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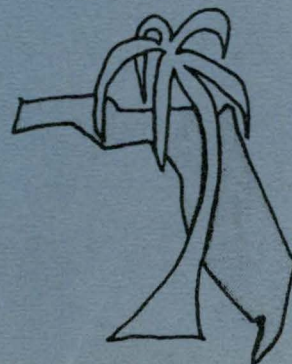
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## COMMUNITY DEVELOPMENT IN THE 1970's

R. J. Hildreth and W. Neill Schaller\*

As the amount of literature on community development grows, so does the risk that little will be gained by another paper with this title. However, our frustrations in drafting this paper and the comments of reviewers convinced us that the need for an improved community development perspective has never been more urgent. We undertook our assignment, therefore, in the hope of opening doors to some new ways to thinking about community development.

There is much confusion surrounding the term "community development." Economists and other professionals involved in community development work seem to agree on what it is, but at times we suspect that they have only declared a truce. Even if there is agreement among professionals, a lack of understanding persists between professionals and their administrators, between professionals and policy makers, between researchers and extension workers, and quite possibly between individual communities and many outside agencies that are trying to further community development.

Oddly enough, there is general agreement that the major reason for this dilemma is that the goals of community development are abstract and intangible. But progress toward understanding and articulating community development is stymied at that point for two reasons. First, "outsiders" faced with the lack of concrete goals of community development tend to insert what they think are or could be the goals. Second, outsiders who look for quantifiable goals tend to limit their perception of community development goals to those that can be measured.

What is unfortunate about these responses is not the desire to translate community development into specific operational goals, for that must be done. Rather it is the failure to verify whether those imposed operational goals are the goals of the community. Different outsiders talk about different goals. If there is no effort to prove or disprove the validity of any particular goal, discussions about community development become subtle contests which no one can win.

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This goal dilemma should come as no surprise. Community development is a normative term. It is not a scientific term nor a theoretical concept. It is not a research problem, but rather a policy objective and a process that people - but not necessarily all people - have labeled "good."

This is not to say that the economist in community development work should ignore values. In fact, his tendency to do so - to leave values to the sociologist - may be a part of the problem. Rather, the economist needs to develop a new sensitivity to values, for they define the changing arena in which he must apply his science.

Clearly some kind of framework for thinking about community development is essential if a way is to be found out of this dilemma. We are not thinking of a sophisticated model, but rather a scaffolding that can give order and meaning to the complexities of community development. We are not certain what framework would help the most, but one possibility is the means-ends framework. It is one that perhaps has been overlooked because it is elementary or lacking in elegance.

The means-end framework is "old hat" to economists in the policy field. Rainer Schickele, in his textbook on agricultural policy, used it to sort out and evaluate policy alternatives (12). He treats ends and means as two elements of an action system (Figure 1). Action systems typically involve a continuum of means and ends. For example, a job is a means to income (end), which serves as a means for buying a car (end), which may be used for recreation (end), and so on.

The system includes two other elements - actors and conditions. The actor may be an individual or some aggregation of individuals, from an organization or community to the U. S. Government. The conditions are the "givens" or the setting within which the system operates. The givens include institutions, rules, and customs. They may also be requirements imposed by or on the actor, such as limiting means to those that are politically and economically acceptable.

While application of the means-ends framework to community development will not erase all misunderstanding about this subject, it should at least show why misunderstanding exists and help to put the issues into more useful perspective. With that hope in mind, we shall now discuss a few community development issues in a means-ends framework.

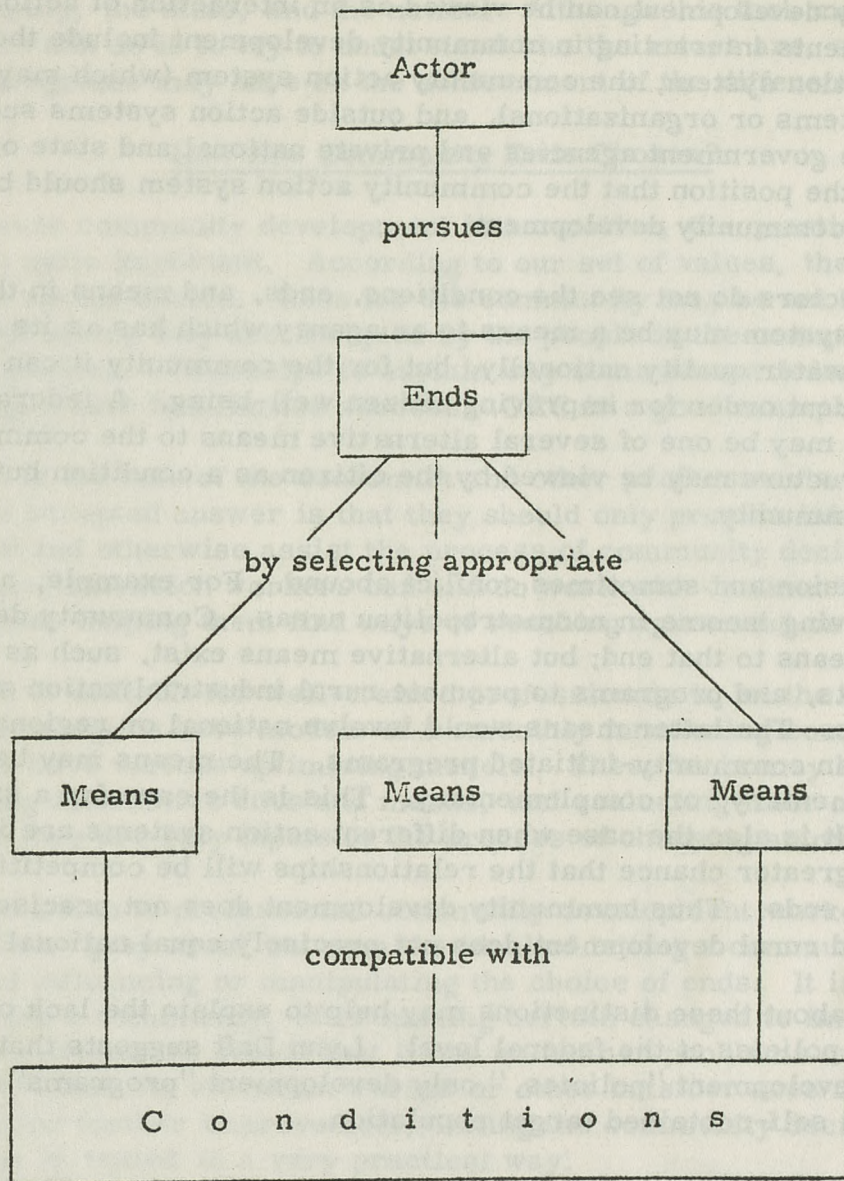


Figure 1. Diagram of an action system.

### The Means-Ends Setting for Community Development

Community development can be viewed as an interaction of action systems. The elements interacting in community development include the individual citizen action system, the community action system (which may include a number of systems or organizations), and outside action systems such as federal and state government agencies and private national and state organizations. We take the position that the community action system should be the major focus for community development.

Different actors do not see the conditions, ends, and means in the same light. A sewer system may be a means to an agency which has as its end the improvement of water quality nationally, but for the community it can be a means of a different order for improving citizen well-being. A federal funding program may be one of several alternative means to the community. The local tax structure may be viewed by the citizen as a condition but as a means by the community.

Thus confusion and sometimes conflict abound. For example, assume the end of improving income in nonmetropolitan areas. Community development can be a means to that end; but alternative means exist, such as direct transfer payments, and programs to promote rural industrialization and migration to jobs. The latter means would involve national or regional programs rather than community-initiated programs. The means may be competitive, supplementary, or complementary. This is the case for a single action system. It is also the case when different action systems are involved. Here there is a greater chance that the relationships will be competitive because of differences in ends. Thus community development does not precisely equal rural development, and rural development does not precisely equal national development.

Confusion about these distinctions may help to explain the lack of clear-cut development policies at the federal level. Lynn Daft suggests that we really have no development "policies," only development "programs" (3). Each has its own self-contained target population.

This situation is not new. Evidence of incompatible or conflicting federal programs can be found even within the field of agricultural policy. Witness concurrent programs to reclaim agricultural land and to hold down production through acreage allotments. Admittedly the objectives of these programs are not identical, nor do they seek to improve the well-being of the same people. In fact, it is likely that the ends of most public programs are neither entirely competitive nor fully compatible with those of other programs, but rather a mixture of the two.

The ideal, of course, is to develop programs which recognize the means-ends interrelationships and to form a coherent policy as viewed by the citizen, the community, the state, and the nation. Although this task may be impossible, the least we can do is to try to understand who the actors are, and what effects different programs may have on the achievement of the different ends.

### How Are Community Ends Chosen?

Because community development is normative, the question of who selects the ends is quite important. According to our set of values, the people in the community should decide. Ends for the community may be set by the larger society, but unless they are accepted by the people in the community, they cannot be attained. This helps to explain why some recent federal programs to help people have had limited success. CEC is a good example.

What is the role of the economist and other professionals in choosing ends? The accepted answer is that they should only provide information or intelligence and otherwise assist the process of community decision making. For example, extension workers can and do work with community leaders and organizations, helping them find ways of reaching agreement on ends.

But it is difficult for well-trained professionals to let the community decide. Sociologists have models of a smoothly functioning community. Economists have various optimizing models. These tools may be quite useful in identifying alternative ends and means, and evaluating their consequences, but as such they are only inputs to the process of choosing among alternatives.

As we listen to professional community development workers, we realize that there is a "gray area" between the ideal of letting a community decide what it wants and influencing or manipulating the choice of ends. It is perhaps not uncommon for a community, after making certain changes to improve the well-being of its citizens, to decide that it has no further problems or new ends to pursue. But when the extension worker or other outsider sees the need and opportunity for further improvement, letting the community decide becomes an ideal that is tested in a very practical way.

Extension personnel are facing new demands and role experiences in their community development work. If they and other actors do not know who is performing what role, there will be risks of still greater confusion.<sup>1/</sup>

### The Problems of Choosing Community Ends and Means

A possible community action system of means and ends - partial to be sure - is presented in Figure 2. Improved well-being is assumed to be the

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<sup>1/</sup> One model for rendering professional assistance is that of "process consultation." See Schein (11).

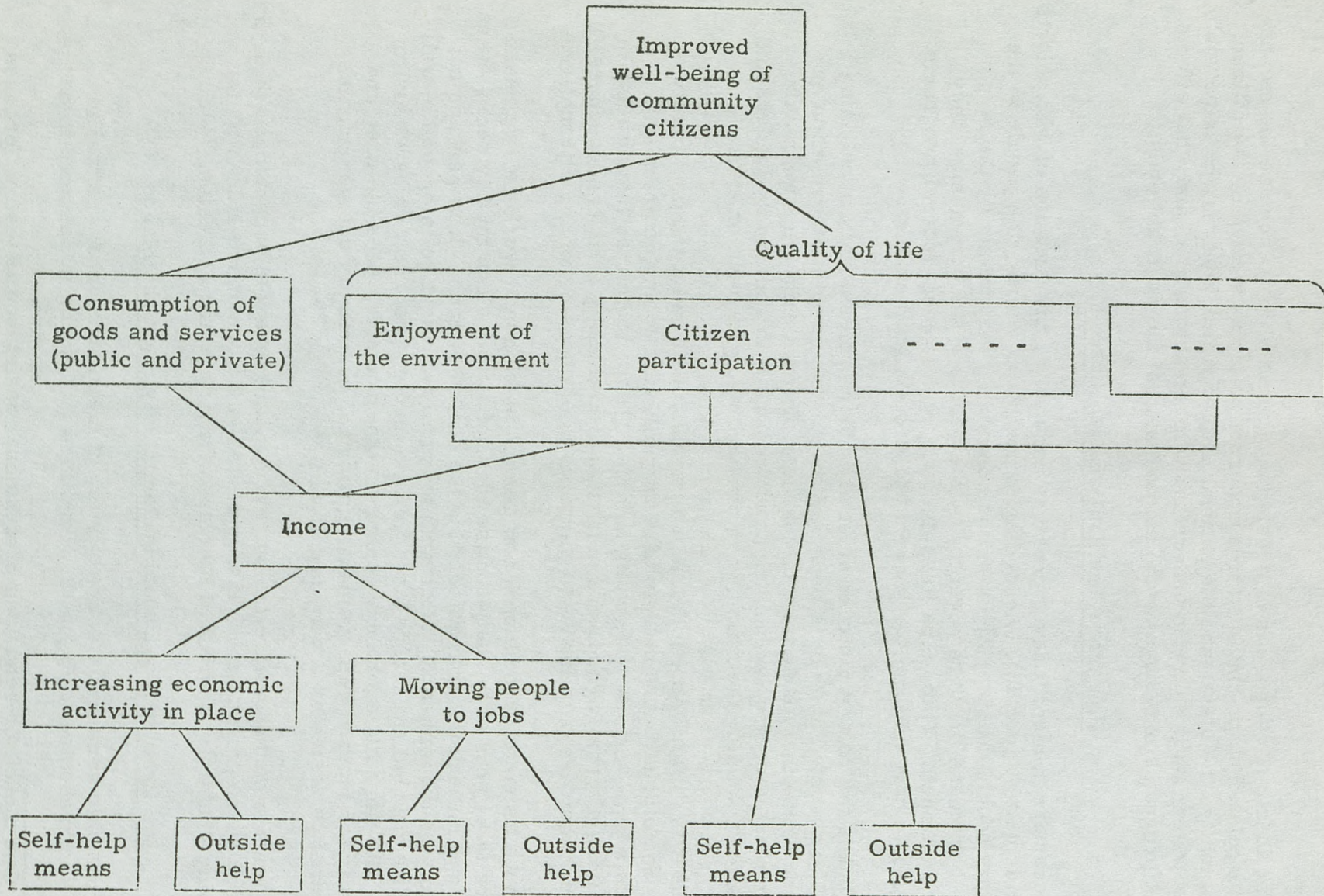


Figure 2. Action system to improve well-being of community citizens.



highest end (a real community may or may not choose this end). Figure 2 suggests that the well-being of individuals is influenced by many factors. An increase in the consumption of goods and services usually improves well-being. Increases in income and employment provide means for increasing consumption of goods and services. But other factors often put under the heading of quality of life, such as enjoyment of the environment and citizen participation also improve well-being.

Citizen participation may appear at different levels in the means-ends continuum. It may appear at a lower level as a means for generating action to increase employment and income, which are means for purchasing goods and services, which are means for improving well-being. In other situations, well-being may be directly affected by citizen participation. For example, if the individual or group of individuals feels disenfranchised or discriminated against, participation in the community development process may be an important contribution to their well-being. The continuing concern about "participatory democracy" is evidence that many people consider the process a major end. In contrast, some professionals are inclined to view participation in the process as a lower order means, one that does not fit neatly into a framework like Figure 2. Yet, if having more of a say in one's destiny - or at least knowing what is going on - is as desired today as some observers now believe, it would be unfortunate if this factor received only passing attention.<sup>2/</sup>

The process of choosing community ends and means typically involves the solution of numerous trade-off problems. To give some order to these problems, it is helpful to distinguish between two general cases. In one case, we view the community as a single actor. In the other, the community is treated as a collection of individuals.

### The Community as a Single Actor<sup>3/</sup>

It is seldom possible for a community to make choices that will improve every component of well-being. Helping the community understand the conflicts between ends can be a major contribution of the professional. Figure 3 illustrates the nature of this problem. For simplification, the figure is limited to two likely contributors to well-being. The consumption of goods and services

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<sup>2/</sup> There is another reason why citizen participation could be of concern to the economist; he might well think of citizen participation as a mechanism for verifying assumed community ends.

<sup>3/</sup> We assume the community has methods of reaching agreement. This is a difficult problem for a real community. Economists are not of much help. They usually assume the problem away (as we have) or hold a community utility function exists (which assumes the problem away).

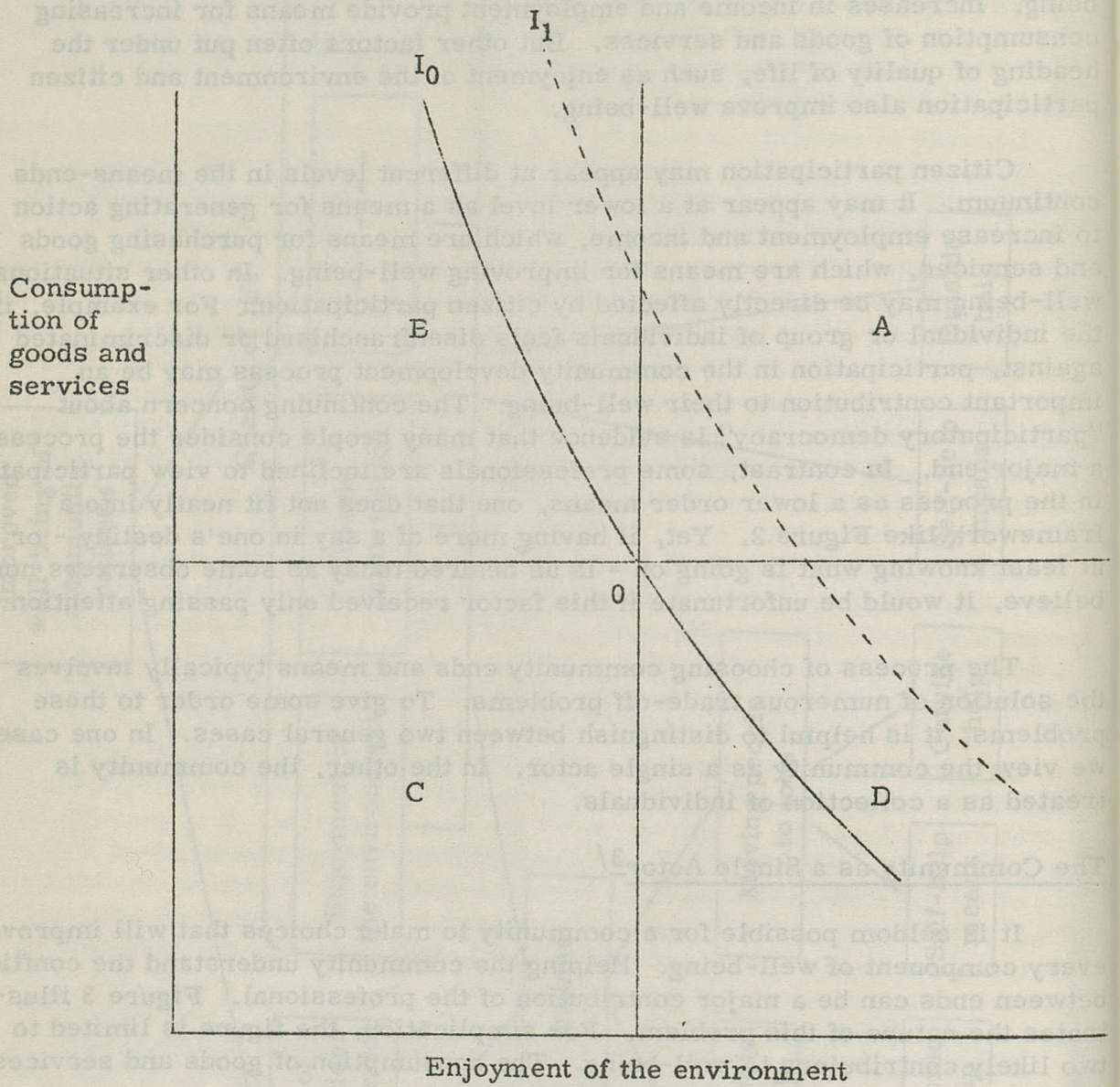


Figure 3

is measured on the vertical axis, and enjoyment of the environment on the horizontal axis. The figure assumes that a given community is now located at point 0. Changes could take place that would move the community from point 0 into quadrant A where it would enjoy an increase in both consumption of goods and services and a better environment. It is perhaps more likely that an increase in one would be accompanied by a decrease in the other - a movement into quadrant E or quadrant D.

These possibilities are more easily recognized by economists if they are shown in terms of hypothetical indifference curves. In Figure 3, the over-all well-being of individuals in the community would be the same at all points on the indifference curve  $I_0$ . The well-being of the community would increase when the curve shifts to the right from  $I_0$  to  $I_1$ .

Figure 3 captures only the static side of the choice problem. Time is also an important factor. For example, a community may decide to encourage industrialization, even though that may mean an initial sacrifice in the enjoyment of environment. However, such a choice might mean higher eventual incomes, which would then enable the community to afford better public services.

#### The Community as a Collection of Individuals

The choice problems facing a community go well beyond those just described. They also include the problems of differential effects of community action on individuals in the community. The relationship between the community and individual citizens can be illustrated in Figure 4.

Suppose that a particular community is now at point 0. This point represents an average of some kind for individuals in the community. Suppose the community consists of four people, numbered 1 through 4 in Figure 4. If increases in well-being means moving into quadrants A, E, or D, increases in well-being for each individual involve moving into the smaller quadrants a, b, or d. But here we see that there are a great many possible movements of individuals leading to a single change for the community. Movement into quadrant A with one person made better off and no other person made worse off would be recognized by the economist as a Pareto optimum solution. In real life, few such situations are found.

Suppose the community takes an action which moves individual 1 to point w and individual 3 to point x. Or, suppose the community takes an action which moves individual 3 to point y and individual 1 to point z. The net result in both cases would be a movement into quadrant A for the community. The question then arises, are the two actions equally desirable? A person whose value system is oriented toward a more equal distribution of the fruits of development would argue that the second action would be preferred. A person who is not concerned about the distribution of benefits and costs would give equal weight to either action by the community.

is measured on the vertical axis, and enjoyment of the environment on the horizontal axis. The figure assumes that a given community is now located at point 0. Changes could take place that would move the community from point 0 into quadrant A where it would enjoy an increase in both consumption of goods and services and a better environment. It is perhaps more likely that an increase in one would be accompanied by a decrease in the other - a move-ment into quadrant B or quadrant D.

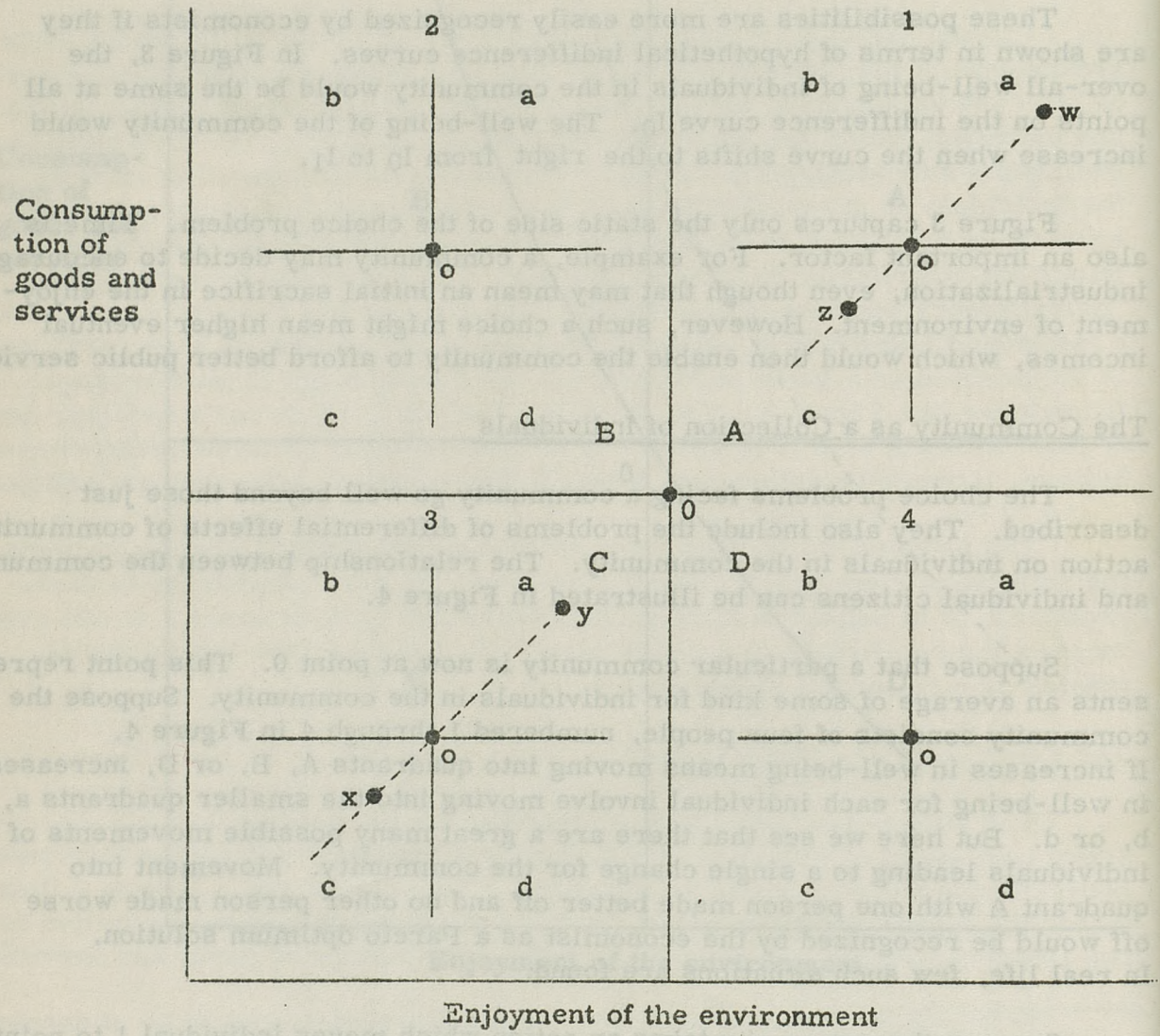


Figure 4

Suppose the community takes an action which moves individual 1 to point w and individual 3 to point x. Or, suppose the community takes an action which moves individual 3 to point y and individual 1 to point z. The net result in both cases would be a movement from A for the community. The question then arises, are the two actions equally desirable? A person whose value system is oriented toward a more equal distribution of the fruits of development would argue that the second action would be preferred. A person who is not concerned about the distribution of benefits and costs would give equal weight to either action by the community.

The distribution problem is illustrated by a study of industries located in the Czark region of eastern Oklahoma since 1960 (18). The study measured the benefits in the form of payroll and secondary effects as well as costs in terms of additional utilities and school services required for new residents. The results indicated the community could subsidize industry by \$3,800 annually per new job created and just break even. While many people benefited from the new jobs, not all sectors gained. In several instances, the school and municipal government sectors incurred a net loss despite large gains to the private sector because additional taxes did not cover costs of the added services required. Those people who paid higher taxes for added services but did not benefit from the new jobs were made worse off.

Farmers often have questions about development efforts for similar reasons. Many do not see how they would benefit from new jobs although they would pay a large share of the cost of added services through the property tax.

Can economic theory help us any? Perhaps a bit. There is the concept of Pareto better, where if one person is made better off and another person is made worse off, and the person who benefits can compensate the second person for his loss, then the community well-being has been improved. In real life it is easier to compensate for monetary changes than it is for non-monetary changes, but more mechanisms in our society are needed to achieve even economic compensation. The development of these mechanisms will likely involve new or changed institutions. This topic is briefly discussed later.

#### Choosing Among Alternative Means - Two Neglected Issues

As we move down the system illustrated in Figure 2, we can identify alternative means to ends such as consumption of goods and services and enjoyment of the environment. Let us single out for further discussion two different issues suggested in Figure 2.

#### Increasing Economic Activity in Place Versus Moving People to Jobs

Increasing economic activity in a specific location is usually considered a basic step in community development. Moving people to jobs may or may not be competitive with community development. If we are talking about improving educational levels and increasing job skills, it is quite compatible. If we are talking about subsidizing migration away from rural communities, it is not. In the extreme these two approaches - place development and people development, if you will - can represent entirely different means to the well-being of people.

The evaluation of these means depends, of course, on whether the objective is to increase the income of individuals now residing in a community, the income of sending and receiving areas, or national income. According to Luther Tweeten "Economists, observing that out-migration has reduced per capita income of the sending and receiving areas, have concluded that out-migration best not be encouraged" (18). But he adds that if one is interested in the well-being of community people wherever they eventually reside, out-migration has been a resounding success. Tweeten argues that if the income of the people who migrated out of the community is averaged with the income of those who remain, out-migration has indeed raised the income of that group of people. It may have reduced the average income in the receiving area, but it has increased national per capita income.

The implications of this comparison are worth stressing. First, economists may have been too quick to rule out the movement of people to jobs. Conceivably, they have put this option into a different category simply because it does not seem to fit into community development. Or, the economist has perhaps looked only at the average income effects for both sending and receiving areas. He may have also assumed that migration from rural communities always means a further concentration of people in metropolitan areas like Chicago.

Eruce MacLaury, President of the Federal Reserve Bank of Minneapolis, questions the assumption that people development inevitably means migration to big cities (16). MacLaury feels that it would be more promising and economical to: (1) create jobs in selective growth centers rather than scattering our efforts over the whole countryside; (2) take a more tolerant attitude toward migration from rural areas to identifiable growth centers, and indeed to facilitate such migration in the interest of productive employment; and (3) look toward federal assistance in the areas of education, health, and welfare, not for concentration of such assistance in limited areas, but for helping to provide these benefits to all citizens no matter where they are located.

MacLaury in effect argues for an enlightened combination of people development and place development. Indeed, if one is concerned about the well-being of individuals, the movement of people to jobs is an essential consideration.

This suggests that researchers might make an important contribution by analyzing the proper mix of place and people development consistent with different assumptions about ends. In this regard, employment and income are only a part of the picture. The research would need to also consider the effects of these two means on community services.

### Self-Help Versus Outside Help

At the bottom of Figure 2 are a set of means which, for lack of better terms, we call "self-help means" and "outside help." They might also be called the "bootstrap" and "sky hook" approaches, two basic ways in which higher means or ends are reached.

What criteria can be used to determine the appropriateness of these different means? The answer is that it depends on the constraints to attainment of desired ends. This is the case whether we are talking about an individual or a community. The constraints generally fall into two categories: (1) those over which the individual or group has relatively little control, such as lack of jobs, inflation, inadequate resources, and discrimination; and (2) those over which the individual or group has somewhat greater control - lack of interest or motivation, for example.

The self-help approach is based on the assumption that the well-being of people will be improved if the people really want improvement and will take the initiative. This approach assumes that people can pull themselves up by their own bootstraps. The constraints preventing a higher well-being are believed to be those over which people have considerable control. In contrast, the outside help strategy rests on the notion that financial and other assistance is needed because the constraints are those over which the people have relatively little control.

Tweeten argues that self-help efforts have largely failed, citing studies on agricultural development by Back and Hurt, and Schultz (18). He suggests that the per capita income of a community can be extremely low even after that community has achieved the optimum use of its resources. Self-help efforts have brought community improvement but little increase in incomes. Outside technology, expertise, and capital as well as national rural development policy are, therefore, essential.

The point is that neither the self-help nor the outside help approach alone is likely to improve the well-being of people very much. We have had enough experience with welfare and development programs at home and abroad to appreciate this point. Hopefully, that experience will not be forgotten in our community development efforts.

### The Conditions in a Community Action System

Earlier we noted that the means-ends framework or action system used by Schickele to study agricultural policy included four elements - actor, ends, means, and conditions. The institutional setting is a very important part of the conditions under which the system operates.

The improvement of well-being of people living in a given community depends largely on the performance of existing institutions or the development of new ones. Institutions are the drive shaft that moves a community forward or backward. Yet in our judgment most economists have devoted relatively little attention to them.

Institutions are the rules and mechanisms that give order to the relationships between people. Schultz defines an institution as a behavioral rule (14). Institutions include customs, laws, and rights, as well as man-made devices like markets to facilitate, guide, and control interactions between people. Our daily lives are indeed influenced by an intricate network of social, economic, and political institutions.

The term "institution" is more inclusive than the term "organization." An organization is a particular device or means established to carry out the purpose of an institution - courts to administer law, banks and trade commissions to facilitate or enforce the rules of a market.

Economists differ in the way they regard the role of institutions. Schultz lists three approaches of economists to institutions: (1) omit or impound institutions by abstracting from them (modern economics), (2) treat institutions as subject to change exogenously (institutional economics), and (3) treat institutions as variables that respond to the dynamics of economic growth (Schultz's proposal).<sup>4/</sup>

The apparent separation of institutional and modern analytical economics may help to explain the current limitations of economics in dealing with relatively new problems such as pollution, changes in the organization and control of agriculture, and of course, community development. Institutions play a critical role in each of these problem areas. In fact, economic problems often develop either because institutions are changing rapidly or because they are not changing fast enough.

T. W. Schultz suggests we need to examine more carefully the effects of development on the "givens" of economics. Charles Schultze, talking about the traditional assumption of constant preferences, notes that the economist has little to say about the ". . . problem of the way in which basic preferences themselves respond to economic development, except to note that 'yes, this does indeed happen, and the sociologists better get to work'" (15).

There is a difference between questioning givens, like the institutional structure or values and attitudes, and trying to explain them. Yet, there is

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<sup>4/</sup> An example of the third approach is contained in Hayami and Ruttan's book explaining agricultural development in a number of institutional settings (4).



evidence that the economist may see both the questioning and explaining as violations of objectivity. The irony is that the economist's pursuit of objectivity may explain much of the criticism that economics lacks relevance.

If the economist does not understand the role of institutions - why they work or do not work - he may fail to diagnose the problem correctly. If he is not aware of the institutional changes taking place, what he takes as given may be outdated. In both instances, research and extension are likely to miss the point that a change in institutions may enhance community development far more than fine-tuning or tinkering with existing institutions.

Many economists are concerned about these problems and are suggesting new ways of thinking about them. Robert Heilbroner offers this thought: "If economics is to become more relevant, economists must direct their energies into areas of the social order that they have heretofore overlooked, particularly areas in which political or sociological elements are intimately intertwined with strictly economic ones . . . I will only add that 'institutional economics would seem preeminently qualified to lead the expedition into this dangerous no-man's land' (5). Finally, we are hearing more about a new approach or school called 'grants economics,' which Martin Pfaff describes as ". . . concerned with equity and other goals as integral parts of economic inquiry" (10). These and other ideas all seem to suggest that the relevance of economics and the way it is practiced can be improved. The economist, whether in community development research or extension, has the opportunity to participate in these efforts.

#### The Contribution of Economics - Two Areas

Economists can make significant contributions to some but not all questions raised in the community action system. Two broad questions to which economists can contribute are development of economic activity in place and delivery of services. The concepts, logic, and analysis of economics can illuminate issues and lead to informed judgment by the community in these areas which are often viewed as problems. Other areas exist but available space limits our discussion to these two.

#### Development of Economic Activity in Place

Economic logic and analysis could be asked to provide answers to a number of questions about economic activity in a specific location: What causes economic activity in a specific area to increase - growth; or decrease - decline? What causes the number of types of economic activity in an area to increase - differentiation; or decrease - attenuation?<sup>5/</sup>

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<sup>5/</sup> A matrix of growth and decline, differentiation and attenuation was suggested by Paul Earkley (1).

How are the benefits and costs of growth, decline, differentiation, and attenuation distributed to firms, households, and government units? What can an actor, a firm, a household, a government unit, or a community (if agreement can be reached with the community) do to effect growth or differentiation?

These are the kinds of questions that people interested in community development have asked of economists for some time. They are very useful and pragmatic questions. It is our judgment that the track record in answering these questions for specific communities is not too good.

Economic theory has failed to provide operational hypotheses for examining these questions. Economic theory does much better for the firm or the household. It also does fairly well for national policy questions. For example, the economic growth of nations has received attention ever since Adam Smith. Recently there has been concern about the growth of firms. However, not much attention has been given to the decline in firms or nations.

It seems to us that the reason that economic logic answers questions better about the firm or the household is that the economist can assume that a single objective function is to be optimized. Although the economist cannot specify all of the aspects of an individual's or a firm's objective function, he can come close enough to reality to predict and explain economic activity. In the case of national affairs again the assumption can be made of a single objective function to be optimized. This assumption is not as close to reality as in the case of a firm or household but often provides a basis for useful analysis of alternatives for policy makers. However, the existence of a single criterion for a specific area which combines firms and households has not been demonstrated.<sup>6/</sup>

Economic models have demonstrated their ability to utilize objective functions with multiple goals but only for a firm, household, or "firm-like" organization. Thus it may be concluded that optimizing models are not always useful for the broader issues dealing with development of economic activity in place.

Another difficulty in dealing with the economics of a specific area is the "openness" of such an economy. One can assume the national economy

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<sup>6/</sup> We are indebted to Keith Bryant for the following thought: "It is curious that a discipline with its feelings well sunk in the bed rock of individualistic philosophy has developed models and decision-making tools so useful to the dictator, be he a firm manager, a family head, a bureaucratic manager, or a dictator of a nation-state. Distribution issues within the firm, the family and the nation do not appear to be the economist's 'cup of tea'" (2).

of the United States to be "closed" because the U. S. economy's reliance on international trade is relatively low. The United States has its own flexible and controllable monetary system which can be used with national fiscal operations to regulate economic activity. Even though the national economy is fairly well closed and is somewhat controllable, changes occur as new markets develop or factors of production move. In this process some specific areas gain and some lose. The general national accounting system reflects only the very gross changes and does not reflect changes in the geographic distribution of economic activity.

There is no lack of attempts to explain the location of economic activity. Numerous economic models and analytical tools are available for such studies. A quick look would surely include many of the approaches used to define a region (functional economic area), location theory, transportation theory, agglomeration and deglomeration, central place theories, international trade theory, income convergence, local applications of stability models, equilibrium models, interregional competition models, stage or life cycle theories, interregional multipliers, economic base studies, input-output studies, growth pole theory, and many varieties of activity analysis.<sup>7/</sup> However, studies reporting the use of these various tools show little evidence that these tools help economists predict when or how a specific area's growth path will change. But more importantly, there also seems to be a lack of knowledge regarding the variables or institutions that can be manipulated to effect a desired change.

We wish to suggest two additional approaches that may be productive. The first would center on the flow of funds or the familiar savings-investment relationship as it exists in a community (1). A specific area's capacity to import or export net flows of investment capital is crucial to understanding the economic activity in that area. The amount of investment funds available would seem to be an extremely important determinant of an area's prospects for growth or decline. The savings-investment linkage offers a promising focal point in researching the question of growth and decline as well as differentiation or the lack of it.

On the savings side it would seem important to know the sources of savings, quantities of savings, and the attitudes of savers toward the various institutions that vie for the opportunity to invest. On the investment side, knowledge regarding sources of investment funds, particularly whether these funds originate internally or externally, efficiency of investments, impediments to desired investment patterns in either the public or private sector, and the attitudes of potential investors regarding various options open to them are quite important.

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<sup>7/</sup> An excellent review of these approaches is contained in an unpublished working paper by Ndosì and Herder (8).

Other avenues of approach could be tied to an understanding of the savings-investment linkage for specific areas. External costs and benefits are at the root of a variety of changes in economic activity in a community. The external costs imposed upon the firm by geographic isolation has limited growth in many small communities. It would be quite useful to know the sources of the external influences, the ways in which these influences might affect an area, and the magnitude of the resulting effect. It may be that a comprehensive and intricate study of the savings-investment relationship would reveal previously unrecognized external influences. On the other side of the coin, studies of external costs and benefits may yield clues to understanding the working of the savings-investment relationship.

A second suggested attack is the application of economic thought surrounding market and bargaining relationships to an understanding of the economic activity of a specific area. In 1951 Schultz in a very provocative article discussed the relationship of land as a productive resource to other inputs and to outputs, especially the value of the human agent in farming (13). He developed three propositions for explaining why major parts of agriculture fall behind in the process of economic progress. The first proposition was that economic development occurs in a specific set of economic relationships and does not necessarily occur in the same way, at the same time, or at the same rate in different locations. The second proposition was that increases in economic activity are more potent at industrial-urban locations, and the third, and most crucial proposition is that the existing economic organization works best at or near industrial-urban locations.

Schultz may well have anticipated much of the more recent developments in regional economic thought. Much of the interregional competition, interregional trade theory relates to the first proposition. Clearly the second proposition relates to the growth pole and agglomeration concepts. However, the functioning of economic organizations has not been particularly investigated as a cause of differential rates of growth and development within given areas, the third proposition. Schultz's article generated much research in the field of agricultural economics to test his proposition about agriculture. It seemed to us that it might be a useful research investigation to determine if the functioning of economic organizations is related to regional development.

Defenders of the laissez-faire approach suggest that markets can solve disequilibrium problems if left alone. Critics of markets argue for intervention on the part of the government in terms of investment in infrastructure, government investment, differential tax rates, credit policies, etc. A knowledge of how economic organizations work might provide background for intervention by the public in setting the rules of the game to make markets work better. McKean, following Arrow, has suggested that market failure in our society really means lack of markets (7). If evidence were obtained for the hypothesis

that the operation of economic organizations is important (we include a market as an economic organization), then we could have some idea of how to change the rules that create and surround markets to make the markets work more effectively. Such a policy prescription would seem to deal with the problems of externalities because externalities exist when there is no market to deal adequately with the costs or benefits generated. Along with the study of markets it would be desirable to have measurement of what are now external costs and benefits. <sup>8/</sup>

### Delivery of Services

Empirical evidence indicates that the delivery of services is a significant problem for rural and nonmetropolitan communities. A recent report prepared by the Economic Research Service concludes that "among the deficits in social overhead in nonmetropolitan areas is the quality of both medical care and education (19). The report also states that nonmetropolitan areas with approximately 30 percent of the population have about 60 percent of the substandard housing units. The cost of purchasing the same goods is usually higher in rural areas than in metro areas. Transportation problems abound in rural areas.

The issue is not simply that public services are not adequate in nonmetro areas. Both public and private services are often not as available and of lower quality in rural areas than in metro areas.

The decisions necessary to improve the delivery of public services are often quite complicated and involve understanding of subtle relationships. Especially troublesome are problems of measuring the quality of services and the definition of the product. Consider, for example, the difficulty of thinking about health care. The health of the individuals in a community may not be vastly improved by the effective treatment of illness. Even with an "adequate" number of physicians and hospital facilities the number of people utilizing them are relatively small. The health of individuals is never directly related to the number of physicians or facilities. Most of the decline in disease incidence and mortality rates and most of the increase in average life expectancy has resulted from influences other than efforts at controlling specific diseases. Thus, improvements in the delivery of health care services in rural areas are important but probably will not improve proportionally the health of individuals in a community (16).

Leaving aside problems of quality there are subtleties in cost relationships. The unit providing a service is often faced with a falling average cost curve. Thus, in any specific area with a declining population, a usual answer to increasing costs is to increase the size of the area served in order to take advantage of economies of scale. However, in such a situation as the size of

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<sup>8/</sup> George Tolley has presented an interesting analysis of some of the common environmental problems and opportunities (17).

the geographic area served is increased, average transport costs for the users of the service will increase. The average total cost to the user and provider thus would be a U-shaped curve with a minimum cost point at a somewhat lower volume than if only provider costs are considered.

The provision of public services in specific communities and the design of new institutional arrangements to guide the delivery of private services represent an exciting opportunity for analysis by economists, as well as sociologists and political scientists. There appears to be ferment in the field of public administration which is closely related to the delivery of public services. In an exhaustive and stimulating article, Vincent and Elinor Ostrom have applied "public choice" scholarship to the field of public administration (9). They contend that many of the bad features of traditional public administration such as overlapping jurisdictions instead of a single integrated hierarchy of authority coordinating all public services can really be good. They suggest that it would be useful to look at police services, educational services, water services, and other public services as industries. These industries could develop market-like mechanisms for coordination without primary reliance on a hierarchy of authority. They point out that a combination of user taxes, service charges, and intergovernmental transfers of funds and voucher systems may introduce some of the characteristics of market arrangements among public service agencies and consumers. The Ostroms conclude, "Perhaps a system of public administration, composed of a variety of multi-organizational arrangements and highly dependent upon mobilizing clientele support will come reasonably close to sustaining a high level of performance in advancing the public welfare."<sup>9/</sup>

Central to these kinds of ideas is the aim of devising a system for delivering public services that will increase the individual citizen's range of choice and access. The public administrator should serve users or consumers of public goods and services and not political masters. Where the service to the individual is not sufficient in presently organized government agencies the problem is with the organization and the concepts leading to the organization. As McKean points out, a government official can "appropriate" certain of the benefits from his decisions but not all of the benefits and costs (7). He thus is guided by what he can appropriate. If the government official is rational and follows his own self-interest, his decisions will likely lead to a service to the organization rather than the individual. In such cases, the rules may need to be changed. The theory of externalities, common properties, and public goods, the logic of collective action and public enterprise, the concepts of public service industries will be very useful in suggesting changes in the bureaucracy.

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<sup>9/</sup> Also see the works of Echanan and others at the Center for Study of Public Choice, Virginia Polytechnic Institute and State University and publications of the Public Choice Society.

In the area of public administration we need to find ways of helping communities to fashion organizational arrangements which will put individual self-interest to proper use in advancing human welfare.

Economic analysis can be useful in such an attempt. Keith Bryant has made an analysis of the market for food stamps (2). He postulates two models of the Food and Nutrition Service and tests them against available data. The analysis takes the ideas of revenue and cost and applies them in new and innovative ways to understanding the behavior of a government agency. Will the results of this and similar analyses enable us to make the kind of organizational and institutional arrangements necessary to improve the delivery of public services for a specific community?

#### Concluding Remarks

Ten years from now, there may well be a paper at this meeting titled "Community Development in the 1980's." This is because community development is not a problem to be solved once and for all. It is more nearly a process that is never completed. Professional dialog about community development has the same characteristic. Like community development, our paper will be useful only if it contributes to the never-ending process of improving the well-being of people. It will do that only if it causes you to think about community development in better ways than we have.

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There is an even greater irony to our present data system difficulties, for if this profession has any single greatest accomplishment, it is the early success in conceptualizing the existing data systems for agricultural policy decision making and private industry needs. The old Bureau of

1/The Economic Statistics Committee is composed of James Bonner (Chairman), James Hildreth, George Judge, George Tolley, and Harry Trelogan.

2/The Joint Committee has three ASA members and three AAEA members. The AAEA members include James Bonner, Dean McKee, and George Judge. There is, thus, an intentional overlap predicated in part by the initial need to transfer the knowledge gained in the Joint Committee's earlier deliberations to the newer AAEA Economics Statistics Committee which is focused more completely on this topic. The Joint Committee has, as its primary function, an advisory role to the USDA and Census on problems of agricultural statistics.

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