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Keeping Options Open

Roger Bolton

Williams College - USA

TO: Prof. Roger Bolton

FROM: Hon. Urbania D. Advocate, State Senate

Dear Prof. Bolton:

I'm acutely aware of the chronic stagnation of many rural areas in our state, and even actual sharp declines where old mills have closed. Senators from rural areas keep pressuring me to vote for aid packages financed out of the state budget. From your earlier writings, I would guess that you're sympathetic.

But, tell me please, why should I care? It's not a hostile question—I don't mean to imply my mind is made up. Rather, I'm looking for a clear economic rationale for a policy. I'm convincing—but not convinced, yet. Remember I'm a legislator from a booming urban/suburban district down here in our state's biggest metro area. The rural senators tell me it's simply logrolling. Isn't there a better rationale than that? I'll have a tough time defending use of my constituents' tax money for bailouts.

Did I mention I'm getting memos from the Hayek Freedom Center down the street, about letting markets work, and "tough love"?

TO: Sen. Urbania D. Advocate

FROM: Roger Bolton

Dear Sen. Advocate:

Yes, I'm favorably disposed to some, though not all the proposals your rural colleagues are pushing. Not having space to lay out many details, I'll describe some general principles that should guide you and then mention a few specifics.

First, "Why should I care?" It's a valid question. First, think of our state as one community, a conglomeration of localities that nevertheless makes sense as a unit. Not all states are like us—we have a "sense of place" that's an agglomeration of senses of place in the individual communities. You should take a Burkean view—represent the entire community, not just your

own district.¹ Second, following and broadening Herzlinger and Kane (1979), two Harvard Business School scholars, government has four functions: factory, insurance company, bank, and community chest.² All four are relevant in an approach to rural stagnation and decline, and the state government should help its local governments perform the functions or perform them directly.

TO: Bolton FROM: Senator.

Well, I already have problems with what you're saying. The rural senators—they are not being Burkean, believe me! And, that quadripartite vision of government—it doesn't sound like anything I learned in public finance. The prof had a different lexicon—market failures, public goods, externalities, etc. Is it a special business school thing?

TO: Senator FROM: Bolton.

I can only say I think the rural senators should follow Burke's model too! As for Herzlinger and Kane, their labels are novel, but the idea is consistent with standard economic theory—as long as actions under each of the four headings are to remedy market failures, provide public goods, and the like, or to ac-

¹ "Parliament is not a *congress* of ambassadors from different and hostile interests; which interests each must maintain, as an agent and advocate, against other agents and advocates; but parliament is a *deliberative* assembly of *one* nation, with *one* interest, that of the whole; where, not local purposes, not local prejudices, ought to guide, but the general good, resulting from the general reason of the whole." Burke, 1774, p. 448 (italics in original).

² Though inspired by Herzlinger and Kane, I'm taking the liberty of broadening their scope. They had only the first three functions; I've added "community chest" (I'm sure I'm not original in that, but don't know any other specific writers who have done it). Also, they were writing about redistributive functions for the Federal government, while I am extending the metaphors to all functions and to our state government.

comply with desirable income redistribution in an efficient way. It can be really quite neoclassical in application. The “factory” function produces public goods, the “insurance company” prevents high personal risk from inhibiting efficient decisions on migration or investment, and the “bank” remedies capital market failures. In all those cases the problems are especially acute in areas we’re talking about. The “community chest” idea does require you to think of the *distribution* of income as a public good, but I urge you to think that way.

To: Bolton From: Senator.

Here’s something else that bothers me: many of the proposals bruited about in the halls here would build or subsidize expensive new capital – roads, branch plants, industrial shell buildings, tourist trains, tramways, computers for the schools, museums My reaction: Why not programs directed more at rural people? I bet it would be cheaper just to give every unemployed guy a check and a voucher good at the local moving company. Don’t we want “people prosperity” instead of “place prosperity”?

To: Senator From: Bolton.

You are well read. Yes, absolutely, policy is for people. To be sure I understand you, I assume you use “people prosperity policies” to mean ones that benefit persons whether or not they choose to stay in the lagging region, so the benefits are “portable;” think of very general training for unemployed workers, or support of local K-12 education. I assume by “place prosperity policies” you mean help that’s “place bound” and not portable; it’s not available to persons unless they remain in the area; think of a new plant or medical clinic. Place prosperity policies seem, on their face, anti-free choice and inefficient – and inequitable, by being available only to a person who stays in the place, and excluding someone merely because he or she exits.

However, places are collections of people, after all. Some of the collections want assistance that puts them in a situation where staying is a *possible* response – a genuine option. They want help that they can use where they’ve lived for years, have invested time and resources in building social capital, and where they will benefit from longstanding social networks. Choosing freely to leave a declining place is one thing, being compelled to leave it because there’s really no option – that’s another thing. Are both truly efficient and equitable? These preferences should be important to you partly because every citizen’s preferences are worthy of respect, but more important because it’s

also efficient and equitable to help citizens keep their options open.

Keeping people’s options open is especially attractive when their local communities have, already in place, physical and social capital that can be utilized – recycled – after some adjustment. A vital part of the adjustment is education and training to create new human capital that will work with the existing capital ... or leave, if a person chooses that option freely. Also vital is support of public services that make staying a realistic option, but that local governments have to struggle to maintain when tax bases are eroding. Free markets have a habit of taking away options, and they did it for my rural neighbors. That’s a necessary part of our system, but ask yourself if occasionally markets go too far. The legislature’s standing by and doing nothing doesn’t help people regain options.

To: Bolton From: Senator.

Hey, I’m not standing by! I said I’d be willing to just give people plain old green.

To: Senator From: Bolton.

Just giving cash is more efficient than giving aid with strings attached, as an intermediate microeconomics student can show ... IF the recipient has the same options in both cases. Our rural people have lost options, so giving cash outright is often not as efficient as a policy that restores options that are valuable to persons *and* utilize productive assets for social purposes. Your moving voucher reduces the scope of choice, because compared to another policy it’s good for only one choice – exit. And it might be inefficient if it biases people against staying in a place that still has productive capital.³

To: Bolton From: Senator.

I like that argument. But surely you don’t suggest we preserve every single “place”! Don’t we have to be selective? But then how do we choose?

To: Senator From: Bolton.

You’re absolutely right. We have to “triage,” sad and painful as it is (Lapping and Daniels, 1987). We have limited resources, not least the goodwill and understanding in the legislature. If rural people have options, they *will choose freely to leave* some places – abandon them, to put it bluntly. Some places are not

³ See Bolton, 1992, 2003.

worth your support: they don't have the location, or existing capital—even counting social capital—to create meaningful options for their citizens *in that location*. Others have more potential, and can be productive places in society. Their residents should have the option of staying.

If population is sparse, we need to think about *regions*. Policymakers need to design regions big enough to support essential consumer and public services, then help businesses, nonprofits, and local governments to provide the services. Each region needs, say, one clinic or hospital, one library, one office of a state agency, one school with new worker training activities, and so forth. But they should not all be in the same town. Distributing them strategically will help support more local communities while making services generally accessible to people all over the region. Cheap public transportation—vans or small buses, most likely—is necessary to ensure such access, and I think state subsidies for that would be one of your most effective actions.

To: Bolton From: Senator.

That's the kind of specific advice I'm looking for! How about some more specifics?

To: Senator From: Bolton.

Sure. Target assistance carefully—don't give everybody something that only a subset of the population needs. Try to recycle existing capital before spending money on new construction. Look for ways to maintain a sense of cultural identity and historical continuity—they have benefits that people value and are willing to pay something for, often in the form of lower wages that can create a competitive advantage and help recovery. I have in mind support of nonprofits, historic preservation, protection of scenic landscapes. Be vigilant in protecting the environment, which can be a vital asset in persuading people to stay and others to move in. Any rebounding region, even if it starts with massive unemployment, needs a substantial number of newcomers. Protecting the environment is especially important in evaluating new highways, industrial plants, and mass recreation facilities. Finally, keep a long-run perspective, in education for example. Supporting high quality elementary and secondary education is just as important as retraining unemployed workers, because it will help attract newcomers and will increase options over the life course for our young people, so that down the line they really do have a genuine choice between staying and leaving.

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