



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

REINVESTING IN THE SOCIAL INFRASTRUCTURE OF COMMUNITIES

*Lynn R. Harvey
Michigan State University*

Even to the most casual observer of state and local finance, the current environment of fiscal stress is widespread. While states like California, Florida, Illinois, Michigan, Massachusetts and New York receive national press, all states have experienced varying degrees of financial difficulty. Only seven states escaped having to either make budget reductions or raise taxes or both in FY 1992 (Hinds).

According to the National League of Cities, 54 percent of American cities in 1992 anticipate that expenditures will exceed revenues requiring a draw down of fund equity to balance general operating budgets (Judson). For the third consecutive year, the country's fifty largest counties, in terms of general operating expenditures, experienced structural imbalance with current revenues less than total general fund expenditures and their average fund balance equaling but 2.2 percent of expenditures (Lamphere). In Michigan, based on reviewing twenty-four county financial reviews and trend analyses in the past eighteen months, 83 percent of the counties serviced were experiencing structural budget deficits—a condition in which total general fund expenditures exceed current general fund revenues (Harvey).

The response by states to the deteriorating financial condition and accumulated deficits has varied widely throughout the United States. Twelve states reduced budgets in FY 1992, eight states are proposing tax increases for FY 1992, and twenty-three states are anticipating both budget cuts and proposing tax increases in FY 1993 (Hinds). Budget saving strategies adopted by states have included unpaid furloughs for state employees, developing early retirement options, issuing permanent layoff notices, accelerating tax payments, modifying accounting techniques, delaying payments to local units, postponing capital improvement projects, privatizing services and issuing bonds to obtain revenue to balance budgets (Mattoon and Testa). Governors in states with strong unionization found it difficult to achieve layoff targets thus not achieving projected savings. Sagging revenues combined with political resistance to increase taxes, resulted in both states and sub-state units of government to bolster revenue yields by increasing user fees and service charges. Service charges traditionally have provided 8 to 12 percent of total general

fund revenue for local governments, by 1989 the revenue category accounted, on average, for 14.1 percent and is expected to continue to increase (Advisory Commission on Intergovernmental Relations).

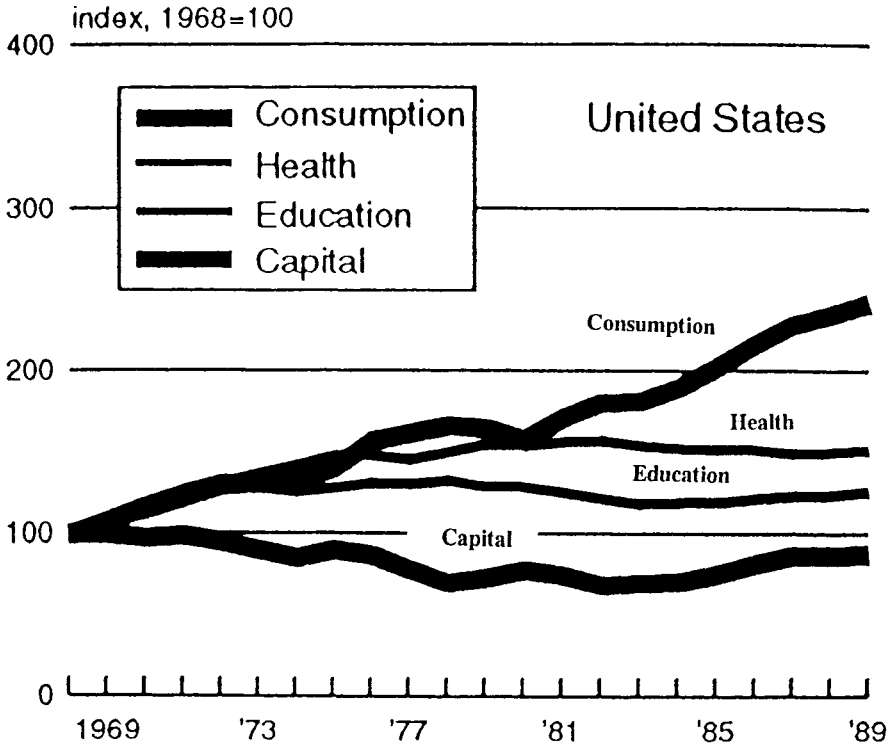
Human service programs such as public health, mental health, job training and social services are particularly vulnerable to recessionary cuts for several reasons. First, human service programs account for 20 to 30 percent of state budgets, thus have high budget exposure. For example, Medicaid costs per \$100 of personal income, have more than doubled between 1976 and 1990 and are expected to rise by an additional 22 percent (National Conference of State Legislatures). Second, during a period of recession, expenditure demand increases. Third, the conservative political agenda of the 1980s and 1990s, which has become known as "fend for yourself federalism," targeted public assistance and transfers reductions as a foremost agenda item. Tight state budgets, following the federal government's lead, have passed along federal aid reductions to local governments resulting in structural budget adjustments related to human service programs at the local level.

The recession-driven decline of the budget capacity of many state and local governments has diminished both the social and physical infrastructure of both rural and urban communities. Many observers feel that the short-run-driven agenda to balance budgets by reducing investment in human capital spending will have long-term impacts that will trickle down to the smallest of communities.

Consumption Versus Investment Spending

Some economists have proposed increased federal spending on education and infrastructure as a means of stimulating growth in the economy. Would such a proposal hold true for state and local governments? Such a proposal favors investment-oriented spending over consumption-oriented spending. While the breakdown of public expenditures into investment and consumption is not an exact science, nor do governments report data according to these categories, the July, 1992, issue of the *Chicago Fed Letter* attempted to classify expenditure data for the five states in the Seventh District (Illinois, Indiana, Iowa, Michigan and Wisconsin) by the two classifications. Investment spending by state and local governments includes capital spending (spending on roads, equipment, school buildings and other infrastructure) and noncapital education and noncapital health and hospital spending (Medicaid spending excluded). Investment spending is designed to enhance human rather than physical capital, for example, investment in education. The remainder of government expenditures are considered consumption expenditures and include corrections, social services and general government administration. Calculations published by the *Chicago Fed Letter* determined that consumption spending by state and local governments for the period 1968-1989 increased 140 percent. The growth in three of the invest-

Figure 1. Indexed Real Per Capita Growth Rates



Source: The Federal Reserve Bank of Chicago, *Chicago Fed Letter*

ment spending categories ranged from 52 percent for health and 27 percent for education to an 11 percent decline in capital outlays (Figure 1). The article noted that if Medicaid spending is included in health expenditures, the growth rate for health increases to 80 percent. Perhaps, if state and local governments were able to reverse the trend and reorient spending focused on investment spending, stimulation of local economies might occur (The Federal Reserve Bank of Chicago).

Trends in Infrastructure Investment

Spending on public infrastructure in the United States as a percent of GNP declined from 2.3 percent in 1964 to 1.7 percent in 1987 (Oregon State University Extension Service). The aging of rural water systems and waste treatment facilities is of particular concern in the United States. A large percent of the rural facilities constructed in the 1960s and 1970s were done so with a substantial infusion of federal grants which often paid up to 80 percent of construction costs. U.S. Environmental Protection Agency reports indicate

that 75 percent of all documented wastewater facility needs—upgrade and repair—are in rural communities of fewer than 10,000 persons (National Association of Towns and Townships). The reduction in available federal funds for upgrade, construction and repair as well as the change in the granting formula has diminished the opportunity for rural communities to engage in infrastructure repair and upgrade. While infrastructure investment has slowed for some specific services like water, sewer and roads, the same cannot be said for the construction of correctional facilities.

Prisons: A Booming Business

Contrasting the slowdown in physical infrastructure investment, is the growth in consumption expenditures on county jails and new state prisons. The construction of new correctional facilities is a booming business nationwide. For example, despite Michigan's stagnant economy and a strained state budget, the state embarked on an aggressive prison construction program in the late 1980s with the construction of nineteen new regional prisons. Though all nineteen correctional facilities are constructed, the state has been only able to fully operate seventeen due to state budget constraints. The Michigan Department of Corrections budget has increased from \$389 million in FY 1986 to \$867 million in FY 1992, a 122.8 percent increase (State of Michigan).

Despite the addition of seventeen new correction facilities, the state's prison system capacity is rated at 33,448 beds and is currently 4,000 + inmates over the rated capacity. Meanwhile, the average cost per prisoner has increased from \$14,320 in FY 1982 to \$24,833 in FY 1992. Adjusting for inflation, the average cost per prisoner has increased by 28 percent (State of Michigan).

Examining state corrections data only tells a portion of the story. The costs incurred by counties around the country that have embarked on county jail construction are another piece of the fiscal puzzle. The wave of new county jail construction has been motivated by changes in federal correction standards, the demand for jail space locally and a get-tough-on-crime demand by citizens. Additionally, local officials adopted a jail-for-rent policy to aid in financing operating costs. Unfortunately, the concept of supply and demand is not clearly understood and county jail space is in excess supply—even to the extent that counties bid against each other in filling county hotel (jail) space. The excess capacity and resulting costs have become a drain on already strained county budgets. The elementary economic education principle of "guns or butter" has become one of "jails or human services." Both states and counties seeking alternatives to rising correction costs have turned to privatization as a potential solution. It is estimated that by 1993, 10 percent of all U.S. minimum security inmates will be held in private facilities (Bennett, Sept. 7, 1992). However, the success of privatization of jails has had

mixed results around the country. The promise of job creation and lower average costs for prison operation is often not achieved (Bennett, Sept. 21, 1992). While the costs of incarcerating adults continue to escalate, an equally perplexing problem is the rising cost of juvenile detention.

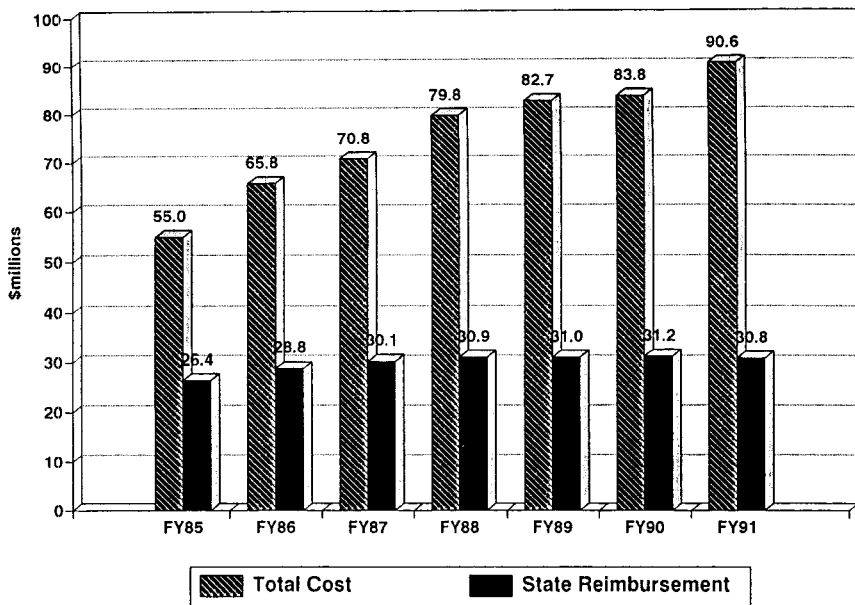
Child Care Costs

The spiraling cost of child care—the out-placement of abused, neglected and delinquent children—is a major concern to county officials around the country. County courts become involved or intervene at the request of parents, teachers, and social service or law enforcement agencies to protect the welfare of the child. Since the demand for child care activities and related costs is unpredictable, county officials face a great deal of uncertainty in planning budgets for the cost center. The cost of child care to Michigan counties has risen sharply, increasing from \$55 million in FY 1985 to \$90.6 million FY 1991 (Michigan Association of Counties). However, state reimbursement to county government has remained constant over seven fiscal years. See Figure 2.

The out-placement costs associated with juveniles represent the largest share of incurred child care costs, with juvenile detention

Figure 2. Michigan Child Care Expenditures

FY 1985 - 1991



Source: Michigan Association of Counties, *Michigan Counties*

training costs ranging from \$173 to \$189 per day (Phillipson). Local officials nationally are facing pressure to expand the number of juvenile correctional facilities to cope with the increased number of youth offenders coming in contact with the county court system. Since the costs of child care represent a mandated custodial function of county government, funding for juvenile out-placement drains off needed county funds for other county general services and represents a consumption investment discussed previously.

Role of Public Policy Education

The previous discussion and data is probably not new to most public policy educators. So what can land grant universities and extension public policy educators do about enhancing investment in the community social infrastructure? Three broad strategies are suggested: 1) investing in human capital building activities; 2) promoting collaboration in addressing community social problems; and 3) establishing aggressive public policy education programs. Land grant universities and the extension service have a long and distinguished history of addressing social issues. Perhaps what we need are new twists to our educational efforts.

Human Capital Building Activities

Historically, the extension service has prided itself on providing education and technical assistance aimed at enhancing human capital. Our success in the program development and delivery of community leadership development is well recognized. Replenishing the leadership stock of communities has been a challenge taken very seriously by extension. Countless leadership models have found their way into county and state specialists' plans of work and the need today is as great as in years past. The interest and financial support of the Farm Foundation and the W.K. Kellogg Foundation has resulted in thousands of community leaders benefitting from extension developed leadership programs. States which have thus far, for a variety of reasons, not become engaged in community leadership development programming at the county level are missing out on a rewarding experience and one that returns dividends to extension and the land grant university.

Providing technical assistance and training local officials is an additional human investment strategy for land grant universities. The financial difficulties facing state and local governments are complex and challenging to even the most astute public administrators and policymakers. Part-time officials and local governments without professional administrators face an almost insurmountable task in sorting out the fiscal problems and designing alternative remedies. Public finance education, budgeting, accounting, strategic planning, use of microcomputers, financial analysis and personnel management all

represent subject areas for which extension and the broader non-agriculture departments in our universities have skilled personnel to aid local officials.

Recently adopted reapportionment plans by states and sub-state units present an opportunity for public policy educators. The net result of reapportionment is that new faces arrive on the political scene and in local offices. Opportunities for extension-sponsored local official training abound following reapportionment and general elections. In Michigan, a *memorandum agreement* was developed with the Michigan Association of Counties fifteen years ago. Extension agreed to take leadership in providing educational training and workshops to county commissioners. The training covers a variety of subject matter—ranging from new county commissioner training to public finance and budgeting. The new commissioner training program reaches 80 percent of all newly elected commissioners. The training and outreach serves as an excellent introduction to commissioners on the capacity of the land grant university system to service the need of local officials. While the demand for follow-up technical assistance to individual counties at times strains the staff capacity to deliver, the program has been instrumental in building and maintaining county support for local extension offices.

Michigan State University's public policy education program attempts to service the needs of Michigan's 1,243 townships though the large number of townships makes it impossible under current staffing levels to respond to all requests. Our goal has been to train county extension field staff to service township requests where feasible. Extension is well positioned to assist sub-state units of government in strategic or long-range planning, an area almost totally neglected by local governments. The recession and continued financial stress in the face of growing service demands creates an environment for strategic planning. We have found that local governments have been most willing to pay the incurred costs for conducting strategic planning and for technical assistance.

Collaboration and Community Problems

The complex community social problems and the challenges faced by communities in social infrastructure rebuilding requires collaboration between public agencies, communities and local, state and federal government. Extension public policy educators and community development specialists have for years espoused the collaboration theme. Our research and technical assistance has demonstrated the benefits to be gained through intergovernmental contracting and collaborative arrangements. The recent conference, Multicommunity Collaboration: An Evolving Rural Revitalization Strategy, sponsored by the North Central Regional Center for Rural Development has no less than thirty-nine papers authored by fifty-five professionals addressing the issue of the strategies and benefits of com-

munity collaboration. No greater need for collaboration exists than addressing community social issues.

We all are familiar with situations in which investing in prevention save monies relative to taking corrective action later. A Children's Defense Fund analysis demonstrates the tradeoffs or opportunity costs between investing in prevention and intervention versus bearing the associated corrective action cost if no investment is made (*Youth Record*). For example, on the prevention side, providing \$2,500 to provide a Head Start program or day care for the child of a working mother is equal to paying \$7,300 to provide AFDC, food stamps and heating assistance for a mother of two who cannot work because of child care responsibilities. Table 1 provides this and other examples of preventive associated costs versus corrective action costs.

At last year's National Public Policy Education Conference, Michigan's Judge Joanna Neale discussed the unique program that linked county extension programs with probate court. The social intervention program was aimed at minimizing the need for sentencing juveniles to detention by involving first time offenders in constructive human capital building activities such as "youth-at-risk" programs. Such programs offer an opportunity for extension to form new part-

Table 1. Paying Now Versus Paying Later

Prevention Costs	Corrective Action Costs
\$1,100 to provide a teen with a summer job	\$20,000 to incarcerate lawbreakers
\$2,500 to provide Head Start or day care for the child of a working mother	\$7,300 to provide AFDC, food stamps and heating assistance for a mother of two who cannot work because of child care responsibilities
\$600 to provide a year of compensatory education	\$2,400 to have a child repeat a grade
\$600 to provide comprehensive prenatal care for an expectant mother	\$12,000 (on average) under Medicaid for intensive post-natal for underweight newborns
\$68 to provide family planning services to teenage girl	\$3,000 under Medicaid to provide prenatal care and delivery for an unemployed teenage mother
\$654 million to provide literacy training and vocational experience to 40,000 trainees through Job Corps	\$8.6 billion to provide AFDC benefits to more than 3 million families

Source: *Youth Record*

ners with the county court system. Extension's home economics and youth programs have much to contribute to social intervention programs administered by the courts. State extension systems must view collaborative efforts with court systems as a priority if for no other concern than the preservation of the local extension office. Since courts represent an increasing cost center in most counties, the courts are major competitors for the limited public resources—resources that could be allocated to human development programs. Without effective local social intervention strategies for which extension can be partners, local governments will continue to be consumption-investment oriented versus investing in human capital building.

Another program showing promise as a prevention strategy that has received strong endorsement from the courts, mental health agencies, social services and public health is Michigan's *Building Strong Families Program*, developed and piloted by Michigan State University extension. The program, using the Expanded Family Nutrition Education Program (EFNEP) model, targets low income, low-literacy parents with young children (between the ages of 0-3). Utilizing trained volunteers and para-professionals backed by the extension home economist, the program provides one-on-one educational training on a variety of subjects, including child development, discipline, playing to learn and a decision-making model for parents called *Smart Loving*. The goal of the program is to give kids a good start in life, build strong parenting skills and decrease the chances of the family entering the court system either due to abuse and neglect or aberrant behavior of their children. The *Building Strong Families Program* has the potential for extension to link with other county and state agencies in developing collaborative programming addressing the families most at risk, whose needs and concerns have the potential of imposing a much greater cost on communities in the future. As a juvenile judge in Cass County Michigan stated at a public forum, "Extension's *Building Strong Families Program* is one of only a few investments that our community can make to address the abuse and neglect problem which many of our low income, low-literacy families are experiencing." The judge was successful in convincing the commissioners of a county experiencing financial difficulties to appropriate monies to extension for the hiring of program aides to work with his juvenile court as a potential long-term solution to rising juvenile court costs.

Extension is well positioned to assist communities develop new institutional arrangements for delivery of such services as police, fire, emergency services, health care clinics, sewer and water facilities and recreational programs. Public policy education of officials on the benefits of such collaboration is needed because many officials still hold onto the concept that "cooperation is an unnatural act between two non-consenting adults." Service delivery through collaboration has proven to be a cost effective method, capturing economies of

scale and often permitting a higher quality of services to be provided to residents.

General Public Policy Education

The participation rate of 18- to 25-year-olds in the democratic process continues to be a problem nationwide. Participation by the age group in state and national elections has hovered between 22 and 27 percent of those eligible to vote in the age category. Seeking ways to involve young people in the democratic process is a challenge. Local, state, national and international government education has to be initiated before senior high school government class, a condition frequently observed in today's K-12 system. The participation rate by other age groups other than the senior citizen population is also low, especially in local elections in which one would think involvement would be the highest.

Extension public policy educators need to design basic local government education modules suitable for use in schools because it is apparent that primary and secondary educators have not seen citizen education, other than at school millage request time, as an educational goal.

Conclusion

We as public policy educators have not lacked for policy education opportunities. Despite our aggressive promotion of educational programming at our own institutions, the extension system has still not been committed in my views of making public policy education a dimension of our total extension programming. The policy specialists are too few in number at most institutions to meet the needs expressed in our local communities. The training of local county extension staff is a prerequisite for a viable public policy education. Considering the structural financial problems facing our states and local governments, the demand for what we as public policy specialists deliver will continue to grow. The reinvestment in the social infrastructure demands extension's involvement. We must be vigilant in capturing the teachable moment.

REFERENCES

- Advisory Commission on Intergovernmental Relations. *Significant Features of Fiscal Federalism*. Table 92. Washington DC, Vol. 2, 1991.
- Bennett, Julie. "Private Prison Industry Booms in the South." *City & State*, p. GM4. Chicago IL: Crain Communications Inc., September 7, 1992.
- _____. "Builder's Cure Of Private Jails Leaves Local Ill." *City & State*, p. 3. Chicago IL: Crain Communications Inc., September 21, 1992.
- The Federal Reserve Bank of Chicago. *Chicago Fed Letter*. Number 59, July, 1992.
- Harvey, Lynn R. *County Financial Review and Trend Analysis*. 24 financial reviews completed for selected Michigan counties. East Lansing MI: Department of Agricultural Economics, Michigan State University, Jan. 1991 to June, 1992.
- Hinds, Michael deCourcy. "Recession Leaving State Governments More Efficient." *New York Times*, 22 Apr. 1992, p. not available.
- Judson, David. "U.S. Cities Cut Corners." *Lansing State Journal*, 9 July, 1992, p. 5.

Lamphere, Amy. "County Spending Outpaces Revenue." *City & State*, p. SG7. Chicago IL: Crain Communications, June 15, 1992.

Mattoon, Richard A., and William A. Testa. "State and Local Governments' Reaction To Recession." *Economics Perspectives*, p. 23. Chicago IL: Federal Reserve Bank of Chicago, March-Apr. 1992.

Michigan Association of Counties. "Will Child Care Funding Be Changed?" *Michigan Counties*, p. 1. Lansing MI, May 1992.

National Association of Towns and Townships. "Wastewater Funds Lacking." *NATaT's Reporter*, p. 6. Washington DC, May, 1992.

National Conference of State Legislatures. *State Budget and Tax Actions*. Denver CO, 1990.

Oregon State University Extension Service. "Public Infrastructure." *Perspectives*, Number 6, Winter 1992.

Phillipson, Herbert E. "The Importance of Children: A Simplistic Approach." *Michigan Bar Journal*, pp. 274-276. Lansing MI, Mar. 1992.

State of Michigan. *Michigan Senate Fiscal Agency Digest*, pp. 19-20. Lansing MI, May, 1992.

Youth Record. "Paying Now Versus Paying Later," 19 July, 1990, p. 1.