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The Trade Off Between Equity and Efficiency

John L. Crompton
Texas A&M University

THE TRADE OFF BETWEEN EQUITY AND EFFICIENCY

BY

Dr. JOHN L. CROMPTON, ASSOCIATE PROFESSOR

TEXAS A AND M UNIVERSITY
DEPARTMENT OF RECREATION AND PARKS
TEXAS AGRICULTURAL EXPERIMENT STATION
COLLEGE STATION, TEXAS 77840

ABSTRACT

Most often an efficiency model is used as a base concept. Public sector marketing must incorporate equity. This is the dimension that distinguishes public and private sectors.

THE TRADE OFF BETWEEN EQUITY AND EFFICIENCY

It frequently takes a crisis to create change in government agencies. The crisis which stimulated an interest in marketing by many public leisure agencies was a reduction in operating revenues from traditional tax sources which became prevalent in the late 1970's. It is no coincidence that at this time most of the agencies which are seriously committed to adopting marketing concepts and tools are located in those areas of the country which have been most subjected to financial constraints.

Many recreation and park managers have no formal training in marketing but they are aware that it is considered to be a key ingredient by commercial organizations in their efforts to generate a profit. Thus, marketing frequently is perceived as a promising approach for increasing revenues. However, the equation "marketing-more revenues" is overly simplistic and misses the point. Marketing offers philosophy and a set of tools which can contribute to the attainment of desired objectives.

In the private sector, the desired objective is profit. However, in the public sector there are other equally important objectives. The "marketing-more revenues" equation is often inappropriate because public agencies are not businesses. Their primary reason for being is not to generate revenue. They are social service agencies which are searching for new tools so they can be more efficient (or "business-like") in achieving their social goals.

All organizations should strive to be efficient, effective and accountable, but in addition public sector agencies have to be equitable. It is the conflict between efficiency and equity to which this paper is intended to draw attention. The two concepts are defined and described in the following paragraphs.

EFFICIENCY

Because efficiency is relatively well understood and has been discussed at length in the literature, it will only be briefly defined. Efficiency is a measure of the relationship between inputs and outputs. It measures the amount of effort and expense involved in offering a service and is concerned with the question, "To what extent does the agency produce the output as inexpensively as it could?" It is measured in such terms as attendance days per X dollars expended, subsidy per person in a program, acres maintained per X dollars expended, and number of hours of operation per X dollars expended.

EQUITY

The concept of equity has been explored in detail by this author (1, 2) but it has received relatively little attention in the recreation and parks literature. For this reason, a more expansive exposition is provided.

In every resource allocation decision there are winners and losers. Equity addresses this issue by asking the question, "Who gets what?" Because it is subjective, normative judgments are involved, so there probably cannot be any "right" or "wrong" concept of equity. Indeed, three fundamentally different models of equity are commonly recognized. They are equal opportunity, compensatory equity and market equity.

Equal Opportunity

This is the most widely accepted model of equity. Its wide acceptance is probably a reflection of traditional values which recognize equal protection from the law. Equal opportunity entails, allocating equal amounts of services to all citizens regardless of need or the amount of taxes paid.

Compensatory Equity

Compensatory equity involves allocation of services so that disadvantaged groups, individuals or areas receive extra increments of resources. The operational objective of this equity model is to increase the compensatory role of public services so opportunities for the underprivileged are improved. This requires that resources be allocated in proportion to the intensity of the need for them.

Market Equity

Market equity entails allocating services to groups or neighborhoods in proportion to the tax or fee revenues that they produce. Market equity draws from the prevalent allocation model used in the private sector. Full commitment to this equity model would mean accepting that citizens are not entitled to equal access to outlets, and that citizens needs are not relevant unless they are backed up by dollar votes in the market place.

Demand: An Inadequate Surrogate

Demand is not an equity model. However, it is included in this discussion since it is used extensively as a surrogate in lieu of a real equity model. The demand approach allocates resources on the basis of consumption and/or vociferous advocacy or complaints. It cannot serve to guide the allocation of services in a predetermined agreed direction. Rather it is a complicating factor--a pragmatic, reactive approach to which agency personnel and public officials frequently resort because it is administratively convenient. Its use is likely to result in an unpredictable and inconsistent set of winners and losers. Demand may lead to adoption of a pattern of services reflecting any of the three conceptual alternatives discussed previously, or it may fluctuate inconsistently among them.

THE DILEMMA

Traditionally, most recreation and park agencies have adopted either the compensatory or equal opportunity equity models. However, in response to tax cuts many agencies are adopting higher prices, and in so doing are moving away from the two traditional models toward the market equity model. The market equity model enhances efficiency and responsiveness of resource allocation. Citizens do not receive services they do not want, nor are they required to pay through the tax system for what other citizens use.

This approach offers the most efficient use of resources but it ignores the social benefits associated with compensatory equity and equal opportunity. If market equity was completely adopted, then individuals and groups deprived by the operation of the private sector would be disadvantaged by the public sector as well. Adoption of this model would mean that over time recreation and park services would be substantially reallocated from poor neighborhoods to wealthier neighborhoods and directed exclusively at those client groups that can afford to pay.

The initial question is "What is our mission and whom should we be serving?" In the private sector, organizations usually give priority to developing those target markets most likely to be responsive to particular offerings. However, park and recreation agencies seeking to service multiple potential target markets face a dilemma. Potential client groups have differing abilities to pay and each market segment is likely to have a different price elasticity of demand. Thus, when a price increase is imposed, it has a different impact on each group.

Which potential target market should be given serious priority? Is the agency to act like a private organization and ignore those segments likely to be less responsive to service offerings if prices are raised? If the role of the public agency is to facilitate delivery of a particular service to as many constituents as possible, and to compliment the private sector, then public sector agencies should be concentrating efforts on these less responsive segments, leaving the more responsive segments to the private sector.

The development of marketing mixes aimed at relatively unresponsive target markets is a problem unique to marketers in public agencies. Indeed, the most critical question facing park and recreation agencies often is not how to develop marketing mixes to service relatively responsive target markets optimally, but rather what strategies may be most useful for attracting those who are apathetic, disinterested, or reluctant to use service offerings.

There are many situations in the recreation and parks field in which efficiency and the market equity model are consistent with the traditions of social service provision. In these situations pricing at break even level facilitates compensatory equity whereas tax subsidy imposes hardship on poor people.

The primary reason for this is that property and sales taxes, which are the main source of tax revenues for most local recreation and park agencies are regressive. That is, they tend to bear much more heavily on low income groups than upon higher income groups. Property taxes generally represent a larger proportion of a poor person's total income than a wealthier person's income. In many park and recreation situations, the burden on low income groups would be lighter, and compensatory or equal opportunity equity would be facilitated, if a charge were imposed for a service. This is because poor families may pay more in rent as a consequence of general property taxation than they would under a direct pricing arrangement. In other words, if user prices are charged then low income groups are given the option of not using offered services. Hence, they would avoid paying for those services which they did not want or use rather than being forced to pay for them through the tax system.

The author is an advocate of increased pricing by public recreation and park agencies, particularly in situations where low income groups are non-users. For example, one might reasonably suspect that people who visit libraries, museums, zoos, or aquariums, or who use boat marinas and golf courses, have above average incomes. Even if some of the users of the service are poor, the relatively wealthy receive the same dollar subsidy from the service as do the poor. When such services are subsidized from taxes they represent a distorted price system. This is a system in which the richer elements in society are subsidized by workers at the lower end of the income scale. Such a system results, therefore, in a perverse income or benefit redistribution.

CONCLUDING COMMENTS

Although many recreation and park services are initially justified on the basis of their compensatory contribution, their relative success often has been evaluted not in equity terms, but rather in terms of their efficiency and to a lesser extent their effectiveness.

Two reasons have contributed to this inappropriate evaluation prioritizaton. First, because efficiency measures are more readily available than equity measures, it is expedient to measure recreation and park service delivery only in terms of efficiency. Second, budgetary constraints have forced recreation and park agency managers to increasingly focus upon efficiency. The situation was summed up by one agency in these terms, "We do not render services to collect money. However, it is now necessary for us to collect money to render service." In time of financial scarcity it is relatively easy to secure increases in cost efficiency of recreation and park services by trading off a change from compensatory equity to market equity.

Park and recreation agencies have limited financial resources, which means that they are required to address the dilemma of who should be given priority in service delivery. The resolution of the dilemma is dependent upon how an agency interprets what constitutes a fair or equitable allocation of resources. In an era of continually declining budgets, this issue is likely to become increasingly prominent in the parks and recreation field.

It is not sufficient to evaluate services only in terms of efficiency because this may result in an equity model deemed to be inconsistent with an agency's mission. Thus, although it is likely that an additional number of dollars may generate more recreation attendance at a program and hence be more efficient if invested in one neighborhood, greater equality of opportunity or greater compensatory results to disadvantaged groups may be produced if it were spent in a different neighborhood.

Consider the case of a large traditional outdoor swimming area in a major metropolitan area operated by a public agency. Annual attendance was 120,000 visits. There was an admission charge of 50 cents and the facility was a break-even proposition over the course of a season.

The agency then leased out the facility to an operator who transformed it into an aquatic theme park. The admission charge was increased to $8.50. In its first year 400,000 visits were recorded and the agency received $330,000 from the lease arrangements.

In terms of efficiency the agency has made a quantum step forward since the facility accommodated many more visits and net revenue increased by $330,000. But what about equity? Has there been some displacement? Are these the same people who used it before the lease or have those people been squeezed out by the new high prices? If there has been displacement is the efficiency-equity trade-off worthwhile? There may be other inexpensive aquatic opportunities offered by the agency in close proximity to which displaced clients may gravitate. Further, the $330,000 revenue increase may enable new services to be developed for low income groups for which previously there was no funding.

If efficiency-equity trade-offs such as this swimming pool situation are to be rationally addressed, three steps must be taken. First, an agency must ask the question "what business are we in," and adopt a statement of mission and objectives which will serve as the guiding criterion for all subsequent efficiency-equity trade-off decisions.

Second, the impact of price on equity needs to be assessed by conducting surveys which monitor changes in user characteristics when price increases are implemented. Third, accurate cost-accounting data are required to measure the relative efficiency of delivering a service by identifying all costs associated with it.

Public sector marketing is concerned not only with efficiency but also with equity, and it is this latter concern which is the primary characteristic distinguishing it from marketing in the private sector. At this time, many agencies are not consciously addressing the trade-offs between efficiency and equity. They are seeking greater efficiency and ignoring the equity implications. This is not consistent with the mission of public agencies. Both are important and trade-offs between them should be explicitly and rationally resolved.

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