Rural Development, Privatization and Public Choice: Substance Depends Upon Process: Discussion

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I intend to accomplish three things with my discussion of this paper. First, I offer a summary of Jim's basic line of reasoning, as I understand it, and then suggest what I believe to be the most important contributions his paper makes. Second, I use his paper as a jumping off point to offer my assessment of a likely shift to privatization in the provision of one traditionally "public" service in rural communities, with which I am particularly interested. Third, I comment briefly on the possible role of an intermediate institutional arrangement--public, but with market type incentives--for that same public service.

Jim begins by offering a positivistic definition of rural development as a process of adjustment to Schumpeterian innovations, particularly as related to the spatial dimension of economic activity and the degree of remoteness of rural communities. The adjustment occurs not only on the part of firms and consumers in the private sector but also with respect to institutional arrangements established by governments. He sees this process as a struggle between rent defenders and rent seekers with success on the part of the latter normally requiring effective coalition building to overcome the entrenched vested interests of the former in the status quo. He then asks under what conditions the outcome of this process is likely to involve privatization of what have traditionally been publicly provided services in rural areas. His answer--under conditions where existing provision of a service is so *in*efficient that private entrepreneurs see substantial rents from contracting with government for its provision, rents sufficient in magnitude to justify the costs of participation in the political arena to effect such institutional change. Such a situation can arise when technological change creates opportunities for large increases in productivity and reductions in cost, but when traditional bureaucracies beyond the discipline of the market have little incentive to change, and perhaps in fact strong incentive not to do so. While Jim concludes that this process of institutional adjustment involving privatization would appear likely to move us in the direction of increased economic efficiency, he recognizes that in any particular case, privatization may not necessarily do so, for two reasons: 1) rent seeking can be a zero or negative sum game, and 2) efficiency gains from privatization may be more than offset by inefficiencies introduced as part of the condition bargain.

Besides the concluding point above, I believe Jim's paper makes three other more general contributions. First, it provides an innovative attempt to define the concept of rural development in positivistic terms, by integrating two important lines of economic thought, one focusing on the Schumpeterian adjustment process and the second on rent seeking behavior. Second, he treats institutional change as endogenous, something economists often talk about but rarely do. Third, he challenges us to consider the notion that, as applied economists, our research and extension efforts will only be valued by clientele to the extent that we provide information perceived to be useful by them in their roles as rent defenders or rent seekers.

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In my primary area of research interest, solid waste management, I see a different kind stimulus motivating institutional adjustment at the local level. That stimulus is in the form of federal and state regulations or mandates, which are changing the economics of landfill disposal, in particular. Federal Subtitle D requirements for landfills, which become effective later this year, will necessitate large capital inputs, both physical and human, thus generating huge economies of size. As a result, the economic pressures for a shift to regional landfills will be enormous. Groups of counties could, of course, establish a regional authority or some other institutional entity and proceed to develop and operate a regional landfill publicly. However, it seems quite likely to me that privatization will be a common institutional adjustment in this movement toward regionalization, for at least two reasons other than simply the "incentives to be efficient" argument. First, private firms would probably face lower transactions costs associated with organizing *de facto* regional arrangements, which would develop in the form of bilateral agreements between the private firm and individual communities. Second, private firms may also possess the willingness and ability to incur the political wrath associated with securing a landfill site, wrath that could prove fatal to leaders in the host community under a public institutional arrangement. Will privatization lead to increased efficiency in this kind of regionalization scenario? I suspect so. How about for other traditionally "public" services in rural areas? I don't know, but it would appear to me a question worth addressing.

There has recently been an upsurge of interest in the use of market or incentive based mechanisms in environmental policy--witness the emissions trading scheme for SO_2 in the 1990 Clean Air Act and the "Project 88" studies sponsored by Senators Heinz and Wirth. This has been occurring due to growing acceptance by noneconomists in the regulatory, environmental and business community of the idea that traditional regulatory or command-and-control approaches are often very *in*efficient, and that market or incentive based mechanisms hold the promise of achieving a given level of pollution control at much lower overall cost. Corollary to this phenomenon has been the increasing application of user fees in connection with the provision of what have traditionally been "free" public services (i.e., supported out of general tax revenues). The primary impetus for this institutional adjustment has probably been shrinking real budgets, which have forced governmental agencies to put services on a "pay-as-you-go," self-supporting basis or eliminate some of them altogether. Thus, such changes have been viewed as "survival techniques" and justified on equity grounds--with identifiable beneficiaries paying. As economists, however, we recognize there are often strong efficiency justifications for user fees, when rates are set at the marginal cost of additional units or users. One recent user fee innovation has been the employment of variable rate charges for solid waste collection in urban areas, under which residents are charged differentially for various size containers or by the bag. Can such institutional mechanisms be employed in rural areas to generate revenue for enhanced services and to provide incentives for source reduction and recycling? The likelihood that most rural residents are or will be expected to drop off their garbage at designated sites makes application of user fees problematic (due to the perverse incentives likely created for inappropriate disposal options), but perhaps there are creative ways to implement user fees for this and other kinds of services in rural areas.

And now in closing, let me offer one final comment. Given the combination of extremely stressed budgets and demands for enhanced "public" services facing rural communities today, the pressure to consider lower cost privatization options, as well as user fee approaches appears great. Surely, as applied economists, we have considerable insight to offer relative to these matters.