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REPORT TO THE CONGRESS

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The Effects Of  
Federal Expenditures On  
The Economy Of  
Johnson County, Kentucky B-130515

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

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FEB. 7, 1972



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-130515

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To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on our study of the effects of Federal expenditures on the economy of Johnson County, Kentucky.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretary of Commerce; the Secretary of Labor; the Federal Cochairman of the Appalachian Regional Commission; the Kentucky Program Development Office (a State organization involved in planning and coordinating State and Federal programs in Kentucky); and the Big Sandy Area Development Council, Inc. (a local development district involved in planning and promoting economic and social programs in Johnson County).

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General  
of the United States

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ABBREVIATIONS

ARC	Appalachian Regional Commission
EDA	Economic Development Administration
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
MDTA	Manpower Development and Training Act
OEO	Office of Economic Opportunity
OJT	on-the-job training

D I G E S T

WHY THE STUDY WAS MADE

The Federal Government has established a number of programs aimed at alleviating chronic poverty, unemployment, and underemployment. The General Accounting Office (GAO) evaluated the assistance provided under these programs to Johnson County, Kentucky, to determine their effect on the economy of a specific area.

Why Johnson County?

Johnson County, in the heart of Appalachia, was selected as the area for the study because it had the typical characteristics of economically distressed areas: high unemployment, low family income, and high out-migration. Although the study covered only one county, GAO believes that other rural counties in Kentucky and elsewhere in the Appalachian region have experienced similar difficulties.

FINDINGS AND CONCLUSIONS

What was spent?

The Federal Government provided grants of about \$21.5 million to organizations and persons in the county during fiscal years 1965 through 1969, equivalent to \$243 a year for each resident, or 17.2 percent of the county's 1968 per capita income of \$1,415. Loans totaling \$6.7 million were also made. The moneys were spent primarily on economic development, agriculture, education, and public assistance. (See p. 48.)

What was accomplished?

One major industrial plant was established in Johnson County, which provided about 300 jobs; the company plans a substantial expansion of plant capacity. (See p. 24.)

Johnson County made significant improvements in classroom facilities and in the quality of primary and secondary education during the period covered by the GAO study. Numerous substandard elementary schools and high schools were eliminated and modern facilities, such as language and science laboratories and industrial art shops, were constructed. Remedial training in reading and mathematics was initiated, along with programs to discourage dropouts. (See pp. 41 to 43.)

The several Federal and State public assistance programs have helped to maintain a minimum standard of living, principally through welfare payments, food stamps, health services, and low-rent housing. There will be a continuing need for this assistance unless remedies can be found which will permit the county to extricate itself from the conditions of economic depression and chronic unemployment. (See pp. 44, 45, and 51.)

What are the problems?

Although a large proportion of Federal assistance was directed to economic development, its impact in terms of broadening the economic base of the county and creating new job opportunities had been very limited at the time of the GAO review, and the county's heavy dependency on Federal assistance will continue in the foreseeable future.

About half of the economic development funds were used to construct 23 miles of highway through Johnson County. This section of highway is a link in the network of highways under construction through Appalachia, a network designed to open up isolated areas having development potential and to link such areas with the Interstate Highway System. Such highway development is recognized as an essential element in the successful economic development of the region. Substantial benefits may be realized by Johnson County residents when construction of the Appalachian highway system is completed. (See pp. 19 to 31 and p. 49.)

The obstacles to attracting industry to Johnson County are many. The mountainous terrain, the limited accessibility to supply sources and markets, and the relatively unattractive living conditions make it difficult to induce industry to locate in the area. The makeup of the local work force--to a large extent lacking the education and technical skills needed for industrial employment and composed of older persons--may also limit the attraction of industry. (See pp. 5 and 50.)

Some efforts have been made to attract industry, but they were only partially successful. Plans for a timber products plant to be financed jointly by a Federal loan and private capital had to be abandoned principally because of the sponsor's inability to raise the needed private capital. (See pp. 22 and 23.)

Several manpower training programs have been sponsored by Federal agencies. Programs of upgrading or retraining the work force have been conducted with little prospect that jobs would be available at the end of the training period. The programs, in effect, have served largely two purposes: (1) to provide usable skills to those willing to migrate to other areas where such skills are needed and (2) to preserve some measure of dignity among the remaining unemployed by providing them with additional skills and income supplements as ends in themselves rather than means to obtaining jobs. (See pp. 32 to 38 and pp. 48 to 54.)

What is needed?

Improved planning and coordination of Federal programs is needed to assign priorities and design plans aimed at achieving economic independence. No Federal organization has overall responsibility to coordinate

the wide range of Federal programs in a specific locality. (See pp. 14 to 18.)

The agencies most closely concerned with economic development of Johnson County are the Appalachian Regional Commission--a joint Federal-State group established by the Congress in 1965 to conduct a special 6-year development effort--and the Economic Development Administration, Department of Commerce--an agency which partially funds projects aimed at alleviating high unemployment. (See p. 14.)

The Appalachian Regional Commission, in cooperation with the Economic Development Administration, should take a more active role in coordinating Federal activities at the local level. This would help provide maximum impact from all Federal assistance. (See pp. 14 to 18.)

#### RECOMMENDATIONS OR SUGGESTIONS

- 1 The Appalachian Regional Commission, in cooperation with Federal, State, 157 and local agencies and by working through the local development district organizations, should take a more active part in the planning and coordination of Federal programs aimed at the economic development of local areas. (See p. 52.)
- 2 The Economic Development Administration should conduct a comprehensive 371 study to identify additional incentives that may encourage industry to expand in rural areas and thereby maximize the benefits from Federal economic development programs. (See p. 52.)

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

In response to our request, the following agencies submitted comments to our report: the Appalachian Regional Commission, the Economic Development Administration, the Department of Labor, the Kentucky Program Development Office (a State organization involved in planning and coordinating State and Federal programs, see p. 15), and the Big Sandy Area Development Council, Inc. (a local development district involved in planning and promoting economic and social programs in Johnson County, see p. 16). All these organizations agreed that improvement was needed in the planning and coordination of Federal programs. (See apps. VI through X.)

The Appalachian Regional Commission, however, pointed out that there were statutory and other obstacles to full and effective coordination which would make it difficult for the Commission to assert primary responsibility for such coordination. GAO believes that the Commission can take, within the limits of its legislative authority, a more aggressive approach in planning and coordinating Federal programs than was evident in Johnson County. (See p. 52.)

The Economic Development Administration replied that the failure of Federal agencies to coordinate their efforts was not the only important

reason for the lack of significant improvement of the area's economic base. It felt that insufficient development funds (versus social program funds) were the real cause. (See p. 54.)

With respect to GAO's recommendation concerning a study of rural economic development problems, the Economic Development Administration stated that it had already undertaken some steps along these lines and had sponsored a considerable body of research on this subject, some of which is still under way. The Economic Development Administration stated also that, should this research prove successful, places such as Johnson County might have a better opportunity to attract new industry than at present. (See p. 54.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should be aware that, up to the time of GAO's study, extensive Federal expenditures had not made a significant impact on alleviating poverty and unemployment in Johnson County, Kentucky. In view of the similarity of Johnson County to other economically distressed rural counties in Kentucky and elsewhere in the Appalachian region, the observations and recommendations in this report may have applicability to other places.

## CHAPTER 1

### INTRODUCTION

The Federal Government has devised and implemented a number of programs to alleviate chronic poverty, unemployment, and underemployment in the United States. To determine the combined effects of these and other Federal aid programs on the economy of a specific area, the General Accounting Office evaluated the assistance provided to Johnson County, Kentucky, during fiscal years 1965 through 1969. Federal assistance included grants and loans for economic development; agricultural, educational, and social programs; and public assistance.

Many counties in eastern Kentucky are economically distressed areas characterized by high unemployment, low family income, and high outmigration. These areas are the recipients of many and varied Federal and State assistance programs. We selected Johnson County as the subject of our study because it is representative of such areas.

The maps at the end of this chapter illustrate the location of some of the economic development projects and the relative locations of the City of Paintsville and Johnson County in the State of Kentucky.

### CHARACTERISTICS OF JOHNSON COUNTY

Johnson County, located in the heart of Appalachia, is one of the more mountainous counties in the region. Its economy has lagged significantly behind that of the Nation and is dependent on a limited amount of farming and coal mining. During the 1950's and 1960's, unemployment was high, family income was low, and the overall population declined whereas the number of persons age 65 or older increased.

A gradual decline in coal mine and agricultural employment caused many of the problems. In 1950 mining employed 1,799 workers. By 1968 employment had decreased to 209 workers. Agricultural employment in 1950 was 1,261 but declined to 365 workers by 1968. The 1964 Census of Agriculture showed that there were 647 farms in the county, of which only 64 had gross sales of more than \$2,500.

According to the U.S. Bureau of Census, the population of Johnson County decreased substantially between 1950 and 1970 as shown by the following table.

Population			Percent change	
<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1950 to 1960</u>	<u>1960 to 1970</u>
23,846	19,748	17,539	-17.2	-11.2

In 1950 there were 10,079 persons under 18 years and 1,492 persons aged 65 or older. In 1960 there were 7,901 persons under 18 years and 1,865 aged 65 or older. In 1970 there were 5,889 persons under 18 years and 2,211 aged 65 or older. If this trend continues, the number of persons receiving old-age assistance or social security benefits will increase and the school-age population will decrease. In 1970 there were 99 members of minority groups residing in the county.

The city of Paintsville, having a population of 4,500, is the only urban area in the county and is the site of the county government. Most of the city's residents are employed in Federal, State, and local Government positions; retail trade; utilities; or communication industries.

The 1967 Census of Business showed a total of 182 businesses in Johnson County. Of these, 97 businesses employed 443 employees with an annual payroll of \$1,277,000.

According to the U.S. Bureau of Census, there were 5,970 housing units in the county in 1970 compared with 5,876 in 1960. In 1960 only 1,865 were equipped with all plumbing but by 1970 this figure had increased to 3,714.

#### EMPLOYMENT AND INCOME

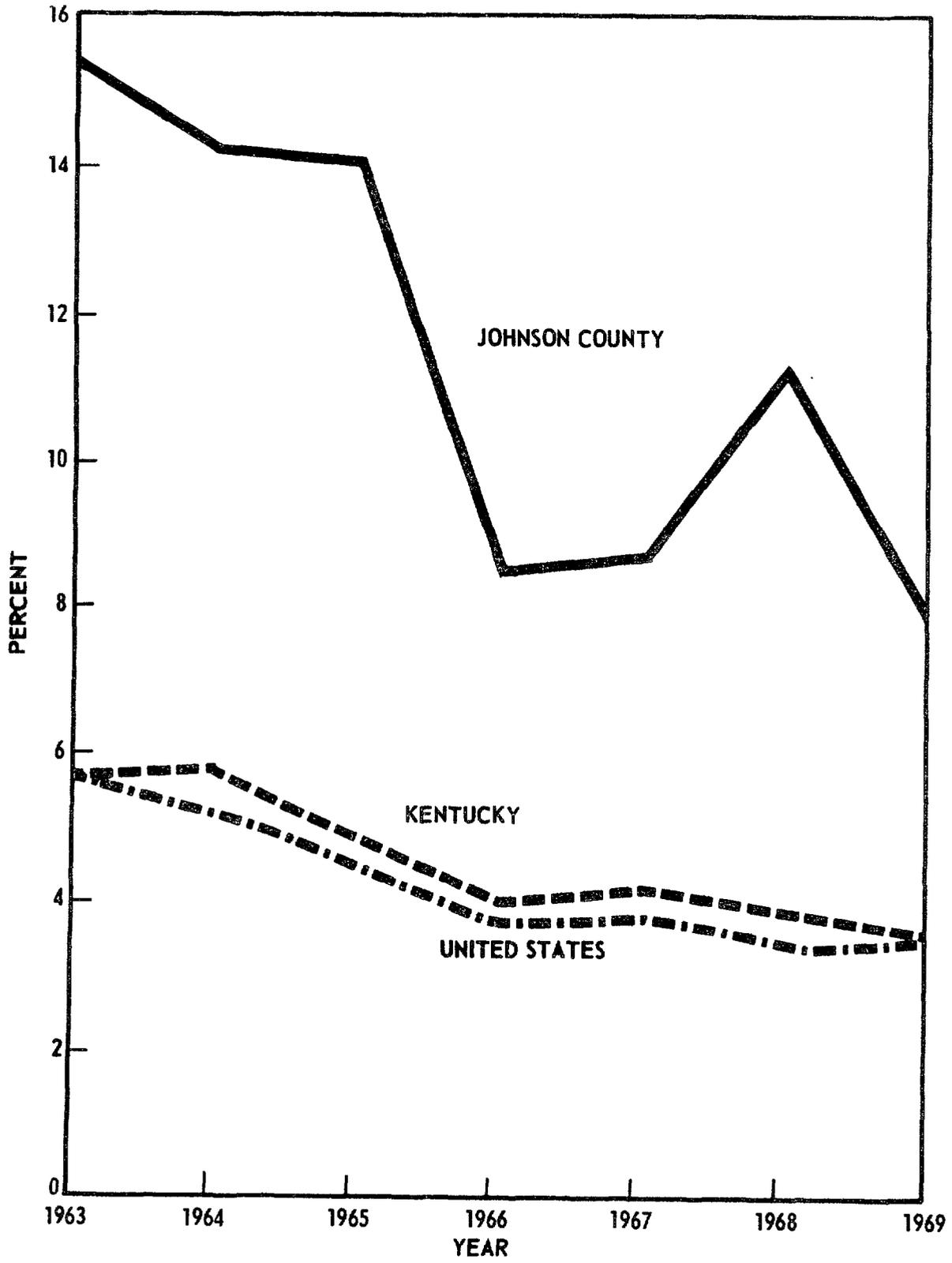
Outmigration notwithstanding, unemployment has been far above the national average as shown by the chart on page 8. Unemployment rates are computed by State employment security agencies in accordance with guidelines established by the Department of Labor. The rates represent the Federal Government's official measurements of unemployment for State and local areas throughout the Nation.

The unemployment rate is computed by dividing the unemployment estimate for an area by that area's work force estimate. The work force comprises both employed and unemployed persons. The Department of Labor defines persons as being unemployed if they have actively sought work in the past 4 weeks, are currently available for work, and do not have a job at the same time. The discouraged workers--persons who are not actively seeking a job but who would work if suitable jobs could be found--are not included in that definition.

The Johnson County rate of 8 percent for 1969 was based on a work force of 4,400, of which 350 were estimated to be unemployed. In addition to the 4,400 workers in the work force, the Kentucky State employment security agency estimated in January 1970 that there were 2,373 persons who were not actively seeking a job but who would work if suitable jobs could be found.

Since the unemployment rates represent the relationship between the number of unemployed to the work force, significant fluctuations in the rates can occur with little or no change in the number of persons employed. For example, the chart on page 8 shows an approximate 6-percent decrease in Johnson County's unemployment rate between 1965 and 1966. The decrease resulted because of reductions in the total work force, primarily in the number of unemployed persons. There was no increase in the number of persons employed in Johnson County from 1965 to 1966--on the contrary, there was a slight decrease.

# UNEMPLOYMENT RATES



According to a study made by the College of Business and Economics, University of Kentucky, in 1950 Johnson County per capita personal income was \$593 as compared with \$981 for Kentucky and \$1,496 for the Nation. Of the 120 counties in Kentucky, 72 had greater per capita personal income than Johnson County. By 1962 the per capita personal income of Johnson County had risen to \$913 but its relative position had worsened, and 100 counties in Kentucky had greater per capita personal income. By 1968 the estimated per capita personal income of Johnson County had risen to \$1,415 and the relative position had improved so that 87 counties in Kentucky had per capita personal income higher than Johnson County.

From 1950 through 1968 the per capita personal income in Johnson County has been about 40 percent of that in the Nation as a whole. The chart on page 10 shows the per capita income of Johnson County, of Kentucky, and of the Nation. Data were not readily available for the years omitted from the chart. During this same period the total personal income<sup>1</sup> of the county was:

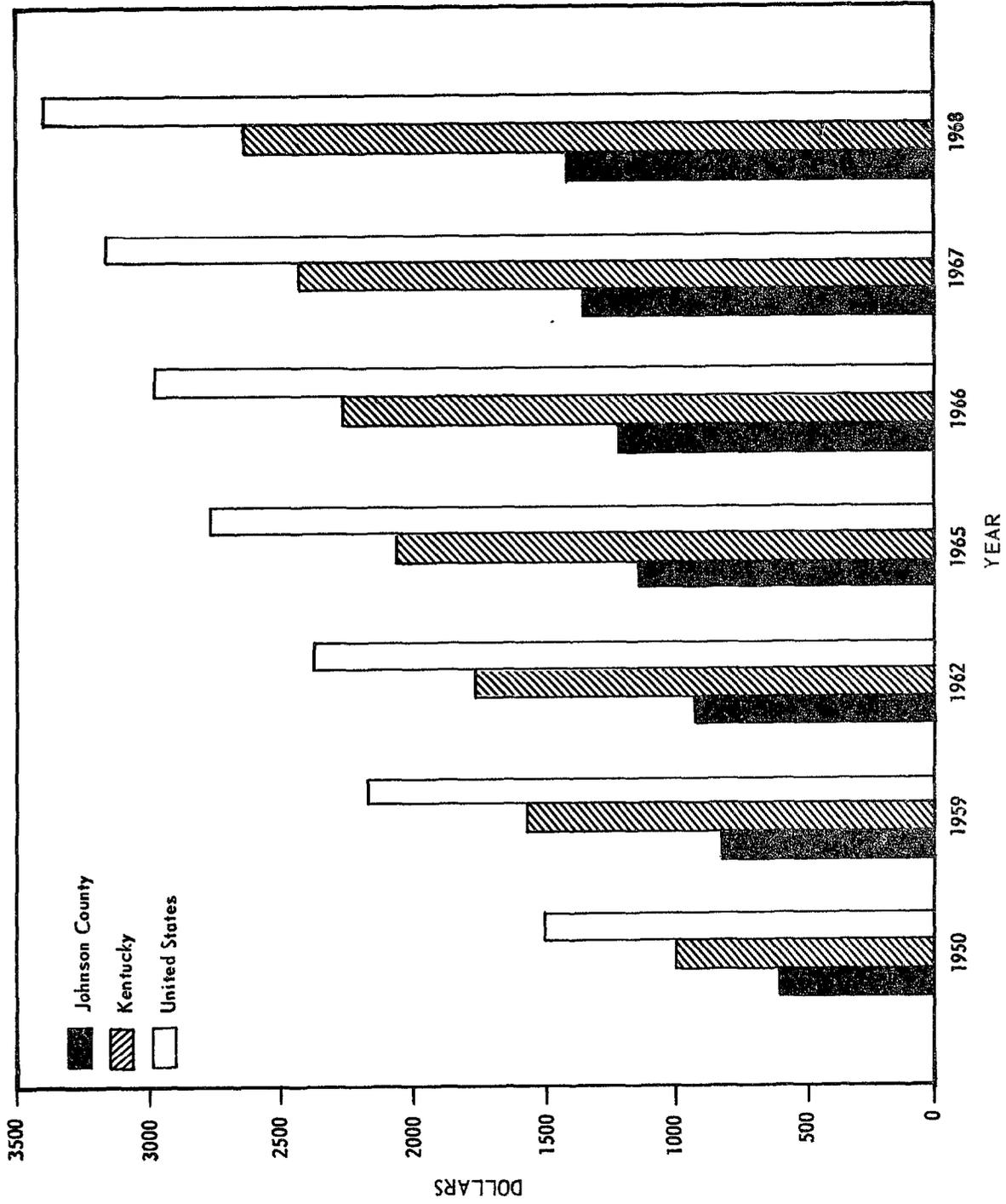
<u>Year</u>	<u>Income</u> <u>(millions)</u>
1950	\$13.7
1959	15.0
1962	16.4
1965	19.8
1966	21.2
1967	23.8
1968	25.6

The Kentucky State employment security agency estimated that, from 1960 through 1968, Government workers employed in Johnson County at Federal, State, and local levels of Government increased by 639 workers from 537 to 1,176.

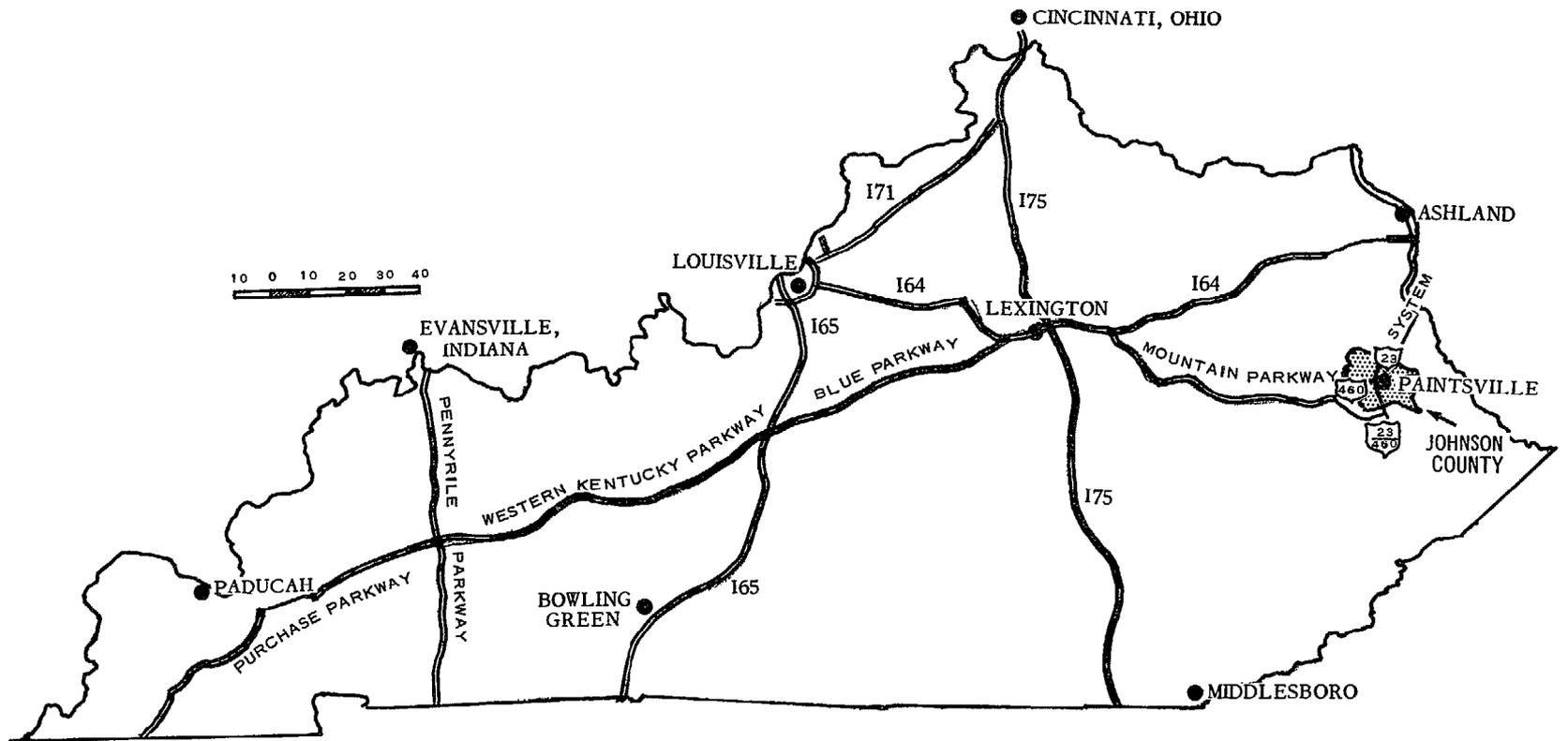
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<sup>1</sup>Personal income was computed on the basis of wages earned in the county irrespective of place of residence, whereas per capita income was adjusted for commuter earnings. Per capita income thus includes earnings of Johnson County residents who work outside the county and excludes the earnings of persons who work in the county but reside elsewhere.

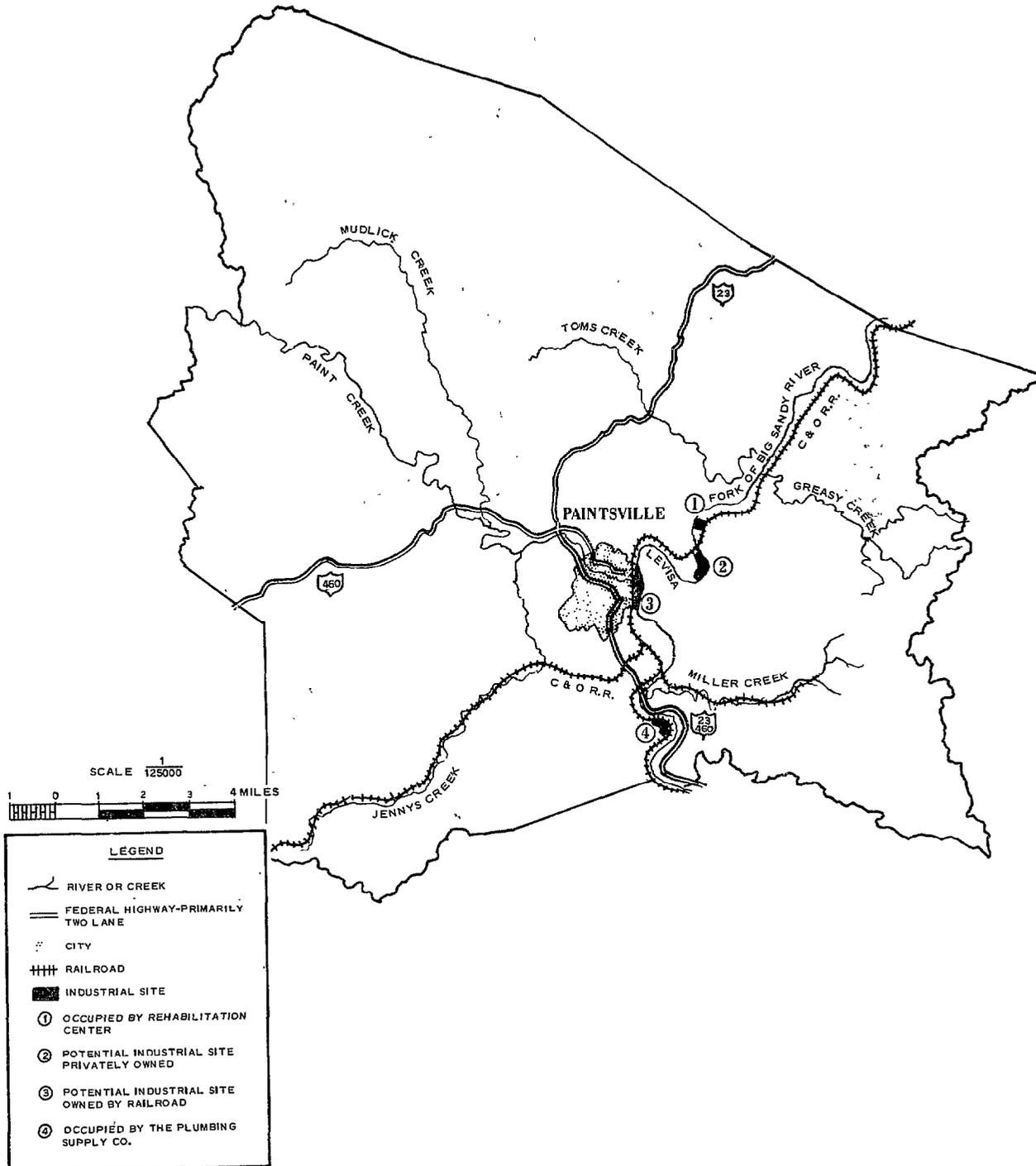
# PER CAPITA PERSONAL INCOME

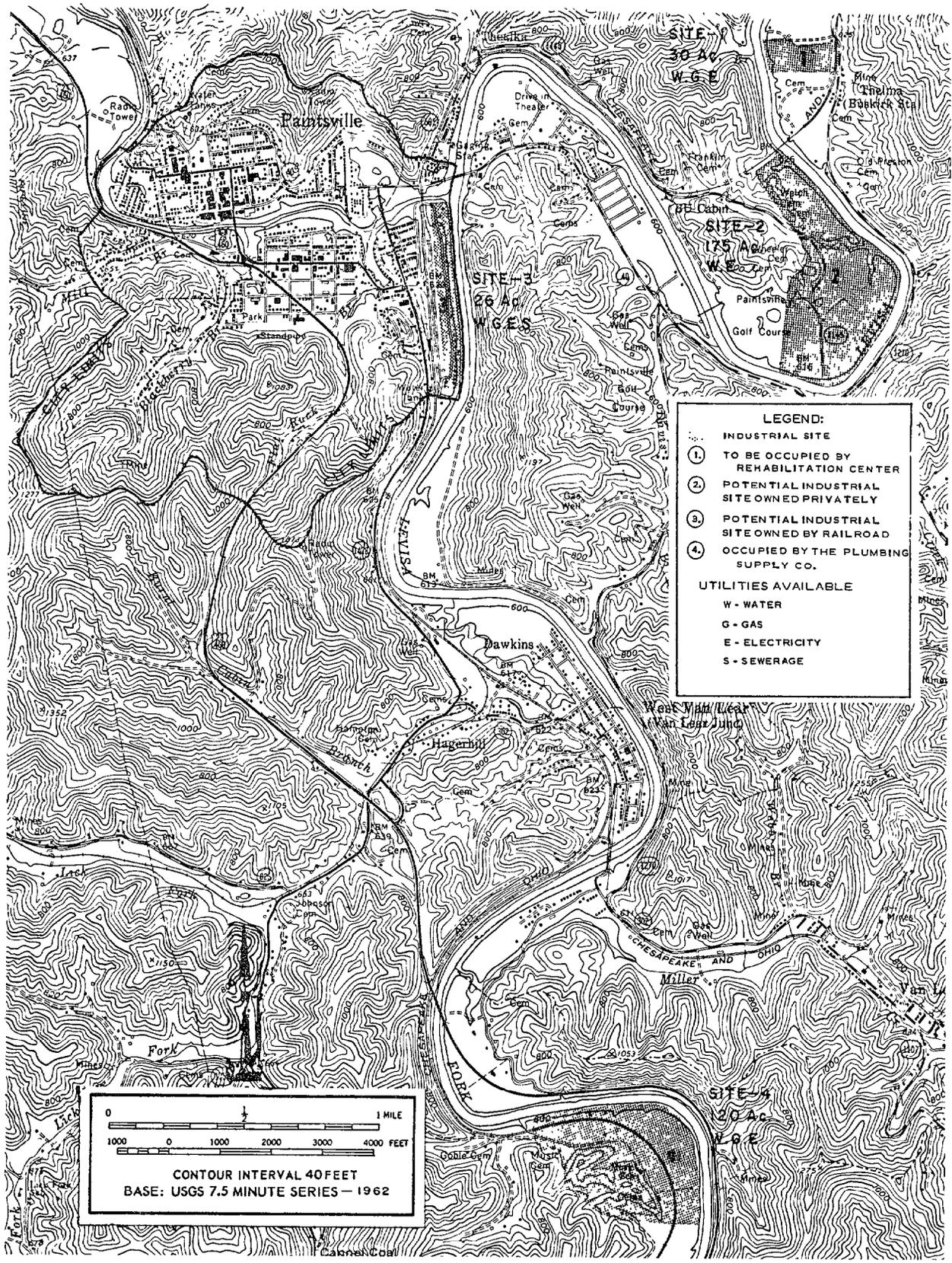


# KENTUCKY



# JOHNSON COUNTY KENTUCKY





## CHAPTER 2

### COORDINATION OF DEVELOPMENT PROGRAMS

Numerous Federal agencies have carried out programs for the benefit of Johnson County and other areas in similar need of assistance. The variety of programs underscores the need for carefully coordinated planning and implementation of federally financed projects; however, no Federal agency has been assigned overall responsibility to coordinate the wide range of programs. The two agencies most closely concerned with economic development in Johnson County are the Appalachian Regional Commission (ARC) and the Economic Development Administration (EDA), Department of Commerce. We believe that these two agencies could assume a more active role in the planning and coordination of economic assistance efforts.

ARC was established by the Appalachian Regional Development Act of 1965 (40 U.S.C. App. 1, sec. 1) to conduct a special 6-year development effort for the Appalachian region. The Appalachian Regional Development Act Amendments of 1971, enacted on August 5, 1971, extended ARC's termination date to July 1, 1975 (Pub. L. 92-65). The purposes of the program are to assist the region in meeting its special problems, to promote its economic development, and to establish a framework for joint Federal and State efforts toward providing the basic facilities essential to growth.

General policies and procedures and the allocation of ARC funds among the various programs and States are established by the Commission. Each State has been required to file a State Appalachian development plan which appraises potential opportunities for economic and community development in its Appalachian area and which relates all projects for which Appalachian funding is requested to the potential opportunities.

EDA provides financial and technical assistance for public works and economic development projects as provided in the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121). Local areas are required to prepare overall economic development plans for submission to EDA to

qualify for EDA assistance. Generally EDA approves assistance to eligible projects submitted by local governments and/or organizations as funds permit.

Other Federal agencies, such as the Department of Health, Education, and Welfare (HEW); the Department of Labor; and the Office of Economic Opportunity (OEO) rely primarily on local organizations or State agencies to provide planning at the local level. For example, local plans for manpower training are made by the State employment service for institutional training and by the local community action agency for on-the-job training (OJT). The Department of Transportation relies primarily on the State Highway Department to plan and construct roads which are partially financed with Federal funds.

The State of Kentucky established the Area Development Office in 1963 to provide a more united planning effort among local, State, and National levels of Government. The office provides liaison and informational services between groups in each area and assistance to citizens so that they can make the best use of all services in the development of their areas. In 1968 the Area Development Office was redesignated as the Kentucky Program Development Office.

The area concept was given additional impetus through the enactment of the Appalachian Regional Development Act and the Public Works and Economic Development Act of 1965. The acts provided for organization of area development districts and for the approval of overall development programs of the districts by ARC and EDA.

The purposes of area development districts include (1) initiation and discussion of ideas, projects, and programs, (2) coordination of public and private programs for economic and social development, (3) planning comprehensive area development programs, and (4) promoting action to carry out plans and programs. The districts are required to prepare and submit a development plan at least once each year to ARC and, as discussed previously, to prepare an overall economic development plan for submission to EDA to qualify for EDA assistance.

Johnson County is included in the area served by the Big Sandy Area Development Council, Inc., which was organized in 1965 and designated a development district in 1967. The council is composed of prominent business, civic, and labor leaders who reside in the five-county area. ARC provides 75 percent of the council's support and State and local sources provide the remaining 25 percent. In 1968 ARC provided a grant to establish a technical staff. At the time of our study, the council had a staff of three employees. An overall economic development plan was submitted to EDA in 1968.

Other than the preparation of the plan, the council had not, at the time of our study, carried out the several functions assigned to an economic development district. Its activities, for the most part, were limited to an educational and technical assistance program to encourage local organizations to apply for Federal assistance. Council members informed us, however, that they planned to establish districtwide development plans in the near future.

Both the State of Kentucky and the area development district had prepared planning documents which concern the development of Johnson County. These documents consist primarily of an analysis of need but stop short of proposing any particular solution or a time-phased plan of action. The plans, for the most part, suggest only a general strategy for the area, and the task of formulating and scheduling specific projects is left to public or private organizations participating in the development efforts. As a result no overall schedule of priorities exists and each interested group promotes its own interests by applying for available Federal grants or loans.

Because of the role of ARC as a joint Federal-State partnership concerned with the economic and social development of the Appalachian region, we believe that it would be desirable for ARC to take a more active part in overseeing the development of meaningful programs by the area economic development districts which should be designed to restore a viable economic base to these depressed areas. Special emphasis is needed in the design of these programs on obtaining an optimum mix of, and close coordination of, the various assistance projects to be approved for the area, including

public works, development of local resources, attraction of industry, and retraining of the local work force. With this emphasis a concentrated time-phased effort can be made to overcome the most serious problem faced by the area--the lack of employment opportunities for its population.

As further described in subsequent chapters, a variety of projects for the benefit of Johnson County have been financed by various Federal agencies. Some of these projects have had limited success due, in part, we believe, to inadequate coordination between Federal and local agencies concerned with the implementation of the projects. The timely identification of problems that may be expected to impede the successful completion of individual projects is particularly important, and a well-coordinated effort by all participating agencies is needed to find solutions.

The following two examples are cited to illustrate problems encountered in connection with the establishment of a manufacturing plant in Johnson County and the need for improved coordination of individual programs.

--A plant site was developed at a cost of about \$1.5 million, of which about \$1 million was financed with Federal funds, without providing facilities to treat industrial and other wastes. The owner of the plant had to construct a temporary lagoon for waste treatment and obtain a 1-year permit issued by the State Water Pollution Control Commission. Commission officials informed us that, if permanent treatment was not available by mid-1971, the plant might be forced to close if the river was being polluted. An application for Federal assistance in financing the construction of needed sewer lines to the site was not accepted by EDA because the City of Paintsville had only primary facilities to treat waste and both primary and secondary facilities were required to qualify for the requested assistance.

--Due to the mountainous terrain (see terrain map on p. 13) in which the county lies, there are few sites suitable for industrial uses. Even fewer sites are located near necessary utilities, such as water and sewer lines. At the time of our study, no zoning

restrictions existed to reserve these sites and preclude their use for residential housing. Any solution to the problems of unemployment and low median incomes must include industrialization. In our opinion, the location of new industry will become increasingly difficult unless suitable industrial sites are reserved now. A meaningful program of economic development in the county should include prompt and concerted action by responsible Federal and local agencies to select and reserve potential sites for establishing industries or commercial enterprises.

The need for carefully coordinated planning and implementation of federally financed projects involving numerous agencies on the national, State, and local level is apparent, we believe, and requires the special attention of ARC and EDA, in cooperation with other Federal, State, and local agencies.

## CHAPTER 3

### ECONOMIC DEVELOPMENT

Substantial amounts of Federal assistance have been provided to help develop Johnson County's economy but the benefits obtained in terms of providing new employment opportunities for the residents of the county have been very limited. Since the rehabilitation of an economically distressed area is a long-term undertaking, several years may elapse before employment benefits materialize.

Also about half of the funds were used to construct, through Johnson County, 23 miles of highway. This section of highway is a link in a network of highways under construction through Appalachia, a network designed to open up isolated areas having development potential and to link such areas with the Interstate Highway System. The benefits of the investment in the Johnson County highway may not yet be evident with regard to the impact the highway has had in improving the employment opportunities of county residents. Such highway development, however, is recognized as an essential element in the successful economic development of Appalachia. Substantial benefits may be realized by Johnson County residents when construction of the Appalachian highway system is completed.

Economic development is represented by the efforts of Federal, State, and local Governments and the private sector to provide the residents with the means to achieve an adequate standard of living with a minimum of dependence on social or welfare programs. Some social and welfare programs are necessary as an interim measure until an adequate standard of living can be achieved.

Probably the greatest obstacle which must be overcome for the successful rehabilitation of an economically distressed area is unemployment. Unemployment can be caused by the lack of jobs in an area or by the lack of skilled trained individuals to fill the jobs that exist. Where no jobs exist, Federal, State, and local programs are designed to encourage industry to locate in the area and thus create jobs. These programs provide resources for public works (water, sewers, and roads), small business loans, and

industrial loans and adapt the labor market to the jobs available through education and vocational training.

Other programs provide resources to enable the residents to achieve a minimum standard of living while economic development is taking place. These programs consist of public assistance, medical aid, and free school lunches. The ultimate goal of an economic development program is to provide the means for residents to be self-sufficient and to maintain an adequate standard of living without depending on Federal, State, or local assistance.

Federal assistance directly related to economic development efforts consisted of grants of about \$8.8 million and loans of about \$4.7 million during fiscal years 1965 through 1969. (See app. I.) One industrial plant has been constructed and a vocational rehabilitation center is under construction. These facilities, when completed, may employ 500 workers. ARC officials advised us that about 300 workers were employed in the plant in November 1970.

#### EARLY DEVELOPMENT EFFORT

In the early 1950's the Paintsville Chamber of Commerce organized an industrial development committee to publicize the county. At about the same time, a group of local citizens formed a nonprofit development company, the Paintsville Development Company, to purchase land for industrial uses. A 30-acre site near the city of Paintsville was purchased in 1957, but efforts to attract a developer for the site were unsuccessful.

A sewage system for Paintsville was not built until 1964 when the city was able to obtain financial assistance from Federal agencies. The construction of the city system was financed with Federal grants of \$485,000 and a Federal loan of \$885,000.

Improvements were made in cooperatively owned utilities. A rural telephone cooperative carried out a program to extend and upgrade service in the county. Since 1965 the Rural Electrification Administration has loaned about \$900,000 to the cooperative for improvements in Johnson County and two adjoining counties. The number of rural

subscribers in the county increased from 831 in 1961 to 1,681 in 1969.

Since 1965 the Rural Electrification Administration has loaned a rural electric cooperative, which presently serves a five-county area, about \$2 million to construct new lines and a new headquarters building. About 42 percent of the cooperative's customers reside in Johnson County.

## EFFORTS TO DEVELOP TIMBER RESOURCES

In the early 1960's the Area Redevelopment Administration, the predecessor of EDA, awarded a contract to a consulting firm for a study of the potential use of timber resources in eastern Kentucky. The consultants' report, published in 1963, showed that a multiproduct plant enabling complete use of trees was considered necessary for a profitable operation because the trees were of low quality and not suitable for high-grade lumber. The major products planned for this plant were sawlogs, railroad crossties, and particle-board. One of the proposed sites for the plant was Paintsville.

In 1963 the report was presented to a group of eastern Kentucky business leaders. In November 1963 business leaders from the Johnson County area organized a local stock company for the purpose of establishing the timber products plant. The timber products company was formed by 175 persons who raised \$85,000. Additional data on costs and methods of operation were needed, and the timber products company awarded a \$15,000 contract to obtain these data from the consulting firm that made the original studies.

The consultants' study showed that about \$7.3 million would be needed for land, building, and equipment. The timber products company expected to receive an EDA business loan of \$3.5 million. A 120-acre site near Paintsville was chosen to be developed as an industrial park for the timber products plant. The site was initially purchased for \$73,000 by the Kentucky Power Company which later sold it at cost to the timber products company.

In July 1965 the timber products company made an intrastate stock offering of \$1,480,000 to raise the equity capital needed to obtain the EDA business loan. The remaining capital was to be obtained from private lenders. Only \$250,000 was raised through the stock offer, and the offering was closed.

In June 1966 EDA awarded the Big Sandy Industrial Foundation a grant of \$425,000 to prepare the site. Of the 120 acres on the site, 87 acres were developed. The remaining 33 acres were not suitable for industrial use because of

the mountainous terrain. Site preparation included grading, construction of drainage systems, roads, and waterlines. Plans to construct a septic tank and drain field were abandoned, although at the time of construction there were no sewage facilities available at the site. We were unable to determine why a sewage system was not included in the development plan.

Since a river separated the site from the highway, construction of a bridge was necessary. ARC and the Kentucky Department of Highways participated equally in the project which cost \$535,962.

When the foundation applied to EDA for the grant to develop the site, Paintsville applied to EDA for a grant to construct waterlines from the city to the site. The estimated cost of the waterlines project was \$348,000 to be financed by a loan of \$70,000 and grants of \$278,000 which were awarded to the city in May 1967. The total funds expended for the industrial park was \$1,471,962, of which \$1,040,981 was Federal funds.

After the stock offer was closed, the timber products company attempted to obtain funds from State and other sources; however, by December 1967 hope had diminished for the timber products plant because sufficient private capital could not be raised. The requested EDA loan of \$3.5 million was contingent upon the company's obtaining the required private funding. Thus the venture collapsed and, at the time of our study, the timber products company was being dissolved.

## DEVELOPMENT EFFORTS 1965 THROUGH 1969

### Development of 120-acre site

After the timber venture collapsed, the local chamber of commerce and the State Department of Commerce attempted to find a tenant for the site. The State Department of Commerce recommended the Paintsville area 47 times to prospective users and conducted 24 prospective users on visits to the city. One firm obtained an option to buy the site, but the option was not exercised when it found that the land would not support the type of structure planned. The State Department of Commerce considered the names of the other firms confidential, and therefore we could not contact them to determine the specific reasons why they did not locate in the county.

In September 1968 a national plumbing supply company became interested in acquiring the site. In March 1969 the 87 acres of developed land were sold to the company for \$160,750. A plant containing 160,000 square feet was constructed on the site. The plant was being used for both manufacturing and storage of plumbing fixtures. The remaining undeveloped 33 acres of the site were being held in trust for the stockholders of the defunct timber products company.

We were informed by the plant manager that up to 450 employees could be used in the new plant. He told us that 85 employees had been hired as of March 1970 and that these employees came from several nearby counties as well as Johnson County. The plant manager had not compiled specific data on the residence of each of the employees. ARC officials told us later that, as of November 1970, about 300 workers were employed. The wage for workers is about \$2 an hour. Future plans of the company call for an expansion of the plant to 546,000 square feet.

We were informed by the plant manager that the company had received over 3,300 applications for employment. He stated that the company was hiring only workers with a high school diploma or those who possessed a needed skill. The manager stated that, in his opinion, the new plant

would not alleviate hard-core unemployment directly but that, by hiring employees from other businesses in the county and the surrounding area, the company might create job openings which could be filled by the unemployed. We were not able to determine how many of these job openings might be created in Johnson County.

The industrial site sold to the plumbing supply company did not have facilities to treat industrial or other wastes. In the summer of 1970 the city of Paintsville filed a preliminary inquiry with EDA concerning assistance to construct a sewer extension to the site at a cost of \$621,000. The city plan called for EDA grants totaling \$497,000 and an EDA loan of \$124,000. The proposed extension would be connected with the existing city sewer system. EDA, however, would not accept an application for assistance because the city had only primary treatment facilities and both primary and secondary facilities were required to qualify for such grants.

The plumbing supply company applied to the Kentucky Water Pollution Control Commission for a temporary permit to operate the plant. In the summer of 1970 the company was constructing a lagoon to provide temporary waste treatment. Commission officials told us that a temporary operational permit was issued to the company but that, if permanent treatment was not available within a year, the plant would be forced to close. These officials stated that a permanent permit would not be issued unless they were certain that a nearby river would not be polluted.

## Development of 30-acre site

In 1967 efforts were renewed by the Paintsville Development Corporation to find a user for the 30-acre site purchased in 1957. (See p. 20.) This site was located about 3 miles from the city. Water and sewer service were not available. The site was shown to many potential users, but none were interested because of the poor location and the lack of utilities. The city applied to EDA for a grant of \$88,000 and a loan of \$88,000 to extend waterlines to the site. EDA disapproved the project because the industrial site intended for the timber products plant was still vacant.

In 1967 the local chamber of commerce obtained a commitment for a company to locate at the site. Upon reevaluation of the project, EDA furnished the grant and loan assistance requested and the waterlines were installed. The prospective user later announced that it would be unable to locate in Paintsville due to financial problems.

In 1969 the State of Kentucky purchased the site and began construction of a vocational rehabilitation center estimated to cost about \$4.3 million. About \$3.4 million of the cost will be provided by Federal agencies. The State plans to rebuild 1.7 miles of road, estimated to cost about \$460,000, to provide improved access to the center. ARC has agreed to provide 70 percent of the funds. The State estimated that the center would provide about 100 jobs. About half will be positions for professional personnel, many of whom will be recruited from other areas. The remaining jobs should be available to local residents.

## HIGHWAY IMPROVEMENTS

Significant improvements were made during the 1960's in the highway system serving Johnson County. These improvements resulted from assistance under Federal and State programs.

Kentucky constructed the Mountain Parkway, a toll road, to within 20 miles of Paintsville. The parkway, completed in 1963, was the first modern highway to link eastern Kentucky with industrial and population centers in the central part of the State and with the interstate highway system.

The county has also benefited from the Appalachian highway system sponsored by ARC. About 23 miles of highway, designated by ARC as an Appalachian corridor, have been constructed through the county providing a modern highway connection to industrial centers in the upper Ohio River valley. ARC contributed about \$6.9 million and the State contributed about \$3 million toward the costs.

The Federal Highway Administration contributed about \$360,000 toward the construction of secondary roads in the county. The funds were used primarily for 5.1 miles of road which provided improved access to Dewey Dam and Lake, a Corps of Engineers project in neighboring Floyd County.

## BUSINESS LOANS

The Small Business Administration and EDA have helped the economic development of Johnson County by making direct loans and loan guarantees to small businesses in the county.

During the period covered by our study, the Small Business Administration made 15 direct loans totaling \$262,500 and guaranteed nine commercial loans totaling \$221,250 to businesses, such as printing shops, clothing stores, and hardware stores. The loan proceeds were generally used for providing working capital, purchasing equipment, or maintaining merchandise inventories. Five loans were used to start new businesses.

At the time of our study, four loan recipients appeared to be in financial difficulty. The loans were small except

for a working capital loan of \$125,000 of which the Small Business Administration guaranteed 75 percent. The loan was made to help establish a new charcoal-processing plant expected to employ from nine to 15 workers.

We were unable to determine the effect of the loans on Johnson County's economy since such data were not compiled by the Small Business Administration. Loans made to new businesses and for expansion of existing businesses should--providing the businesses are able to operate successfully--favorably affect the economy through the creation of new jobs and the continuance of existing jobs.

In October 1966 EDA made a direct loan of \$500,500 to a Johnson County company starting a limestone quarry operation. EDA also guaranteed 90 percent of a \$125,000 working capital loan to the company. The company employed about 43 workers in June 1969.

EDA officials told us that the business was potentially sound but that it had been experiencing substantial losses. EDA had provided technical assistance to the company; however, no significant improvement in the financial condition of the firm had been noted.

As of November 19, 1971, the company had an outstanding balance of \$415,498 on its EDA loan of which \$127,586 was delinquent. The outstanding principal balance on the guaranteed loan as of October 1, 1971, was \$62,500, of which \$31,250 was delinquent.

#### FUTURE PLANS AND PROJECTS

The future plans of the Big Sandy Area Development Council, Inc., include programs designed to uplift the environmental, social, and economic standards of the multi-county district. The plans, which, at the time of our study, were in the development stages, included a multicounty solid waste disposal system and water and sewage projects. Also the council is working with each county in its area to develop planning and zoning regulations to ensure an orderly location of industrial plants, however, no specific industries have been identified which would locate in the communities.

The Paintsville Chamber of Commerce has plans to develop a 110-acre industrial site near the city, but, at the time of our study, there were no prospective firms interested in the site. Several companies, however, have expressed interest in locating on small, developed sites near the city. The chamber of commerce was striving to find suitable sites for these companies.

Additional projects sponsored by Federal and State agencies are in the planning stage. The Department of the Army, Corps of Engineers, had completed preliminary plans for the construction of a \$20.5 million dam on Paints Creek near Paintsville. The project will provide flood protection to the city and will create a reservoir which can be used for recreation and tourism. A recreation facility is being planned by the State Park Department at an estimated cost of about \$1.7 million. The State Park Department expects to obtain a 50-percent Federal grant from the Bureau of Outdoor Recreation, Department of the Interior, to build the park. The State Highway Department has completed preliminary plans to construct a modern highway to connect Paintsville with the Mountain Parkway. The estimated completion date is 1974.

A rural water system has been designed to serve the northern area of Johnson County. EDA approved a grant of \$588,000 and a loan of \$147,000 to finance the project in June 1970.

The proposed development projects appear to be in accord with the overall economic needs of the Big Sandy District and should contribute to the growth of the entire five-county area.

#### AGENCY COMMENTS AND OUR EVALUATION

The Big Sandy Area Development Council, Inc., expressed concern with our observations that substantial amounts of Federal economic assistance provided to Johnson County had resulted in very limited employment opportunities for residents of the county. The council believed there were two factors which caused our observations to be misleading: (1) to allocate the major portion of the cost of constructing the Appalachian corridor through Johnson County is in

inappropriate since it is designed to benefit all communities having access to the route and (2) employment figures in the 1966 and 1969 County Business Patterns (U.S. Department of Commerce) show an increase of 76 percent in total employment in Johnson County from 1966 to 1969 which would indicate a substantial indirect if not direct impact.

It is true that communities having access to the Appalachian Development Highway System will benefit since the system is designed to (1) link key centers in Appalachia to national markets, (2) provide for more efficient flows of commerce through the region to enhance the development potential of isolated areas traversed by the new routes, (3) facilitate the commuting of people to new jobs and public services, and (4) open up new sites for development.

We believe that the primary beneficiaries of the system will be those formerly isolated counties, such as Johnson County, which are now, or will be traversed by the new routes since these areas will become more accessible to industry. In this regard ARC, in its annual report for 1969, noted that much of the expansion in manufacturing employment being realized in Appalachia appears to be occurring along the Appalachian and Interstate highway corridors. We believe that the expenditures for the Johnson County highway construction are directly related to the economic development of the county and should be included in our evaluation of total assistance provided.

The Council indicated that employment figures in County Business Patterns showed a 76-percent increase in total employment in Johnson County when employment increased from 1,959 in 1966 to 2,925 in 1969. The employment figures, published in the Department of Commerce's publication, County Business Patterns, however, do not represent total employment as indicated by the Big Sandy Area Development Council, Inc. Rather, the data in County Business Patterns represent only those types of employment covered by the Federal Insurance Contributions Act. Excluded from the publication are data on Government workers, self-employed persons, farm workers, and others.

Our analysis of the data in County Business Patterns and further investigation revealed that the 76-percent

increase was accounted for primarily by the Big Sandy Community Action Program, Inc., a nonprofit organization. We contacted the Big Sandy Community Action Program, Inc., and learned that it had reported a total of 606 employees in 1969. Of these, 17 were Johnson County residents employed in the county and 56 others were enrollees in the Neighborhood Youth Corps program conducted in the county. The remaining 533 were residents of five other counties who were either employed or were enrolled in programs in those five counties.

As discussed previously, unemployment rates computed by State employment security agencies represent the Federal Government's official measurements of unemployment for State and local areas. Data gathered by the Kentucky State employment security agency showed that the number of employed persons in Johnson County had increased from 3,426 in 1966 to 4,050 in 1969. Most of this increase was due to additional employment by Federal, State, and local agencies which required personnel to administer programs furnishing assistance to the county; little increase in employment in the private sector was noted.

EDA expressed the view that a closer analysis of the specific goals that have been achieved in Johnson County and of the relationship of the economic development activity in the county to activities in adjacent areas would conclude that the EDA investment had contributed to an expansion of the economic base of the county and had created new jobs commensurate with the investment.

About \$1.5 million was expended in development of the industrial park which became the site of the plant and which resulted in the creation of 300 jobs. EDA assistance financed about half of the park's development costs. Thus it may be concluded that the EDA investment had contributed to an expansion of the county's economic base and had created new jobs commensurate with the investment. EDA assistance, however, represented only a small part--about 11 percent--of the total economic development assistance provided to Johnson County by the Federal Government.

## CHAPTER 4

### MANPOWER TRAINING PROGRAMS

During the 5 years ended June 30, 1969, the Federal Government made an intensive effort to train unemployed workers in Johnson County. In five continuing programs for the disadvantaged<sup>1</sup> or handicapped, 822 workers enrolled. The five programs are (1) vocational training program, (2) OJT program--both (1) and (2) are under the Manpower Development and Training Act (MDTA) of 1962, as amended (42 U.S.C. 2582)--(3) Neighborhood Youth Corps out-of-school component program, (4) Vocational Rehabilitation Program, and (5) Concentrated Employment Program. The Federal cost of the five programs during the 5 years ended June 30, 1969, was about \$540,000.

There were also four smaller education-training programs funded by HEW, which served 127 persons. In addition, the Veterans Administration was paying stipends to 108 students attending vocational school and 64 women were enrolled in training under the Work Incentive Program administered jointly by the Department of Labor and HEW.

Classes in welding, electronics, general office work, drafting, and mechanics were conducted. Since few local jobs were available in these skills, officials responsible for two of the programs, which had enrolled 359 of the trainees, actively encouraged them to relocate to more industrialized areas to find jobs. Information available for one program and our analysis of a sample of the other program enabled us to ascertain that 80 of the 359 enrollees had found employment upon completion of their training, 49 of the 80--61 percent--being employed outside Johnson County.

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<sup>1</sup>A disadvantaged person, as defined by the Department of Labor, is a poor person who does not have suitable employment and who is (1) a school dropout at a secondary or elementary level, (2) is a member of a minority, (3) is under 22 years of age, (4) is 45 years of age or over, or (5) is handicapped.

Obviously the outmigration of these trained workers provides direct benefits to the workers and indirect benefits to Johnson County since it enables residents who otherwise would be unemployed to become productive members of our society. We believe, however, that continued outmigration of trained workers does little for the economic development of Johnson County itself and that, in the long term, it further compounds the problems faced by the county in its efforts to achieve lasting economic improvement through the establishment of a stable, diversified economy and skilled work force.

Following is a brief description of the more significant training programs and our observations on the results obtained. A list of training programs included in the study is in appendix II.

#### VOCATIONAL TRAINING UNDER MDTA

MDTA provides a nationwide program of training for the unemployed and underemployed. Originally the program was designed to deal with the problems of unemployment due to automation. The emphasis was changed to provide training for disadvantaged members of society, and the program was redirected to focus 65 percent of the efforts on reclaiming the hard-core unemployed.

The MDTA program is administered by the Department of Labor in cooperation with State employment service organizations which develop training projects, select trainees, and provide testing, counseling, and placement services. HEW contracts with State educational authorities to provide instruction, facilities, and courses of study. The Department of Labor also enters into agreements with States to pay training stipends to MDTA students. The stipends are funded by the Federal Government.

During fiscal years 1965 through 1969, 119 Johnson County residents enrolled in MDTA classes. The Department of Labor paid about \$213,000 for these classes: \$95,000 for administrative expenses and \$118,000 for training stipends.

The average Johnson County enrollee was 30 years old, had 10 years of education and 1.5 dependents, and had been

unemployed about 27 months when enrolled. According to data compiled by the State employment service, 60 of the 119 enrollees were employed 1 year after training--25 obtained employment in the county, and 35 obtained employment outside the county. The average hourly wage of those working in Johnson County was \$1.35 compared with an average hourly wage of \$2.42 for those working in other areas. Of the remaining 59 enrollees, 24 were not in the labor force, four were in the Armed Forces, three were unemployed, and the status of 28 was unknown.

During the period covered by our study, grant funds of about \$1,379,000 were provided by the Federal Government for constructing and equipping vocational school facilities in Johnson County. HEW provided \$535,000 and ARC \$844,000. The State of Kentucky contributed \$344,000 toward the cost of construction.

HEW grants were provided under the Vocational Education Act of 1963 (20 U.S.C. 1241) and were intended to ensure that educational and training programs for career vocations are available to all individuals who desire and need such training. ARC grants were to assist in building and/or equipping vocational and/or technical education facilities beyond the amounts provided under the Vocational Education Act of 1963. The funds were used to construct seven training shops and four classrooms to serve about 130 students. At the time of the study, the school had a waiting list of about 600 applicants.

#### OJT UNDER MDTA

MDTA authorized funds to provide for OJT in addition to institutional instruction. The objective of an OJT program is to provide training for unemployed or underemployed persons who cannot otherwise be expected to secure appropriate full-time employment. OJT generally is conducted by private industry in a regular work environment. The program is administered by the Department of Labor.

In Johnson County the program is sponsored by the Big Sandy Community Action Program, Inc. which was awarded, between March 1967 and October 1970, three contracts by the Department of Labor to administer the program in a

six-county area. By June 30, 1969, 138 Johnson County residents had been enrolled for training. The Department of Labor had provided through June 1969 about \$39,000 toward the costs of this program.

Our analysis of the records for a sample of 24 enrollees showed the following characteristics.

Number unemployed at time of enrollment	24
Number eligible for training	24
Number with previous Federal job training	-
Number completing training	21
Number of training-related jobs held at termination of training	19
Average age of trainee	36
Average school grade completed	7
Average family income 12 months prior to training	\$1.825
Average wage of trainees while in training	\$ 1.64
Average wage at termination of training	\$ 1.72
Average cost of training	\$ 195

The training was generally in work of a semiskilled nature. Many of the jobs were for such occupations as laborer or wooden-pallet maker. This situation was due, at least in part, to the limited job market in the county. No program existed to follow the progress of trainees after the training was completed, and no data were available which could be used to evaluate the long-term results of the training.

#### NEIGHBORHOOD YOUTH CORPS OUT-OF-SCHOOL COMPONENT

The Neighborhood Youth Corps out-of-school component is authorized by the Economic Opportunity Act of 1964, as amended (42 U.S.C. 2711). It is administered nationally by the Department of Labor and is sponsored in Johnson County by the Community Action Agency. The program is designed to enhance employment of unemployed low-income youth who are not in school and to provide work experience, counseling, remedial education, and training that will result in their return to school or, for those youths whose return to school is not feasible, that will lead to permanent employment or vocational training.

As of June 30, 1969, 240 youths had been enrolled in the program at a Federal cost of about \$192,000. Average characteristics of a sample of 60 trainees were:

School grade completed	8.3
Months since leaving school	23
Annual income of enrollee's family	\$2,200
Size of family	6

At March 1970 the 60 trainees had the following job placement record.

Employed in Johnson County	6
Employed elsewhere	14
Unemployed	10
No contact	11
Housewives	9
Returned to school	3
Still enrolled in training course	2
Other	<u>5</u>
Total	<u>60</u>

Many of the jobs provided to the youths enrolled in the program in Johnson County did not constitute the useful or meaningful work experience anticipated by the program. As in the OJT program, this was due to the limited job market in the county. The youths were trained for jobs primarily as highway maintenance workers, office workers, janitors, cooks, and lunchroom aides. There were long waiting lists of applicants for most jobs in Johnson County. We noted that no procedures had been established for follow-up studies of enrollees after termination of training and that there had been little formal assessment of enrollee progress. Due to the limited job market, enrollees were encouraged to relocate outside Johnson County to find employment.

## VOCATIONAL REHABILITATION

The Vocational Rehabilitation Act, as amended (29 U.S.C. 31), authorizes HEW to make grants to States for 75 percent of the funds necessary to train disabled persons for employment. The program is intended to serve persons who have physical or mental disabilities. Services include medical diagnosis, vocational evaluation, counseling and guidance, training, and placement. The program's goal is adjustment of the disabled person to effective employment.

During fiscal years 1965 through 1969, about 300 residents of the county received assistance through the program. The average cost for each trainee to the Federal Government was about \$293. Our analysis of a sample of 42 completed case histories showed that about 50 percent were housewives who were not seeking employment. In these instances, the program in effect provided medical care for low-income families rather than eliminated handicaps to employment.

Of the 42 enrollees, only five entered the labor market as a result of the training and ten others received medical assistance which enabled them to retain their present jobs.

Local officials said that additional emphasis would be given to vocational and institutional training which would equip handicapped workers for jobs.

## CONCENTRATED EMPLOYMENT PROGRAM

The Concentrated Employment Program was established by the Department of Labor to coordinate a number of manpower programs in selected areas. The Big Sandy Community Action Program, Inc., located within the area covered by the eastern Kentucky Concentrated Employment Program, received Federal funds of \$9,051 during fiscal years 1965 through 1969 which were used for stipends for a total of 25 needy Johnson County students enrolled in the local vocational school. The payments ranged from \$50 to \$100 a month. Nine students completed training, 10 dropped out, and six were still enrolled at the time of our study. The courses covered such fields as cosmetology and welding.

No systematic method was established to follow the progress of students after graduation. We found that, of the nine students who had graduated and the 10 who had dropped out, six were employed, four were unemployed, three were housewives, two were attending another school, and the status of four was unknown. Of the six employed, four were working in the county and two were employed outside the state.

#### AGENCY COMMENTS AND OUR EVALUATION

ARC disagrees with our observation that continued outmigration of trained workers detracts from local economic development efforts. ARC pointed out that a sufficient number of Johnson County vocational and postsecondary school students graduated and remained in the county to provide an adequate supply of current and potential manpower for any prospective employer for the foreseeable future.

The Department of Labor's conclusions concerning outmigration were essentially the same as ARC's. The Department of Labor stated that it was concerned primarily with the welfare of the individual and that if, as a result of receiving training, a person could be employed elsewhere, the individual's condition would be improved.

Although we recognize that outmigration benefits the welfare of the individual migrant, we believe that training programs which encourage such migration do not offer permanent solutions to the severe and persistent problems evident in the Appalachian region. It has long been recognized that outmigration is a major problem of Appalachia since it deprives the region of one of its most important resources, its young people. In addition, continued outmigration of younger persons makes it difficult to improve the county's tax base and thereby limits the revenue available for local development efforts since many of the remaining residents are retired or unproductive. As noted on page 6 of our report, there has been an increase in the percentage of county residents 65 years of age and older.

Concern over outmigration has been expressed by the Congress, EDA, and ARC itself. In its report on the bill that became the Public Works and Economic Development Act of 1965 (H. Rept. 539, 89th Cong., 1st sess.), the House of

Representatives examined the causes of economic deterioration in certain areas and noted that:

"\*\*\* the cycle of depression for an area is a vicious cycle which feeds upon itself. Since a declining economic base results in a local inability to finance the public improvements necessary to attract new industry, the young people who are unable to secure employment and who are concerned about their economic futures are forced to leave the area. Prospective new employers thus find the area burdened not only with inadequate public facilities but with an untrained or inadequate labor force, and they turn to more attractive locations."

In discussing problems faced by counties suffering from severe unemployment, the "EDA Handbook"--an informal digest of EDA rules, regulations, directives, and policies--points out that:

"\*\*\* communities, stripped of their most important resources by the outmigration of residents in search of greater opportunities, are unable to finance public improvements that would attract new industry, and thus new jobs and new income."

ARC, in its annual report of 1969, noted that hundreds of younger professionals and adults needed to build a better future for the Appalachian region were leaving the region for more lucrative positions in other parts of the Nation. The report pointed out that the Appalachian region was losing large numbers of its best educated and highly motivated young people.

Our study was directed toward evaluating the Federal assistance provided Johnson County to determine the combined effects of the programs in promoting the economic development of a specific area. We continue to believe that successful economic development of Johnson County and other underdeveloped areas requires that the major emphasis of Federal effort be directed toward attracting new industry to Johnson County to provide employment opportunities for those who complete the training programs and to reduce outmigration.

The Department of Labor stated that, under the local economic circumstances, the Johnson County training programs were of assistance to the trainees despite the lack of coordination cited in our report. The Department of Labor stated also that the results obtained under the MDTA training program were a significant accomplishment and that the OJT program also showed a degree of success.

We agree that the training programs have achieved some success. We believe, however, that closer coordination of training programs and other Federal development efforts can result in greater placement of the area's unskilled workers in local employment.

## CHAPTER 5

### EDUCATION AND RELATED PROGRAMS

Johnson County made significant improvements in classroom facilities and in the quality of primary and secondary education during the period covered by our study. Numerous substandard elementary schools and high schools were eliminated and modern facilities, such as language and science laboratories and industrial art shops, were constructed. Remedial training in reading and mathematics was initiated, along with programs to discourage dropouts.

Many of the improvements were made possible by Federal assistance programs. During 1965 through 1969 Federal assistance of about \$2.9 million was provided to the Johnson County school districts to maintain and improve educational systems. During this same period, \$1.6 million was raised from local tax sources and \$5.9 million was contributed by the State. The several Federal educational assistance programs are listed in appendix III.

During the 1960's the overall school population decreased, apparently due to outmigration. Although more students who enter the ninth grade complete high school, the percentage of high school graduates who go to college or technical schools has remained relatively constant.

At the time of our fieldwork, Johnson County had two school districts, the Paintsville city school district and the Johnson County rural area school district. The 1969 school population was about 4,200 students, of which about 3,300 attended the county schools. The city school system consists of one elementary school, one junior high school, and one high school.

In the past the county school system was decentralized into many one- or two-room schools, primarily due to transportation problems. In 1964 the county school system had, in its 36 elementary schools and three high schools, a total enrollment of 3,519 students. Many of these schools were without modern facilities. These schools had been consolidated into seven elementary schools and one high school prior to our review.

## HEW EXPENDITURES

HEW provided Johnson County with about \$1.5 million under the Elementary and Secondary Education Act (20 U.S.C. 241a) which was designed to give special educational assistance to children whose levels of educational achievement were below normal and to help them overcome learning barriers.

Under this act funds were provided to establish remedial education programs in such areas as mathematics and reading and to improve the music and student-counseling departments. Of the HEW funds, about \$653,000 was used to pay instructors' salaries and administrative costs and \$447,000 was used to finance part of the about \$1.8 million cost of constructing the new consolidated county high school. The remaining costs were financed with local funds.

The new facility replaced three buildings which had been used as high schools. Fifteen substandard elementary schools were closed, and their students were transferred to the former high school buildings.

HEW funds provided under the National Defense Education Act (20 U.S.C. 441) also enabled Johnson County to buy mathematics, science, and language laboratory equipment for the new county high school.

## DEPARTMENT OF LABOR EXPENDITURES

The Neighborhood Youth Corps in-school program is authorized by the Economic Opportunity Act of 1964, as amended, and is administered by the Department of Labor. The program provides part-time work experience and training for students of high school age from low-income families to help them continue their education. The Department provided about \$676,000 to the Johnson County school system during fiscal years 1965 through 1969. Over 700 Johnson County youths participated in the program during this period.

At the time of our study, the Johnson County school systems had 150 training positions available for trainees. Few jobs were available, however, and students generally were assigned tasks as janitors or cafeteria aides.

## OEO EXPENDITURES

The Head Start program is authorized by the Economic Opportunity Act of 1964 and is administered by HEW's Office of Education. The program provides educational experience, including health and nutrition programs, for disadvantaged preschool children. In Johnson County the OEO funds are granted to the Community Action Agency which contracts with the school districts to provide the Head Start program.

During fiscal years 1965 through 1969, over 1,300 preschool children participated at a cost of about \$304,000 to the Federal Government. The county school district operated a summer program until the 1969 school year when a full-year program was started. About 970 rural children have been enrolled. The city school system expanded its summer program to a full-year program in school year 1967.

## DEPARTMENT OF AGRICULTURE EXPENDITURES

The Department of Agriculture provided \$409,000 to the Johnson County school districts for a school lunch and breakfast program. The funds were used to purchase commodities and help meet the cost of serving the meals and to provide free meals for needy students. In school year 1968-69, 28 percent of the school lunches and 6 percent of the school breakfasts served in the county school district were funded under this program. As of December 1969 the percentage of free school lunches served in the county system had risen to nearly 40 percent of the total school lunches served, apparently as a result of increased funding by the Department of Agriculture.

## CHAPTER 6

### PUBLIC ASSISTANCE

Public assistance program and social security benefits have provided, at least in part, a means of livelihood for a large number of Johnson County residents. During the 5-year period covered by our study, 11 public assistance programs operated in the county. The federal cost of these programs was about \$7.3 million during the period. Liberalization of eligibility requirements and greater dissemination of information on assistance programs contributed to the rise in the number of both recipients and expenditures. For example, the number of persons in households receiving aid for dependent children increased from 1,188 in 1965 to 1,543 in 1969. The number of persons using the food stamp program increased from 2,840 in 1965 to 3,044 in 1969. A list of assistance programs is presented in appendix IV.

The number of social security recipients increased from 3,159 in 1965 to 3,511 in 1968. Many of these recipients depend on social security for a livelihood.

Public assistance programs in the county are administered by the State Department of Economic Security which maintains a public assistance office in Johnson County. From fiscal year 1965 through 1969, HEW contributed about \$198,000 toward the administrative expenses of the county office.

At the time of our study, the Big Sandy Community Action Program, Inc., which is sponsored by OEO, administered four public assistance programs. The Emergency Food and Medical Services Program provided basic food stuffs and medical services on a temporary basis to counter conditions of malnutrition. The program furnished aid to 729 recipients from inception of the program in 1968 to April 1970. The Mainstream and the Senior Community Services programs had 36 workers enrolled. There were 25 workers in the Mainstream program and 11 in the Senior Community Services program. These workers were engaged in civic projects, such as repair of housing for the poor, painting schools, and beautification projects. The fourth program, Medicare alert, was for educating eligible citizens about Medicare.

In addition to the \$7.3 million expended on direct public assistance programs, a loan of \$1.3 million was made by HUD to the city of Paintsville for the construction of 72 units of low-income housing. Of these units, 31 were designed for senior citizens.

Due to the outmigration of younger workers and the present trend toward more liberal public assistance programs, public assistance and social security benefits will continue to be an important factor in the composition of the Johnson County personal incomes.

## CHAPTER 7

### AGRICULTURAL ASSISTANCE

Agriculture is not at present, and is not likely to be in the future, a significant factor in the Johnson County economy. The land generally is unsuitable for farming because of the mountainous terrain. By 1968 agricultural employment had declined to 365 from the 1940 level of 2,395. The 1964 Census of Agriculture showed that 90 percent of the commercial farms in the county had sales of under \$2,500.

Two Department of Agriculture agencies conduct most of the agricultural programs in the county. These are (1) the Agricultural Stabilization and Conservation Service and (2) the Farmers Home Administration. In addition, the Soil Conservation Service and the Agricultural Extension Service carry on minor programs. A list of agricultural programs is presented in appendix V.

The Agricultural Stabilization and Conservation Service conducts two major assistance programs: (1) the Feed Grain Program and (2) the Agricultural Conservation Program. In addition, the Service administers the burley tobacco program on the local level.

The Feed Grain Program is authorized by the Food and Agriculture Act of 1965, as amended (7 U.S.C. 1339). Funds under this program are used to make price-support payments to farm producers for participating in an acreage adjustment program and for diverting acreage into land conservation programs. Federal payments under the program totaled about \$293,000 during the 5-year period of our study. In 1969, 261 farms participated in the program.

The Agricultural Conservation Program, authorized by the Soil Conservation and Domestic Allotment Act, as amended (7 U.S.C. 1838), provides for the Federal Government to share in the cost of carrying out approved conservation practices. In fiscal year 1969, 314 farms in Johnson County participated in the program. The Agricultural Stabilization and Conservation Service made payments of \$205,000 to Johnson County farmers and incurred about \$172,000 in administrative expenses during the 5-year period.

The Farmers Home Administration made 66 farm loans in Johnson County during fiscal years 1965 through 1969. One loan was made for the purchase of a farm, 63 loans were for farm operating expenses, and two loans were to local cooperatives. The average farm-operating loan was \$2,000. The Farmers Home Administration also made 73 home loans to enable farmers to purchase or improve rural homes.

The Agricultural Extension Service has made numerous attempts to increase fruit and vegetable production in Johnson County as additional sources of farm income. Although these efforts were successful for some individual crops, overall results indicated that a major expansion in fruit or vegetable production in the county was unlikely.

About 81 percent of Johnson County's land area is forested. The forests may prove to be a valuable resource to land owners in the future, but at present little timber is being harvested.

The major cash crop in Johnson County is burley tobacco. This crop was produced on 654 farms in 1969; the gross income for that year was about \$450,000. The 1969 annual report of the county Agricultural Stabilization and Conservation Service office concluded that, without tobacco as a cash crop, many of these farms would have to be abandoned.

## CHAPTER 8

### SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

The objectives of Federal programs in rural areas have been to infuse funds into a variety of projects designed to take care of immediate needs and to stamp out the causes of economic decline. The Federal Government provided grants of about \$21.5 million and loans of about \$6.7 million to organizations and persons in Johnson County during fiscal years 1965 through 1969, the period covered by our study. The programs for which Federal assistance was provided are shown in appendixes I through V and are summarized below by five major categories.<sup>1</sup>

	<u>Grants</u>	<u>Loans</u>
Economic development	\$ 8,761,000	\$4,707,000
Manpower training	1,935,000	-
Educational assistance	2,935,000	-
Public assistance	7,312,000	1,340,000
Agricultural assistance	<u>557,000</u>	<u>654,000</u>
Total	<u>\$21,500,000</u>	<u>\$6,701,000</u>

The grant assistance of \$21.5 million is equivalent to \$243 a year for each resident of the county, or 17.2 percent of the county's per capita income of \$1,415 in 1968. The Federal Government spent \$2.3 million of additional funds during the 5-year period to maintain administrative offices in the county.

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<sup>1</sup>Because of the different accounting periods of the various Federal, State, and local agencies from whose records or reports we obtained the financial data on Federal assistance programs, the cited figures represent estimates rather than actual expenditures during the 5-year period. They do, however, show the magnitude of assistance furnished by the Federal Government.

Other Federal expenditures have benefited the economy of the county although the funds actually were expended in nearby areas. The Department of the Army's Corps of Engineers constructed dams in the area that have prevented flood damage and enhanced land values. The Corps has estimated that flood damage losses of about \$3.8 million have been prevented since 1964 and that about \$1.2 million has been added to land values.

EDA contributed \$346,200 toward the development of a State park adjacent to the county. In 1969 about 1.6 million out-of-State residents visited the park. Many of the visitors passed through Johnson County and purchased goods and services.

Although a large proportion of Federal assistance was directed to economic development, its impact in terms of broadening the economic base of the county and creating new job opportunities has been very limited, and the county's heavy dependence on Federal assistance will continue in the foreseeable future. About half of the economic development funds were used to construct 23 miles of highway through Johnson County. This section of highway is a link in the network of highways under construction through Appalachia. Although such highway development is recognized as an essential element in the successful economic development of the region, the impact that the highway has had in improving employment opportunities of Johnson County residents may not yet be evident. Substantial benefits from this investment may be realized by Johnson County residents when construction of the Appalachian highway system is completed.

Some efforts have been made to attract industry, but they have been only partially successful. Timber is a natural resource that has some potential. Plans for a timber products plant to be financed jointly by a Federal loan and private capital, however, had to be abandoned principally because of the sponsor's inability to raise the needed private capital.

One major industrial plant was established in the county by a national plumbing supply company, which provided about 300 jobs; the company plans a substantial expansion of plant capacity. Since the company was hiring only

workers with high school diplomas or those who possessed needed skills, it appears that employment created by the establishment of the plant would have only an indirect impact on the county's unskilled unemployed as the unemployed may fill job openings created by the plant in its hiring of previously employed skilled workers.

Federal funds have been used for the establishment of a vocational rehabilitation center and for the construction of public works to improve water and sewer facilities and roads. Additional public works projects are in the development stage and may be expected to benefit future development efforts in the county. Federal assistance also has been provided in the form of small business loans to shops and stores and one industrial loan to develop a limestone quarry. These activities have resulted in a small number of new employment opportunities.

The obstacles to attracting industry to Johnson County are not overcome easily because of several unfavorable conditions. The mountainous terrain, the limited accessibility to supply sources and markets, and the relatively unattractive living conditions make it difficult to induce industry to locate in the area. Also the makeup of the local work force--to a large extent lacking the educational level and technical skills needed for industrial employment and composed of older persons--might be a factor limiting the attraction of industries needing skilled workers to Johnson County.

Several manpower training programs have been sponsored by Federal agencies but have had limited success. Such programs of upgrading or retraining the work force have been conducted with little prospect that jobs would be available at the end of the training period.

The manpower programs, in effect, have served largely two purposes: (1) to provide usable skills to those willing to migrate to other areas where such skills are needed and (2) to preserve some measure of dignity among the remaining unemployed by providing them with additional skills and income supplements as ends in themselves rather than means to obtaining jobs.

The several Federal and State public assistance programs have helped to maintain a minimum standard of living, principally through welfare payments, food stamps, health services, and low-rent housing. There will be a continuing need for this assistance unless remedies can be found which will permit the county to extricate itself from the conditions of economic depression and chronic unemployment.

In view of the persistent unfavorable economic conditions in Johnson County and the limited success of Federal assistance in the past, we believe that a need exists for improved planning and coordination by all Federal agencies participating in the assistance effort and for closer cooperation of Federal activities with interested State and local agencies and private organizations. We believe also that a need exists for a long-range plan for the rehabilitation of Johnson County to be carried out by concerted action of the agencies involved in accordance with assigned priorities and a time-phased plan of action.

We believe further that ARC could take a more active role in coordinating Federal activities at the local level through multicounty organizations, such as the Big Sandy Area Development Council, Inc., so that Federal assistance available from, and administered by, numerous Federal agencies is appropriately channeled to provide maximum impact in the area.

Although our study was limited to Johnson County and the problems encountered in helping it to recover from its economic decline during the 1950's, there is evidence that such problems probably exist in other rural counties in Kentucky and elsewhere in the Appalachian region. We believe, therefore, that the following recommendations are appropriate for consideration for the purpose of improving the impact of Federal assistance programs in Johnson County and the Appalachian region in general.

RECOMMENDATIONS TO THE FEDERAL COCHAIRMAN,  
ARC, AND THE SECRETARY OF COMMERCE

We recommend that the Cochairman, ARC, require that ARC, in cooperation with other Federal, State, and local agencies and by working through the local development district organizations, take a more active part in the planning and coordination of Federal programs for the economic development of local areas. This planning and coordination effort should emphasize (1) means of attracting industry to the local development districts, (2) assignment of priorities to economic development and manpower training needs, and (3) implementation of a time-phased development plan.

We recommend also that the Secretary of Commerce require EDA to initiate a comprehensive study, either with in-house capability or with technical assistance program grants, of the problems of rural economic development to identify additional incentives that may encourage industry to expand in rural areas and thereby maximize the benefits from Federal economic development programs.

AGENCY COMMENTS AND OUR EVALUATION

In response to our request, ARC, EDA, the Department of Labor, the Kentucky Program Development Office (a State organization involved in planning and coordinating State and Federal programs in Kentucky, see p. 15), and the Big Sandy Area Development Council, Inc. (a local development district involved in planning and promoting economic and social programs in Johnson County, see p. 16) submitted comments to our report. (See apps. VI through X.) All of these organizations concurred that improvement was needed in the planning and coordination of Federal programs aimed at the development of economically distressed areas.

ARC, however, pointed out that there were statutory and other obstacles to full and effective coordination which would make it difficult for ARC to simply assert primary responsibility for such coordination.

We are not suggesting that ARC should simply assert its authority over other Federal programs providing assistance to Appalachia. We do believe, however, that ARC can take,

within the limits of its legislative authority, a more aggressive approach in planning and coordinating such Federal programs than was evident during our study of Johnson County. In view of (1) ARC's role as a joint Federal-State partnership concerned with the economic and social development of the Appalachian region and (2) the establishment of area development districts in the region (see p. 16), we believe that ARC can improve the planning and coordination of Federal assistance by taking a more active part in overseeing development of meaningful programs by the area development districts.

Special emphasis is needed in the design of these programs to obtain an optimum mix of, and close coordination among, the various assistance projects to be approved for a district, including public works, development of local resources, attraction of industry, and retraining of the local work force. We believe also that ARC, by working through the local development districts and in cooperation with other Federal, State, and local agencies, can thus achieve improvements in the planning and coordination of Federal assistance furnished to Appalachia.

It should be noted that the Congress, in establishing ARC, identified one of ARC's purposes, as follows:

"\*\*\* to establish a framework for joint Federal and State efforts toward providing the basic facilities essential to [the Appalachian region's] growth and attacking its common problems and meeting its common needs on a coordinated and concerted regional basis." (40 U.S.C. App. 1, sec. 2.)

Also one of the functions of ARC is to:

"\*\*\* develop, on a continuing basis, comprehensive and coordinated plans and programs and establish priorities thereunder, giving due consideration to other Federal, State, and local planning in the region." (40 U.S.C. App. 1, sec. 102.)

Thus it appears that ARC has sufficient legislative authority to implement our recommendation. Neither EDA nor the Department of Labor, in commenting on our report, alluded to any problems relative to the recommendation.

EDA replied that the failure of Federal agencies to coordinate their efforts was not the only important reason for the lack of significant impact on the area's economic base. EDA concluded that insufficient development funds (versus social program funds) were the real cause. EDA, although recognizing that there was merit in the recommendation that more coordination be achieved of the various Federal programs, replied that economic development districts had done much to bring about the needed coordination.

With respect to our recommendation concerning a study of rural economic development problems, EDA stated that it had already undertaken some steps along these lines and had sponsored a considerable body of research on this subject, some of which was still under way. EDA stated also that, should this research prove successful, places such as Johnson County, Kentucky, might have a better opportunity to attract new industry than at present.

EDA stated further, however, that there was evidence from EDA-sponsored research and elsewhere that encouragement of industrial expansion in depressed areas might be the best way to improve the condition of the people in such areas. EDA noted that research on growth center policy had produced papers which suggested that investment in human resource development (education, health services, and manpower training) in depressed areas, coupled with capital overhead investments in already growing cities, might well achieve better results in improving the lot of the people than would efforts confined to bringing industry into relatively isolated places.

## CHAPTER 9

### SCOPE OF STUDY

Our study of Federal expenditures in Johnson County, Kentucky, was directed toward a determination of the effects of the spending on the economy of the area. Our fieldwork, which was performed during the period January to June 1970, covered the activities of Federal assistance programs in Johnson County during fiscal years 1965 through 1969.

Our study included a review of the legislation governing Federal aid programs and of the policies and procedures of Federal agencies and of local and State agencies in promoting the objectives of the various programs. We reviewed selected grant proposals, reports, correspondence, and other records maintained by Federal, State, and local agencies pertaining to program operations. We interviewed Federal, State, and local officials to obtain their views and comments. We interviewed also selected private citizens directly affected by the programs.

Our study was performed in Johnson County, Kentucky, and at various State agencies and local, State, and headquarters offices of Federal agencies. A list of programs included in the study is shown in appendixes I through V.

SUMMARY OF FEDERAL ECONOMIC DEVELOPMENT PROJECTS IN  
JOHNSON COUNTY, KENTUCKY, FISCAL YEARS 1965 THROUGH 1969

<u>Type of project</u>	<u>Statutory authority</u>	<u>Funding agency</u>	<u>Total grants</u>	<u>Total loans</u>	<u>Description of local project</u>
Development of industrial sites	42 U.S.C. 3131	EDA	\$ 791,000	\$ 158,000	Developed a 120-acre industrial site and extended waterlines to a second site
Construction of roads and bridges	40 U.S.C. App. 201	ARC	7,127,240	-	Constructed 23 miles of Appalachian corridor and an access road and bridge to an industrial site
Construction of roads	23 U.S.C.	BPR <sup>a</sup>	357,619	-	Constructed 5.1 miles of secondary road
Small business loans	15 U.S.C. 636(a)	SBA <sup>b</sup>	-	262,250	Financed some Johnson County Businesses
Loans to cooperatives	7 U.S.C. 901-24	REA <sup>c</sup>	-	2,901,000	Extended or improved electric and telephone service to rural residents
Industrial development loans	42 U.S.C. 3142	EDA	-	500,500	Developed a stone quarry
Pollution control	42 U.S.C. 1491	FHA <sup>d</sup>	<u>485,000</u>	<u>885,000</u>	Constructed a sewage collection system and primary treatment plant
			<u>\$8,760,859</u>	<u>\$4,706,750</u>	

<sup>a</sup>Bureau of Public Roads. Successor agency is the Federal Highway Administration, Department of Transportation.

<sup>b</sup>Small Business Administration.

<sup>c</sup>Rural Electrification Administration.

<sup>d</sup>Farmers Home Administration.

# APPENDIX II

## SUMMARY OF FEDERAL MANPOWER TRAINING PROJECTS IN JOHNSON COUNTY, KENTUCKY, FISCAL YEARS 1965 THROUGH 1969

<u>Title of program</u>	<u>Statutory authority</u>	<u>Funding agency</u>	<u>Total grants</u>	<u>Number of enrollees</u>	<u>Description of local training programs</u>
MDTA vocational education	42 U.S.C. 2610a	DOL <sup>a</sup>	\$ 213,121	119	Trained students in such fields as welding, cooking, cosmetology, and auto mechanics
MDTA OJT	42 U.S.C. 2752a	DOL	38,823	138	Provided OJT for the unemployed
Neighborhood Youth Corps out of school component	42 U.S.C. 2711	DOL	192,240	240	Trained youth as highway maintenance aides, office workers, janitors, and cafeteria aides
Vocational Rehabilitation	29 U.S.C. 41	HEW	86,780	300	Provided physical restoration or institutional training for disabled workers
Concentrated Employment Program (versatile funds)	42 U.S.C. 2732	DOL	<u>9,051</u>	<u>25</u>	Provided funds to needy students attending vocational school
<b>Total</b>			<u>540,015</u>	<u>822</u>	
Vocational education (business)	20 U.S.C. 1303	HEW	5,370	45	Provided a refresher course in office and business skills
Higher education project	20 U.S.C. 1061	HEW	Unknown	10	Provided stipends of \$50 a month to children of welfare recipients to attend college
Vocational opportunity project	42 U.S.C. 1315	HEW	Unknown	19	Provided stipends of \$75 a month to children of welfare recipients to attend vocational schools
Work Study	42 U.S.C. 2754	HEW	10,611	53	Provided part-time jobs at State vocational school for needy students
Vocational facilities construction	20 U.S.C. 1261 40 U.S.C. App. 211	HEW ARC	535,000 <u>844,000</u>	Not applicable	Constructed a State vocational school in Paintsville
<b>Total</b>			<u>1,394,981</u>	<u>127</u>	
<b>Total</b>			<u>\$1,934,996</u>	<u>949</u>	

<sup>a</sup>Department of Labor.

BEST DOCUMENT AVAILABLE

SUMMARY OF FEDERAL EDUCATIONAL ASSISTANCE PROGRAMS IN  
JOHNSON COUNTY, KENTUCKY, FOR FISCAL YEARS 1965 THROUGH 1969

<u>Title of program</u>	<u>Statutory authority</u>	<u>Funding agency</u>	<u>Total grants</u>	<u>Total participants</u>	<u>Description of local education projects</u>	<u>Remarks</u>
Elementary and secondary education	20 U.S.C. 237	HEW	\$1,456,849	Not applicable	Constructed consolidated high school, improved libraries, created and funded remedial education programs	Application pending for assistance to construct a consolidated elementary school
National Defense Education	20 U.S.C. 453	HEW	56,706	Not applicable	Provided mathematics, science, and language laboratories for consolidated high school and reference materials for all schools	
School Lunch	42 U.S.C. 1751	DA <sup>a</sup>	409,000	Not applicable	Provided lunches at all schools and breakfasts at all but two schools free to needy students	
Neighborhood Youth Corps in-school component	42 U.S.C. 2737	DOL <sup>b</sup>	676,121	721	Provided part-time work for needy students, including work as janitors, cafeteria aides, office workers, and teacher-aides	
Head Start	42 U.S.C. 2809	OED <sup>c</sup>	303,801	1,302	Provided preschool experience for children of the poor	
Other minor programs			32,547	Not applicable	Provided vocational education in agriculture and home economics and in transportation and driver education	
			<u>\$2,935,024</u>			

<sup>a</sup>Department of Agriculture.

<sup>b</sup>Department of Labor.

<sup>c</sup>Program now funded by HEW.

# APPENDIX IV

## SUMMARY OF FEDERAL PUBLIC ASSISTANCE PROGRAMS IN JOHNSON COUNTY, KENTUCKY, FOR FISCAL YEARS 1965 THROUGH 1969

<u>Title of program</u>	<u>Statutory authority</u>	<u>Funding agency</u>	<u>Total grants and loans</u>	<u>Average number of monthly recipients in fiscal year 1969</u>	<u>Description of program</u>
CHILD WELFARE	42 U.S.C. 625	HEW	\$ 42,827	65 in last half of fiscal year 1969	Provided adoptive homes and other benefits for needy children
FOOD STAMP	7 U.S.C. 2011	DA <sup>a</sup>	1,249,057	3,044	Provided additional food to needy families
OLD-AGE ASSISTANCE	42 U.S.C. 301	HEW	1,910,795	760	Provided financial assistance to the needy aged
AID TO THE NEEDY BLIND	42 U.S.C. 1201	HEW	123,949	34	Provided financial assistance to the needy blind
AID TO THE PERMANENTLY AND TOTALLY DISABLED	42 U.S.C. 1351	HEW	527,344	181	Provided financial assistance to the totally disabled
AID TO FAMILIES WITH DEPENDENT CHILDREN	42 U.S.C. 606	HEW	1,615,640	1,543	Provided financial assistance for needy children to strengthen family life
MEDICAID	42 U.S.C. 1396	HEW	1,696,641 <sup>b</sup>	806 <sup>b</sup>	Provided medical care and health-related services for needy persons
EMERGENCY FOOD AND MEDICAL SERVICES	42 U.S.C. 2809	OEO	42,087	(c)	Provided food and medical services on a temporary basis to the needy poor
SENIOR OPPORTUNITIES AND SERVICES	42 U.S.C. 2994a	OEO	9,755	11	Provided employment to senior citizens on public improvement projects
OPERATION MAINSTREAM	42 U.S.C. 2740	DOL <sup>d</sup>	91,110	25	Provided employment on beautification and civic improvement projects
OPERATION MEDICARE ALERT	42 U.S.C. 280 (a)	OEO	<u>2,883</u>	(b)	Educated eligible citizens about the Medicare program
Total			<u>\$7,312,088</u>		
LOAN PROGRAM: Low-rent public housing	42 U.S.C. 1401	HUD	<u>\$1,340,014</u>	Not applicable	Constructed 72 units of low-rent housing in Paintsville
Total			<u>\$1,340,014</u>		

<sup>a</sup>Department of Agriculture.

<sup>b</sup>Estimated for 1969.

<sup>c</sup>Total recipients in Johnson County between May 1968 and April 1970 were 729.

<sup>d</sup>Department of Labor.

<sup>e</sup>In Johnson County 1,320 persons were contacted.

BEST DOCUMENT AVAILABLE

SUMMARY OF FEDERAL AGRICULTURAL ASSISTANCE PROGRAMS IN  
JOHNSON COUNTY, KENTUCKY, FOR FISCAL YEARS 1965 THROUGH 1969

<u>Title of program</u>	<u>Statutory authority</u>	<u>Funding agency</u>	<u>Total grants</u>	<u>Total loans</u>	<u>Description of agricultural programs</u>
AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE:					
Feed Grain	7 U.S.C. 1838(c)	DA <sup>a</sup>	\$292,502	\$ -	Payments made to farmers who participated in adjustment programs by diverting acreage to conservation use
Agricultural Conservation	16 U.S.C. 590	DA	205,132	-	Grants to rural landowners for carrying out approved conservation practices
Cropland Adjustment	7 U.S.C. 1838	DA	2,116	-	Payments made for diverting land to conservation use for a minimum of 5 years
Wool Incentive	7 U.S.C. 1782	DA	122	-	Payments made to farmers for production of wool
FARMERS HOME ADMINISTRATION:					
Rural Housing Loan	42 U.S.C. 1471	DA	-	464,360	73 loans made to purchase or repair homes
Soil and water conservation loans	7 U.S.C. 1924	DA	-	1,200	Two loans made
Economic Opportunity Co-operative Loan	42 U.S.C. 2852	OEO	-	7,200	Two loans made
Farm Ownership Loans	7 U.S.C. 1923	DA	-	15,500	One loan made
Economic opportunity loan to nonfarm enterprises	42 U.S.C. 2851	OEO	-	32,540	18 loans made to start small businesses, such as service stations or auto body repair shops
FARMERS HOME ADMINISTRATION:					
Farm operating loans	7 U.S.C. 1942	DA	-	69,580	32 loans made
Economic opportunity farm loans	42 U.S.C. 2851	OEO	-	63,640	31 loans made
Rural housing grant	42 U.S.C. 1474	DA	<u>57,030</u>	<u>-</u>	60 grants made for repair of rural homes
Total			<u>\$556,902</u>	<u>\$654,020</u>	

<sup>a</sup>Department of Agriculture.

APPENDIX VI

THE APPALACHIAN REGIONAL COMMISSION  
1666 CONNECTICUT AVENUE  
WASHINGTON, D.C. 20235

MAR 31 1971

Mr. Henry S. Eschwege  
Associate Director, Civil Division  
U. S. General Accounting Office  
Room 6832, 441 G Street, N. W.  
Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to the draft "Study of the Effects of Federal Expenditures on the Economy of Johnson County, Kentucky" prepared by the General Accounting Office.

The study concludes that there has been little effective coordination of Federal investments in Johnson County and recommends that a single agency -- the Appalachian Regional Commission -- be made responsible for assuming such coordination.

This recommendation appears appropriate. However, the study recommends that this Commission, through its Federal Cochairman, simply assert authority to coordinate other Federal programs in Appalachia. It should be recognized that there are statutory and other difficulties which serve as obstacles to full and effective coordination. These obstacles make it difficult for the Commission to simply assert primary responsibility in this respect. For example, the Economic Opportunity Act designates the Director of the Office of Economic Opportunity as the primary Federal Coordinator of programs for the poor. In addition, the Secretary of Labor in his capacity as chief manpower coordinator for the Federal Government, has established the Cooperative Area Manpower Planning System (CAMPS) to assign priorities for manpower training needs.

Also, there are frequently conflicts in the execution of various Federal statutes. For several years, for example, the Economic Development Administration pursued a "worst first" strategy of project investment in conflict with the statutory directive in the Appalachian Regional Development Act that "investments will be concentrated in areas with a significant potential for future growth."

This Commission believes firmly in the need for drastic improvements in Federal policy and investment coordination. It also agrees that the Federal-State Regional Commissions, wherever they exist, provide ideal vehicles for promoting such coordination. But if they are to be effective in that respect they must be granted clear authority, possibly by law, to discharge such responsibilities. Statutory impediments to coordination should be removed. This Commission concurs with the study's observation that coordination at the local level can best be achieved by adequately staffed, technically competent multi-county planning and development districts operating within the framework of a Federal-State Regional Commission.

[See GAO note.]

At the time of the study, the multi-county Big Sandy Development District was in its infancy. Local area-wide plans had not yet been developed. As this new organization has matured its plans have progressed and increased in sophistication. It can be anticipated that the district will be capable of producing the plans recommended in the GAO study as it matures still further.

GAO note: Deleted comments relate to matters which, because of revision, are not pertinent to this report.

## APPENDIX VI

[See GAO note.]

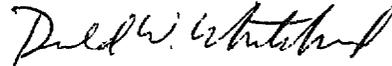
The Commission emphatically disagrees with the statement on page 42 that "continued outmigration of trained workers detracts from local economic development efforts because the remaining unemployed workers are generally poorly educated and/or untrained and do not satisfy the labor needs of prospective industrial firms that might locate in the area." Currently about 35-40 Johnson County high school vocational students graduate each year from Mayo Area Vocational School in Paintsville. In addition, about 250-300 post-secondary students graduate from the school each year, of which about 20 to 25 percent are from Johnson County. An expansion that the Commission funded will provide 125 more graduates. It is anticipated that 20 to 25 percent of those graduates would also be from Johnson County. Thus, the county has an adequate supply of current and potential trained manpower to offer any prospective employer for the foreseeable future. It is in the national interest that the remainder who choose to outmigrate be adequately trained to become productive workers, rather than welfare cases, in the receiving communities to which they migrate. Until such time as economic development catches up with the size of the available labor force some outmigration

will continue. These youngsters have the right to skills as much as those who remain in the community. One of the principal goals of this Commission is to provide the health and skills needed by the people of Appalachia to compete for opportunity wherever they choose to live.

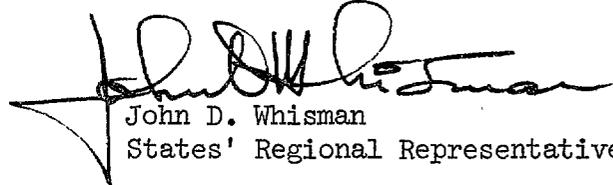
These comments are made without reference to the President's Revenue sharing proposals since such reference is outside the scope of the subject draft report.

The Commission welcomes reviews such as this of the impact of Federal programs on local areas. Only through continuing assessments of this kind can we steadily improve the effectiveness of our efforts to improve the well-being of the people in such areas as Appalachia.

Sincerely yours,



Donald W. Whitehead  
Federal Cochairman



John D. Whisman  
States' Regional Representative



**THE ASSISTANT SECRETARY OF COMMERCE**  
Washington, D.C. 20230

July 12, 1971

Mr. Max A. Neuwirth  
Associate Director  
Civil Division  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Neuwirth:

This is in reply to Mr. Eschwege's letter of February 22, 1971, requesting comments on a draft report entitled "Study of the Effects of Federal Expenditures on the Economy of Johnson County, Kentucky."

We have reviewed the comments of the Economic Development Administration and believe that they are appropriately responsive to the matter discussed in the report.

Sincerely yours,

A handwritten signature in cursive script that reads "Larry A. Jobe".

Larry A. Jobe

Attachment



**THE ASSISTANT SECRETARY OF COMMERCE**  
Washington, D.C. 20230

JUL 12 1971

Mr. Max A. Neuwirth  
Associate Director, Civil  
Division  
United States General Accounting  
Office  
Washington, D. C. 20548

Dear Mr. Neuwirth:

This is in reply to Mr. Eschwege's letter of February 22, 1971, wherein you refer to the draft of a proposed report "evaluating the assistance provided to Johnson County, Kentucky, to determine the combined effects of these programs on the economy of a specific area."

Your report recommended that "EDA initiate a comprehensive study, either with in-house capability or with technical assistance program grants, of the problems of rural economic development to identify additional incentives that may encourage industry to expand in rural areas and thereby maximize the benefits from Federal economic development programs."

EDA has already undertaken some steps along these lines and has sponsored a considerable body of research on this subject, some of which is still underway. Such projects include: (a) the establishment of an information system to match industry requirements with local area resources; (b) a study of the industrial plant location decision process, surveying firms that have relocated from the Cleveland area; and (c) development of a composite mapping system, computer-operated, for the quick retrieval of maps showing presence or absence of a variety of factors relating to resource requirements of specific industries. Should this research prove successful, places such as Johnson County, Kentucky, may have a better opportunity to attract new industry than at present.

There is evidence, however, from EDA-sponsored research and elsewhere that encouragement of industrial expansion in depressed areas may not be the best way to improve the condition

## APPENDIX VII

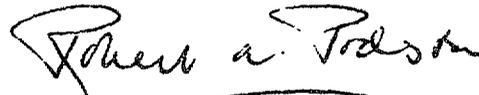
of the people in such areas. The agency's research on growth center policy has produced papers from Harvard, Chicago, Berkeley, and the University of Texas which suggest that investment in human resource development (education, health services, manpower training) in depressed areas, coupled with capital overhead investments in already growing cities, might well achieve better results in improving the lot of the people than would efforts confined to bringing industry into relatively isolated places.

Your report also contends that the failure of Federal agencies to coordinate their efforts is a reason for the lack of significant impact on the area's economic base. We do not believe that this is the only important factor. Rather, it is that insufficient development funds versus social program funds are the real cause. Perhaps a broadening of the economic development district concept to include funding of industrial plant locators would help selected areas. We believe that there are sufficient mechanisms to achieve the desired degree of coordination even though the mechanisms may need to be improved. For example, EDA policy and procedures provide for clearing all EDA project proposals with ARC and obtaining ARC comments before reaching final decision on investments. Additionally, the OMB A-95 procedure provides the vehicle for state clearance and coordination of all Federal programs. In the area discussed in our in-house report, copy attached, the Big Sandy Economic Development District is the regional clearinghouse for all Federal agencies. It should also be noted that EDA is participating in an interagency demonstration project in the Southern Oklahoma Development Association to improve the delivery of Federal resources in a multi-county rural area of the country.

There is merit in the report recommendation that more coordination be achieved among the various government programs. EDA, of course, supports this approach. In this connection, this agency has studied the extent to which its programs interrelate with those of other Federal agencies. An article published in the RESEARCH REVIEW of July 1970, page 11, deals with some aspects of this subject: "The Geographic and Organizational Interrelationships of Federally Funded Planning Districts." EDA's Economic Development Districts, many of whose planning organizations have been designated as Federal "clearinghouses" under OMB Circular A-95, have done much to bring about the coordination to which the report refers.

In conclusion, although the GAO study criticizes the Federal Government generally regarding its activities in Johnson County, Kentucky, we respectfully request that further consideration be given to the specific goals that have been achieved and the relationship of the economic development activity in Johnson County to what is happening in adjacent areas, particularly the area between Paintsville and Prestonsburg. The importance of this interrelationship is brought out in the attached EDA in-house study of the Big Sandy Economic Development District. We believe that closer analysis can only lead to the conclusion that the EDA investment has contributed to an expansion of the economic base of the county and has created new jobs commensurate with the investment.

Sincerely,



Robert A. Podesta  
Assistant Secretary  
for Economic Development

Attachment

APPENDIX VIII

U.S. DEPARTMENT OF LABOR  
OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION  
WASHINGTON, D.C. 20210



MAY 18 1971

Mr. Henry Eschwege  
Associate Director  
Civil Division  
United States General  
Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in response to your draft report to the Congress of the United States of the "Study of the Effects of Federal Expenditures on the Economy of Johnson County, Kentucky".

We concur with the recommendations on pages 5 and 6 of the report. The order of priorities mentioned in the recommendations is logical and, if followed, would greatly alleviate the existing conditions.

[See GAO note.]

GAO note: Deleted comments relate to matters which, because of revision, are not pertinent to this report.

[See GAO note.]

There appears to be a basic assumption in the report that implies out-migration of trained persons should be discouraged because it reduces the stock of skilled persons who might possibly be an attraction to industry. In the Manpower Administration we are primarily concerned with the welfare of the individual. If as a result of receiving training, a person can become employed elsewhere, the individual's condition will have been improved. Maintaining a family on welfare while the skill and self respect of its breadwinner diminishes seems to be a very strange and expensive kind of "economic development policy".

With respect to the Concentrated Employment Program, most of the allegations are true. However, the study covered only the first year of CEP operation, a period when the program had many problems. The particular project in Johnson County was set up at the request of the Big Sandy CAA specifically to keep enrollees in the vocational school who would otherwise have to drop out for financial reasons. It is true that very little follow-up was done in those early days of the program. Now, however, the CEP has seven employability development teams working in the 22 county area. The teams have a limited case load and are responsible for the individual enrollees from the date of enrollment through the employability development phase and for a period of 90 days after entry on a job. These individualized services and personal attention will prevent such a situation as described in the report.

We believe that vocational training under MDTA is a greater accomplishment than GAO seems to realize. With the economic conditions existing in Johnson County, the ability to enroll and train 119 persons who had been

## APPENDIX VIII

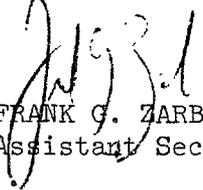
unemployed for as long as 27 months, and to move more than 50 percent of these into gainful employment increasing their average hourly wage almost 75 percent above the average hourly wage for persons employed in Johnson County, is a significant accomplishment.

Another program that showed a degree of success under the economic circumstances of Johnson County was the MDTA-OJT which, according to the GAO sample, took 24 unemployed persons, completed training of 21 of them, placed 19 of those in training-related jobs and increased their average annual income from \$1,825 to \$3,440. All this was for a Federal cost of \$195 per trainee.

If the problem of establishing a sound economy in these areas could be solved the chances of success in our programs would be greatly enhanced. However, we believe that under the local economic circumstances these programs have been of assistance to the people involved despite the lack of coordination cited in the report.

We appreciate the opportunity to review and comment on the draft report.

Sincerely,



FRANK G. ZARB  
Assistant Secretary for Administration

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2374  
Area Code 606-886-2724

Joseph L. McCauley, Director

Jack A. Allen, Assistant Director

Neil Ruth Davis, Executive Secretary

**BIG SANDY AREA DEVELOPMENT COUNCIL, INC.*****Prestonsburg Community College . . Prestonsburg, Kentucky 41653***  
Tourist Information Center

April 29, 1971

Mr. Henry Eschwege, Associate Director  
Civil Division, United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Eschwege:

Re: Study of the Effects of Federal  
Expenditures on the Economy of  
Johnson County, Kentucky

In reviewing the report we find that the recommendations or suggestions pertaining to the Big Sandy Area Development District are sound and, in fact, simply support our own thinking. We especially feel that implementing the recommendation that "the Appalachian Regional Commission (ARC) could take a more active role in coordinating federal activities at the local level through multi-county organizations such as the Big Sandy Area Development Council, so that federal assistance from, and administered by, numerous federal agencies is appropriately channeled to provide maximum impact in the study area" (Page 21) would not only achieve the stated purpose, but also, greatly reduce the amount of needless political and pressure group strife that is often associated with uncoordinated federal grant programs.

However, we must express our concern that some of the findings and conclusions about the amount and impact of monies spent directly on economic development are misleading. The most glaring example of this is on Pages 29

*Serving Pike, Floyd, Johnson, Magoffin and Martin Counties*

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Page Two  
Mr. Henry Eschwege  
April 29, 1971

and 30 (and consequently on Pages 2 through 5.) The report states "Substantial amounts of federal assistance have been provided to help develop Johnson County's economy but the benefits obtained in terms of providing new employment opportunities for the residents of the County have been very limited" (Page 29) and on Page 30 the report states "Federal assistance directly related to economic development efforts was about \$8.8 million in grants and \$4.7 million in loans during fiscal years 1965 through 1969. Few local jobs can be directly related to this assistance."

There are two factors in particular which cause these statements to be misleading. One, of the \$8.8 million "directly related to economic development" \$7.1 million was used to construct "23 miles of Appalachian Corridor, and an access road and bridge to an industrial site" (Appendix I, Page 60). We feel that the cost of the access road and bridge may be a proper county share of direct economic development aid but, to allocate Johnson County the major portion of the \$7.1 million of the Appalachian Corridor is inappropriate, since the 23 miles of Corridor B is but one link in a system to connect the Ohio Cities of Portsmouth and Columbus with Ashville, North Carolina, and is designed to benefit all communities having access to the route. Hence the Johnson County share of economic development aid should be greatly reduced and the impact re-evaluated according to the reduced figure.

Two, employment figures in the 1966 and 1969 County Business Patterns (U. S. Department of Commerce) show an increase of 76 percent in total employment for these years (from 1959 in 1966 to 2925 in 1969) which would indicate a substantial indirect if not direct impact and should be so noted.

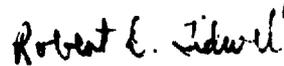
Page Three  
Mr. Henry Eschwege  
April 29, 1971

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Also, we feel that the report should give data from other similar counties concerning the total expenditure of federal monies as described in paragraph three, page one of the report. so that the relative position of Johnson County can be properly evaluated.

We hope these comments will be helpful to you in making your final report.

Sincerely yours,



Robert D. Tidwell  
Planner

RDТ/nrd

cc: Mr. Pat Choate  
Mr. Joseph M. Gray  
Mayor John Chandler



Louie B. Nunn  
Governor

Kentucky  
Program Development Office  
The Capitol  
Frankfort, Kentucky 40601

May 12, 1971

Mr. Henry Eschwege  
Associate Director  
Civil Division  
United States General Accounting Office  
Washington, D. C. 20548

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Dear Mr. Eschwege:

We appreciate the opportunity afforded us to review the draft report of the effects of federal expenditures on the economy of Johnson County, Kentucky. I endorse the recommendation that the various federal agencies should develop a better system of coordinating their programs. As the report astutely points out, no one federal agency is or can be responsible for coordinating all federal programs in a specific location. This also applies to any attempts to coordinate programs in any specific problem area, whether it be water resources, manpower or health.

In order to assist in solving this problem, the Commonwealth of Kentucky has established the Kentucky Program Development Office and the Area Development Districts. The responsibility of this office and the development districts, while being numerous, is mainly concerned with planning and programming the coordination of various state and federal programs. KPDO serves as the State clearinghouse pursuant to the project notification and review system under the Bureau of Budget Memorandum A-95. The Area Development Districts serve as the Regional clearinghouse. Their boundaries are official multi-county boundaries established for all state and federal programs to use pursuant to Bureau of the Budget Memorandum A-80. Not all federal agencies have recognized these official boundaries, nor do all federal programs fall under the project notification and review system.

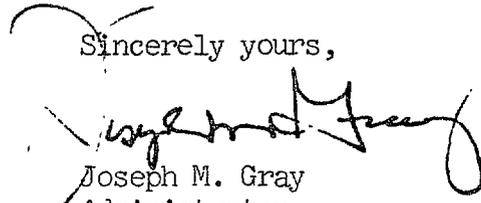
The most cooperative of the agencies this office and the Big Sandy Area Development District have worked with has been the Appalachian Regional Commission. This program provides

Letter to Mr. Henry Eschwege  
May 12, 1971  
Page Two

for the maximum local and state involvement in the planning, funding and operation of programs funded with federal moneys. It was within the framework of the Appalachian Regional concept that Kentucky has developed its state and regional planning mechanism.

We feel that federal planning and coordination would be greatly enhanced if Congress and federal agencies would follow the example of the Appalachian Regional program in involving state and local communities in coordinating the various development efforts.

Sincerely yours,



Joseph M. Gray  
Administrator

APPENDIX XI

PRINCIPAL FEDERAL OFFICIALS RESPONSIBLE FOR  
 ADMINISTRATION OF THE ECONOMIC DEVELOPMENT AND  
 MANPOWER TRAINING ACTIVITIES DISCUSSED IN THIS REPORT

<u>Tenure of office</u>	
<u>From</u>	<u>To</u>

DEPARTMENT OF COMMERCE

SECRETARY OF COMMERCE:

Maurice H. Stans	Jan. 1969	Present
C. R. Smith	Mar. 1968	Jan. 1969
Alexander B. Trowbridge	June 1967	Mar. 1968
Alexander B. Trowbridge (acting)	Feb. 1967	June 1967
John T. Connor	Jan. 1965	Jan. 1967

ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT (note a):

Robert A. Podesta	Mar. 1969	Present
Ross D. Davis	Oct. 1966	Mar. 1969
Eugene P. Foley	Sept. 1965	Oct. 1966

DEPARTMENT OF LABOR

SECRETARY OF LABOR:

James D. Hodgson	July 1970	Present
George P. Shultz	Jan. 1969	July 1970
W. Willard Wirtz	Sept. 1962	Jan. 1969

ASSISTANT SECRETARY FOR MANPOWER:

Malcolm R. Lovell, Jr.	July 1970	Present
Arnold R. Weber	Feb. 1969	July 1970
Stanley H. Ruttenberg	June 1966	Jan. 1969

Tenure of officeFrom                      ToAPPALACHIAN REGIONAL COMMISSION

## COMMISSION EXECUTIVE DIRECTOR:

Alvin J. Arnett	Nov. 1971	Present
Ralph R. Widner	June 1965	Nov. 1971

<sup>a</sup>Position established effective September 1, 1965, as Assistant Secretary and Director of Economic Development. Re-designated Assistant Secretary for Economic Development, effective December 22, 1966.

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.