Community Economic Development

Economists and Policy Debates

Economists explore two distinct types of questions: positive questions about how the economy works and normative questions about how the economy should work. Positive economics is concerned with how the world works and what might happen if policies are changed. Because normative economics is concerned with how the economy should work it involves value judgments. It is often useful to determine if sources of disagreement amongst economists are based on different analyses, different value judgments, or both. Economists may disagree about policies either because of different approaches to the analysis or because they have different values.

An agreement about positive analysis but a disagreement regarding values would exist if two economists agree about how the economy operates but disagree about the actions that should be taken. For example, if a community were to limit the residential lot sizes to say one acre, economists would tend to agree that over time this will cost housing prices to go up higher than if one acre limits were not in place. In essence, the supply of land for residential development has been artificially limited. But they may disagree if such a land use policy is "good" for the community. Some economists may argue that the outcomes are the choice of the community: if the community is aware that higher land prices are a likely outcome, it is their choice. Other economists may argue that an acreage limit creates artificial constraints on the market and artificially inflates land prices forcing lower income people out of the community. By definition determining if something is "good" for the community requires a value judgment.

Equity and efficiency are the principal criteria that economist use to evaluate public policy issues. Efficiency refers to the ability to use resources to produce something of value. If existing resources are used to produce more goods and services the policy is said to be efficiency enhancing. Efficiency could also be enhanced if resources were used in a different manner such that a different mix of goods and services were produced and in the process increase the value of output. This is the foundation of Adolf Hitler's infamous "guns and butter" speech where people where asking how can Germany be rebuilding its army (guns) when hunger (butter) was a very real issue. Hitler made the case that resources were not being used efficiency and under his policies the production of both (guns and butter) could be achieved.

Cost-benefit comparisons are sometimes used to evaluate the efficiency of a change. If the benefits of the change outweigh the costs, then the change is said to improve the efficiency of the economy. Neoclassical economic theory explains how competitive markets and self-interested behavior is underpinned by economic agents making decisions based on marginal benefits to marginal costs. In the end, competitive markets will result in an efficient allocation of resources to their highest and "best" use. Only in the case of "market failure" is there a role for market intervention.

Equity usually refers to fairness. Neoclassical economics tells us that competitive market forces will drive the economy to an efficient allocation of resources, but it makes no statement as to the "fairness" of that allocation. If a policy is put into place it generally helps some people but may harm others. For example, raising local taxes to pay for a public park and swimming pool, will harm some (those who pay the taxes and do not use the park/pool) and will benefit others (those who use the new facilities extensively). What is the appropriate balance? The answer requires a judgment, a judgment that economists are not uniquely qualified to answer.

To help in these types of decision-making philosophers and economists have attempted to devise a series of "decision rules" to help frame the process. Jeremy Bentham writing in England during the 1700s proposed the "greatest good for the greatest number in the long-run" represents the basic decision-making criteria. This is general espoused as a utilitarianist perspective. John Rawls, a Harvard philosopher who wrote extensively on liberalism in the 1960s and 1970s developed the "min-max" criteria where policy should be based on lifting those at the lowest end of the economic spectrum up. The basic moral argument is that a society is judged by how it treats the poorest amongst them, or is judged by the welfare of its worse-off. The classical liberal philosophy embodied in libertarianism advocates an individual's entitlement to freedom from the interference from others. With respect to "just-ness" of an economic decision, libertarian thinking believes that holding, using, and transferring resource endowments is just if it is beneficial to an individual and if it doesn't impinge on the liberty of others. Clearly there are no "clean answers".

It is generally agreed that community economic development practitioners and Extension Educators should avoid making these value judgments for the community. An objective educational program should emphasize positive analysis and avoid positive statements and conclusions. It is not the role of the Extension Educator to impose their values on the community.

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