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The Intergovernmental Management of Economic Development:

The Federal and Legislative Role of the GAO

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Today I want to discuss the federal legislative role of the U.S. General Accounting Office (GAO) in the intergovernmental management of economic development. 1/ My first point will be that the GAO plays two major roles--the role of ensurer of executive branch accountability and the role of technician to the Congress--in its involvement in the intergovernmental management 2/ of economic development. 3/ My second point will be that GAO work on economic development is piecemeal and that GAO work on intergovernmental management is more coherent. Economic development programs are administered by a variety of federal agencies and affected by many congressional committees. This tends to force the GAO to have a fragmented or program oriented policy on economic development. On the other hand, although many agencies and committees are affected by the complexities of intergovernmental management, the GAO's work in this area is more focused and more cohesive. Finally, I want to end by talking about how the recent administrative and policy changes in Washington are affecting the GAO's work in the intergovernmental management of economic development.

#### I. The Roles of the General Accounting Office

The GAO's most familiar role is as ensurer of executive branch accountability. The GAO is concerned with accountability in the sense that it tries to hold executive branch officials of the federal government accountable for their

actions. 4/ Increasingly this means that executive branch officials must be accountable financially and for proper management, but also accountable for the impact of economic development programs.

A less familiar GAO role is as technician to the Congress. The GAO acts as an agent of the Congress in an attempt to provide accurate, complete, relevant and timely information on executive branch programs to congressional committees. The GAO wants the Congress to reward honorable and effective performance and penalize dishonesty, fraud, inefficiency, or ineffectiveness in the intergovernmental management of economic development.

In these two roles, the GAO is concerned with its own independence. Part of being independent is trying to remain objective: free from hierarchical, political, special interest, personal or other bias.

Let me switch units of analysis for a moment--from the institution of the GAO to the GAO analyst--in order to make this point about political independence and analytical objectivity. As you would expect, GAO analysts are highly variegated species. All are in the business of giving information and advice. Each analyst has a different educational background, works in a different policy program area and for a different congressional committee. Yet the most successful analysts have both well developed political and well developed analytical skills. Unlike Meltsner's "entrepreneurs" they are encouraged not to pursue their own policy preferences. 5/ They are taught to recognize that their personal

policy preferences may not be consistent with the mandates of objective policy and program analysis. Like Meltsner's "entrepreneurs" they seek to influence policy. But like Meltsner's "technician" the GAO analyst primarily has an analytical and apolitical basis.

The Organizational Location of Economic Development and Intergovernmental Management Concerns

Economic development issues, as they concern intergovernmental management, do not follow any simple organizational pattern in the GAO. The GAO operates through functional divisions and through issue areas. The Community and Economic Development Division is responsible for the programs of the Departments of Agriculture, Commerce, Housing and Urban Development and Interior. 6/ These agencies sponsor the majority of programs which focus on economic development. The General Government Division has responsibility for the Advisory Commission on Intergovernmental Relations, whose major concern is intergovernmental management issues. 7/ The GAO also operates with issue area plans that do not necessarily follow division organizational structure, one division however is designated as the lead or control in each issue area. Several of the issue areas which do work in the areas of economic development and intergovernmental management are: Intergovernmental Policies and Fiscal Relations and Regional and National Economic Problems.

## II. The Programs and Committees of Economic Development and Intergovernmental Management

Economic development is carried out through the budget category of community and regional development. 8/ Community development is primarily the responsibility of the Department of Housing and Urban Development (HUD) through its community development block grant (CDBG) program, urban development action grants (UDAG), a rehabilitation loan program and other programs. Area and regional development is the responsibility of the Departments of Agriculture, Commerce and Interior. Agriculture has the Farmers Home Administration (FHA) which loans money and gives loan guarantees. Commerce's Economic Development Administration (EDA), in addition to giving loans and loan guarantees, constructs public facilities and provides technical assistance. Interior's Bureau of Indian Affairs (BIA) provides grants, training and technical assistance to strengthen tribal management and planning capabilities. The Federal Emergency Management Agency (FEMA), the Small Business Administration (SBA) and the Farmers Home Administration all provide some type of disaster relief.

Some of the congressional committees which authorize and appropriate funds economic development programs are listed in Table 1. Notice how many committees, even in a selected list, deal with our topic.

## III. The Dollars of Economic Development and Intergovernmental Management

The Community and Regional Development function in the federal budget outlayed \$8.8 billion in 1981. 9/ Community development is provided primarily through HUD which allocates

Table 1

Selected Congressional Committees and Subcommittees

Involved In Economic Development and Intergovernmental Management

Senate

Committee on Agriculture, Nutrition and Forestry

Subcommittee on Agricultural Production and Marketing, and Stabilization  
of Prices--Farmers Home Administration

Subcommittee on Rural Development--Farmers Home Administration

Committee on Environment and Public Works

Subcommittee on Regional and Community Development--Economic Development  
Administration

Appropriations Committee

Subcommittee on Agriculture and Related Agencies--Farmers Home Administration

Subcommittee on the Interior--Bureau of Indian Affairs

Subcommittee on HUD and Independent Agencies--CDBG and UDAG

Subcommittee on State, Justice, Commerce and the Judiciary-EDA

Committee on Governmental Affairs

Subcommittee on Intergovernmental Relations--intergovernmental management

House

Committee on Agriculture

Subcommittee on Conservation and Credit--Farmers Home Administration

Committee on Interior and Insular Affairs

Subcommittee on National Parks and Insular Affairs--BIA

Committee on Small Business

Subcommittee on SBA and SBIC Authority and General Small Business Problems

Committee on Appropriations

Subcommittee on Agriculture, Rural Development and Related Agencies

Subcommittee on HUD and Independent Agencies

Joint

Joint Economic Committee

Subcommittee on Economic Growth and Stabilization

Subcommittee on Fiscal and Intergovernmental Policy

approximately \$4.4 billion. Area and regional development is supported through the programs of the Department of Agriculture, the Department of Commerce and the Department of the Interior at the level of \$3 billion in 1981. Commerce's Economic Development Administration in 1981 will give out \$1.6 billion in loan guarantees and \$845 million in economic development assistance. The federal government also provided \$900 million in disaster relief and insurance.

#### The Dollars of Economic Development Grants-In-Aid

Community and regional development grants-in-aid (including revenues shared) for 1981 were to be \$6.3 billion. This was only 7 percent of the \$96.3 billion to be outlayed in federal grants-in-aid. Table 2 details these dollars. Notice the fiscal importance of the GDBG, UDAG, EDA, and Appalachian portions.

#### IV. GAO's Reports on Economic Development and Intergovernmental Management

The GAO, in its roles as an ensurer of executive branch accountability and technician to the Congress, has conducted a number of studies in both economic development and intergovernmental management. But few of these studies have looked specifically at the intergovernmental management of economic development. They tend to concentrate either on economic development issues or intergovernmental management issues. When they do look at both issues at once, as in the UDAG or CDBG reports, the reports tend to focus exclusively on the improper management of the federal side of intergovernmental management issues. Tables 3 and 4 give examples of GAO reports in the economic

Table 2

## FEDERAL GRANTS TO STATE AND LOCAL GOVERNMENTS—OUTLAYS AND BUDGET AUTHORITY

(in millions of dollars)

1979 actual	1980 estimate	1981 estimate	Function, agency and program	Func- tional code	1979 actual	1980 estimate	1981 estimate
OUTLAYS					BUDGET AUTHORITY		
			Community and regional development:				
			Funds appropriated to the President:				
297	296	326	Appalachian regional development programs.....	452	373	348	360
224	203	197	Disaster relief .....	453	350	260	176
			Department of Agriculture:				
11	12	12	Rural development grants.....	452	10	10	10
237	301	303	Rural water and waste disposal.....	452	282	300	284
4	7	7	Rural development planning.....	452	5	7	5
3	4	2	Rural community fire protection grants.....	452	4	4	
			Department of Commerce:				
345	437	677	Economic development assistance.....	452	409	951	924
1,741	358	200	Local public works.....	452	11		
10	2	2	Drought assistance program.....	453			
3	9	3	NOAA—Coastal energy impact fund.....	452			
64	68	69	Regional Development Program .....	452	64	72	71
			Department of Energy:				
	10	62	Energy conservation.....	452	20	50	150
			Department of Housing and Urban Development:				
3,161	3,500	3,805	Community development block grants.....	451	3,750	3,900	3,950
298	260	175	Urban renewal .....	451			
38	39	21	Other categorical programs replaced by block grants.....	451			
73	180	365	Urban development action grants .....	451	400	675	675
62	56	45	Comprehensive planning grants .....	451	53	42	40
*	2	2	New Communities Development Corporation .....	451	-8		-1
*	9	10	Neighborhood self-help program.....	451	5	10	15
18	18	19	Department of the Interior: Bureau of Indian Affairs .....	452	18	18	19
3	5	3	Federal Emergency Management Agency.....	453	3	5	3
	12	13	Neighborhood Reinvestment Corporation.....	451		12	13
<u>6,641</u>	<u>5,786</u>	<u>6,318</u>	Total, community and regional development.....	450	<u>5,748</u>	<u>6,663</u>	<u>6,694</u>

Source: Executive Office of the President. Office of Management and Budget. Special Analyses: Budget of the United States Government, Fiscal Year 1981. Washington, DC: U.S. Government Printing Office, 1980. pp. 266-267.



Table 3

Selected GAO Reports on Economic Development Programs

Housing and Urban Development

Community Development Block Grants: The GAO, in "Analysis of Community Development Block Grant Drawdown Rates," criticizes HUD for backlogging block grant funds, inappropriate and ineffective use of funds and lacking monitoring and evaluation activities.

Urban Development Action Grants: The GAO, in "Improvements Needed In Selecting and Processing Urban Development Action Grants," expresses reservations about the Action Grant decisionmaking process. Many grants could not be related to program objectives, little decisionmaking documentation existed and grant funds were not always released properly.

Agriculture

Farmers Home Administration: The GAO, in "Long Term Cost Implications of Farmers Home Administration Subsidized and Guaranteed Loan Program," expresses concern for the future budget implications of current program decisionmaking--including interest subsidy costs and default rates.

Commerce

Economic Development Administration: The GAO, in "Legislation Needed to Establish Loan Guarantee Limits for the Economic Development Administration," criticizes the loan practices of the EDA. It recommends limiting the total amount of loans as well as the amount of individual guarantees.

Interior

Bureau of Indian Affairs: The GAO, in "The Bureau of Indian Affairs is Slow in Providing Special Education Services to All Handicapped Indian Children," criticized the BIA for slow implementation of the Education for All Handicapped Children Act of 1975.

Independent Agencies

Federal Emergency Management Agency: The GAO, in "Federal Disaster Assistance: What Should the Policy Be?", discusses three forms of assistance--loans, grants and insurance--and calls for both equity and efficiency in federal disaster policy.

Small Business Administration: The GAO, in "What Is A Small Business? The Small Business Administration Needs to Reexamine Its Answer," criticizes the SBA for not considering the assistance needs of many small businesses.

Source: U.S. General Accounting Office. Annual Report, 1980. Washington, DC: U.S. Government Printing Office, 1981.

Table 4

Selected GAO Reports on Intergovernmental Management

Descriptive Studies

"Perspectives on Intergovernmental Policy and Fiscal Relations": This report documents the increasingly complex relations between federal, state and local governments. It calls for fewer conflicting initiatives, slower growth, and standardized and simplified administrative requirements.

"Changing Patterns of Federal Aid to State and Local Governments": This study analyzes the distribution by State and region of Federal aid to State and local governments. It was 15 percent of the budget in 1976. The Northeast received a larger proportion of Federal aid than it paid in Federal personal income taxes.

"List of Federal Categorical Assistance Programs to the States": This document lists categorical assistance programs for which States are the only eligible applicants, plus the 1978 estimated obligations for the programs.

Revenue Sharing Studies

"How Revenue Sharing Formulas Distribute Aid: Urban-Rural Implications": This report discusses the several formulas which distribute revenue sharing aid. Rural areas generally receive larger per capita grants than urban areas. Rural county governments received larger per capita revenue aid because they tended to have lower fiscal capacities and higher fiscal effort as measured by the revenue sharing formula.

"Changes In Revenue Sharing Formula Would Eliminate Payment Inequities: Improve Targeting Among Local Governments": This report discusses the widespread inequities that exist in revenue sharing payments to local governments. GAO recommends that the Congress amend the Revenue Sharing Act by deleting the geographic tiering allocation procedures. The GAO also recommends that the Congress modify the formula's payment constraint. This would allow more funds to cities, fiscally distressed governments and low income governments.

Source: U.S. General Accounting Office. Annual Report, 1980. Washington, DC: U.S. Government Printing Office, 1981.

development and intergovernmental management areas.

V. The New Policy Environment for Economic Development and Intergovernmental Management

The new administration's program for economic recovery calls for changes in the community and regional development budget. 10/ The White House budget proposal plans to reduce direct lending by the Farmers Home Administration by 5 percent in 1981 and 25 percent in 1982. The administration plans to altogether eliminate funding for the Economic Development Administration. The administration also calls for a redesign of Community Development Block Grants and Urban Development Action Grants which would reduce budget outlays by \$12 million in 1982. This is a proposed \$1 billion cutback in 1981 in economic development activities and an even larger cutback in 1982.

Although the roles of the GAO vis-a-vis the Congress and the Executive Branch will remain relatively stable over the near future, the policy environment in the intergovernmental management of economic development has clearly been altered by the recent change of administration and Senate. A more conservative economic policy is on the offensive. Most likely this will mean shrinking federal aid for economic development, more local control over intergovernmental management, and more attempts to trigger the private sector into funding economic development.

Much of the near future impetus to alter the current policy of intergovernmental management of economic development may be based on two recent Heritage Foundation reports on federal grants-in-aid and community and regional development.

The first piece, by Richard Wagner, on federal grants-in-aid claims that all grants-in-aid whether categorical, block or general purpose, violate the consent of the governed. 11/ Grants are coercive rather than contractual. States must participate because taxes are involuntarily extracted. Wagner says that politically dominant States force others to subsidize them. Grants subsidize winners in the competition for grants at the expense of the losers and enable legislators to build supporting constituencies based on government spending. According to Wagner, Federal grants tend to erode the polycentric nature of our federalist system, creating a monopolistic, hierarchical system in its place. His solution is to eliminate federal aid and to reduce federal taxes. This would nurture the efficiency and pluralism that federal aid erodes.

The second piece, by Robert Poole, questions the cost of economic development programs. 12/ He says, detailed federal restrictions on the use of federal funds tends to shift control from the local to the federal level, and to make the programs far less responsive to actual local needs. On the other hand, he acknowledges that local discretion often leads to violations of congressional intent.

Poole sees the EDA, CDBG and UDAG grant mechanisms as openly political. These programs do not separate politics and administration. They are not to aid low income people but to dish out federal money in a politically advantageous way. He claims that districts that voted heavily for Carter got more economic development grants. Political connections helped. Many grants went to

subsidize projects which would have been built anyway. And many were improperly awarded.

Poole claims that the most important causal factor for economic development is a climate of incentives--an absence of regulation and bureaucracy and a minimum of taxation. Economic development grant programs increase the local and national level of bureaucracy and add new regulations which increase the cost and time of projects. They ossify the local economy rather than encourage it.

Poole sees all the economic development programs as having the same fundamental flaws. They are unable to focus effort on real needs while simultaneously ensuring congressional delegations grants to hand out. Overhead and added on social goals build high costs into these programs. They continually expand federal control into local matters. They neglect the poor. They do not understand that top-down central planning will not ensure economic growth and development.

#### VI. Discussion

A new climate for the intergovernmental management of economic development is emerging. In its roles as insurer of executive branch accountability and technician to the Congress, the GAO will continue to report on a variety of programs and issues in the intergovernmental management of economic development. Many of its reports to the Congress on these programs will, as before, describe the current state of affairs, highlight improper management, ask equity questions, or raise policy and program questions that need to be addressed. It

seems clear that the kinds of issues that the policy leaders in Washington will focus on in the next few years will create a different environment for the GAO. GAO reports may tend to focus on cutting back federal support for economic development activities, increasing local control over intergovernmental management, and encouragement of the private sector to shoulder the responsibility for economic development.

The GAO intends to continue its federal role as ensurer of executive branch accountability and legislative role as technician to the Congress. We plan to carry these roles out in as bipartisan a manner as possible. And we plan on succeeding. After all, the standard GAO report says such and such a program needs to be better managed or such and such a program could have a more significant impact. The conservatives, in their fear of bureaucracy, usually take this to mean that the program should have its budget cut. The liberals, in their optimism in the public sector, think this means that the program does not have sufficient funds and should have more resources.

## Notes

1/ The views expressed in this paper are those of the author and do not necessarily reflect the positions of the GAO, the Comptroller General or the Institute for Program Evaluation.

2/ Reynolds, Harry W. Jr. (ed.) Intergovernmental Relations In the United States. Philadelphia, Pennsylvania: The American Academy of Social and Political Science, 1965; Stenberg, Carl W. "Beyond the Days of Wine and Roses: Intergovernmental Management In a Cutback Environment," Public Administration Review 41, 1 (January/February 1981); Wright, Deil S. Understanding Intergovernmental Relations. North Scituate, Massachusetts: Duxbury Press, 1978; Wright, Deil S. "Intergovernmental Relations: An Analytical Overview," In Intergovernmental Relations. Philadelphia, Pennsylvania: American Academy of Social and Political Science, 1974.

3/ As I understand it, economic development or economic growth can be thought of very generally in terms of increases in a society's basic factors of production--labor, land and capital--and improvements in the organization and technology by which these factors of production are employed.

More specifically, economic development concerns itself with

- population growth: An increasing population means more labor but more mouths to feed, increasing pressure on scarce natural resources and the stock of capital.
- capital accumulation: Capital accumulation facilitates the introduction of new technology, and provides tools for a growing population.
- efficiency in the use of resources: Output per unit of factor input can be increased by greater efficiency in the use of resources.
- technological progress: Technological progress brings basic changes in productive techniques and new products. It depends on the progress of science and the level of education in a society.
- natural resources: Natural resources are not a fixed restraint on economic development. Resources may be used up but additional sources may be discovered or acquired. Different resources may be taken up as technology progresses.

4/ Mosher, Fredrick C. The GAO: The Quest for Accountability In American Government. Boulder, Colorado: Westview Press, 1979; Sperry, Roger et al. GAO 1966-1981: An Administrative History. Washington, DC: U.S. Government Printing Office, 1981.

5/ Meltsner, Arnold J. Policy Analysts In The Bureaucracy. Berkeley, California: University of California Press, 1976.

6/ U.S. General Accounting Office. Operations Manual. Order Number 0130.1.42. January 1979.

7/ U.S. General Accounting Office. Operations Manual. Order Number 0130.41. February 1979.

8/ Executive Office of the President. Office of Management and Budget. The Budget of the United States Government: Fiscal Year 1981. Washington, DC: U.S. Government Printing Office, 1980.

9/ These figures are based on 1980 projections of the FY 81 budget. Actual spending will vary.

10/ White House. America's New Beginning: A New Program for Economic Recovery. Washington, DC: U.S. Government Printing Office, February 18, 1981.

11/ Wagner, Richard E. "Federal Aid To State And Local Governments," In Agenda For Progress: Examining Federal Spending. Edited by Eugene J. McAllister. Washington, DC: The Heritage Foundation, 1981.

12/ Poole, Robert W. Jr. "Community and Economic Development," In Agenda for Progress: Examining Federal Spending. Edited by Eugene J. Mcallister. Washington, DC: The Heritage Foundation, 1981.