerment activities, and assistance in becoming economically self-sufficient.
- **Economic Development and Support Services Program (ED/SS):** ED/SS provides grants that aid public and Indian housing authorities in creating and operating programs that increase resident self-sufficiency and support independent living for their elderly and disabled residents.
- **Campus of Learners:** Campus of Learners is an initiative designed to provide public housing residents at 25 sites with an opportunity to live in a college-like setting that is focused on learning. HUD provides technical assistance but no direct funding.

DEPARTMENT OF INTERIOR



SYNOPSIS

The Interior Department's Bureau of Indian Affairs administers several programs that shape economic development on Native American reservations. In general these programs focus on infrastructure investment, conservation, business development, and education. More recently, federal efforts have focused on expanding sources of financing for economic development projects, as well as providing federal guarantees for business loans extended by private lenders.

The Indian Self-Determination and Education Assistance Act of 1975 created programs aimed at road maintenance, conservation, and economic development. The legality of the programs is under question, however, due to a class action law suit now being heard in federal court. The Indian Financing Amendments Act of 2002 reaffirmed the revolving loan fund created in 1974 and increased the dollar amount covered by federal loan guarantees.

DOI LEGISLATION

Indian Self-Determination and Education Assistance Act

Law: PL 93-638

Congressional Bill: S 1017

Date Signed into Law: January 4, 1975

Purpose: The act allowed Indian tribes to assume more control and operation of federal programs carried out on reservations for their benefit. The legislation also allowed Native Americans more control of their education system and authorizes federal assistance for the construction of public schools for the education of Indian students. The legislation also authorized the following programs for Native American benefit through the Department of the Interior:

- **Road Maintenance**

Purpose: To provide limited routine maintenance on paved, gravel, earth, and unimproved roads; bridges; and airstrips

2004 Funding: \$7,484,000

- **Fish, Wildlife, and Parks Programs on Indian Lands**

Purpose: To promote the conservation, development, and utilization of fish, wildlife, and recreational resources for sustenance, cultural enrichment, economic support, and maximum benefit of Indians

2004 Funding: \$23,747,000

- **Indian Loans/Economic Development**

Purpose: To provide assistance to Federally Recognized Indian Tribal Governments, Native American Organizations, and individual American Indians in obtaining financing from private sources to promote business development initiatives on or near federally recognized Indian Reservations.

2004 Funding: \$6,497,000

History: The legality and continuation of these programs appears to be in question due to the Cobell vs. Norton class-action lawsuit.

Indian Financing Amendments Act

Law: PL 107-331 (Amends PL 93-262)

Congressional Bill: S 2017

Date Signed into Law: December 13, 2002

Purpose: The Indian Financing Reform Amendment of 2002 amended the Indian Financing Act of 1974. The 2002 Act increased from \$100,000 to \$250,000 the amount of Bureau of Indian Affairs insured loans a lender can offer to a borrower.

History: The 1974 law was enacted in order to address the lack of credit available to Native Americans on Federal trust lands. Such a problem existed because trust lands could not be used as collateral for obtaining loans. The law established the Indian Revolving Loan Fund and consolidated four separate programs into the fund. It provided that the fund would be available for loans to Indians having a form of organization that was satisfactory to the Secretary of the Interior and to other eligible Indians. The law states that loans be made for any purpose to promote the economic development of the individual Indian borrower, including loans for educational purposes, and the economic development of the Indian organizations. The law set out the terms and conditions of such loans.

DOI PROGRAMS

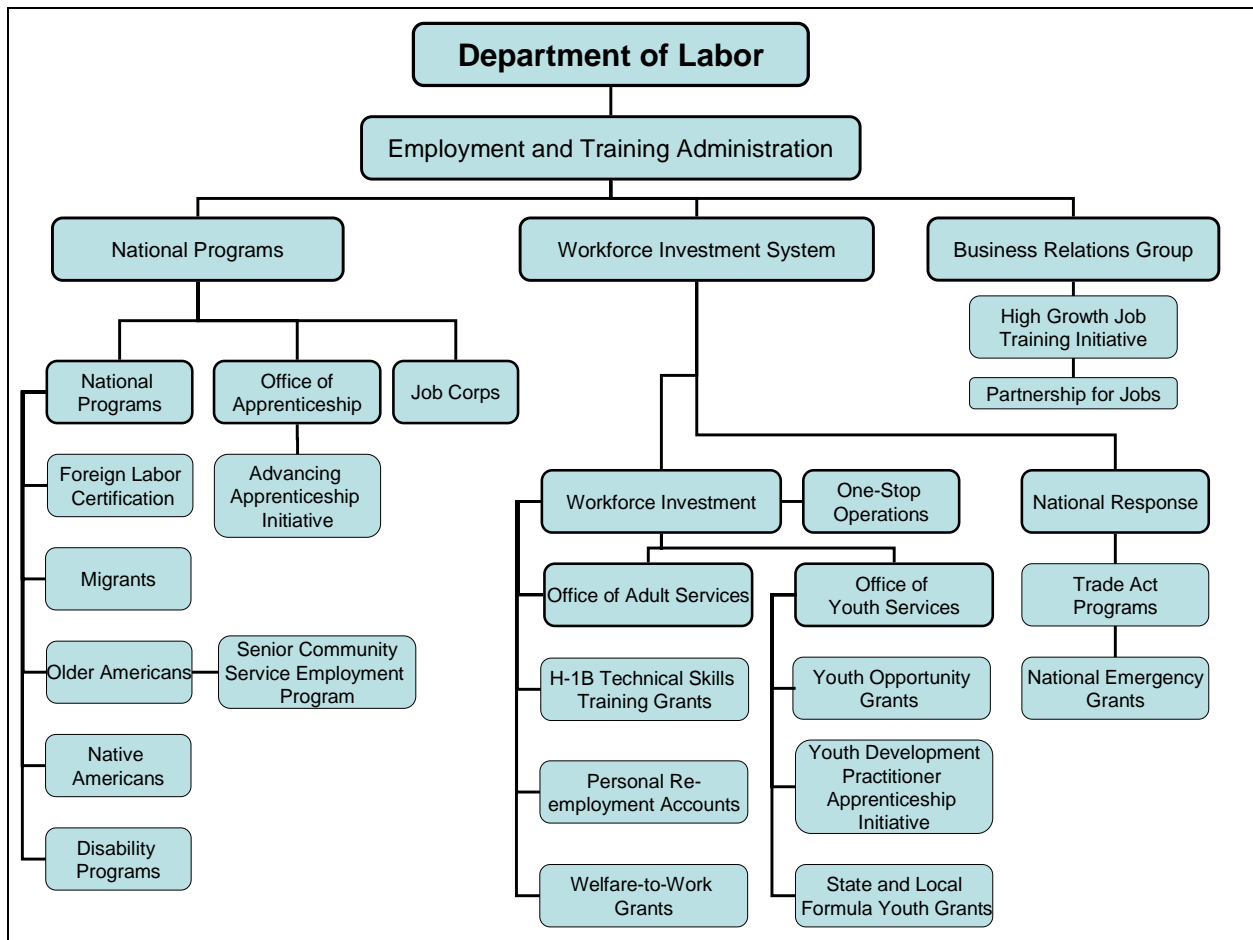
Bureau of Indian Affairs

- **Road Maintenance:** To provide limited routine maintenance on paved, gravel, earth, and unimproved roads; bridges; and airstrips. Funding originally appropriated in Indian Self-Determination and Education Assistance Act of 1975.
- **Fish, Wildlife, and Parks Programs on Indian Lands:** To promote the conservation, development, and utilization of fish, wildlife, and recreational resources for sustenance, cultural enrichment, economic support, and maximum benefit of Indians. . Funding originally appropriated in Indian Self-Determination and Education Assistance Act of 1975.
- **Business Loan Guaranty Program:** Provides loan guaranties to stimulate and increase Indian entrepreneurship and employment through the establishment, acquisition or expansion of Indian-owned economic enterprises. . Funding originally appropriated in Indian Self-Determination and Education Assistance Act of 1975.

Office of Indian Education

- **Educational Programs:** Provides either directly by OIEP or through grants and contracts to tribes who chooses to operate the programs themselves. Educational services are available not only to babies and their families, but also to older adults seeking to improves their literacy skills or to learn how to use computers.

DEPARTMENT OF LABOR



SYNOPSIS

The Employment and Training Administration oversees a plethora of work force training programs. Most of these programs provide various kinds of training assistance to workers. The Welfare-to-Work added a new dimension, as did the Trade Act Programs. The welfare to work initiative aims to help workers on welfare find work in the marketplace. The Trade Act Programs help workers acquire new skills when their jobs are lost to foreign competition. The Business Relations Group at DOL helps to inform and prepare workers for emerging job opportunities.

The primary law governing labor programs is the Employment Act of 1946. The Manpower Development and Training Act of 1962 created the Manpower Administration, which in 1975 was renamed the Employment and Training Administration. The Trade Act of 1974 first created programs to help workers who have lost their jobs due to foreign competition. These programs were updated in the omnibus Trade and Competitiveness Act of 1988. The Economic Dislocation and Worker Adjustment Assistance Act of 1988 provided specific focus on funding state and local programs that help train workers displaced by trade flows.

DOL LEGISLATION

Manpower Development and Training Act

Law: PL 87-415

Congressional Bill: H.R. 8399 (H.R. 7373 amended)

Date Signed into Law: March 15, 1962

Purpose: The Manpower Development and Training Act of 1962 attempted to solve unemployment caused by automation or other technological change, the relocation of industry, shifts in market demand, and other changes in the structure of the economy.

History: The MDTA was the first major piece of manpower legislation since the Employment Act of 1946. As the use of automated production methods increased, workers became more concerned with the effects of technical change on employment. Congress began to address the issue in various ways after WWII. The MDTA is perhaps the culmination of these efforts. The act created the Manpower Administration, which was renamed the Employment and Training Administration in 1975.

Economic Dislocation and Worker Adjustment Assistance Act

Law: PL 100-418

Congressional Bill: HR 4848

Date Signed into Law: August 3, 1988

Purpose: The Omnibus Trade and Competitiveness Act of 1988 provided funds to States and local sub-state grantees so they could help dislocated workers find and qualify for new jobs.

History: This Act was part of a comprehensive approach to aiding workers who have lost their jobs that also included provisions of the Worker Adjustment and Retraining Notification (WARN) Act and the Trade Adjustment Assistance (TAA) program. The Act amends the Trade Act of 1974.

DOL PROGRAMS

Employment and Training Administration

Office of Adult Services

- **H-1B Technical Skills Training Grants:** H-1B Skill grants are used for developing and operating high skill training programs for unemployed and employed American workers. These grants are financed by fees paid by employers who bring skilled foreign workers into the U.S. under H-1B nonimmigrant visas.
- **Personal Re-employment Accounts:** The funds will enable states to offer accounts of up to \$3000 each to eligible individuals to purchase job training and key services, such as child care and transportation, to help them look for a job and get back to work quickly. Recipients will be able to keep the balance of the account as a cash reemployment bonus if they become reemployed within 13 weeks.
- **Welfare-to-Work Program:** These grants to states and local communities create additional job opportunities for the hardest-to-employ recipients of Temporary Assistance to Needy Families. These grants provide many welfare recipients with the job placement services, transitional employment, and other support services they need to make the successful progression into long-term unsubsidized employment.

Office of Youth Services

- **Youth Opportunity Grants:** The grants are designed to help youth, ages 14-21, living in empowerment zones, enterprise areas, and other impoverished urban and rural areas acquire the necessary skills to grow into successful, productive adults. Projects are locally designed to prepare and place youth in long-term private-sector jobs and increase their enrollment in college.
- **Youth Development Practitioner Apprenticeship Initiative:** The initiative targets professionals who work or will work in youth programs delivering services to young people as front-line staff. YDPA provides an occupational title of Youth Development Practitioner for youth workers and identifies competencies for the profession, on-the-job-training, and related instruction.
- **State and Local Formula Youth Grants:** The program serves eligible low-income youth who have barriers to employment. Service strategies prepare youth for employment and/or postsecondary education through strong linkages between academic and occupational learning. Funds are allocated to State and local areas on a formula distribution determined by the number of unemployed individuals in areas of substantial unemployment, the relative excess number of unemployed individuals in a state, and the relative number of disadvantaged youth in a state.

One-Stop Operations

- **One-Stop Shops:** As a consequence of the Workforce Investment Act of 1998, the “one-stop” shops or workforce development centers were established to provide job seekers with a wide range of services previously provided by separate agencies.

National Response

- **Trade Act Programs:** Trade Adjustment Assistance (TAA) and Alternative Trade Adjustment Assistance (ATAA), assist individuals who have become unemployed as a result of increased imports from, or shifts in production to, foreign countries. TAA certified workers may access services that include income support, relocation allowances, job search allowances, a health coverage tax credit, and occupational training. Participation in ATAA allows older workers, for whom retraining may not be suitable, to accept reemployment at a lower wage and receive a wage subsidy.
- **National Emergency Grants:** National Emergency Grants are discretionary awards by the Secretary of Labor that are intended to temporarily expand service capacity at the state and local levels by providing time-limited funding assistance in response to significant dislocation events.

National Programs

- **Foreign Labor Certification:** The program permits U.S. employers to hire foreign workers on a temporary or permanent basis to fill jobs essential to the U.S. economy.
- **Migrants:** The National Farmworkers Job Program is a nationally directed program of job training and employment assistance for migrant and seasonal farm workers.
- **Senior Community Service Employment Program (SCSEP):** SCSEP is a part-time employment training program for low-income persons age 55 or over. Program participants are placed at community and government agencies for training and are paid the Federal or State minimum wage.
- **Native Americans:** Workforce Investment Act (WIA) Section 166 requires the Department of Labor provide quality employment and training services to Native American communities. The Division of Indian and Native American programs administer programs that are consistent with the traditional cultural values and beliefs of the Indian and Native American communities.
- **Disability and Workforce Programs (DDWP):** DDWP develops and implements disability policy and program initiatives related to the workforce system, including a cross-agency collaboration to address structural barriers to employment for individuals with disabilities. DDWP also provides skill training and systems change grant activities.
- **Growing America through Entrepreneurship (GATE):** In partnership with the SBA, project GATE supports economic freedom through promoting individual entrepreneurship. Project GATE seeks to energize local small business creation and help diverse urban and rural populations create, support and expand small businesses.

Office of Apprenticeship

- **Advancing Apprenticeship Initiative:** The initiative is dedicated to incorporating the Registered Apprenticeship System into the 21st Century workforce.

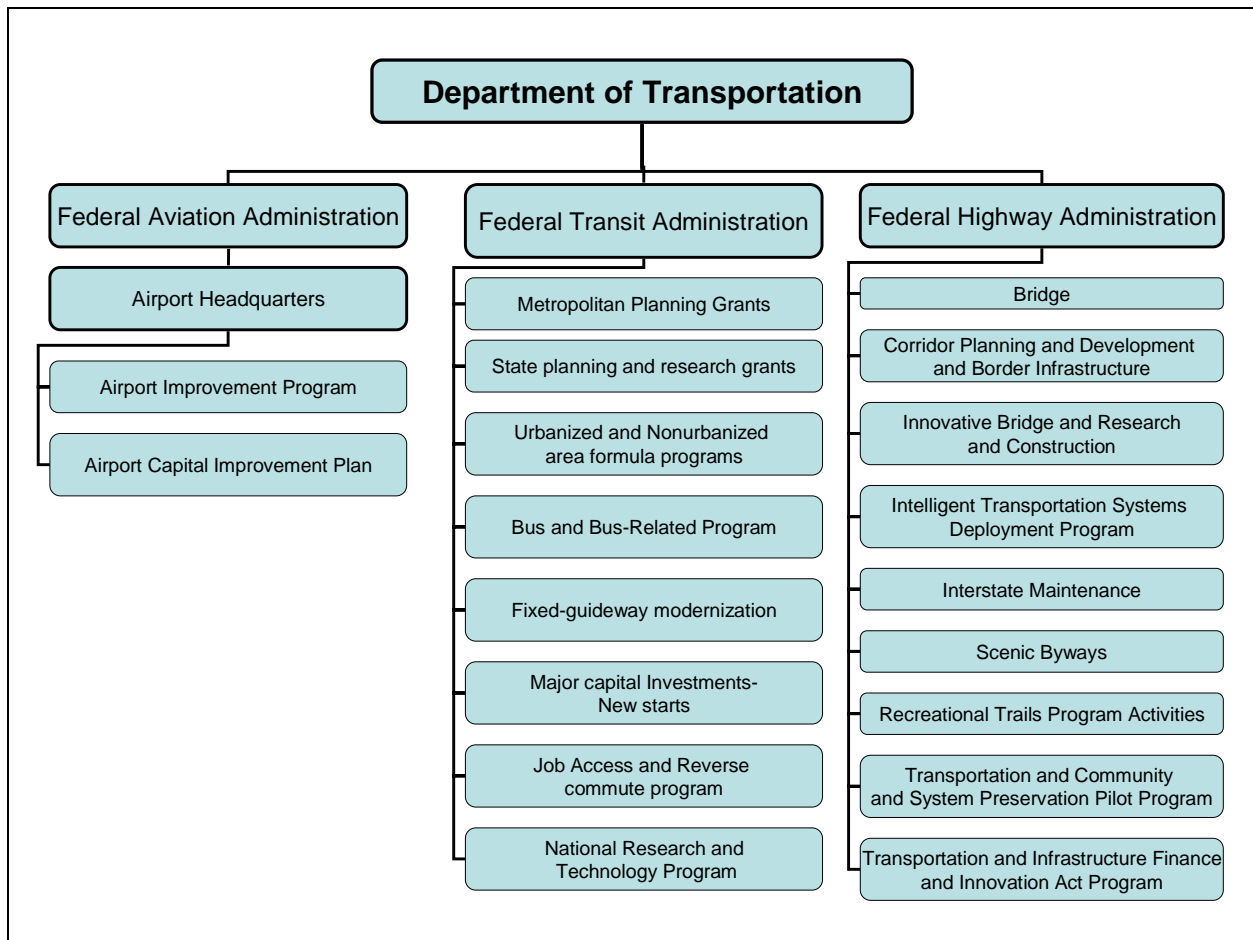
Job Corps

- **Job Corps:** Job Corps is a no-cost education and vocational training program for young people ages 16 through 24. At Job Corps, students enroll to learn a trade, earn a high school diploma or GED, and receive job placement help.

Business Relations Group

- **High Growth Job Training Initiative:** The initiative is a strategic effort to prepare workers to take advantage of new and increasing job opportunities in high growth/high demand and economically vital industries and sectors of the American economy. The foundation of this initiative is partnerships that include the public workforce system, business and industry, education and training providers, and economic development.
- **Partnership for Jobs:** The publicly funded workforce investment system is a state and local network of resources to assist businesses in recruiting, training, and retaining a skilled workforce. The Partnerships for Jobs Initiative was created within the Business Relations Group to assist business in connecting to the services of the publicly funded workforce system and to develop national business partnerships. The partnerships are designed to ensure that large multi-state businesses remain connected to the full range of services available through local and state workforce systems.

DEPARTMENT OF TRANSPORTATION



SYNOPSIS

Highways and airports are big initiatives. The Federal Highway Administration oversees federal planning and spending on roads and bridges. The Federal Aviation Administration oversees planning and spending on airports. Finally, the Federal Transit Administration administers grants and programs to plan and invest in public transportation in the nation's cities.

The Federal hand in highways dates all the way back to the Federal Aid Highway Act of 1921, which laid out the federal role in funding highways with the states. It was updated in 1956 to include the interstate highway system. The Airport and Airway Development Act of 1970

established the trust fund that pays for many improvements in the air transportation system. The Airport and Airway Improvement Act of 1982 was a significant addition to DOT's involvement in planning and making improvements to the nation's airports.

DOT LEGISLATION

Federal-Aid Highway Act of 1921

Law: N/A

Congressional Bill: N/A

Date Signed into Law: November 9, 1921,

Purpose: President Warren Gamaliel Harding signed into law the Federal-Aid Highway Act of 1921, which established the basic federalist, cooperative arrangement for the Federal Highway Program for the remainder of the twentieth century.

History: Congress continued federal funding for highway construction with the passage of the Federal-Aid Highway Act of 1921, matching state funds on a 50/50 basis. This act provided states with financial aid for the construction of highways under the seven-percent system, in which each state was eligible for assistance for the construction of seven percent of its highways.

Federal-Aid Highway Act of 1956

Law: N/A

Congressional Bill: N/A

Date Signed into Law: June 29, 1956

Purpose: Eisenhower signed into law the Federal-Aid Highway Act of 1956 and the Highway Revenue Act of 1956, authorizing the National System of Interstate and Defense Highways, and creating the Federal Highway Trust Fund.

History: The main controversy surrounding this bill involved the apportionment of the funds. Heavily populated states and urban areas wanted population to be the main factor, while other states preferred land area and distance as factors. The 1954 bill authorized \$175 million for the interstate system, to be used on a 60-40 matching ratio. The formula represented a compromise: one-half based on population and one-half based on the federal-aid primary formula (one-third on roadway distance, one-third on land area, and one-third on population).

Airport and Airway Development Act and Airport and Airway Revenue Act of 1970

Law: PL 91-258 (replaced PL 79-377)

Congressional Bill: HR 14465

Date Signed into Law: 1970

Purpose: This legislation established a trust fund and airline ticket taxes to assure \$11 billion for airports and airways over the next five years. The measure also directed the Secretary of Transportation to draw up a national transportation policy and submit it to Congress within a year.

History: This bill repealed the basic legislation providing Federal aid for airports, the Airport Act of 1946. Since 1946 there had been large increases in air travel that were not matched by

equivalent increases in funding for airports and airways. This bill sought to reverse this trend by offering a new long-range program for expansion and improvement of the U.S. airport and airways system.

National Mass Transportation Assistance Act of 1974

Law: PL 93-503

Congressional Bill: S. 386

Date Signed into Law: November 26, 1974

Purpose: The bill authorized \$11.9 billion over a six-year span for capital and operating expenses of the nation's mass transit systems.

History: This legislation marked the first time Congress had authorized funds for mass transit operating subsidies. During the early 1970's, many urban mass transit systems across the nation were accumulating large deficits, and were demanding passage of federal aid. The bill began as a two year, \$800 million measure, but would eventually go through a complicated legislative process, which resulted in a six-year \$11.9 billion bill. The main roadblock to passage of the bill was the formula used to dole out the funding. The original bill allocated funds as a categorical grant programs. Many, including Transportation Secretary Brinegar, said this form of the bill was too generous to a few large urban centers. The final compromise bill allocated funds more equally based on population and population density.

Airport and Airway Development Act Amendments

Law: PL. 94-353

Congressional Bill: HR 9771

Date Signed into Law: July 12, 1976

Purpose: Amends Airport and Airway Development Act of 1970 to include authority to grant funds for land acquisition for noise abatement programs. It also increased the federal government's matching share of airport development projects for large airports from 50% to 75%.

History: This bill restored funding for program created under the 1970 bill. Since June 30, 1975 no funding had been provided. Virtually all of the money authorized in the bill came from the Airport and Airway Trust Fund. The House bill included a provision banning the landing of the Concorde supersonic jet at non-federally owned airports for six months due to concerns that the jet could pose damage to the environment. The final Senate bill did not include the ban.

Airport and Airway Improvement Act of 1982

Law: PL 97-428

Congressional Bill: HR 4961

Date Signed into Law: September 9, 1982

Purpose: The legislation established the Airport Improvement Program which is a major source of funding for development and planning of airports. Eligible projects include those improvements related to enhancing airport safety, capacity, security, and environmental concerns. Estimated funding for 2004 was \$3.4 billion.

History: The Airport and Airway Improvement Act was just a small provision in PL 97-428 which was also called the Miscellaneous Revenue Act which made changes to the tax law. The AIP has been amended several times, most recently by the Wendell H. Ford Aviation Investment and Reform Act for 21st Century (PL 106-181).

Intermodal Surface Transportation Efficiency Act of 1991

Law: PL 102-240

Congressional Bill: HR 2950

Date Signed into Law: December 18, 1991

Purpose: A major provision of this law gave states greater flexibility in the use of funds for mass transit, and emphasizing regional planning and efforts to reduce automobile pollution in urban areas. Within DOT, the legislation renamed UMTA the Federal Transit Administration, and authorized the establishment of the Office of Intermodalism and the Bureau of Transportation Statistics.

History: This bill was the annual reauthorization of the Department of Transportation.

DOT PROGRAMS

Federal Aviation Administration

Airport Headquarters

- **Airport Improvement Program (AIP):** The AIP provides grants to public agencies--and in some cases, to private owners and entities--for the planning and development of public-use airports.
- **Airport Capital Improvement Plan (ACIP):** The ACIP is a planning tool for identifying critical development and associated capital needs for the National Airspace System. It also serves as the basis for the distribution of grant funds under the Airport Improvement Program.

Federal Transit Administration

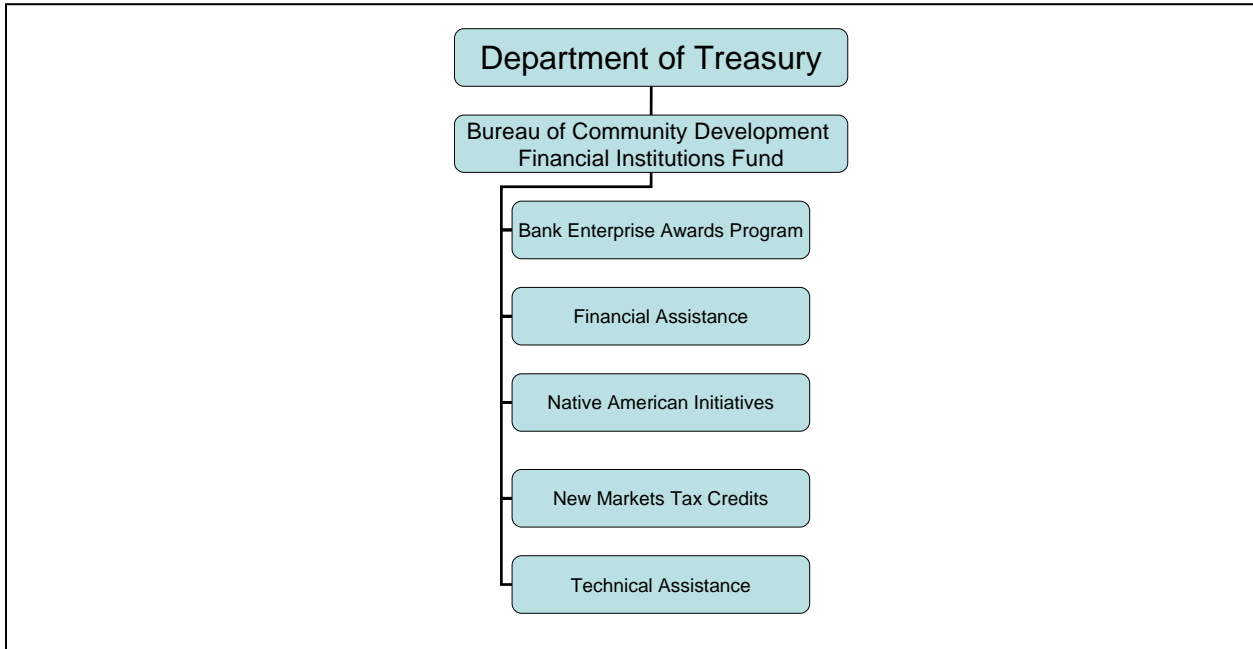
- **Metropolitan Planning:** The program provides funding to support the cooperative, continuous, and comprehensive planning program for making transportation investment decisions in metropolitan areas.
- **State Planning and Research Grants:** This program provides financial assistance to states for statewide planning and other technical assistance activities, planning support for nonurbanized areas, research, development and demonstration projects, fellowships for training in the public transportation field, university research, and human resource development.
- **Urbanized Area Formula Program:** The grants make Federal resources available to urbanized areas and to Governors for transit capital and operating assistance in urbanized areas and for transportation related planning.
- **Nonurbanized Area Formula Program:** This program provides formula funding to states for the purpose of supporting public transportation in areas of less than 50,000 population. Funding may be used for capital, operating, State administration, and project administration expenses.
- **Bus and Bus-Related:** The funds available for the program are used for buses, bus maintenance and administrative facilities, transfer facilities, park-and-ride stations, passenger shelters and bus stop signs, and other bus-related purchases.
- **Fixed-Guideway Modernization:** The program provides funds to modernize or improve existing rail or fixed guideway systems, including rehabilitation of rolling stock, track, structures, signals, etc.
- **New Starts:** The New Starts program provides funds for construction of new fixed guideway systems or extensions to existing fixed guideway systems. Eligible purposes are light rail, rapid rail, commuter rail, monorail, automated fixed guideway system, or a busway/high occupancy vehicle facility, or an extension of any of these.

- **Job Access and Reverse Commute Program:** This program provides funding to develop transportation services for welfare recipients and low income individuals to and from jobs, and to develop transportation services from urban centers to suburban employment opportunities.
- **National Research and Technology Program:** The program provides funds to conduct national research and the development of advanced transit technology.

Federal Highway Administration

- **Bridge:** The program allots money to state transportation departments for the replacement, rehabilitation, or seismic retrofit of major bridges.
- **National Corridor Planning and Development Program and Coordinated Border Infrastructure Program (CORBOR):** The CORBOR programs provide funding for planning, project development, construction and operation of projects that serve border regions near Mexico and Canada and high priority corridors throughout the United States.
- **Innovative Bridge and Research and Construction (IBRC):** IBRC is an initiative by the Federal Highway Administration to provide direction and funding to help state, county and local bridge owners incorporate innovative materials and materials technologies in their bridge projects.
- **Intelligent Transportation Systems (ITS) Deployment Program:** The program provides Federal Funding for the integration of multi-modal ITS components in a variety of settings, including large regional areas, metropolitan areas, non-metropolitan areas, and rural areas. The ITS encompass a broad range of wireless and wireline communications-based information, control and electronics technologies.
- **Interstate Maintenance:** The Interstate Maintenance Discretionary Program provides funding to State Transportation Departments for resurfacing, restoration, rehabilitation and reconstruction work, including added lanes to increase capacity, on most existing Interstate System routes.
- **Scenic Byways:** The program provides funding for eligible scenic byway projects all All-American Roads or designated scenic byways and for the planning, design, and development of state scenic byway programs.
- **Recreational Trails Program Activities:** The program makes funds available to the States to develop and maintain recreational trails and trail-related facilities for both nonmotorized and motorized recreational trail uses.
- **Transportation and Community and System Preservation (TCSP) Pilot Program:** The TCSP program is a comprehensive initiative of research and grants to investigate the relationships between transportation and community and system preservation and private sector-based initiatives. States, local governments, and metropolitan planning organizations are eligible for discretionary grants to plan and implement strategies that improve the efficiency of the transportation system; reduce environmental impacts of transportation; reduce the need for costly future public infrastructure investments; ensure efficient access to jobs, services, and centers of trade; and examine private sector development patterns and investments that support these goals.
- **Transportation Infrastructure Finance and Innovation Act Program (TIFIA):** TIFA provides loans, lines-of-credit, and loan guarantees to certain surface transportation projects of national and regional significance.

DEPARTMENT OF TREASURY



SYNOPSIS

The Treasury oversees programs that improve the supply of capital for development in distressed areas. The Community Development Financial Institutions (CDFI) Fund supports a network of specialized financial institutions that expand the availability of credit, investment capital, and financial services in market niches not served by commercial banks and others. Many of the financial products focus on low-income housing, small business capital, and community facilities. CDFI investments leverage public funds with private sector investments from banks, foundations, and other funding sources. The Fund also offers technical assistance related to financing community development. The New Market Tax Credit program provides individuals with tax credits on their federal income tax for investing in designated Community Development Entities in low-income communities.

The CDFI Fund was created by the Riegle Community Development and Regulatory Improvement Act of 1994. The Act was proposed by the Clinton administration, and received

broad bipartisan support in Congress. The New Market Tax Credit program was added in the Community Renewal Tax Relief Act of 2000.

TREASURY LEGISLATION

Riegle Community Development and Regulatory Improvement Act of 1994

Law: PL 103-325

Congressional Bill: HR 3474

Date Signed into Law: September 23, 1994

Purpose: The law established the Community Development Financial Institutions Fund as a wholly owned government corporation to promote economic revitalization and community development through an investment and assistance program for community development financial institutions. The CDFI Fund provided relatively small infusions of capital to institutions that serve distressed communities and low-income individuals. The Fund's activities leveraged private-sector investments from banks, foundations, and other funding sources. Since the Fund's creation, it has given more than \$534 million in awards to community development organizations and financial institutions.

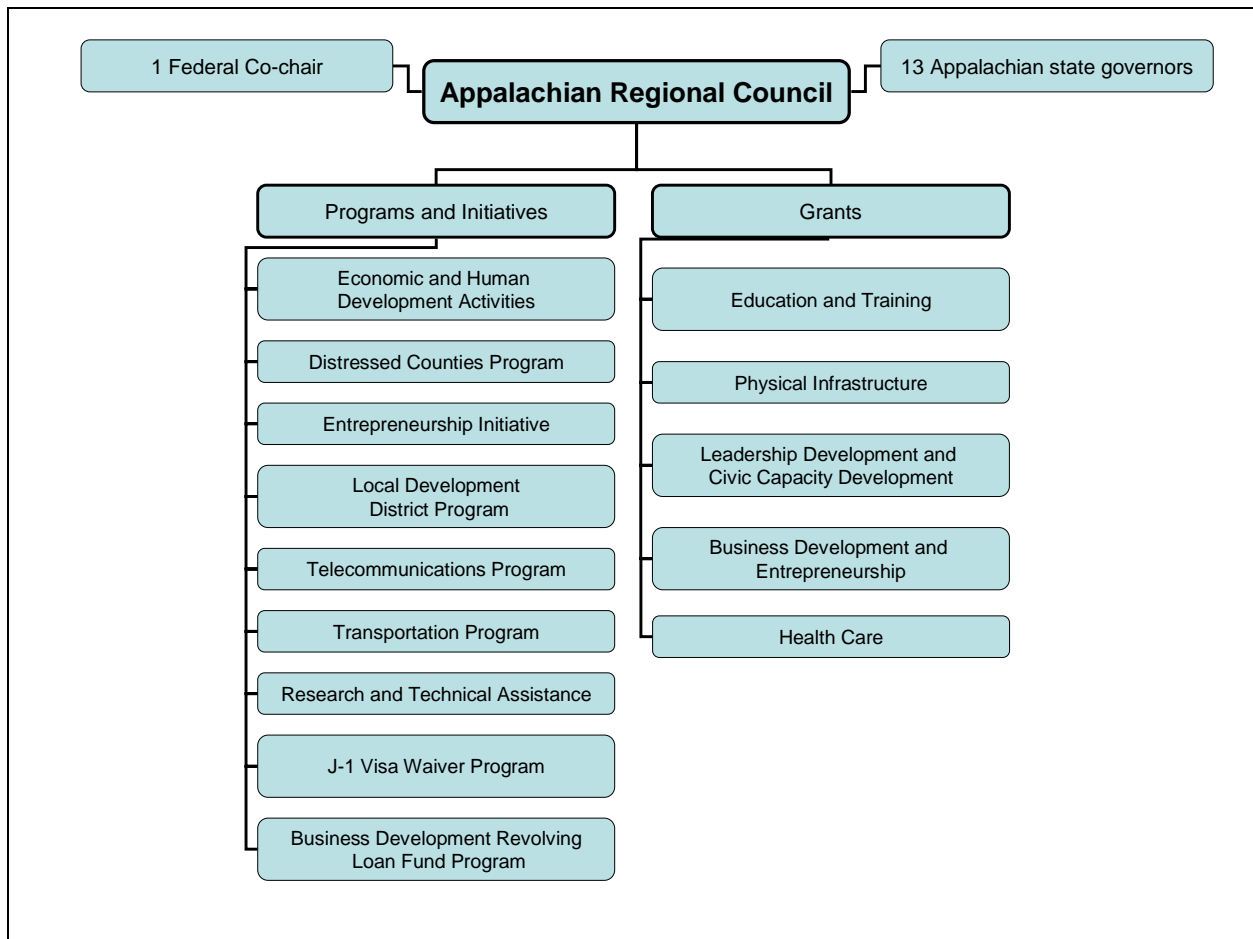
History: The law was a modest initiative offered by President Clinton to provide Federal assistance to a network of alternative community institutions. The banking industry was largely indifferent about Clinton's proposal. To garner their support, Congress included a host of pro-bank provisions that relaxed certain regulations, such as extending from 12 to 18 months the interval between Federal inspection of smaller-sized banks.

TREASURY PROGRAMS

- **Community Development Financial Institutions (CDFI) Fund:** CDFIs are specialized financial institutions that work in market niches that have not been adequately served by traditional financial institutions. These CDFIs provide a wide range of financial products and services, including mortgage financing for first-time home-buyers, financing for needed community facilities, commercial loans and investments to start or expand small businesses, loans to rehabilitate rental housing, and financial services needed by low-income households and local businesses.
- **Bank Enterprise Awards (BEA) Program:** The BEA Program complements the community development activities of banks and thrifts by providing financial incentives to expand investments in CDFIs and to increase lending, investment, and service activities within economically distressed communities.
- **Financial Assistance Program:** The Fund provides financial assistance to certified CDFIs that demonstrate the ability to leverage non-Federal dollars to support comprehensive business plans of providing services to create community development impact in underserved markets.
- **Native Americans Initiative:** The program provides grants to acquire services to be used to create CDFIs that serve primarily Native American, Alaska Native, and/or Native Hawaii communities.
- **New Market Tax Credits:** The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities.

- **Technical Assistance:** The CDFI Fund provides Technical Assistance grants to CDFIs, and entities proposing to become CDFIs, in order to build their capacity to better address the community development and capital access needs of their particular Target Market.

APPALACHIAN REGIONAL COMMISSION



SYNOPSIS

The Appalachian Regional Commission administers federal and state social and economic development in the Appalachian states. The ARC is jointly governed by a federal representative and appointees from the governors of all 13 Appalachian states. ARC programs historically focused on investments in infrastructure and education. More recently, ARC has shifted more emphasis to programs that foster more entrepreneurs in the region.

ARC was created by the Appalachian Regional Development Act of 1965. The law passed with widespread public support to reduce poverty in one of the poorest regions of the nation. Under its founding Act, ARC would have ended in 1971. It received its current life in the Public Works and Appalachian Regional Development Program Extension law passed in 1971.

ARC LEGISLATION

Appalachian Regional Development Act

Law: PL 89-4

Congressional bill: S 3

Date signed into law: March 9, 1965

Purpose: Authorized \$1.1 billion dollars for development projects in the 12-state Appalachian region. The bill included:

- Much of the appropriations dedicated to special highway projects, totaling \$840 million.
- \$252.4 million was designated for special projects such as construction of hospitals and other health facilities and the reclamation of mining areas
- The formation of the Appalachian Regional Commission who would coordinate economic development in the region in cooperation with local, state, and federal government

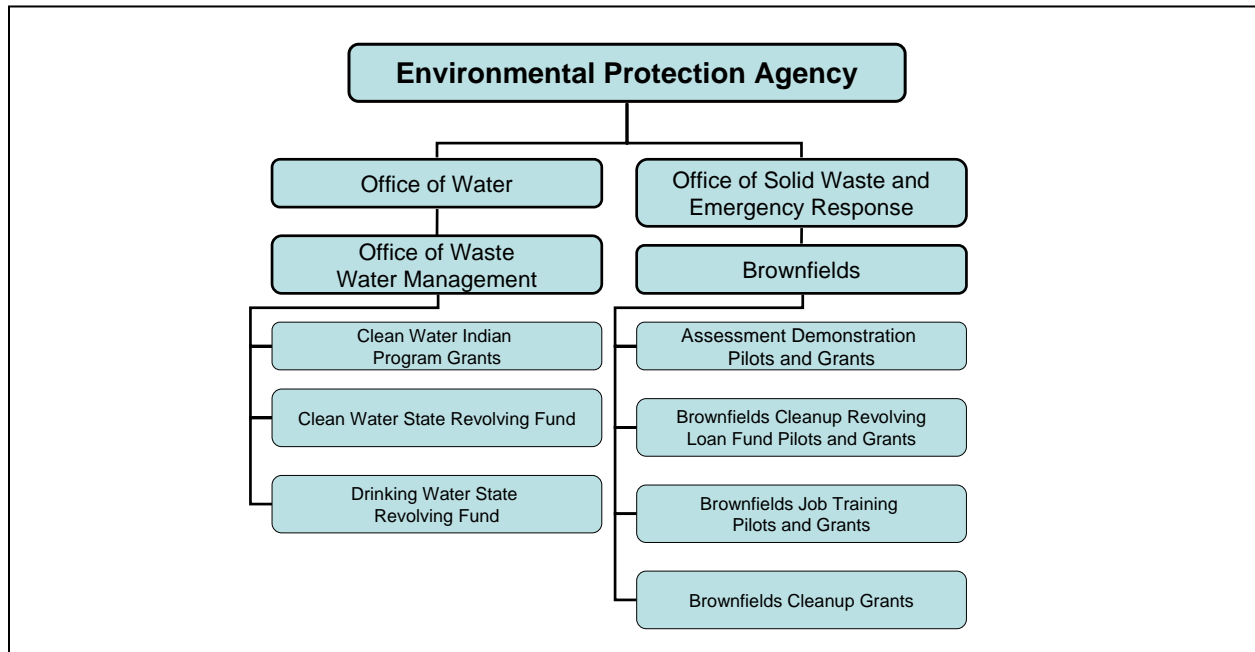
History: This Act was part of Johnson's Great Society legislation to pass through Congress. Many Republicans in both the Senate and House were opposed to the bill claiming it was "pork barrel" legislation, although it was designated to help one of the most poverty-stricken regions in the nation. The Appalachia Regional Development Act was subject to end on July 1971.

ARC PROGRAMS

- **Economic and Human Development Activities:** Help create jobs through education, physical infrastructure, civic development, business development, and health care projects.
- **Distressed Counties Program:** Provides special funding for the Region's poorest counties.
- **Entrepreneurship Initiative** helps communities assist entrepreneurs in starting and expanding local businesses.
- **Local Development District (LDD) Program:** Provides administrative support funds to the Region's 72 local development districts.
- **Telecommunications Program:** Works to ensure that the information highway does not bypass the Appalachian Region.
- **Transportation Program:** Includes the Appalachian Development Highway System (ADHS), provides access to jobs, markets, health care, and education.
- **Research and Technical Assistance Program:** Tracks economic trends and emerging issues, undertakes program evaluation, and funds research.

- **J-1 Visa Waiver Program:** Enables health-care professionals from foreign countries to work in health manpower shortage areas in Appalachia.
- **Business Development Revolving Loan Fund Program:** Helps create and retain jobs by providing capital for economic development activities.

ENVIRONMENTAL PROTECTION AGENCY



SYNOPSIS

The EPA administers programs that help to develop old industrial sites (brownfields), especially ones complicated by pollution concerns. The Office of Water makes grants and operates revolving funds that help states and communities clean up water resources and ensure safe drinking water. The Office of Solid Waste and Emergency Response administers four programs that help states, communities, and Indian tribes plan for the re-development of former industrial sites and conduct clean-up operations.

EPA's efforts with brownfields began in 1993 after many development projects involving contaminated sites were abandoned in the early 1990s. Court interpretations of the Superfund

law brought lenders into the chain of liability for brownfield sites. As a result, many redevelopment projects were simply abandoned when lenders withdrew their support.

EPA LEGISLATION

Water Quality Act of 1987

Law: PL 100-4

Congressional Bill: HR 1

Date Signed into Law: Vetoed January 31, 1987, Passed Congress over veto February 4, 1987

Purpose: In addition to extending the application of the Clean Water Act of 1972 to storm water drainage, the Water Quality Act of 1987 authorized the EPA to make wastewater treatment grants available to tribes and Alaska Native Villages.

History: The Clean Water Act of 1977 essentially restated the key provisions of the 1972 Federal Water Pollution Control Act, extended the major grant program for sewage treatment facilities (over \$20 billion spread across five fiscal years), and strengthened oil pollution controls. The Water Quality Act of 1987 followed as an extension to these earlier bills.

Brownfields Revitalization and Environmental Restoration Bill

Law: PL 107-118

Congressional Bill: HR 2869

Date Signed into Law: January 11, 2002

Purpose: The law amended the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide (with exceptions) that persons would be liable for response costs at a National Priorities List (NPL) facility as non-owners or operators only if the total of material containing a hazardous substance that the business arranged for disposal, transport, or treatment of, or accepted for transport, was greater than 110 gallons of liquid material or 200 pounds of solid material.

History: In the early 1990's court interpretations of the Superfund law brought lightly contaminated sites under regulation and put lenders in the chain of liability for these sites. As a result many brownfield redevelopment projects were abandoned. The EPA's brownfield programs began in 1993 as an attempt to re-engage parties that had abandoned redevelopment projects previously. This bill further strengthened this effort.

EPA PROGRAMS

Office of Water

Office of Waste Water Management

- **Clean Water Indian Program Grants:** The Clean Water Indian Program represents collaboration between EPA regions, federal agencies, tribal organizations, state agencies and other entities assisting in the improvement of tribal wastewater infrastructure, water pollution control programs, and capacity development for the effective management of public health and water resource programs.

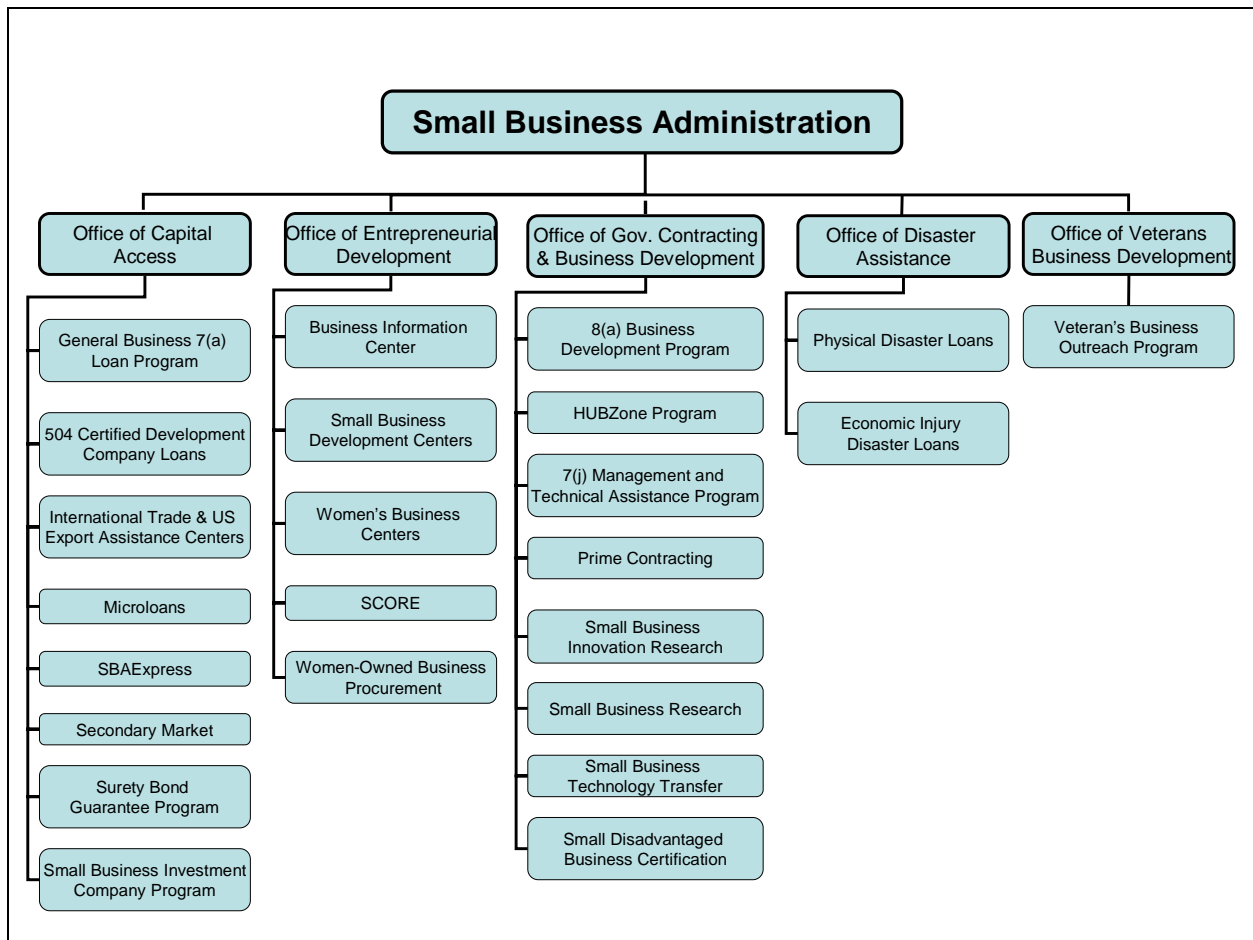
- **Clean Water State Revolving Fund (CWSRF):** The program provides about \$4 billion annually to fund water quality protection projects for wastewater treatment, nonpoint source pollution control, and watershed and estuary management. Program began February 2, 1988
- **Drinking Water State Revolving Fund:** The program makes funds available to drinking water systems to finance infrastructure improvements. The program also emphasizes providing funds to small and disadvantaged communities and to programs that encourage pollution prevention as a tool for ensuring safe drinking water. Program began February 2, 1988

Office of Solid Waste and Emergency Response

Brownfields: Brownfields are real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.

- **Assessment Demonstration Pilot Grants:** Assessment grants provide funding for a grant recipient to inventory, characterize, assess, and conduct planning and community involvement related to brownfield sites. Program announced May 20, 2002
- **Brownfields Cleanup Revolving Loan Fund Pilots and Grants:** The purpose of the pilots and grants in the program is to enable states, political subdivisions, and Indian tribes to make low interest loans to carryout cleanup activities at Brownfields properties.
- **Brownfields Job Training Pilots and Grants:** The grants purpose is to bring together community groups, job training organizations, educators, labor groups, investors, lenders, developers, and other affected parties to address the issue of providing environmental employment and training for residents in communities impacted by Brownfields.
- **Brownfields Cleanup Grants:** The grants provide direct funding for cleanup activities at certain properties with planned greenspace, recreational, or other nonprofit uses.

SMALL BUSINESS ADMINISTRATION



SYNOPSIS

SBA has primary responsibility for support small businesses throughout the nation. Its efforts fall into three categories. The Office of Capital Access administers several programs that aim to improve the supply of capital to small businesses, including loan guarantees (the 7(a) Loan Guarantee Program) and equity capital (the Small Business Investment Company Program). Office of Entrepreneurial Development programs aim to provide business and technical assistance to business start-ups, notably through the Small Business Development

Center program. Finally, the Office of Government Contracting and Business Development helps small businesses do business with the federal government.

The Small Business Act of 1953 established the SBA as an independent federal agency to assist small businesses. The federal interest in small businesses, however, dates back to the Reconstruction Finance Corporation, created in the Great Depression. A new law in 1958 made SBA a permanent federal agency. The Small Business Investment Act was also passed that year, which extended SBA's reach to improving small business access to equity capital.

SBA LEGISLATION

Small Business Act

Law: PL 83-163

Date signed into law: 1953

Purpose: The Act established the Small Business Administration (SBA) which was given the objectives:

- As stated by the law to “aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns”.
- With a \$275 million beginning budget, make direct loans and guarantee bank loans for small business
- assist small business in obtaining government procurement contracts and provide management and technical training
- supply loans to victims of natural disasters

History: Earlier agencies such as the Reconstruction Finance Corporation (RFC), the Smaller War Plants Corporation, and the Office of Small Business were predecessors to the SBA to combat the problems small businesses faced during the Great Depression and WWII. When the RFC was suggested to be abolished in 1952, Eisenhower proposed the beginning of the SBA to continue the small business functions of the RFC.

Small Business Administration Extension

Law: PL 85-536

Bill Number: HR 7936

Date signed into law: July 18, 1958

Purpose: Made the Small Business Administration a permanent Federal agency.

History: All previous legislation for the SBA had been only for temporary authorization.

Small Business Investment Act

Law: PL 85-699

Bill Number: S 3651

Date signed into law: August 21, 1958

Purpose: Established the Small Business Investment Division (SBID) in the SBA which allowed the SBA to license, regulate, and give fund assistance for private venture capitalist firms.

History: When the bill was passed, the country was undergoing a recession and small businesses were having great difficulty securing equity capital and long-term loans.

SBA PROGRAMS

Office of Capital Access

- **General Business 7(a) Loan Guaranty Program:** The 7(a) loan program guarantees small business loans up to \$1 million for virtually every business purpose. The guaranty can be for as much as 85 percent on loans of \$150,000 or less and 75 percent on loans of more than \$150,000.
- **504 Certified Development Company Loans:** The 504 program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment.
- **International Trade and United States Export Assistance Centers (USEACs):** The Office of International Trade (OIT) develops, oversees, and delivers SBA's technical assistance and export finance programs to small business exporters. OIT works extensively with other Federal agencies, such as the Department of Commerce and the Export-Import Bank, to coordinate the delivery of services to small firms and with the U.S. Trade Representative on small business-related trade issues.
- **Microloans:** The Microlending program serves entrepreneurs who lack the financial resources and the technical business knowledge to obtain loans in the commercial market. Microlending combines loans with intensive technical assistance.
- **SBAExpress:** *SBAExpress* encourages lenders to make more small loans to small businesses. Participating banks use their own documentation and procedures to approve, service, and liquidate loans of up to \$150,000. In return, the SBA guarantees up to 50 percent of each loan.
- **Secondary Market:** Secondary market gives lenders holding SBA-guaranteed loans an opportunity to improve their liquidity by selling both the guaranteed and unguaranteed portion of the loans to investors.
- **Surety Bond Guarantee Program:** The SBG Program provides 70-90% bid, payment, and performance bond guarantees on behalf of small businesses for construction, service, and supply contracts up to \$2 million. SBA's guarantee provides surety companies with the necessary incentive to extend surety bond credit to small contractors who could not otherwise compete in the contracting industry.
- **Small Business Investment Company Program:** Small Business Investment Companies (SBICs) encourage private risk-taking by licensing and investing in privately owned and managed venture capital funds. These funds (SBICs) are a major source of scarce equity capital and long-term debt financing for new or expanding entrepreneurial companies.
- **Rural Business Investment Program (RBIP):** The USDA in partnership with the Small Business Administration (SBA) will select and license applicants to become Rural Business Investment Companies (RBIC), and provide financial assistance and grant awards under the RBIP. The processing of applications is administered by the SBA. This program is similar to the SBA's Small Business Investment Company Program. .

Office of Entrepreneurial Development

- **The Office of Entrepreneurial Development (OED)** serves the small business community through outreach, public/private sector collaborative ventures and other creative mechanisms, providing counseling and training to America's small businesses that otherwise would not be able to afford this type of assistance.

- **Business Information Center (BIC):** BIC provides hardware, software and telecommunications at multiple locations to help small businesses start and grow. BIC counseling and training are provided by the Service Corps of Retired Executives (SCORE) and other SBA partners and community organizations.
- **Small Business Development Centers (SBDC):** The SBDC program provides management and technical assistance in all 50 states and the territories to start-up and established businesses seeking free or low cost assistance. SBDCs offer counseling, training, and other services tailored to meet the requirements and needs of the state and community in which the businesses are located.
- **Women's Business Centers (WBCs):** The WBCs assist women entrepreneurs by offering programs and services to help them succeed. WBCs promote the growth of women-owned businesses through programs that address business training and technical assistance, and provide access to credit and capital, federal contracts, and international trade opportunities.
- **Service Corps of Retired Executives:** The SCORE program uses a volunteer network of over 10,000 business men and women, in nearly 400 chapters throughout the country, to bring real-world expertise and hands-on experience to America's prospective and start-up small businesses. SCORE volunteers are active and retired executives and small business owners who provide online and face-to-face counseling, mentoring, and training workshop services to position small businesses for success through sound decision-making.

Office of Government Contracting and Business Development

- **8(a) Business Development Program:** The program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. Assistance includes access to sole source and limited competition Federal contract opportunities.
- **HUBZone Program:** Historically Underutilized Business Zones (HUBZones) are distressed urban and rural areas characterized by chronic high unemployment and/or low household income, or are designated Indian Lands. Firms that SBA certifies as qualified HUBZone Small Business Concerns are eligible for Federal contract award preferences.
- **7(j) Management and Technical Assistance Program:** Under the program, SBA awards grants, contracts, and cooperative agreements for the development of training and technical assistance to companies owned and controlled by socially and economically disadvantaged individuals or companies located in areas of high unemployment, and firms located in areas of low income.
- **Prime Contracting:** Prime contracting increases small business opportunities in the Federal acquisition process. This is accomplished through initiating small business set-asides, identifying new small business sources, counseling small businesses on doing business with the Federal Government and assessing compliance with the Small Business Act through surveillance reviews.
- **Small Business Innovation Research (SBIR):** SBIR provides a vehicle for small businesses to propose innovative ideas in competition for Phase I and Phase II awards, which represent specific research and development needs of the participating Federal agencies. These awards may result in commercialization of the effort at the Phase III level.
- **Small Business Research:** Small Business Research measures and reports the amount of Federal funding for research and R&D (excluding the amounts for SBIR and STTR) awarded to small businesses each year by the major research and R&D Federal agencies.
- **Small Business Technology Transfer (STTR):** STTR requires each small business competing for a Federal R&D project to collaborate with a nonprofit research institution. This program is a joint venture from the initial proposal to project completion.
- **Small Disadvantaged Business (SDB) Certification:** SDB certification ensures that small businesses owned and controlled by individuals claiming to be socially and economically

disadvantaged meet the eligibility criteria. Once certified, the businesses are eligible to receive price evaluation credits when bidding on Federal contracts.

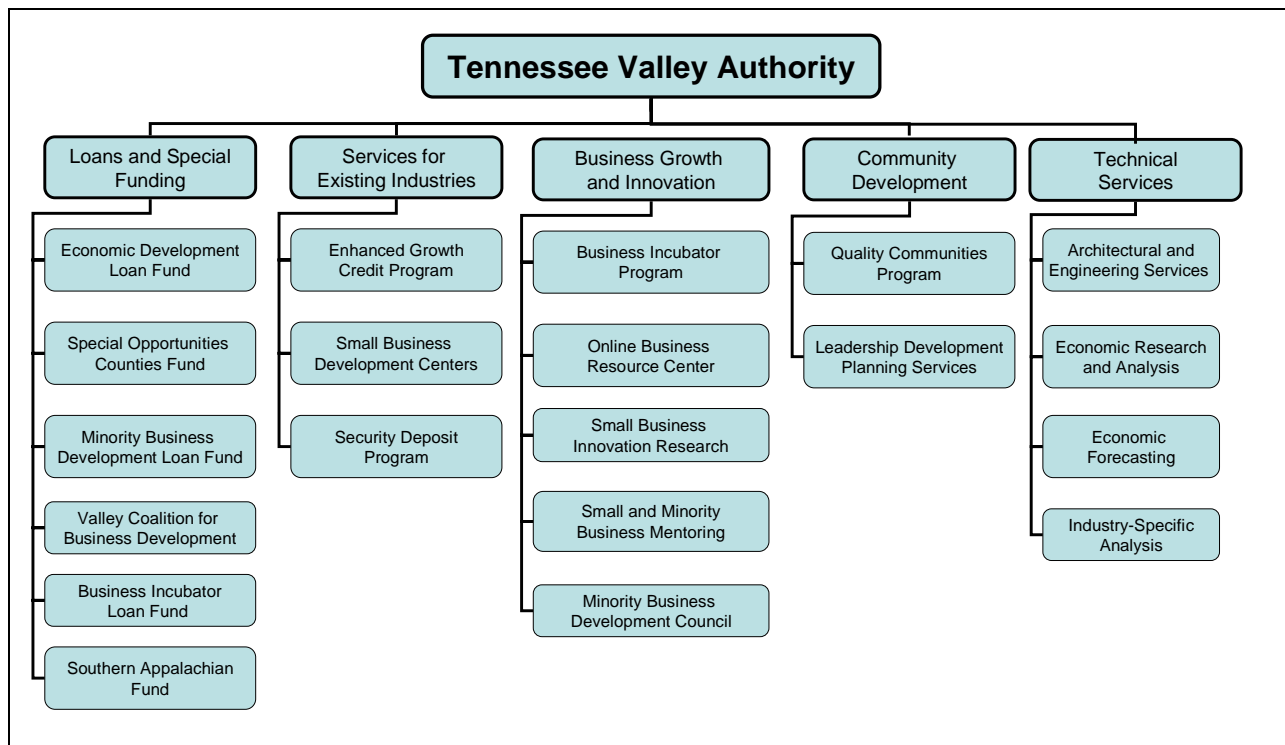
Office of Disaster Assistance

- The Office of Disaster Assistance (ODA) plays a vital role in the aftermath of disasters. Through ODA, the SBA is responsible for providing affordable, timely and accessible financial assistance to homeowners, renters and businesses of all sizes affected by disaster. Financial assistance is available in the form of low-interest, long-term loans.
- **Physical Disaster Loans:** Loans are for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged privately-owned real and/or personal property. SBA's physical disaster loans are available to homeowners, renters, businesses or all sizes and nonprofit organizations.
- **Economic Injury Disaster Loans** provide necessary working capital until normal operations resume after a disaster. Economic injury disaster loans are restricted to small businesses.

Office of Veterans Business Development

- **Veteran's Business Outreach Program:** The program is designed to provide entrepreneurial development services such as business training, counseling and mentoring to eligible veterans owning or considering starting a small business.

TENNESSEE VALLEY AUTHORITY



TVA LEGISLATION

The Tennessee Valley Authority Act of 1933

Law: N/A

Congressional Bill: N/A

Date Signed into Law: May 18, 1933

Purpose: To improve the navigability and to provide for the flood control of the Tennessee River; to provide reforestation and the proper use of marginal lands in the Tennessee Valley; to provide for the agricultural and industrial development of said valley; to provide for the national defense by the creation of a corporation for the operation of Government properties at and near Muscle Shoals in the State of Alabama, and for other purposes.

History: The TVA arose from the New Deal of the 1930's. Roosevelt sought an innovative solution to the economic woes of the Tennessee Valley. Thus in 1933 he asked Congress to create "a corporation clothed with the power of government but possessed of the flexibility and initiative of a private enterprise." In the years since, the TVA has successfully served the Tennessee Valley region as well as the nation as a whole through various activities such as power generation. The TVA is self-sufficient, receiving no Federal funding. It currently generates \$7 billion a year from its three customer groups, power generation, river management and regional economic development activities.

TVA PROGRAMS

In addition to providing affordable, reliable power to 8.5 million customers the TVA supports sustainable economic development initiatives and manages a thriving river system.

TVA Industry Services: The TVA assists with the selection, relocation, development, and recruitment information that companies may need at every step of the development process.

- **Target Industry Specialists:** Have expertise in and provide services for key industries, including automotive assembly and supplier plants, food and distribution services, life sciences/emerging technologies companies, plastics manufacturers, and site selection consultant services
- **Megasites certification program:** TVA recently launched an initiative to certify large industrial properties, or "megasites," for potential automotive manufacturing or assembly plants.
- **TVAsites.com:** A GIS-based comprehensive site and building database showing available sites in the TVA power service area. The Web site provides geographic and demographic data and offers the capability to create specific business reports.

TVA Community Development: Helps communities build leadership and planning skills so they can take advantage of opportunities for new business and industrial development.

- **Synchronist:** An Internet-based software tool that assists community leaders in conducting interviews with industry executives. The information helps determine a company's value to the community, its growth potential, and its risk for downsizing or leaving.
- **Special Opportunities Counties Fund:** This \$16 million revolving loan fund assists the Valley's most economically distressed counties. If your county qualifies, you may be able to use this fund to help local firms expand through loans for buildings, equipment, or real estate.

Business Services: TVA supports small, disadvantaged, minority, and woman-owned firms and targeted commercial-sector businesses through strategic partnerships, outreach activities, networks, electronic tools, and business assistance. The goal of these initiatives is to ensure the growth and success of the Valley's business community.

- **Minority Business Development Program:** TVA supports the growth and expansion of woman- and minority-owned and socially and economically disadvantaged businesses in the Valley with tailored packages of technical, capital, and managerial assistance.
- **Online Business Resource Center:** This site is an information gateway to public and private resources on entrepreneurship, financial, and technical assistance, industrial organizations, and business services. The site provides access to regional and nationwide resources.
- **Business Incubation Network:** The TVA Business Incubation Network includes 24 operational sites across the Valley where tenants share services, equipment, and building space. TVA provides technical assistance and also maintains a revolving loan fund that helps tenants continue their growth when they have short-term needs for cash flow and operating capital.

Existing Business Services: TVA provides support, technology, expertise, and financial resources to existing businesses and industries in the Valley to help them grow and be more efficient and profitable. These resources include technical assistance, low-interest loans, and other tools needed by businesses for successful operation.

OTHER REGIONAL COMMISSIONS

DENALI COMMISSION

Denali Commission Act of 1998

Law: PL 105-227 (amends PL 89-136)

Congressional Bill: H.R. 4328

Date Signed into Law: July 28, 1998

Purpose: To deliver the services of the Federal Government in the most cost-effective manner practicable by reducing administrative and overhead costs. To provide job training and other economic development services in rural communities particularly distressed communities (many of which have a rate of unemployment that exceeds 50 percent). To promote rural development, provide power generation and transmission facilities, modern communication systems, water and sewer systems and other infrastructure needs.

History: The Denali Commission Act was Title III of Division C of the Omnibus Consolidated Appropriations bill (PL 105-227). The Denali Commission received \$2.5 million in the president's 2006 budget request, nearly \$64 million below the agency's core program level.

DELTA REGIONAL AUTHORITY & NORTHERN GREAT PLAINS REGIONAL AUTHORITY

The Farm Security and Rural Investment Act of 2002

Law: PL 107-171

Congressional Bill: H.R. 4577 (DRA only) and amended in H.R. 2646 (2002 Farm Bill)

Date Signed into Law: May 13, 2002

Purpose: The 2002 Farm Bill included funding for the creation of two regional economic development commissions, the Delta Regional Authority (DRA), and the Northern Great Plains Regional Authority (NGPRA). The Delta Regional Authority is a federal-state partnership serving a 240-county/parish area in an eight-state region. Led by a Federal Co-Chairman and the governors of each participating state, the DRA is designed to remedy severe and chronic economic distress by stimulating economic development and fostering partnerships that will have a positive impact on the region's economy. The Northern Great Plains Regional Authority serves five states and 399 counties. It is chartered to assist distressed areas experiencing high rates of poverty, unemployment and out-migration.

History: Originally introduced in H.R. 4577, the DRA was attached to 2002 Farm Bill. The Bush administration sought to combine the DRA with the ARC and the Denali Commission and change the focus from grant makers to regional planners. Currently the three regional commissions function separately. The DRA receives \$6.04 million for traditional programs, \$1 million from USDA rural development and \$1.5 million for a USDA Intermediary Relending Program fund. The current governance structure extends until December 31, 2008. The President has recommended no funding for the NGPRA in his 2005 budget. As part of the fiscal 2005 omnibus appropriations bill, the NGPRA received \$1.49 million as a set-aside within the USDA.

SOUTHEAST CRESCENT AUTHORITY

Bill to Establish the Southeast Crescent Authority, and For Other Purposes

Law: N/A

Congressional Bill: H.R. 141

Date of Latest Action: June 18, 2003, forwarded by subcommittee to full committee

Purpose: Southeast Crescent Authority Act of 2003 - Establishes a Southeast Crescent Authority for all parts of the following southeastern states not eligible for assistance from the Appalachian Regional Commission or the Delta Regional Authority: District of Columbia, Virginia, North Carolina, South Carolina, Georgia, Alabama, Mississippi, and Florida. Directs the Authority to perform various functions, including: (1) formulating plans and programs to spur economic development, and approving grants to States and public and nonprofit entities toward that end; (2) establishing priorities in a development plan for the region; (3) supporting local development districts, and creating them where they do not exist; and (4) encouraging private investment in the region.

History: The legislation is awaiting consideration by the full House Transportation and Infrastructure Committee.

SOUTHWEST REGIONAL BORDER AUTHORITY

Bill To Establish the Southwest Regional Border Authority

Law: N/A

Congressional Bill: H.R. 1071

Date of Latest Action: June 18, 2003, forwarded by subcommittee to full committee

Purpose: Southwest Regional Border Authority Act - Establishes the Southwest Regional Border Authority to: (1) develop plans and programs for the economic development of the Southwest border region (specified counties in California, New Mexico, and Texas); (2) conduct and sponsor investigations, research, and studies of the resources of the region; (3) sponsor up to ten authorized demonstration projects; (4) enhance the capacity of and support for local development districts or, if there is no such district for a portion of the region, foster the creation of one; (5) review, study, and recommend appropriate modifications to Federal, State, and local development programs for the region; (6) formulate and recommend interstate compacts and other forms of interstate and international cooperation; (7) encourage private investment in the region; (8) provide a forum for the consideration of problems of the region; (9) establish and use citizens, special advisory counsels, and public conferences; and (10) provide for the avoidance of duplication of efforts among the border programs of Federal agencies and the programs established under the North American Free Trade Agreement.

History: The legislation is awaiting consideration by the full House Transportation and Infrastructure Committee.