THE "X" FACTOR - PUBLIC AND PRIVATE ENTREPRENEURSHIP

by

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From the inception of the Appalachian program by the states of Appal­chian, through its support by two Presidents of the United States and enacement of appropriate legislation by legislative bodies of the states as well as by the Congress of the United States, the concepts considered provide the nation's best example of public entrepreneurship. The willingness to take a considered risk - to employ skill and genius to change the course of history - to develop new investment techniques or apply tested investment techniques in new situations - these are the patterns of entrepreneurship.

The problems of the Appalachian region are so numerous and of such scale that unless every step taken in the public investment sector continues in the new pattern and recognizes the need to support the private entrepreneur the majority of Appalachia will continue its historic downward spiral.

Unfortunately there has been too little communication and understanding between the real entrepreneurs of the public and private sectors with loss to both but greater loss to the entire society. Fortunately it is not too late. The private sector must recognize that when a public official takes dynamic action to change the course of history he makes an investment in the goodwill he has accumulated.

Since frequently the payoff of an investment cannot be determined until after a subsequent election while the cost is usually immediate, there are strong inertial forces working for the elected or appointed official who refuses to take a risk and bases his support on criticism of others.

Equally unfortunate has been the failure of many public officials, academicians, and citizen leaders to recognize that the private profit and loss system provides the plus factor which distinguishes between the ordinary and the great society. There should be no argument framed in terms of which sector is most important for neither can succeed without success of the other.

There are still many who believe in a dialectic of preordained change, or an automatic cycle of history, or population forces that provide the base for economic growth negating both the incentive value or the rationale for an economic system based on profits. Without question, examples can be seen of economic, social, or political profits received by those who have not earned them; but often the lack of sophistication of the viewer causes the failure to appreciate how a profit
was earned by benefiting society.

In these days when the Russian society is attempting to incorporate the profit system within dialectical materialism we can't adopt a mechanical view of economic history. In 1960 when I had the pleasure of working with those great public entrepreneurs such as Governor Millard Tawes of Maryland, and Governor Bert Combs of Kentucky and John Whisman, who developed the Appalachian concept, we knew that the trends of history socially and economically had been against Appalachia.

And in 1965 when that greatest of public entrepreneurs President Lyndon Johnson made a major political investment in Appalachia he knew that the tide of events as measured statistically was running against the region. As entrepreneurs, Governor Breathitt and other leaders of Kentucky determined that a major state investment, requiring popular support of a bond issue, was necessary and the people of Kentucky, as entrepreneurs, agreed to make the investments.

If the future of Appalachia is determined by the measure of the past instead of by new strategies of investment and new relationships between public and private entrepreneurs we will all have been betrayed.

The complex application of modern statistical procedures to theoretical models or less complex applications of economic theory may be valuable tools for economic or social decision processes if they are kept in perspective. The theory of industry growth trends with satisfactory or unsatisfactory industry mixes, and "shift analyses", and analyses of urban trends by size of city and industry sites may provide insight but each is based upon historical analyses at a time when the dynamics of change and the productive capabilities of our society suggest the need and offer the opportunity for a strategy of change which can negate each or all of the historical factors.

One type decision which might be made by either public or private entrepreneurs or quite likely by both relates to the policies which at present and historically have encouraged the large metropolitan aggregations of population, industry, universities and general economic, social, and cultural facilities.

Many persons working at economic and social projections have assumed that there are no upper limits on the economies of scale or aggregation when it is quite possible that on economic, social, or cultural terms analyses will demonstrate that further aggregations will create diseconomies or that the point of diseconomy will be reached despite major public and private efforts to encourage new areas of growth.

As public or private businessmen we cannot be content with the assumptions of economists that the effectiveness of public investments
relates directly to the size of an urban area. On the other hand we must recognize that there are economies of scale and that the greatest diseconomy is to dissipate investments without a carefully developed consideration of investment return.

The role of the entrepreneur is never simple for there are always moments of truth, times when a choice must be made; when all the facts are not clear; when the balance between sides seems even; when success or failure, profit or loss, hangs on a hair.

Among the hardest types of choice will be the choice of state governments to concentrate their public investments for maximum return but it must be done. In those areas where there are no single communities with a majority of the facilities to support a modern urban society unless the choice is made to concentrate investments to provide an urban base the real choice will have been made to let that entire area continue to decline.

The disastrous choices made by business or government alike often are in the form of no choice at all. The absence of a national policy on metropolitan areas may in effect stimulate uneconomic concentrations in the large urban aggregations and the absence of a state and local decision to concentrate investments may in effect stimulate continued out-migration from the entire area.

If on the other hand public entrepreneurs have the facts that show the economic and social economy of smaller urban concentrations and demonstrate willingness to make decisions and provide the investment funds for continued growth and the private entrepreneurs see that the factual basis for decision is to be followed by commitment, the dynamics of our total economy should almost always permit both public and private profit.

In Appalachian Kentucky we no longer live in a time when there can be in every county seat the facilities needed to support a high degree of economic well being. Indeed Americans and no less Kentuckians have come to expect amenities that accrue only in urban aggregations.

The task before Kentucky and this nation as a whole is to determine that course which will give us not urban concentrations where the problems of overdevelopment are often greater than those of underdevelopment, but rather to create concentrations of facilities which are great enough to provide the necessary basis for economic growth and social well being.

Appalachian Kentucky can do this job and in the process give to the nation as a whole assistance in bringing the ideal scale of development into perspective.

After the public businessman has determined Why a policy should be established and What is to be done Where and When, it is still important
that the guideline of How relate to the purpose to be achieved. An ultimate objective of almost all public investment is to provide a basis to encourage the private investment which creates both economic and social amenities. Failure to appreciate the necessity, importance, and creativeness of the private sector can be disastrous to Appalachia and to the nation.

Investment of intelligence by government and by academic circles will be of little consequence unless it is related to and supplemented by a much greater investment in intelligence from the private sector. Fortunately the sophistication in management skills and technical abilities has progressed at an exceptionally high rate and with a high degree of interchangeability between government, business, and academic fields. To secure maximin input from the private sector in the development process requires maximum flexibility in the governmental planning process.

No one has developed a proper measure of the success of entrepreneurship in Appalachian Kentucky. A rise in personal income is important but a substantial differential can exist between personal income in Appalachia and personal income in New York City and the compensation of better recreation freely enjoyed on mountain or stream can balance the scale of real income in favor of Appalachia. The benefits of the Metropolitan Opera are not as valuable to many as a local culture of song and story. How often would the average Kentuckian choose a fifteen minute subway ride to Times Square over a fifteen minute walk to open country.

Variety in choice weighs against everyone finding contentment in the great metropolis. We must develop a pattern of health services, of education and job opportunity that will permit the youth of Appalachia to stay at home with pride or go to other choices with confidence, but we will know that our entrepreneurship is successful when the youth of other places begin to choose our mountains and our smaller cities to find new roots and raise new families because they find value and opportunity.

It can happen and I believe that soon industry employing high levels of academic and technical skills will move to Appalachia because they can attract employees who prefer the beauty and the spirit of the mountains and the progress of the new Appalachian society to the restrictions and the problems and the social and economic costs of the overgrown urban centers.

The first sign that the Appalachian program is successful, however, will come when real entrepreneurship shows on the local level. Not just when a group decides to advertise for industry but when the local bankers and men of wealth decide to invest in and loan to growth (and therefore risk) industry.
The real portent of progress will be visible when the entrepreneurs of several counties recognize that the greatest public and private benefit will be derived from concentrating the principal urban investments in another county while developing their own counties for supporting services such as recreation projects.