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A Stronger Appalachian Regional Commission Vital to Economic Progress

By Ted Boettner and Stephen Herzenberg

For much of its history, the Appalachian region has lagged the rest of the nation in measures of economic prosperity, health, education, and infrastructure. The region, especially central Appalachia, has been rich in natural resources like coal, timber, oil, and gas. Much of the wealth generated by these resources, however, left the region. As such, much of Appalachia has undergone a process of "growth, without development" that resulted in intense poverty and economic struggles that made Appalachia "a region apart- geographically and statistically."

In the late 1950s, these challenges led the governors of Appalachia to push for the creation of a new regional development program and federal agency to address the need for economic diversity, more infrastructure, better health and education, and more jobs. These efforts culminated in the creation of the Appalachian Regional Commission in 1965. The purpose of the ARC is to make substantial investments in the region to improve infrastructure, reduce dependency on natural resource extraction, and enhance the ability of the region to achieve economic prosperity. The ARC has been underfunded for decades, hampering its ability to accomplish its ambitious agenda. This could change!

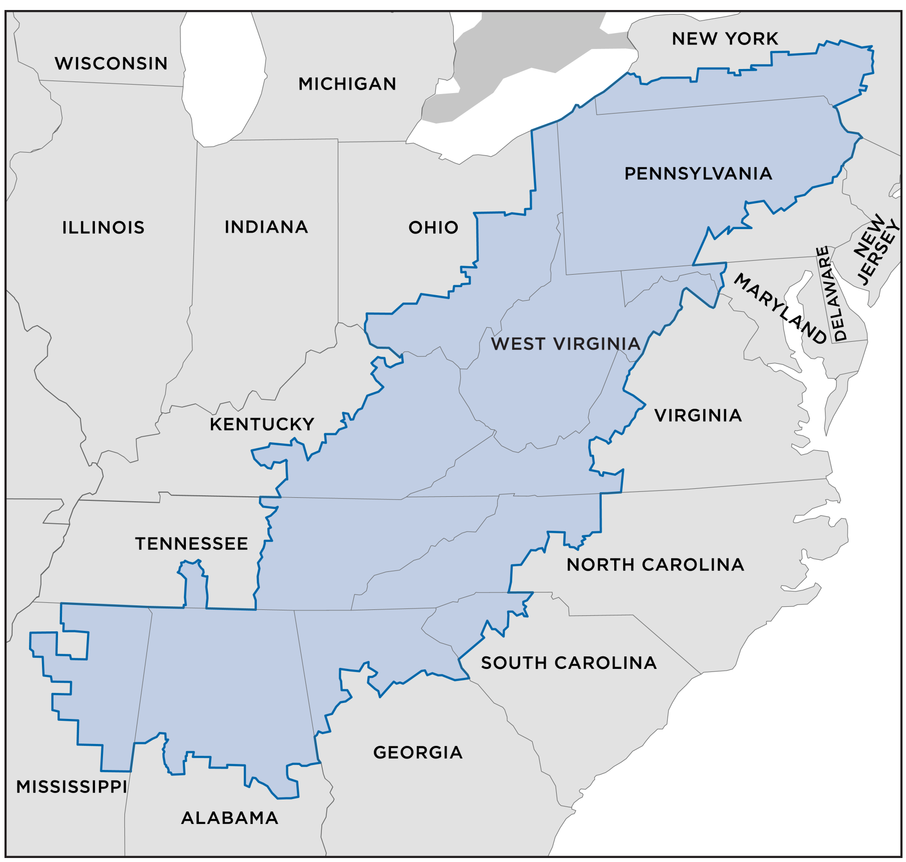
President Biden's FY 2022 Budget Proposal includes an additional $55 million for the Appalachian Regional Commission (ARC). On top of this request, Biden's American Jobs Plan includes an additional $1 billion for the ARC's Partnership for Opportunity and Workforce and Economic Revitalization (POWER) initiative over the next five years. Most recently, Representative Conor Lamb (PA-17) and Representative David McKinley (WV-01) introduced bipartisan legislation that would provide an additional $1 billion in funding for the ARC's POWER Initiative, which provides federal resources to help communities affected by job losses in the coal industry.

Despite significant progress since the 1960s, much of the region still lags behind the rest of the country in economic and social development. A substantial increase in funding is essential if the ARC is to accomplish its mission and bring Appalachia on par with the rest of the country. An increase in funding of $255 million in FY 2022 is a good step toward the kind of investments that are needed in Appalachia.

What is the Appalachian Regional Commission?

The ARC defines the Appalachian Region as 420 Appalachian counties in 13 states, including all 55 of West Virginia's counties, following the spine of the Appalachian Mountains from southern New York to northern Mississippi. Altogether, the region covers about 205,000 square miles and is home to 25 million Americans.

The ARC structure consists of a federal co-chair appointed by the president and confirmed by the Senate, and the region's 13 governors. Together, the 14 Commission members approve of strategies, allocations, and policies carried out by the ARC. Along with the Commission, local participation is carried out by 73 local development districts (LDDs) in the region which connect local people and businesses in the region with resources, providing project funding, leadership, advocacy, planning, and research to achieve development goals.



The Appalachian region, as defined by the Appalachian Regional Commission.

The ARC invests in two main investment categories. These include the Appalachian Development Highway System (ADHS), which is designed to better connect Appalachia inside and outside of the region and supplement the Interstate Highway System, and non-highway grant investments or Area Development Programs (ADP) aimed at stimulating economic activity in the region. The ARC's ADHS investments have made up the bulk of ARC investment, up to approximately two-thirds from 1965 to 2013. Altogether, the ARC has invested over $26 billion in highway infrastructure and over $14 billion in other projects since 1965 (2021 dollars).

Between 1965 and 1980, at the height of its funding, the ARC had a reputation as a "can-do-agency" that improved roads, hospitals, vocational school, and created jobs. This progress was curtailed when President Reagan attempted to cut all ARC funding, resulting in a large reduction of funding while narrowing its goals to just job creation.

The ARC has not been without its critics. Some conservatives have opposed the ARC as an "unnecessary Washington bureaucracy" while some liberals argued that it was too beholden to local elites instead of local needs, and too focused on roads and the interests of corporations and the "status quo" and failed to deal with the root causes of concentrated land ownership and mineral exploitation by absentee owners. Moreover, some critics of the ARC have lamented that the ARC strategy of focusing on investments in areas with "the greatest potential for future growth" instead of impoverished areas of need limited progress.

According to Appalachian historian Ron Eller, much of the resources invested by the ARC have gone to the population centers of the region (urban areas) that have the most political clout instead of the rural areas that are more deeply impoverished. Eller maintains that the economic development philosophy of the ARC has historically been "if you build it, they will come," including the construction of industrial parks to make rural areas more like urban areas, instead of a human capital approach that emphasizes education, health care, housing, and economic empowerment.

While offering this criticism of the ARC over the last 60 years, Eller is quick to point out that the region has made tremendous progress since the 1960s, especially in reducing extreme poverty. The poverty rate in the region has been cut in half from nearly 31 percent in 1960 to 15.2 percent in 2015-19 (compared a U.S. drop of 22 percent to 13.4 percent) and the counties in the ARC region have become more aligned with nation as a whole on several social and economic indicators. More recently, the ARC has put more efforts into human resource development, including addressing the loss of coal jobs and the growth in "diseases of despair" through grants programs like the Partnership for Opportunity and Workforce Revitalization (POWER) and Investments Supporting Partnerships in Recovery Ecosystems (INSPIRE) Initiatives.

The POWER Initiative, which began in 2015, has invested over $238 million in 293 projects across 353 communities in Appalachia. These resources have leveraged over $1.1 billion in private investment and are projected to create or retain more than 26,000 jobs.

ARC Funding Far Below Peak in 1970s

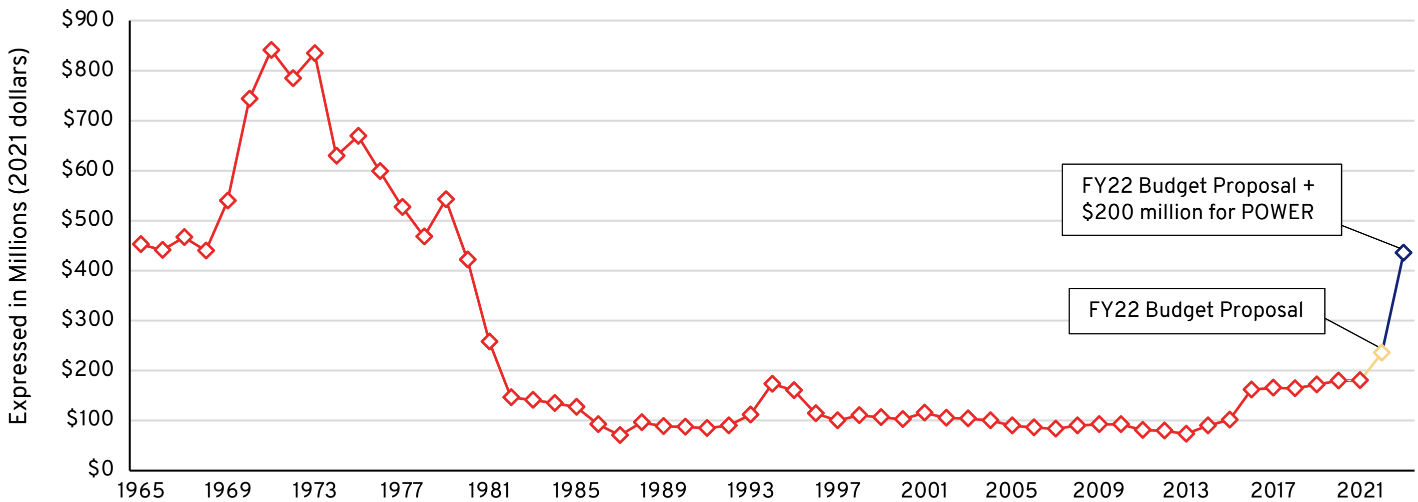
President Biden's additional $55 million of funding for the ARC in FY 2022, and an additional $200 million per year over five years for POWER, would still be below the $425 to $850 million ARC received in non-highway funding in the 1960s and 1970s. After adjusting for inflation, funding in 1971 was nearly five times higher than 2021 ($841 million versus $180 million).

From 1965 to 1980 non-highway appropriations averaged $598 million (2021 dollars) per year before falling rapidly in the 1980s. While ARC non-highway appropriations rose some in the mid 90s and mid-to-late 2010s, funding for FY 2020 ($180 million) was $661 million below what it was in 1971. If the FY 2022 ARC budget is passed – along with an additional $200 million for POWER – that would restore ARC non-highway funding to

The 2015 POWER Initiative is projected to create or retain more than 26,000 jobs In Appalachia.

about where it was in the late 1960s when the program began, after adjusting for inflation. Since U.S. GDP has more than tripled since the early 1970s, even restoring funding adjusted for inflation would still leave ARC funding below one third its peak level relative to the size of the nation's economy.

Fig. 1: Appalachian Regional Commission non-highway appropriations, 1965-2021

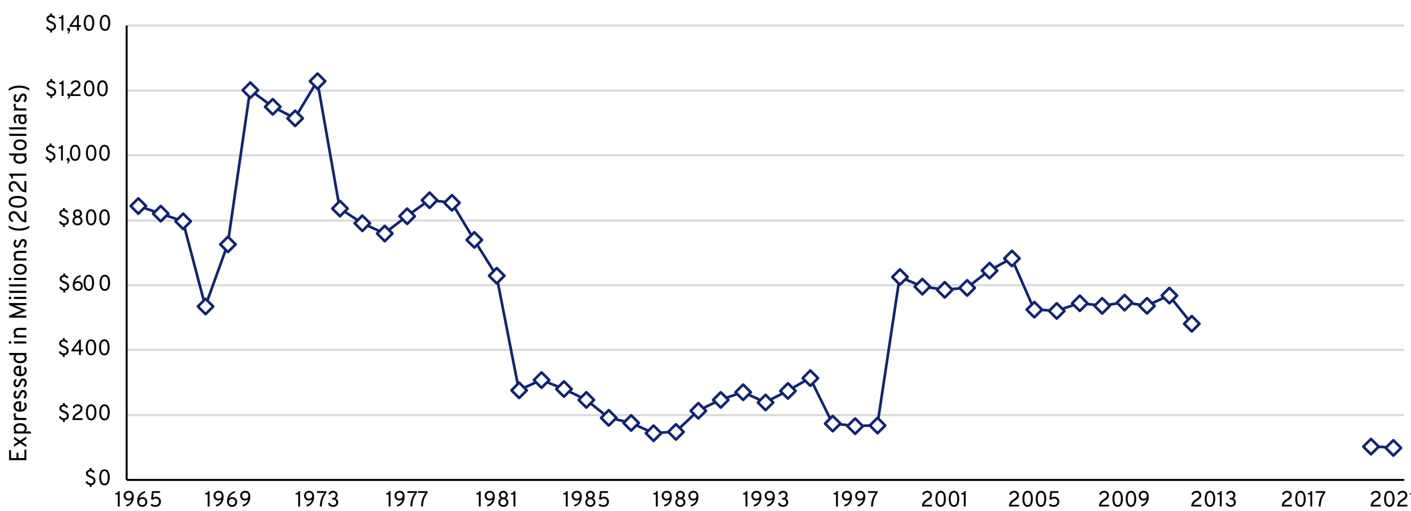


Source: Appalachian Regional Commission and U.S. Bureau of Labor Statistics (CPII: 1965-2021 Half 1)

The ARC has also seen a decline in highway funding since the 1960s and 1970s. Between 1965 and 1980, funding for the ADHS averaged about $855 million per year, after adjusting for inflation. This compares to $259 million per year in the 1980s, $323 million in the 1990s, and $554 million in the 2000s. Between 2013 and 2019, the ADHS program wasn't funded through the ARC but allowed states to receive a 100% federal allocation on ADHS projects. Senator Manchin (WV) and Senator Portman (OH) have proposed an additional $1.25 billion for the program. According to the ARC, to fully complete the ADHS would be around $10.3 billion.

Federal disinvestment has forced ARC to retreat—and dramatically so—in its ambitions to raise living standards and promote shared prosperity in the region.

Fig. 2: Appalachian Regional Commission ADHS (highway) appropriations, 1965-2021



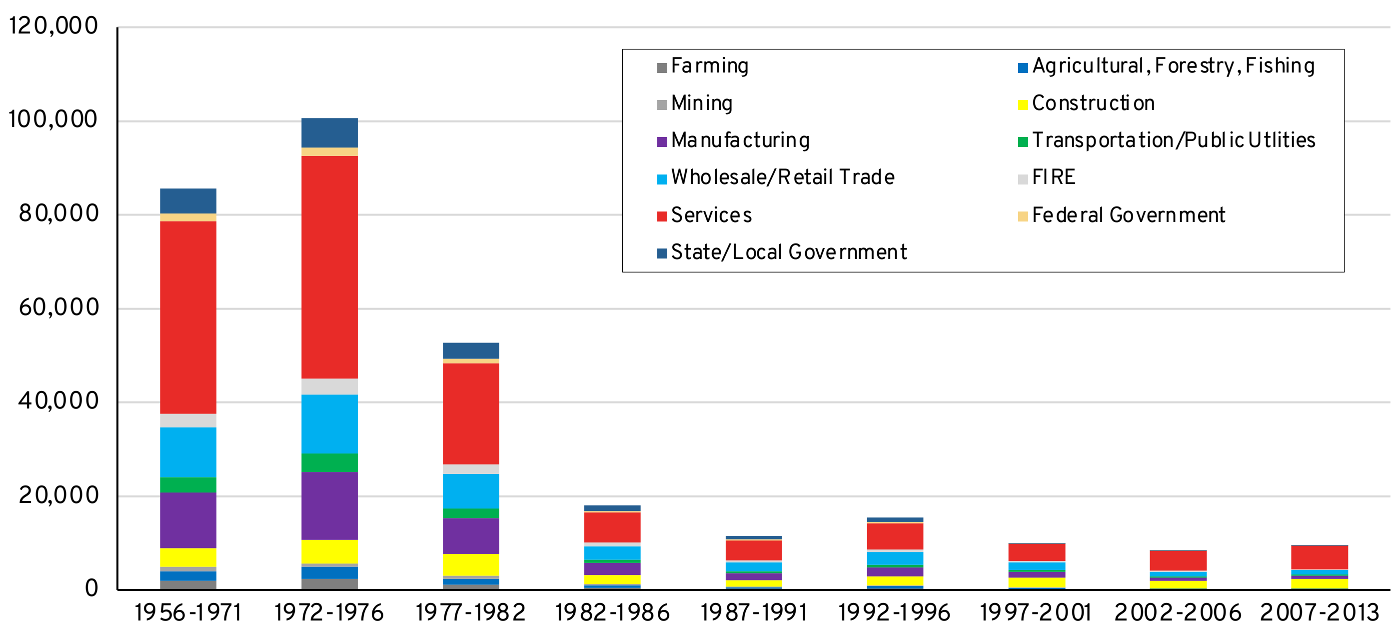
Source: Appalachian Regional Commission and U.S. Bureau of Labor Statistics (CPII: 1965-2021 Half 1)

Declines in Non-Highway Funding Have Reduced ARC's Employment Impact in the Region

A 2015 evaluation of the ARC over 50 years found that the $3.8 billion (2013 dollars) in ARC non-highway investments were responsible "for creating nearly 312,000 jobs and $10 billion in added earnings in the Region." According to the evaluation, from 1978 to 2013, for every $1 invested in non-highway projects over this period an average of $6.40 in private-sector funding has been leveraged – a total of $16 billion in leveraged private investment.

Assessments of the impact of the ARC on jobs reflect the long-term cuts in funding, as the graph below illustrates. At its peak, ARC non-highway investments were creating 100,000 jobs over five years in the early-to-mid 1970s compared to just over 9,500 between 2007 and 2013. This reduced economic impact has occurred during decades in which Appalachian coal country has faced big reductions in high-wage extractive industries and much of Appalachia has faced reductions in manufacturing employment. That is, federal disinvestment has forced ARC to retreat—and dramatically so—in its ambitions to raise living standards and promote shared prosperity in the region in a period when Appalachia especially needed an ambitious (and well-funded) ARC.

Fig. 3: Estimated Job Impacts of Appalachian Regional Commission Non-Highway Investments



Source: *Appalachia Then and Now*, February 2015, Appalachian Regional Commission (p.15)

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The Opportunity for the ARC in 2021

The underinvestment in the ARC over the last 60 years has significantly reduced its impact in the region, but now there is a golden opportunity to increase ARC investments to grow jobs, diversify the region's economy, and improve social and economic outcomes. This investment can also help provide a stronger foundation for economic development over the long-term. This is especially needed in places hit hard by the loss of coal jobs and the opioid epidemic and to leverage additional private funds. Raising ARC funding could result in revitalized towns with new small businesses opening in once-derelict downtowns, a stronger recovery from the ravages of the opioid crisis that has plagued the region for a decade, and more pathways to meaningful work for the generation of children who are now in Appalachia's schools. Raising ARC funding could deliver opportunity, hope, and quality of life to people and places hungry for a better future. In other words, it would deliver on the underlying mission that led Congress to create ARC 60 years ago.