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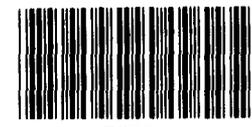
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STATEMENT OF
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FOR
PROGRAM EVALUATION
BEFORE THE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES
ON
THE EFFECTIVENESS OF ECONOMIC DEVELOPMENT PROGRAMS

Mr. Chairman and Members of the Committee:

We are pleased to be here today to describe the results of our analysis of the effectiveness of economic development programs. Past attempts to measure job creation through the conventional case study approach involved a highly subjective job counting process. Results varied from one agency or program to the next depending on one's definition of a new job, and the approach failed to sort out job creation associated with Federal

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investment from that caused by changes in general economic conditions. Our method of analysis takes into account the interaction between these programs and other factors in the economic environment, and also produces results that are comparable from one program to the next.

We have reached two general conclusions about the historical performance of Federal economic development programs. First, after accounting for the many factors that influence employment growth, these programs did create jobs between the mid and late 1970's; however, whether this occurred at the expense of jobs that might have been created with an alternative use of the funds is unknown. Second, the number of jobs created varied depending on whether aid was provided in the form of grants, loans, or loan guarantees. Job creation effects also varied by industry and by the employment growth characteristics of an area.

Specifically, we found the following:

- Grants created relatively more jobs than loan guarantees and loan guarantees more than direct loans.
- Regardless of the method used to provide aid, most jobs were created in the manufacturing sector of the economy.
- Grants were most effective in creating jobs in States with low employment growth.
- Among the various grant categories, public works grants were the most effective in creating jobs.

Before elaborating on these conclusions, I would like to make a few comments about our study and sound a few cautions about the study's limitations and how these relate to interpreting the results.

We collected data on the obligations and disbursements of 57 economic development programs from 8 Federal agencies. We also collected State and economy-wide data on employment, income, and other economic factors. With this information, we estimated job growth associated with Federal economic development programs, using an econometric model.

An econometric model enables one to isolate the separate effects of a large number of factors. This is what permitted us to sort out the influence of Federal economic development programs from all other influences on employment growth. However, the model should not be used to make forecasts. The model evaluates the effectiveness of these programs only in light of the economic conditions that existed between 1974 and 1978. The data are insufficient to give us confidence that the results would necessarily hold under a different set of economic conditions. Of equal importance, the model does not take account of the offsetting--but unknown--effects on job creation that might have occurred had these funds been used for other purposes either by the Government or the private sector. Furthermore, the model estimates only new jobs created--not jobs saved. Finally, the approach we used does not estimate job growth in specific States. Instead, our results as portrayed in the tables accompanying my statement, show the average State's experience when an

additional \$500,000 in economic development assistance was allocated to each state in the average year during the period of the study.

SPECIFIC RESULTS

Differences in the comparative job creation effects of grants, loans, and loan guarantees, can be seen in the first table. A \$500,000 increase in grants is estimated to have created 216 jobs in the average year between 1974 and 1978 in an average State at a cost of about \$2,300 per job. A similar amount of loan guarantees would have created 57 jobs, or one job for each \$8,800 in guaranteed loans. For direct loans the results indicate 19 new jobs, or one job for each \$26,300 in loans. These results do not mean that grants are more cost effective than loans and loan guarantees. The Government bears the full cost of the grants while the net cost of a loan or a loan guarantee is usually much lower, unless a default occurs.

Over 50 percent of the jobs created by these programs occurred in the manufacturing sector. Personal services ranked second, and household, retail, and wholesale trade ranked third. Several economic development programs funded construction projects. However, during the period we studied, the construction industry grew very little. Construction projects financed by these programs tend to be capital- rather than labor-intensive. This may explain why these programs had their effect by creating jobs in other sectors, particularly manufacturing.

Although the results do not allow conclusions about the relative cost effectiveness of grants, loans, and loan guarantees, we can conclude that public works grants were more cost effective than other types of grant programs. Looking at the second table, note that \$500,000 in public works grants resulted in 248 jobs costing about \$2,000 each. This compared with 156 jobs created by other types of grants costing about \$3,200 each.

We have also concluded that grants created more jobs in low employment growth areas of the country than in relatively high growth areas. On a national basis, I indicated that \$500,000 in grants to the average State resulted in 216 new jobs at a cost of about \$2,300 each. However, when States were grouped on the basis of their employment growth pattern, the results, as shown in table 3, indicate that \$500,000 in grants created an additional 407 jobs in low employment growth areas compared with 136 additional jobs in high employment growth areas. The resulting cost per job was about \$1,200 and \$3,700 respectively.

Mr. Chairman, that concludes my prepared statement. My colleagues and I would be happy to respond to your questions.

Table 1

Additional Jobs Created From a \$500,000 Increase
in Economic Development Assistance for the Average
State in the Average Year Over the 1974-78 Period

<u>Industry</u>	<u>Economic Development Assistance</u>			<u>Total</u>
	<u>Grants</u>	<u>Loan guarantees</u>	<u>Direct loans</u>	
Household, retail, and wholesale trade	28	9	5	42
Manufacturing	139	37	19	195
Contract construction	8	-5 <u>a/</u>	-5	-2
Banking, insurance, and real estate	10	3	- <u>b/</u>	13
Personal services	31	13	- <u>b/</u>	44
Total <u>c/</u>	216	57	19	292
Amount of assistance per additional job	\$2,315	\$8,772	\$26,316	

a/The negative signs suggest jobs are being shifted between industries.

b/The dash (-) indicates statistical insignificance.

c/Additional industries--agriculture, mining, transportation and utilities, business services, and administrative and auxiliary--did not register a significant job change when analyzed by the model.

Table 2

Additional Jobs Created From a \$500,000 Increase in Grant Disbursements for the Average State in the Average Year Over the 1974-78 Period, by Type of Grant

<u>Industry</u>	<u>Type of Grant</u>	
	<u>Public works grants</u>	<u>Business and community development grants</u>
Household, retail, and wholesale trade	33	18
Manufacturing	170	74
Contract construction	5	17
Banking, insurance, and real estate	15	- <u>a/</u>
Personal services	25	47
Total <u>b/</u>	248	156
Amount of assistance per additional job	\$2,016	\$3,205

a/The dash (-) indicates statistical insignificance.

b/Additional industries--agriculture, mining, transportation and utilities, business services, and administrative and auxiliary-- did not register a significant job change when analyzed by the model.

Table 3

Additional Jobs Created From a \$500,000 Increase in
Grant Disbursements for the Average State in the
Average Year Over the 1974-78 Period,
By Employment Growth Category

<u>Industry</u>	<u>Average State in the nation</u>	<u>Average State in the employment growth category</u>		
		<u>Low employment growth</u>	<u>Medium employment growth</u>	<u>High employment growth</u>
Household, retail, and wholesale trade	28	29	33	18
Manufacturing	139	278	124	108
Contract construction	8	15	15	- <u>a/</u>
Banking, insurance, and real estate	10	19	9	10
Personal services	31	66	38	- <u>a/</u>
Total <u>b/</u>	216	407	219	136
Amount of assistance per additional job	\$2,315	\$1,229	\$2,283	\$3,676

a/The dash (-) indicates statistical insignificance.

b/Additional industries--agriculture, mining, transportation and utilities, business services, and administrative and auxiliary--did not register a significant job change when analyzed by the model.