NEEDED INSTITUTIONAL ADAPTATIONS TO IMPLEMENT ECONOMIC DEVELOPMENT

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Mr. Chairman, I have long been looking forward to attending the meetings of the Association of Southern Agricultural Workers - particularly since you get together in the winter time. You know we have some pretty cold weather in Wisconsin at this time of the year.

Although I know many of you personally, and something about several of the economic problems you are working on, you must consider me an outsider. My experience has been almost entirely outside the South. It has been mainly in the Great Plains and Northern Lake States, and of course my ideas and illustrations must be drawn from this experience. However, there is much to be gained by interchange of experiences and ideas. In addition, and of some importance to the subject of this afternoon's program, the people of the Great Plains and Northern Lake States have done some things in the way of economic development that can give considerable insight into that problem.

My main purpose this afternoon is to make a plea for the agricultural economist to broaden his activities - his ideas, his techniques, and his area of operations. More specifically I will try to demonstrate that the agricultural economist who does his research only within the assumption of fixed institutions will have difficulty making any lasting contribution to problems of economic development. In instance after instance, the important factor in getting economic development (change) has proved to be a modification of an institution rather than simply an adjustment in the allocation of resources. At least we should recognize the fact that resource allocation is essentially a function of the institutional environment and that, as a result, the latter deserves to be treated as the primary consideration by those agricultural economists who are concerned with the developmental problems.
Let me begin by giving you a few examples of problems in economic development which were met by changes in the framework of economic organization—things which would not have come within the orbit of the economist working within the assumption of given institutions.

1. Wisconsin Forest Development

The land tax laws of Wisconsin came to us from the past. Although they had been modified some enroute from England they were considered a permanent fixture in the early 1920's. The assessment was made and equalised; the rate was determined when the next government budget was available, and taxes were due January 1 of each year.

After World War I Wisconsin had a lot of land that most everyone was sure should be in forest use. At least no one questioned that decision. Yet the property owner could not practice forestry. In the first place there wasn't income every year. Since much of the land had just been cut over there wasn't much possibility of income for at least 25 years. The owner was pretty sure, too, that as the timber grew to maturity—as it became more valuable—his assessment would go up. So the owner had no incentive to practice forestry and did not plan to do so.

The Forest Crop Law, passed in 1927, simply changed the procedure for taxation. The private owner paid a fixed nominal annual land charge in lieu of taxes. The local governments, often in poor financial condition, needed money so the state government advanced them a sum each year in lieu of taxes. When the owner harvested timber he paid a severance tax to the state. After all of the state advances to the local governments had been repaid in full, plus interest and administration costs, the excess severance tax was to be returned to the local units of government.
As important as anything else, landowners could predict exactly what their taxes would be on forest land. Even private forest owners outside the program would be assured that if their tax rates got out of line they could enter their land in the program.

Unfortunately the process of forfeiting land for taxes had gone so far that many of the owners relinquished their rights to their land in spite of the tax change. This called for other institutional changes which had the over-all result of permitting the counties to practice forestry.

The net result is that nearly 1/7 of Wisconsin land is now under organized forest management - private and public.

Rural zoning also played a vital part in the development of the forest resources in Wisconsin. Areas in which forestry was considered the best use and in which settlement would result in excess governmental costs were placed in forestry zones and protected against the development of other uses. Twenty-seven of the 71 Wisconsin counties have county zoning ordinances with forestry zones. Five million acres are in these zones. The program of fire protection was also very important in our forest development. This too, while I will not take time to explain it, involved primarily a modification of institutions.

Forest development in Wisconsin is an accomplished fact. The crop is now being harvested. People are working in the woods and in wood using industries. The economy of the state is thus built in part on resources that were not present 20 years ago.

But the important point I am trying to make is that the things that aided most in this process - changes in land taxation, county land management, fire protection, and land use regulations - are primarily parts of our economic organization or institutional setting. The economist studying the problem within the framework of a fixed economic organization would not have had them in view.
2. Range Land Development in Western South Dakota

Many of the things that were done to develop the range resource in Western South Dakota following the devastating droughts of the mid-1930's were also of an institutional nature.

I started my professional career in South Dakota during those dust storms. Some of the dust was reported to have traveled as far as Washington, D. C. The land seemed to me to be absolutely bare. (My coming directly from Wisconsin may well have overemphasized that first impression of barrenness.) Crop production during the 1920's had been extended into areas that, by 1935, would not produce a crop, let alone a living for the families that remained. In one Western South Dakota county 96% of the land was in private ownership and paying taxes in 1926. Yet ten years later there was no question but that the type of farming and the settlement pattern were not adapted to the county. Landowners, even many who were still living in the area, had let their land go for taxes. Common tax rates were 15 cents an acre on land that produced grass worth no more than 8-10 cents an acre. So by 1936 the taxes were being paid on only about 20% of the land. The rest was in county ownership, subject to tax deed or in various stages of delinquency. Much of the land then was not owned by anyone. Not much of the county land and absentee-owned land was leased. The operators in the area did not control it either by lease or ownership. It was called wild land.

But on the other hand it was used - used by everybody. The first man's livestock on the land would get the grass. If any was left, another's cattle or sheep would get it. You would be sure the condition of the grass after this process was such it could not stand the drought.

The economic development program then was to develop the carrying capacity of the range and to translate these gains into increased standards of living.

The basic need in this situation was to stabilize ownership of the land and get the land in the control of persons who were using it - sufficient control
to give the operator the right to exclude others and to plan his use for several years into the future. This was necessary to give the operator an incentive to limit stocking, to develop stock water dams, and otherwise to practice good range management.

So what was done to get this development underway. The state gave the county the authority to hold and manage land. Also a simplified low cost method of title clearing was authorized. The county acquired tax titles and cleared them under new procedures costing one-tenth as much as those previously used. The county leased the land on a 10-year contract. Competitive bidding was discontinued (competitive bidding on leases had at that time resulted in bidding up the price on land with watering places and no bidding on other land - a practice not conducive to range development).

The Agricultural Adjustment Administration (A.A.A.) had been making conservation payments, but the annual allotment for a ranch was not sufficient to encourage the construction of stock water dams. The rules were changed so that one dam could be a performance sufficient to earn the conservation payment for three years.

These were some of the major ingredients of the range development program in one area. The problem was quite similar in other great plains areas but the procedure was varied. For instance, one North Dakota county used the land use regulation provision of the soil conservation district to stabilize ownership and to gain reasonable stability of operation. Montana enacted a grazing district law which authorized a grazing district, among other things, to regulate trespass.

The story of range land development is like that of forest development. The essential ingredients of change were primarily modifications of the existing economic organization. They would have been but dimly in view, if at all, to the economist studying the situation within the assumption of fixed institutions.
I am afraid I could go on all day with illustrations of this type of thing. Marketing has many illustrations. Some economists, our Dean Froker is a notable one, have studied market situations with an eye to changes in the rules or the economic organization. The result in Dean Froker’s case has been a large number of successful dairy co-ops and an institution known as the Federal Market Milk Order.

Many marketing people have had in their kit of tools some ideas about changing institutions. The result has been a more meaningful relationship between their work and economic development.

Think of the possibility of farm and home development if the expansion of the extension program in this area could be accompanied by a simple change in lending procedure like extending a line of credit to a farm with the repayment schedule set in terms of a percentage of net profit. The credit could be used for whatever the most important purpose might be, and the loan would not be delinquent if no payment was the result of no profit. The Bank for Cooperatives has made this kind of loan to cooperatives for more than 25 years.

These, then, are a few illustrations which to me indicate that ideas, techniques, and innovations in the area of economic organization and institutions are strategic to economic development. I intend to work in this area and I want to be considered an agricultural economist. Hence, my plea to expand and modify economic theory.

Can Economic Theory be Expanded to Meet the Needs of Economic Development?

We have had one discussion of economic theory this afternoon so I will be brief on this point. However, I want to make perfectly clear that I think economic theory is absolutely essential to our profession. But the current commonly held concept of theory is much too restricted in ideas. Let me briefly give you my concept of theory. Theory to me is primarily a systemization of
ideas that guide our research. It is useful because it helps resolve significant practical problems of people.

Tested ideas are theory. Ideas without warrant lead to innovations and are the growing points of theory. Too often when we speak of economic theory, even at a place with the institutional emphasis Wisconsin has had, we have come to think of a few rather simple valid ideas: For instance, "a person wants to make as much profit as possible," "there is a point of diminishing returns," "a person will substitute one product for another," or "people must be able to buy what people produce." Then we surround these ideas with an extremely complicated set of techniques and definitions and call this theory too.

I do hope, however, our definition of theory can be broadened to provide for inclusion of ideas wherever they come from, the criterion being simply that they be useful to us in connection with the types of problems we are involved in. And where do we get ideas? From experience, from study of the behavior of people in the everyday process of resolving their problems, and from theory itself. I get a lot of useful ideas from association with historians, labor economists, administrators, corporation finance specialists, etc. We have either got to broaden the definition of theory, or recognize that many of our most useful ideas will be found outside the system for which we now reserve the term theory, particularly those very important economic ideas that lead to social innovations.

For theory to meet the full needs of economic development it must accommodate the idea that institutions are flexible. It must include ideas about economic or bargaining power, procedures of policy formulation, of administration and, yes, even politics. I have always felt we should never have dropped the word "political" from our title. Political economy is more appropriate. I went through this argument with an economist friend one time. His reaction was that
I would be taking away the economist's whole theoretical framework. This, he said, should not be done without substituting something in its place.

Yes, I suspect if we accepted changing institutions as a necessary component of our theory the present comfortable security so many now have would disappear.

We would find that we would focus attention on peoples' problems, and we would have to be able to decide what ideas would be important in solving the problem. We would have to be selecting ideas and tools to fit the problem, and not trying to use one fixed idea and method on every situation - fit or no fit.

This is enough on theory.

The Significance of Economic Development

The urgency of resolving problems of economic development in our World of today is frightening. Unless the agricultural economist can make major contributions to their solution, the profession will be in sad shape. Certainly we have been financed well in the expectation that we will contribute.

Almost everywhere we look we see attention focusing on "economic development."

Very substantial resources are being devoted to the improvement of conditions in the so-called "underdeveloped" areas. The Foreign Operations Administration and its predecessors have extended U. S. help in the form of both technical assistance and economic aids. Other nations and the United Nations have had similar programs. As you know the main purpose of these programs is to try to speed up the process of economic development. Behind this, of course, is the fact that people all over the World have become conscious that their lot could be better. If opportunities for improvement cannot be developed through peaceful and democratic means, violence or war is the alternative.

The subject of the afternoon - low income families - is really just another problem in economic development. It has been receiving increased attention recently.
The apprehension over such problems in the profession is not entirely the result of Christian feeling for our fellowmen. Nor is it due entirely to the emphasis given it by the Secretary of Agriculture. No small part of our concern grows out of the fact that our prevalent ideas and techniques have given us little help in doing something about the situation.

Determining the optimum allocation of resources is of practically no value in a really low income agricultural area. Such a determination is so far from the realm of reality that no one would pay much attention to it.

Nor is it very useful to find out how bad off these people are, except perhaps to stir up emotions.

Ideas about prices or investment do not help much either.

Yet, I am sure that we will find a way to add to the resources and the general status of these families. Education and the expansion of the aspirations of these families is part of the solution. The expansion of the extension service in the area of farm and home development can be an important step. But it needs to be associated with some changes in institutions including family institutions. I mentioned type of credit. The pressure cooker of FSA fame is a very simple illustration. Many other things will, of course, be important. For instance, old age and survivors insurance will help. So also changes in the rules affecting migrant workers will be important. Perhaps a food allotment program for low income people and minimum wage laws may stay the present situation some.

We will find the answers in much the same way the people of Northern Wisconsin or Western South Dakota did - by changing some features of economic institutions. And I certainly hope the economist can broaden his ideas to contribute his share.