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NEW ENGLAND AGRICULTURAL ECONOMICS COUNCIL

PROCEEDINGS

1968



UNIVERSITY OF NEW HAMPSHIRE
DURHAM, NEW HAMPSHIRE

NEW ENGLAND
AGRICULTURAL ECONOMICS
COUNCIL

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JUNE 17, 18, 19, 1968

BARRIERS TO AND OPPORTUNITIES FOR ADJUSTMENTS IN
RURAL NEW ENGLAND COMMUNITIES (AS SEEN BY AN ECONOMIST)*

In rural New England communities state and federal agencies have been working for several years under assorted programs which have failed for several reasons. From this series of chaotic, disorganized, bureaucratic, generously financed and inefficient approaches, we should be able to distill some conclusions concerning the major barriers to economic development and also to recognize whatever opportunities there are for economic development. (As an economist, I interpret 'adjustment' as meaning adjustment in furtherance of economic development.) I propose to discuss three categories of barriers and then enumerate and provide examples of five different types of opportunities.

The three categories of barriers are (1) inadequate economic analysis, (2) inadequate prerequisites for industrial development, and (3) inadequate coordination among state and federal agencies which pretend to be working in the public interests for development of New England rural communities.

Inadequate Economic Analysis

Neither agricultural nor other economists in New England have geared up to make a major contribution to economic development of rural areas. To do this would require shifting gears out of traditional types of research and traditional methods of research and moving into a new research field and using new methods. The principal new research methods are (1) benefit-cost analysis, (2) economic region identification, (3) resource development potential analysis, (4) feasibility studies, and (5) economic impact studies.

Benefit-cost analysis is an old concept dating back to the '30's. It has been written about more and effectively utilized less than any type of economic analysis. Its misuse or lack of use is one of the major obstacles to implementation of resource development projects. A good example of the point that lack of benefit-cost analysis is a specific barrier to resource development is found in the Connecticut River Valley. The Corps of Army Engineers with the financially enforced support of half a dozen other federal agencies has located sites for reservoirs or flood control dams on a large scale in New Hampshire and Vermont and to a lesser scale in southern New England. Each of these proposals should be subjected to a competent and objective benefit-cost analysis. In a recent meeting in Woodstock, Vermont, on June 6, on the Corps study of the Connecticut, the point was very well made by the New Hampshire representative that the major needs, in order to evaluate the proposed sites, are benefit-cost analyses made by competent and objective analysts.

*Professor Frederic O. Sargent, University of Vermont, Burlington, Vermont. Presented at Durham, New Hampshire, June 1968.

Without benefit-cost analyses, the Corps projects may be costly activities and actually contrary to the public interest. For instance, they may build a dam to impound water for stream flow augmentation to dilute sewage effluent at the same time that a state agency is treating sewage to the extent that no dilution will be necessary. These are the present plans. Without benefit-cost analyses, we will build a dam which will flood out a brown trout fishing and deer hunting area ostensibly to improve fishing values in the lower reach of the same river. A benefit-cost analysis would probably show that the values destroyed are greater than those created! Without an objective benefit-cost analysis we will build a dam for recreation purposes in Victory, Vermont when an existing dam an equal distance from St. Johnsbury is already under public regulation and under-utilized for recreation purposes.

A record type of economic analysis which is an absolute prerequisite to rational, regional rural New England economic development is identification of viable economic regions. Without such an analysis towns and cities with an inadequate resource base, transportation facilities, or labor pool may invest too large a proportion of their energies and fortune in trying to attract industries for which they can never compete successfully. With an identification of viable economic regions the industry attracting interests can be focused sharply so that in this highly competitive business the nucleus cities supported by the hinterlands can attract industries suitable to the resource base, the location, labor supply, and transportation facilities.

This type of research appears difficult only because it requires a team of disciplines. In Vermont, a major study basic to regional planning which identified viable economic regions was conducted by a team including a political scientist, a sociologist, an economist, and a geographer. The result of that study was to show clearly that no single county had an adequate basis for economic development. It showed that a cluster of counties would be necessary to provide the minimum labor pool and the minimum infrastructure, services and amenities for the desired rate of economic expansion.

A third type of economic analysis which is inadequate is economic analysis of resource development potential. The need for this type of research is best illustrated by an example. In Essex County, Vermont--a highly forested, low income, underpopulated area--a traditional economic analysis was conducted. The nature of the analysis was to study the trends in economic activity. The result was that all trends were found to be pointing down--employment, income, number of farms, value added, etc. A projection of these trends provided a pessimistic picture. On the other hand a resource development potential analysis of the same area would show an optimistic picture. It would show that the county had considerable forestry and recreation resources which, if developed, could lead to new industries. With some assistance in planning and investment, this potential could be managed to start an upward spiral based on new uses of the available natural resources.

Projective economic studies which project present trends are fine for developed areas. Underdeveloped areas, such as are found in the northern New England, require a different approach in which the potential is analyzed rather than the existing rate of development. The results of the two approaches are frequently opposite.

The fourth type of economic analysis which is needed is feasibility studies. Feasibility studies may appear to be an unchallenging and routine type of study but they are essential to provide a basis for economic adjustment. It is a type of study that only an economist is equipped to conduct and requires considerable research acumen. It is a type of study which should precede a movement into the manufacture or processing of any new product or a new method of processing. The business world conducts such studies continuously before they make expansion moves. In order to induce economic activity of a new variety, it is necessary for the Land-Grant colleges to conduct such studies.

One example of this type of research is provided in Vermont. Cheese factories have been polluting water by discharge of whey. A feasibility study is underway to determine the size of plant, location, sources of supply and market for a whey processing plant. A similar study has been made on the feasibility of a slaughter-house which is a necessary prerequisite to promoting cattle feeding as an economic alternative to dairy farming or as a new activity for the hobby or part-time farmer.

Another type of economic analysis which would assist rural communities would be a series of economic impact studies to determine the effect of a single unit of an industry, a whole industry, a regional development, or an interstate highway on a regional economy. These types of studies would provide information invaluable for planning purposes. There are some differences of opinion concerning the impact of various types of economic activities, such as the ski industry or tourism, on the local economy and charges are made that some types of economic development are undesirable because their impact is so minimal. Specific studies are needed to allay these fears and show the extent, nature, and incidence of the economic impact of new industries or part-time economic activities.

Inadequate Industrial Prerequisites

A second major category of barriers to economic adjustments of rural communities in New England after the lack of economic analyses is the inadequacy of industrial prerequisites, such as housing, transportation, power and capital. In fact, absence of these prerequisites constitute a major barrier to the introduction of industry which would facilitate the necessary adjustment to permit rural towns to keep pace with the affluent society in the rate of increase of their incomes.

Housing is a major limiting factor preventing upward economic adjustments in many rural communities. In the town of Vergennes, Vermont, an industry was planning an additional plant. Their choice was between Vergennes and site in New York State. The New York site was chosen because there was inadequate housing and inadequate methods of obtaining it in Vergennes. Our traditional house-at-a-time-if-I-feel-like-it-building system couldn't cope with providing a number of houses quickly according to the specifications of people coming from another sub-culture. The number of members of middle management who can become excited about living in an old farmhouse is limited.

Inadequacies of transportation facilities have been recognized as a limiting factor in rural development. In fact, this is one of the areas in which there is general, continuous, and intensive building activity. The northern New England states are debating where to locate a major east-west highway. A little economic analysis would go a long ways toward helping them to decide between the southern route connecting cities of Portland, Manchester, Rutland and Albany and a northern route connecting the Allagash, Connecticut lakes, Northeast Kingdom and Grand Isle County with northern New York state.

The transportation network in New England is ideal for Boston—the nucleus and economic activity capital for which it was designed. It is highly inadequate for east-west movements upon privately-owned transportation bottlenecks which charge a toll—a transportation system which disappeared in colonial times throughout most of the country. If public facilities replace the private toll facilities, services could be greatly increased without increasing the cost. Here again a transportation economist could make a significant contribution to showing the economic impact of new links between northern New England states and New York.

Supply of electric power at a reasonable cost is another limiting factor to industry expansion and hence to economic development. This has been recognized for decades. However, it has been primarily politicians who have been concerned with it while there has been an inadequate number of economic analyses made of the problem. Certainly objective economic analyses could have a significant effect in pointing out the impact of high power costs on industry growth and location.

Capital availability has been recognized as a limiting factor in introduction and expansion of small businesses in New England. More than one study has indicated that the conservative nature of the northern New England banker is a serious obstacle to economic development. It would appear that economic analysis on the subject of capital supply for small businesses in a rural area could contribute toward improving the capital market.

Inadequate Cooperation Among Agencies

The third major category of barrier to adjustments in rural New England communities and probably the most obvious one consists of the inadequate cooperation among the many state and federal agencies which claim to be assisting these rural communities. Examples of this lack of coordination are so prevalent that I doubt that it is necessary to cite those which I have observed as I know that each of you has observed and heard of an equal number. Perhaps even worse than non-coordination is when one agency so dominates other agencies that reports cease to have objectivity and cease to be methods of communicating to the public to permit the public to participate in major resource allocation and economic development decisions. Again, the prime example of this is found in practices of the Corps of Army Engineers. The U. S. Fish and Wildlife Service can make a great contribution to a benefit-cost analysis by indicating the benefits involved in a recreational use of an area based on wildlife. However, this analysis is of little good if the report is exclusively to the Corps which does not distribute it but uses it insofar as it supports their

interests which are invariably on the side of dam construction. There have been instances in New England in which as many as four different and separate government agency programs have existed simultaneously for the economic development of an area without coordination. It was inevitable that those programs had no significant constructive results. While the situation has improved somewhat over the years, there is still practically no communication between planning at the Corps of Army Engineers and BOR level and planning at the county and local level.

Opportunities for Economic Adjustment

So much for barriers. Let's turn to opportunities. There are a number of opportunities for upward economic adjustments of rural New England communities. They may be listed as (a) attracting industry, (b) developing agribusiness, (c) increasing tourism and recreation, (d) obtaining economies of scale, and (e) promoting cooperative processing and marketing. I believe that each one of these opportunities cannot be obtained without additional economic analysis and assistance in planning by economists. Let us discuss each one briefly and point out the indispensable economic research basis on which each opportunity rests.

Attracting Industry

There are many opportunities for rural communities to attract industry. However, there are great dangers in small communities trying to "go it alone" or use economic inducements such as tax deals in their effort to compete. The opportunities exist for attracting industry but, I believe, only for cities which have a minimum of the industrial prerequisites and constitute a growth nucleus. A definition of viable economic regions would serve to educate and inform people about the need and concept of a development nucleus and would lead toward cooperation on a larger regional scale to attract industry.

Agribusiness

Many opportunities exist in the field of agribusiness--in processing agricultural products. These opportunities as indicated must rest on analyses made by economists competent in making studies of production costs and marketing opportunities and feasibilities. Significant opportunities exist theoretically in whey processing, livestock slaughtering, meat packing, potato and beet processing and canning.

Recreation & Tourism

Areas poorly endowed with a sea coast, large level areas of alluvial soil for agriculture, mineral reserves, or marketable timber must turn to tourism and recreation to find opportunities for economic growth. This activity has provided considerable economic adjustment in rural New England communities in the past. It will continue to provide jobs and income but only with more and more planning and controls as numbers increase and intensity of utilization of

facilities reaches a saturation point. Competition will be keen and it will take special management of the natural resource to maintain the basis on which recreation and tourism exist. To compete with other sections northern New England will have to compete in both quality planning and environmental control. In the near future the town with junkyards, polluted streams and a tacky-atmosphere will not be able to get its share of the tourist and recreation dollar. Here again the quality environment planning and environment controls must be based on the team approach to natural resource studies which must include the contributions that only the economist can make concerning costs, benefits, incidents of benefits, economic impact and multiplier.

Economies of Scale in Government

A major opportunity for adjustment of rural New England communities from an economic point of view consists in taking advantage of economies of scale in town government. This means consolidation of government functions. We are all acquainted with the process of school consolidation. Studies show that there are opportunities for significant economies through consolidation of road maintenance, snow plowing, water supplies, sewage disposal, trash disposal, park development, and joint employment of a town manager. Probably in New Hampshire the opportunities are greatest to enjoy economies of scale through consolidation of town or local units of government. Studies on the subject indicate either that costs of government will probably not be reduced but services would be increased through consolidation. The degree of consolidation could be 100 percent, i.e., combining all services of several towns until an efficient unit is obtained. It could also be partial through joint agreements to consolidate selected services. Either one would have a strong tendency toward improving community facilities rather than lowering their taxes as most rural communities have inadequate facilities. This in turn would provide a significant stimulus for attracting industry or attracting recreation and tourism.

The fifth and final opportunity for rural communities lies theoretically in use of the cooperative method for sales or processing of primary products. The theoretical advantages of a cooperative method have been demonstrated in other areas and the opportunity has been pointed out in northern New England for use of this method to a larger extent in maple product distribution, providing livestock slaughterhouse and timber sales. Apparently the individualistic nature of the New Englander is such that new efforts in cooperative activity are not likely in the near future.

Conclusion

In conclusion, it appears that by this account there are more opportunities than there are barriers for adjustments in rural New England communities. The many barriers consist of inadequate economic analysis are something that we can eliminate. Another barrier--inadequate federal coordination is a subject on which we should also have a significant impact if we recognize it and work on it. So, we can do something about two of the three barriers.

There are five opportunities. All of them require economic analysis as a base and many of them require the team approach to regional analysis with the economist playing his role as one member of a team of specialists. The economist should work hand in glove with other disciplines within a planning framework so that his findings are directly to the decision makers.