State-Led Regional Development Planning

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Abstract: The core of *Doing Bad by Doing Good: Why Humanitarian Action Fails*, is an analysis of the efficacy of a variety of state-led humanitarian efforts, including domestic and foreign aid projects. Through an examination of short-term disaster relief both at home and abroad, we find that numerous inefficiencies are likely to lead to a persistent misallocation of resources. This analysis provides an opportunity to examine the implications of long-term *domestic* aid in which the U.S. government has made continuous efforts to improve the economic conditions of various groups and regions within the U.S. This paper applies the framework from *Doing Bad by Doing Good* to the case of regional development planning in the U.S., explores some of the problems such efforts encounter, and discusses the implications of regional planning.

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Introduction

Christopher Coyne's *Doing Bad by Doing Good: Why Humanitarian Action Fails* utilizes the economic way of thinking to examine the difficulties faced by those looking to engage in humanitarian efforts. While examinations of disaster relief have typically focused on how nation states may provide more "efficient" aid to the places and people impacted by natural disasters, Coyne's work offers an alternative to such state-led initiatives. Through the use of a variety of cases, his work describes how the *planner's problem* (i.e., epistemic constraints) and issues of *political economy* (i.e., incentive constraints) work against the desired goals of many short and long-term humanitarian projects.

Coyne's analysis of a number of short-term disaster recovery efforts (e.g. relief following Hurricane Katrina in the U.S. and aid in Haiti following an earthquake in 2010), highlights that the problems facing state-led disaster relief impact both domestic and foreign aid efforts. Although Coyne does not specifically address how his analysis of humanitarian action applies to long-term efforts within the U.S., he provides a framework through which issues of long-term domestic development aid may be examined. The purpose of this paper is to apply Coyne's analysis of humanitarian aid to the case of long-term regional development efforts in the U.S. In this paper, I focus on a particular case of regional planning within the U.S. I examine the long-time efforts of the Appalachian Regional Commission in the eastern U.S. and find that the Commission's programs of "domestic development assistance" face the same problems as short-term disaster relief and long-term international development efforts.

Domestic Development Aid: The Appalachian Case

The federal government first began to undertake development projects in the Appalachian region in the mid-1960s. President Kennedy took an interest in the region during his campaign and had vowed to take action to alleviate poverty in the area. President Johnson commissioned the President's Appalachian Regional Commission (PARC) in 1964 to examine the region. In 1965, Johnson worked to establish the Appalachian Regional Commission (ARC) to oversee development projects as part of the larger War on Poverty. At the time, much of the region was highly impoverished. Per capita incomes in some areas of Appalachia were 50 percent or less than the national average (PARC 1964:1). Per capita savings in the region were 55 percent of the national average (PARC 1964: 14, Figure 10). The region maintained significantly higher unemployment rates. In its report to the President, the PARC noted that while unemployment had recently fallen 15 percent in U.S., the unemployment rate in Appalachia had increased 1.5 percent (PARC 1964: 4).

Just as aid initiatives abroad embraced the idea of a "big push" to achieve development goals, so too did the PARC and ARC. The PARC recommended a series of both short and long-term programs in order to obtain increased economic development in the region. They proposed programs in the areas of infrastructure, water management, and natural resource management, as well as initiatives to develop human capital. Since the first programs were implemented in 1965, the ARC has spent more than $13.5 billion and undertaken thousands of projects in an effort to develop the region. They have expanded their initial programs and undertaken new projects in a variety of areas including entrepreneurship, telecommunications, tourism, healthcare, and export and trade development (ARC 2011b: 124-138). Despite these efforts, the results of the ARC's regional development programs have been mixed at best. Although some regions around major cities have developed, the region overall has not observed the growth the ARC had hoped and expected it would achieve. Per capita income in parts of the region remains 25-47 percent lower than the national average (ARC 2011a: 2). As of 2010, seventeen of the poorest counties in the U.S. were concentrated in central Appalachia and many households earned less than $10,000 per year (U.S. Census Bureau 2013). The region had failed to close gaps in poverty and educational attainment continued to trail far behind the rest of the nation (Ziliak 2007).

Doing Bad by Doing Good ascribes the largely unsuccessful attempts at delivering systematic foreign aid to the planner's problem and matters of political economy. Just as this framework is used to describe the issues of short-term foreign and domestic humanitarian relief and long-term development aid abroad, so too may it be used in discussing the problems of long-term regional development assistance through the ARC. Coyne (pp. 60-89) describes how aid (or development) resources are allocated through central planning by governments and other aid agencies, bypassing markets and critical price signals, robbing the development process of rational economic calculation. These planning failures result in the gross misallocation of resources—the underprovision of some goods, overprovision of other goods, and the production of goods and services without the needed complementary products.

These issues regarding economic calculation may be observed clearly in the regional planning projects of the ARC. To give but one example, consider the Commission's continuous work on one of its original projects, the Appalachian Highway Development System (AHDS). Both the PARC and Congress described the AHDS as critical for overcoming the poverty in the region (PARC 1964: 28, Widner 1990: 297). The initial plan was set to take six years and cost about $1 billion. As of 2013, nearly fifty years later, the AHDS has been allocated more than $4.3 billion. Furthermore, 20 percent of eligible miles were incomplete and fifteen percent were not open to traffic (ARC 2011b: 142).

The ARC was unable to anticipate the impact of its new system. While the original intent of the AHDS was to bring commerce and people to the region, in many cases it had the exact opposite effect. In some instances, instead of encouraging people to *pass through* Appalachia, the AHDS provided a more efficient system for *bypassing* the region all together (Cumberland 1971: 93). One report by the Government Accountability Office (GAO) found that some West Virginia counties had actually seen traffic through their areas *decrease* by 25 percent following the construction of the new highways (GAO 1976: 16).

Moreover, the AHDS lacked critical complementary institutions. Many states were either unwilling or unable to assist the ARC in their efforts to develop the roads. States lacked the needed equipment, personnel, and funds the project required (GAO 1971: 14-18). The AHDS has been hindered as well by a lack of adequate housing. In order to build the new highways, the ARC must be able to relocate displaced individuals and businesses into safe and sanitary dwellings, as well as provide them with monetary compensation. In some cases, however, such accommodations were not available. The lack of adequate housing delayed some projects for months and one project began a year behind schedule because relocation requirements could not be met (GAO 1976: 25)

In addition to calculation problems, Coyne also points out that the bureaucratic structure of many aid agencies gives rise to "mission creep," whereby bureaus attempt to demonstrate their relevance to the public and other areas of government by expanding their portfolio of activities. Further, he notes that the logic of bureaucracy leads to the allocation of resources through politics as opposed to markets, and creates incentives for wasteful spending as bureaus look to expand their budgets and personnel through the bureaucratic process. As these problems are observed in short-term humanitarian interventions, we observe them in domestic regional planning projects as well.

The ARC exhibits signs of mission creep in the growing number and types of projects the Commission undertakes as well as the number of personnel the Commission employs. The initial PARC report called for programs to be implemented in four broad areas—infrastructure, water management, natural resource management, and human development. By 2012, the ARC funded projects in eleven distinct areas ranging from telecommunications and export strategies, to education and tourism. The ARC has expanded its personnel from few than two dozen in 1965 to several hundred today. The Commission partners with ten different federal agencies as well as a cadre of smaller "district" operations, each with their own facilities and personnel (ARC 2013a, Development District Association of Appalachia 2013).

The ARC likewise has a history of blatantly wasteful spending. When the ARC was proposed in the 1960s, it was intended that the Commission would serve ten states within the Appalachian mountain range. Elected officials from three other states, New York, South Carolina, and Mississippi, however, used their political connections to make portions of their states eligible to receive ARC funding (Alford 2008, Widner 1990: 293). The importance of political clout in allocating regional aid may be seen in other ways as well. Studies of ARC projects have found that aid is often not directed toward those places most entrenched in poverty, but rather those with the most political connections. Between 1966 and 1988, only two of the top twenty aid-receiving counties met the Commission's own definition of "distress."[2] None of the top five aid-receiving counties had *ever* been considered distressed (Riepenhoff and Ferenchik 1999). In addition to directing aid away from those who are the worst off, aid resources have been used for many non-development projects. To offer just a few examples, elected officials in some counties received funds for projects ranging from a multimillion dollar summer practice field to a $75,000 statue of former Olympic athlete Jesse Owens (Ferenchik and Riepenhoff 1999).

Coyne (pp. 143-165) also discusses the idea of "killing people with kindness," that humanitarian assistance may engender unforeseen negative consequences which work against the intended objectives of aid. Here too, we find similar trends in regional development aid in the U.S. While the bureaucratic structure of the ARC has created incentives for wasteful spending by those working the agency, the programs of the ARC, combined with other short and long-term assistance programs, has created perverse incentives for those receiving aid as well. In a market setting, productive work and entrepreneurship are the means through which individuals profit. The programs of the ARC, however, create incentives for individuals to do the opposite. As opposed to working and engaging in the relatively more risky open market, individuals instead choose the marginally lower-risk option for obtaining income. That is, they live on "the dole."

Recall that other types of income (e.g. per capita and investment income) are lower in Appalachia compared to the rest of the U.S. Transfer payments, however, are 25 percent higher than the national average in the Appalachian counties of four states and a full 35 percent higher in Appalachian Kentucky (ARC 2011c: 1). One study in 2004 found that more than 75 percent of persons receiving "emergency assistance" in West Virginia had engaged in *no* work-related activities while receiving aid (Gregory and Leguizamon 2007: 179). There are reports of parents working to keep their children out of school and other literacy programs in order to collect Social Security Insurance, and the ARC itself has reported difficulties in persuading parents to allow their children to participate in educational activities (Kristof 2012, ARC 2001a: 4). In essence, the efforts of regional development planning, instead of creating incentives for individuals to overcome their economic malaise and work their way out of poverty, have incentivized individuals to remain in poverty, and, in some cases, undertake actions which directly impede the goals the ARC hopes to achieve.

Conclusion

This article extends the analytical framework provided by Coyne's *Doing Bad By Doing Good* to the problem of long-term domestic aid and development programs, from which I suggest several implications.

First, just as Coyne's work leads one to be more skeptical of humanitarian assistance and long-term foreign aid, so too may we become increasingly skeptical of the ability of government bureaucracies to consistently plan for development in the U.S. While one cannot deny that development programs within the U.S., like the ARC are able to provide some short-term relief in the form of food, shelter, healthcare, etc., it seems unlikely, given the problems of rational economic calculation and issues of political economy discussed above, that the U.S. government or smaller specialized government agencies will be able to consistently achieve long-term development across a variety of situations involving diverse communities and problems.

Second, this work has implications for many government projects going forward. While the performance of development planning agencies—including the ARC, Tennessee Valley Authority (TVA), Economic Development Administration (EDA), and others—have been seriously questioned, the U.S. government is presently looking expand these programs and to recreate these organizational structures in other areas. The Delta Regional Authority, for example, was established in 2000 to assist the region surrounding the Mississippi river and is modeled after the organizational structure of the ARC. The replication of economic development agencies in other regions will likely work to encourage further errors in economic calculation, more bureaucratic resource allocation and further perverse incentives for aid recipients.

Lastly, this work looks to add additional support to the conclusions of *Doing Bad by Doing Good*—that economic freedom is the best means to achieve economic development and increase the standard of living for individuals at home and abroad. The solution to the economic problems of poor regions in the U.S. does not lie in more government spending and central planning. Instead, those looking to promote economic development, in areas both near and far, would be well-advised to focus on fostering the institutional framework of the market-based society, especially, secure private property rights, freedom of contract, and the rule of law. Only then that individuals will face the incentives necessary to engage in productive forms of entrepreneurship and other activities, which will provide to them a greater set of opportunities to enhance their wealth and well-being.

Notes

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[2] At the time of this study, "distressed" implied that a county had an unemployment rate 1.5 times higher than the national average and an income less than two-thirds of the national average. Today, distressed counties are those that rank in the worst 10 percent of the nation's counties. (ARC 2005).

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