PROBLEMS IN EVALUATING FEDERAL EXPENDITURES FOR REGIONAL DEVELOPMENT

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In assessing the role and impact of Federal expenditures for regional development there are really two phases of the problem that should be treated. First there is the administrative or political aspect, i. e., do these programs conflict with the essential characteristics of our "federal" form of government, does the spending run counter to the provisions of the Constitution? Secondly (and to a considerable extent almost an entirely separate question) the true economic effects of these outlays on the several regions are involved. This paper will be concerned with aspects of the economic portion of the discussion, but this is not to infer that the administrative problems are not of vital importance in their own right.

In point of fact, it should be clearly understood at the outset that the data pertaining to Federal expenditures for regional development are totally inadequate, and that a complex of methodological issues further serve to compound the problem. Nevertheless, this question is an important one and cannot be passed over in discussing economic growth and stability.

CONTRIBUTIONS OF THE COMMISSION ON INTERGOVERNMENTAL RELATIONS

During the past few years a great deal of thought and analysis has been given to the question of changing economic and functional relationships among the National and State Governments. Serving as a clearinghouse of ideas, the Commission on Intergovernmental Relations (Kestnbaum Commission), formed in 1953, undertook the first complete survey of this problem since the Constitutional Convention of 1787 established our federal form of government. The report of this Commission was transmitted in 1955 and ranged over a host of subjects. Since then this work has been carried forward by the Congress.

A careful study of the 16 volumes comprising the Commission's report might well serve as an indispensable preface to the analysis of what are called regional development programs. The traditional mental picture of the role of the Federal Government in regional development involves power projects, flood control, and reclamation. In many respects, however, the major contribution of the Commission was to indicate the manifold other functions of the Federal Government. Long and penetrating descriptions of the emergence of Federal activity in fields such as urban renewal, civil defense, agriculture, highways—and many others—serve to emphasize that what is meant by regional development is far from a universally agreed-upon concept. And this matter is clearly at the crux of the problem of evaluating and criticizing the economic impact upon the various regions.

To press this point along somewhat different lines: Few would quarrel with the contention that expenditures for, say, the TVA program, constituted a clear-cut attempt to foster the growth of the economic base of a specific region. Still if we also consider that because of war and defense exigencies billions of dollars of Federal expenditures accrued to the aircraft industries of the west coast, we could also speak in terms of regional development. To be sure, one might take issue with this comparison and claim that the TVA represented a decision based upon considerations of political and economic philosophy, and that the latter case merely pointed up a simple case of industrial location. Nevertheless, in terms of economic impact, the two examples are comparable for analytical purposes.

Assessing the Total Impact of Federal Outlays

Even if it were possible to assemble perfect data on Federal expenditures for regional development there would still be further problems in determining the secondary or indirect effects of these outlays. We know, for example, that when a housing development is constructed, many shops selling food, clothing, services somehow spring up. These ancillary industries and enterprises might be termed the secondary effects. In short, a certain multiplier response will stem from a given fixed expenditure level and the measurement of this factor is of unquestionable importance in determining the total economic impact.

In terms of regional analysis, payments may originally be made by the Federal Government to State or regional authorities, to businesses, or to individuals. But merely to sum these original outlays by region would, in a sense, be abstracting from the interdependent nature of our economic system. What is needed, then, is an approach geared to accounting for the diffusive effects of these various expenditure patterns. Nor, incidentally, can we assume that the reaction path of each region will be precisely that of every other region.

The application of input-output analysis

Although a complete analysis of the total (direct and indirect) effects of Federal outlays is beyond the scope of our current economic data, a method designed primarily to treat such problems—input-output—would seem to offer one of the most fruitful approaches.

Input-output, in brief, is essentially a process for extending the theoretical formulations of general equilibrium analysis to an empirical study of the economy. The economy is regarded as a group of industrial and locational sectors—and the interdependent relationships among them are described by a summary table of technical coefficients based upon actual interindustrial flows and absorptions. This, of course, implies a comprehensive study of the entire economy from the point of view of ascertaining these economic movements. By the use of mathematics it then becomes feasible to set up a table in which the ultimate effects of a given impact may be derived.

For the purposes at hand, let us assume that such a table exists, aggregated in such a way that the economic characteristics of each of the Nation's regions are carefully delineated. With this table it would then make sense to discuss the full impact of regional development programs, for not only would the initial injection of funds be accounted for, but there would also be a second set of data describing the indirect movements throughout the various regions.

This foregoing economic model is familiar, in one of several variations, to students of input-output analysis. And, although the empirical testing of this regional approach still lacks for adequate data, preliminary studies have indicated that the leverage effect of equal expenditures would vary according to the basic structure of the regions involved.

The need for corrected Federal outlays

This phase of measuring the Federal role in regional development is, in fact, only one part of the total framework. Another side would, of necessity, involve the procedures by which these Federal funds were raised. What is needed is a locational sources and uses of funds table in which suitable modifying assumptions about the true locational incidence of various taxes are incorporated.

To summarize this section, a program to ascertain the actual impact of Federal spending on the several regions would call for two major statistical undertakings: The first would accurately depict the magnitude and locational distribution of Federal outlays. These data would be compared with statistics as to the correct source of these funds. For each region a corresponding receipts-outlay pattern could be derived for this specific set of transfers. Some regions would show a positive impact; others a drain. Then, these findings would be combined with the input-output approach to finally describe the ultimate selective impact of Federal expenditures by regions.

It must be clearly understood that this method is integrally dependent upon the many tables and assumptions that underlie it. As of today, paucity of data is holding up the development of this important set of tools.

Related Problems of Regional Development

A major question that arises in connection with regional development is the source of financing. On one side are the advocates of decentralization, who urge that the Federal Government curtail many of its programs of regional and/or State aid, remitting at the same time certain taxes so that work could be done without an added financial burden. Others claim that this process of decentralization would merely result in inactivity by the States, that the setting up of regional agreements would be all but impossible, and that the fiscal flexibility of the States is more narrowly restricted than that of the Federal Government.

It is difficult to analyze this matter with complete objectivity. Purely political considerations mingle with those of an economic nature and in certain respects transcend them. But 1 or 2 points might be fairly made. First, there seems to be a growing awareness on the part of the American public that Federal aid, whether in the form of a major river basin project or as grants-in-aid is not free. This may seem perfectly obvious, but the general impression that Federal programs are, in total, net additions to regional or State income, and that the corresponding financing might not be partially or more than an offset, is a belief that many people still hold—although the number of uninformed seems to be declining. A good deal of publicity has been directed to this problem with the result that a more questioning attitude has developed in many quarters.

Tendencies toward equalization of regional income

Associated with this question has been a striking change in certain key statistics, which further bear on the problem of selective regional aid. The figures of the Department of Commerce on personal income by State and region have demonstrated a definite tendency to average out more evenly in recent years. This puts a somewhat different perspective on Federal aid for regional development. If one of the main tenets of the principle of Federal assistance was the notion that funds were siphoned from the wealthier regions and disbursed to the needier (and this crops up in many evaluations), then this form of justification would seem to apply in lesser degree today. Just how and why this greater equalization of incomes was accomplished—whether because of or in spite of Federal aid (among other economic factors)—cannot be determined at this stage.

Countercyclical Aspects of Federal Aid

Another basic point in the consideration of Federal aid for regional development concerns the framework of countercyclical policy. In line with economic theorizing of the past generation it was claimed that by centralizing a greater share of total government activity at the Federal level, it would be more feasible to use appropriate fiscal and monetary policies to promote maximum stability and growth. The theory went that Federal outlays would be kept to a minimum during periods of prosperity and increased during slack times to dampen inflationary and deflationary forces. Elastic-tax sources supplemented by budgetary surpluses or deficits were cited as being powerful anticyclical weapons. As for the State and local governments—it was claimed that their revenues and outlays could not be so sensitively adjusted to rapid changes in business activity.

In practice, however, the principles of countercyclical financing have seldom worked well in actual practice. Today, the budgetary problem at the Federal level revolves around the defense sector—in a sense partially independent of the behavior of the rest of the economy. Again, the backlog of need for public assets (theoretically to be undertaken during recessionary phases) has mounted so steadily because of wartime conditions and unprecedented prosperity, that outlays in this form cannot be geared exclusively to the swings of the cycle.

At the same time the States have slowly been changing their forms of taxation to more highly elastic types, although constitutional and other restrictions are still limiting factors. In part these newer forms of State taxation reflect changing attitudes, but to a considerable extent they reflect the need for enlarged bases because of the upsurge in spending at these levels (State and local government spending has risen in every year since 1944 and shows little indication of slowing down). And, in fact, these expenditures seem even less related to the cycle than those of the Federal Government, for they are related more closely to changing population patterns (schools, hospitals).

Adding up these diverse elements and problems at the Federal and the State-local levels it becomes clear that a system of priorities must always be kept in mind in considering intergovernmental transfers of funds. The question to be answered should concern itself not only with the merits of a particular program, but, more importantly, with the overall pattern of total governmental receipts and outlays and their combined impact upon the entire Nation.