COMMUNITY DEVELOPMENT AND THE ECONOMIC BASE

by Arnold A. Paulsen

Community development can be thought of as the purposeful use of the latent qualities of a geographical area through cooperative effort of the people of the area. People may desire to work together to develop their community in a number of ways. Examples are: (1) economically -- in income per person or total income, (2) in size, (3) socially -- new institutions, organizations and more and better person-to-person relationships, (4) physically -- better health, less accidents, more sports or improved fitness, (5) esthetically and culturally -- more music, art, beauty in homes, parks, landscape and city planning or (6) intellectually -- enriched school programs, adult education, more reading and discussion.

These alternative ends will not appear equally important to all people living in the area. The attainment of one end may aid the reaching of another. But on the other hand the pursuit of one end may use up energy and funds which could have been employed in attaining another. There is no way to say scientifically which ends should dominate. This is a matter of individual preference. However, the community residents must make choices; they can not move in every direction as fast as they might want to.

Group action is important in community development. True, most of the wants of people belonging to a community are attained by individual action, effort, and decision making. However, some ends can be obtained only by group action and planning. These additional ends are the payoff of community development.

However rural communities probably need help from sociologists to function as groups. Effective community development requires vigorous effort by voluntary participants. It requires study, decision and action. It frequently requires working with other towns or people that may have been considered adversaries before.

Like individuals, communities are also limited in their development possibilities, no matter which ends they pursue. Individuals acting as a group do not have more total energy, talent, numbers or money after they embark on a community development project than before. They can bring forth latent qualities, and these may be considerable. But creation from within the group of new talent, energy or economic potential not already latently present is very limited.

The Role of the Land-Grant University

Land-grant universities have several obligations in community development. These are to (1) inform group members as to what they can expect as a result of

1/Associate professor of economics, Iowa State University.
various types of groups efforts, (2) consult with them as to how to establish and clarify the preferences of the group among community development ends and projects to achieve the desired ends and (3) provide information and counsel but not to direct, because the community selects and carries out the best ways of attaining the most satisfying combination of ends.

Work by the land-grant universities in community development would seem to be divided into three phases. The first period would involve intermittent, low intensity contacts, letters and personal visits. For example -- between university specialists and the relatively few persons interested in community development. A few leaders would gain understanding of the reasons for the present community situation, learn to understand the functioning of the community economically, and as a social system, find out about the general development possibilities for the community and appreciate the potential of group action in accomplishing some aspects of community development. The first phase would end when interest had become quite general and some definite investigations of development possibilities were being considered.

The second phase would involve rather intensive direct consultation with several different subject matter specialists. Group preferences would be established. Project possibilities would be investigated for feasibility, costs and value to the people. Broad and also specific choices would have to be made by the group. The specialists would be consultants and resource people in the decision making. Project possibilities would be listed, and a plan of operation would be formulated.

The third phase would involve execution of the plan and also replanning as preferences and possibilities changed. In this stage the specialists would visit periodically but less frequently to see how things were going, to help identify execution problems and to stand by to help if needed in replanning. It is possible that a community would move persistently to new problems or major replanning and thus demand help over a long period.

Communities serve a purpose to the economy and the nation. As the community performs its economic tasks, its members receive their income for their part in the community's economy. This income permits people to reach their individual goals. As the overall national economy changes the functions desired from communities change. This means employment changes in type and volume. Let us take a look at the economic functions of rural communities, how these are changing and the kinds of adjustments needed in community economic organization.

The Economic Base of Communities

Why do population centers like towns and cities exist? They don't happen just because someone capriciously wanted them there. There are elaborate plans for beautiful cities with streets, parks and water systems laid out on paper which were never built. There are also towns and cities in ugly and unhealthful places
which were never planned but grew like Topsy because there was a need for them. "Cities do not grow up by themselves; countrysides set them up to do tasks that must be performed in central places."2 No city lives entirely to itself -- it serves other areas which can be said to constitute the city's "market region."

The rural town performs the services of collecting and shipping farm products off to processing plants. It is called into existence also to serve the surrounding countryside, for farmers need a central place from which to buy production inputs and consumer goods, obtain education, attend social affairs and go to church. The rural areas and the rural towns do not exist because they are beautiful and pleasant to live in or because they are efficient. Rather they exist because they are needed to perform services. As they perform services they are in turn sustained and provided for by the countryside and the distant consuming population centers.

A rural town is truly a trading center. It is needed as a central place for the collection and shipping of agricultural products and the dispensing of goods and services to farmers. A strictly rural town without any industry, without any college or government agency is a trading center servicing the flow into and out of the rural areas.

Towns are not self-sufficient -- neither are rural areas. In the largest sense the entire town-farm community complex is called into existence by distant food consuming population centers. It is highly dependent on trade with the outside. People in the area do not produce everything they need for their level of living. They are highly developed specialists who produce a few items and depend upon trading these to get the other goods which they need such as education for their children, furniture for their homes, coffee, sugar, automobiles and money to go on a vacation or pay the minister.

Agricultural regions produce some items in a volume many times beyond their own needs. They produce none of the other items. Likening them to nations, they produce for export.3 Rural America, more than any other part of the country, should understand the function of free trade. Theirs is almost completely an import and export economy. Rural areas are specialists in producing the things that they can produce best. They produce corn and pigs and trade them for plows, stoves and gasoline. In general they would have to accept a lower standard of living if they traded less with the outside world.

Basic and Service Components of the Local Economy

There are two categories of activities which offer employment to people in a rural area or in an area like Chicago, Des Moines or Ames. People may find work either by engaging in occupations (1) where they are performing services

3/"Oskaloosa vs the United States," Fortune: April 1938.
desired by people outside the community or (2) where they are needed within the community. They may be said to be either working for the rest of the country or working for themselves. We might call the first "basic" and the second "service" components of the community's economy. Basic occupations do not depend on the existence of other types of production. Basic occupations are the reason the population center exists. Basic occupations in the community are the foundation of the community economy. For example, rural America's basic function is providing food and fiber for consumers outside the boundary of the community.

On the other hand the service functions provide goods and services to be consumed locally. Service occupations look out for the welfare of people in the community -- such things as government, schools, churches, haircuts, laundry, dry cleaning, auto repair and many others. However, the kind and volume of basic employment dictates the pattern of service employment and to some extent its volume and hence the total size of the rural community.

A breakdown of community economic activity into basic and service components puts employment in farm production and university education in the same category. Both are basic components of the local economy because service is performed for distant consumers. The animal disease laboratory at Ames provides knowledge which is a "good" desired and paid for outside the community. In this sense it is basic or supporting to the size and structure of the economy of Ames just as coal mining operations are to towns in West Virginia. Basic activities provide employment and generate the need for service activities in the community. Additions to the basic component will call for additional employment in the service occupations. A decrease in the basic economic activities of a community calls for some downward adjustment in the volume of service activities. The closing of coal mines or the retirement of land reduces basic activities and will be followed by lower volume and incomes in service businesses and probably an ultimate reduction in number of them. This is the "multiplier effect" of changes in basic activities.

Basic activities need not be thought of as being more important or desirable. The workers in basic occupations are not self-sufficient individuals. They may not be leaders, financially well off, or in control of the community intellectually, culturally or socially. The local service occupations must provide them with many types of goods and services. The workers in basic industries are dependent on the service workers. Any local community, however, receives its power to purchase from distant industry through producing for export and not by producing for local consumption. In short, towns people can't earn outside purchasing power by doing each other's laundry.

Perhaps it would help to see the role of basic industries by recalling the situation of British or German cities which were bombed and virtually completely destroyed during World War II. Planners came to help rebuild these cities. The basic industries were rebuilt first. The reconstruction of these put the overall
economy back in business. Service industries grew later of themselves. In Des Moines, the life insurance, state government and rubber tire industry are examples of basic industry which would have first priority in being rebuilt if we had an atomic attack. Any city which depends for survival on imports would probably first want to restore its earning capacity and just a little later rebuild the things which provide for comfort and welfare. A farmer wiped out by fire might best use a small fire damage check to provide machines, livestock and barns and live in a tent. To use it all for a house to live in and provide no way to earn a living would restore "the service sector."

Basic industries are the things that bring purchasing power in from the outside. What a community can sell to the outside determines how much money the outside will send to it. In a small community the amount of money received from the outside determines roughly how much money is available for employing people locally or for importing goods from outside.

It is quickly apparent that a town could easily grow in number of people, total income and maybe income per capita if it could obtain a new factory which would produce for distant consumers. This would bring more basic employment to town and more need for service employment. This is so simple, obvious and pleasant that great sums of money have already been spent on it by hundreds of communities. Unfortunately the factories that can be secured are limited in number. Does this mean that community development is a futile effort except for those who secure a factory? Not at all!

Improvement of the community as a place to live can take place without expanding the volume of basic employment. First, community development does not only mean increasing population or total volume of business in the town. Some are interested in population and volume, but there are other dimensions to community development. The town may develop socially, culturally, intellectually or even in income per person without changing the size of its economic base. In fact for many communities it is not a matter of how to expand the base or even how to maintain the economic base but rather how to live effectively and well on the economic base available, which may be declining. This is a grim prospect for communities. To accept this and find the ways to make the most of opportunities available probably will require considerable group study, decision, planning and effort. It is not impossible that income per person and the attractiveness of a community could improve while the economic base declined and no factories were obtained. But it would take decisive planning and bold sweeping reorganization.

Let us look at the factors which are changing the type, volume, and location of basic employment in Iowa's rural areas. The reshaping of this basic economic activity in rural communities is rocking the service sector and the entire social and cultural structure of many communities. As the foundation of the community economy undergoes change the entire super-structure of the community as a social organism is under stress.
External Forces Affecting the Economic Structure of Rural Communities

In addition to many other things a community or town is an economic organization. The way in which it is organized economically is a result of past and present conditions. The two main forces affecting an area's economic organization are technology and market demand or preferences. The economic organization of Iowa towns is constantly changing. They need to change. Pressures for change are often viewed as difficulties.

What changes are presently causing the difficulty? New and changing agricultural technology calls for a different pattern of purchases from towns. More fertilizer and chemicals are needed. Machinery parts and repairs are more complicated. Farm machinery dealers are called upon to stock an increasing number and variety of parts. Repair requires specialized equipment and different skills than in the past. To provide the array of specialized services desired requires expensive inventories, specialized machines for repair and a variety of skilled mechanics. A large volume of business is required to provide the kind of services the market demands and provide them at a low cost. Since the acres per farm and per machine are also rising with new technology, the volume needed for a profitable and full scale implement business may involve a vastly greater trade area now than a decade ago.

New technology calls for larger farms. As consolidation takes place and the number of farm workers decline, fewer persons are needed to service the needs of farmers as consumers. For example fewer persons are required to operate schools, churches, grocery stores, barber shops, movie theaters, and clothing stores.

The decline in farm prices decreases the purchasing power of agricultural products shipped out of rural areas. This decreased purchasing power reduces the economic base of the rural area -- that is, the size of its basic industry. In turn workers in agricultural occupations must decrease their purchases from local service occupations and reduce their purchases of inputs from outside industry.

On the positive side, improved technology increases the total volume of agriculture output. (In fact, as everyone is painfully aware, it has increased output so rapidly that prices have dropped and surpluses piled up.) This increased volume, of course, calls for more services from grain elevators, hog buyers, truckers and others involved with handling the volume of output. Agriculture is a growing industry in volume of output and value of purchased inputs even though prices and number of farmers are declining.

Changes in inputs, number of farmers and volume of output are reflected as changes in market needs served by the town. The organization of firms producing these services and the overall economic organization of the community are influenced by these external forces, i.e., advance in agricultural technology and the changes in prices of farm products, that is, in the demand or market preferences.
Main street is responding to external forces, some of which are coming from agriculture. The services a town offers, its size, the combination of resources it employs (buildings, people and capital) and the kinds of business firms and their ways of producing services are all being altered from the way they were last year or last decade to the way the people making decisions would like them now. Desired or planned economic organization of a farm or a town is the result of what can be done technically and the preferences of product consumers. On a farm or in town a man tries to produce what the market wants. He can only use the production techniques he knows about. If the price of soybeans rises relative to corn, (the preference for soybeans increases) a farmer probably will try to reorganize to produce more soybeans. Similarly businessmen reorganize to meet shifting demands. If a farmer learns of a cheaper way of producing soybeans, he probably will change the organization of his farm even if the price of soybeans does not change. Businessmen in town also change their businesses as new technology becomes available and as there are changes in preferences of the market.

Business and total employment tend to be decreased by a reduction in the total value of agricultural output. Total main street employment is also decreased by advances in the technology available in towns. Urban technology has changed substantially. Most firms now have labor saving machines in the form of power tools, testing devices, power loaders, large trucks and so on. With volume, mechanization lowers the cost of providing services. Thus it tends to raise the level of living in the community. The supermarket is an example of new technology in the form of a new business structure. It can sell groceries with a lower percentage markup but it requires volume for efficient operation. Thus corner grocery stores and similarly other urban firms of small size and high cost can not compete with larger, more mechanized or lower cost firms. Technology has made large scale firms able to offer better service, with less labor and at a lower price. Substituting capital for labor in providing service has the effect of reducing the number of people needed in a town to take care of a given volume of business. Thus agricultural technology and urban technology both change -- and usually reduce the basic employment of small communities.

The location among towns, a basic or service activity, is influenced by several changes in technology. To provide services to residents and meet their demands from the community for consumptive service, transportation technology has widened trade areas, unlocked captive markets and facilitated the flow of goods to local consumers over long distances. Urban firms using the best technology and offering good service at low cost now can pull customers from longer distances. In the short run high cost local firms may lower prices to hold nearby customers. Eventually, however, some high cost firms go out of business because of low volume and prices below cost.

Technology used by towns in providing municipal services has also been improved with rising labor and material prices. The costs of operating light plants,
fire departments and sewer systems are higher or the quality of service is lower in communities which do not or can not change technology.

Changing and expanding demands by town dwellers for municipal services and the inability of each small town to provide all of such services at low cost may cause people to relocate their residence. Some will move to the services -- others will move away from high taxes. In general, better transportation, economies of size in urban firms and the preference of people to be near a community offering the most services has caused the larger towns to get larger and the smaller ones to get smaller. Several Iowa counties with population losses of 20 percent from 1950 to 1960 have one stable community -- the largest town. Obviously the decline in population in the rest of the county is even higher than the overall county decline. A movement of business and residences toward the larger center accelerates the decline in small communities.

The forces causing change, uneasiness and the feeling of being off balance in rural towns are large and powerful. They are mostly outside the control of the community. As with the changing family farm, communities will never, with modern knowledge, be the same as they were 40 years ago. Very probably if they are able to absorb and adjust to modern conditions they will be much more attractive and satisfying places to live in than their counterparts of 40 years ago. Adjustment and change do take time, however. Both farmers and rural towns object to the rate at which they are forced to adjust to modern technology. Both need to understand the forces that are at work. They need the aid and advice of land-grant college education and research.

From the viewpoint of a local chamber of commerce trying to pull itself up by its bootstraps the situation must look pretty bleak. The possibility of expanding the basic employment is limited. The existing economic base is shrinking. The people desire more services than before. These could be supplied but only at costs higher than the prices charged by large scale firms or communities. The task of finding patterns of activity (for communities) that are capable of leading to improvement is not simple.

Consulting With Communities on Development

Communities may suggest a range of projects for development. But where they think of only one possibility and this becomes unattainable specialists may need to suggest another. Specialists will need to be capable of evaluating many alternatives. It is not possible to go into much detail here. There are, however, four categories of activities that suggest themselves. These are (1) expanding the community horizontally, (2) expanding basic employment, (3) expanding the service component of the economy and (4) expanding by improving the efficiency (reducing the cost of locally produced goods and services.)
Expanding horizontally by working with other towns is an alternative that is available to all communities. The town is no larger and the people are no more wealthy. Thus it may seem that little gain could be made in this way. However, the potential gain is probably substantial.

The model of a rural area used by Fox of "an exploded Chicago" is of some help in seeing the latent possibilities. If a rural area can be likened to a city that covers 12 counties rather than one-half a county, the situation looks much brighter for community development. Every town in southern Iowa may not be able to have all facilities of Cedar Rapids. However, if the population of a several-county area is about the same and the total economic base and per capita income are about the same as Cedar Rapids, it should have about the same potential. Somewhere within the area it should be possible to develop similar institutions and facilities. If communities work together they should be able to look forward to a level of development approaching that of a city of similar size.

The economic base or the resources in terms of people, talent, energy and funds to support a development project can be expanded by working cooperatively among communities. When the volume is large the greater services desired today as compared to 20 years ago are not so expensive to provide on a per unit basis with modern technology. More specialized medical facilities, enriched school programs, more electricity at lower cost, additional recreation facilities, music, art, sports or more complete banking services can be obtained through expanding the economic base by adding territory. If each small town tries for its own program in all areas all towns are doomed to failure.

How about the possibility of expanding the basic component of the community or area economy? This avenue is not totally without promise. Farm programs which raise the value of the agricultural products shipped out of an area expand the basic component. Farm programs which curtail output in other regions but raise the price locally are obviously of most value. However, any program which raises the total value of output -- even if it cuts volume -- will increase the amount of "foreign exchange" a community can use to import goods or employ people locally.

Although in aggregate farm output is in surplus and more output reduces the value of the crop without price supports, expanded local output does not work this way. Increased local efficiency of agricultural resources will raise output and the total economic base for that local area.

Some communities have secured factories to provide basic employment. This alternative has been discussed by Leven⁴ and Bloom⁵ at previous seminars.

Industries can be classified as supply-based, demand-based and footloose industries. Some of them need to locate near the source of heavy and bulky inputs. Others must locate near consumers or purchases. Iowa has little chance for demand-based industries except some producing agricultural inputs or items for the relatively small Iowa population. Of the supply-based industries rural areas have the best chance to secure those processing agriculturally produced raw materials.

The footloose industries are the "cake and frosting" factories sought so ardently by many communities. They require few raw materials except labor and the products are not expensive to ship to consumers. The number of these is limited. The techniques that are most likely to be successful in securing "a factory for our town" are probably those which would make the town a place where the factory could be highly successful. Some elements of success are within the control of the town; many are not, unfortunately. One of the tasks of community development specialists is to estimate the probable consequences of various community efforts to make the community attractive to industry. Also community development must help identify the types of industry that would be successful if located locally.

How about expanding the service component of a community economy? If we accept the volume of earnings in basic employment as fixed, then total employment might still be expanded by producing locally rather than importing some goods or services. For example a community might be large enough to support a dry cleaning plant but have no such plant. An additional six or eight employees might be hired by encouraging the establishment of one.

However, this sometimes becomes an "O-sum" game in which our winnings are your losses. If the local service is already adequate or surplus as one views the reasonable economic area the establishment of a new business locally merely increases competition and reduces earnings in the other similar business. It will, however, increase employment in the particular community if the business is successful. If the service is already supplied locally there is no gain.

A new business supplying a service not offered before, like bowling, might appear to be pure gain. The business may be well patronized and no other bowling alley may suffer. Perhaps even some people from another town can be induced to shop in this town as a result. However, the money that was spent on bowling by local people may have merely not been spent on movies, clothes, cars and so on. If the extra spending by non-local people does not make up for the decreased spending for non-bowling items by local people the other stores in town will be worse off after the new business. The same might be said for the establishment of a beauty parlor in a town where the women formerly all did each other's hair. The situation is similar when the town acquires a psychiatrist, a child welfare office, a radio station, a square dance club and so on. Of course total business is not expanded unless savings are reduced, but people may be happier with the new mix of services and so development may have occurred.
How about improving the efficiency of local institutions? Some gains, perhaps considerable, can be made in community development by reducing the cost of providing services locally. If the costs in grocery stores, mechanical repair shops and the local newspaper, for example, could be reduced, then money formerly used for these items could be used to patronize a new bowling alley or square dance club. For example, perhaps two communities could be induced to agree to close four of their five grocery stores, establish a supermarket, consolidate their two co-op creameries and open a mental health clinic serving all persons of the larger area. Services would be expanded as well as altered in the mix without enlarging the economic base. Clearly development has occurred.

Summary

Regardless of the ends chosen, the principal "bread and butter" activities of community development specialists are (1) the encouragement and guidance of activities contributing to community goals which are feasible for the economic and population base of the town or area; (2) the discouragement of new activities which can not be supported, will not produce desired results or are already adequately supplied in the area; (3) the consolidation and improvement of existing efforts.

Through this process the overexpanded efforts which are returning little can be contracted. Additional overexpansion and wasted effort can be prevented. Latent opportunities can be brought forth. Personal satisfaction can be enhanced. This is community development.