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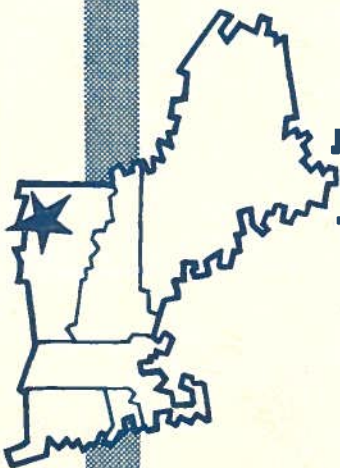
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1963 PROCEEDINGS

New England Agricultural Economics Council

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PROCEEDINGS

NEW ENGLAND AGRICULTURAL ECONOMICS COUNCIL
ANNUAL CONFERENCE

Burlington, Vermont
June 24, 25, and 26, 1963

"AGRICULTURAL ECONOMICS AND RURAL DEVELOPMENT"

NEW ENGLAND'S PROMISE AND PROBLEMS

Robert W. Eisenmenger
Director of Research
Federal Reserve Bank of Boston

I have been studying the New England economy ever since I joined the research staff of the Federal Reserve Bank of Boston in 1955. During these eight years I have tried to develop some logical explanation for the continued economic growth of the New England region. In almost every decade since 1870 there has been population growth in every New England state. Moreover, the region has always had above national average per capita income. In 1962, New England's per capita income was about 14 percent above the national average.

The reasons for this economic growth certainly are not obvious. The region in which we live has an impressive array of locational disadvantages. With the exception of scenery, New England has few natural resources or locational features to attract and support industry and agriculture. Let me describe a few of the high-cost factors facing businessmen and farmers in this region.

Agriculture

As most of you are well aware, New England is not even moderately well endowed with soil resources. Land is farmed because it is close to markets and not because of its inherent productivity. Even in recent decades, farm liquidation and the movement of the labor force out of farming has proceeded at a faster rate in New England than in the nation as a whole.

Forestry

Although almost 80 percent of the region has a forest cover, New England's forest products industries are not favorably situated with respect to raw materials. Better than half of the private forest land holdings in New England are in what the United States Forest Service classes as "other private ownerships." These owners are not farmers or manufacturers of lumber, pulp and paper, or other wood products, but clubs, business and professional people, housewives, laborers, and other private individuals. In New England, 9.5 million of the 15 million acres of land held by these "other private owners" are in holdings of less than 500 acres.

From work done at the Harvard Forest and elsewhere, we know that most of these owners view their forest holdings as a retreat or obtain satisfaction simply from ownership and visiting their land on weekends. In many cases, this type

of owner is hostile to forest management because he believes the aesthetic value of his forest will be destroyed if he permits any type of cutting. For these reasons, the available supply of pulpwood and sawtimber is considerably less than you might expect from looking at the aggregate forest inventory figures of the United States Forest Service.

In addition, the rough New England terrain, the harsh New England climate, and the high cost of woods labor raise the cost of cutting and moving pulpwood and sawlogs into the mills. As a result, the delivered cost of pulpwood and sawtimber is significantly higher in New England than in the South.

Industrial Fuel

New England has no sources of commercial or industrial fuel within its borders. The region imports most of its residual oil from abroad, brings its bituminous coal from Pennsylvania and West Virginia, and pipes its natural gas from southern states. Fuel costs are higher in New England than in any other region of the United States and about 40 percent higher than in the country as a whole.

Electric Power

Electric power costs provide a significant locational disadvantage for New England. The region's industrial electric power rates are about 15 percent higher than the national average and among the highest in the country for an industrialized area.

A number of authorities have argued that a part of the New England-United States differential could be eliminated if proper public policies were instituted. For example, considerable savings could be realized if there were more coordination among the region's 13 large privately owned utilities. However, no serious student of the power cost situation in New England has claimed that the region's power costs could be brought down to the levels prevailing in other industrialized parts of the United States.

Raw Materials

With the exception of pulpwood, limestone, granite, and slate, New England has no substantial supplies of raw materials. Most of the New England states rank very low among the states in production of mineral products. For example, we have no iron, bauxite, copper, or sulphur.

The extra cost involved in bringing basic materials into New England is well illustrated by the high cost of building materials in metropolitan Boston. I noticed in a recent issue

of the Engineering News Record Magazine that the price of almost every basic building material is higher in Boston than in most other cities throughout the country. Other data suggest that raw material prices are even higher in other parts of the region.

Consumer Markets

As most of you know, the largest gains in population are occurring in the Far West, Southwest, Midwest, and the South. Thus, New England manufacturers are far from the rapidly growing centers of consumption. This point could easily be exaggerated because manufacturers in this region do have easy access to the rich Middle Atlantic consumer and industrial markets. Nevertheless, many competitors are more favorably situated with respect to national markets.

The Climate

The only area in New England which has a mild climate is Cape Cod, and even there the winter is cold and damp. The summer climate in other areas is usually pleasant, but the year-round climate is certainly not attractive to retired people. It is difficult to imagine a large in-migration of retired persons into New England similar to that which has occurred in Florida, Arizona, and New Mexico.

Furthermore, some manufacturing firms deliberately locate in areas with consistently pleasant weather. For example, parts of the aircraft and aerospace industries deliberately select locations with mild clear weather throughout the year.

The High Cost of Living

The cost of living is significantly higher in New England than in most other regions of the country. Bureau of Labor Statistics data suggest that the cost of living is between 3 and 4 percent above the national average for the typical working family. Thus, wages and salaries in New England must be discounted slightly to make them comparable with earnings in most other parts of the United States.

New England Ports

New England ports have played an important role in the region's economic development. This was particularly true in the 17th and 18th centuries. As late as 1877, Boston was a more important port than Philadelphia and Baltimore combined. However, the operations of the Port of New York have dwarfed those of the Port of Boston for more than 100 years. In

recent decades, activity in Philadelphia and Baltimore has increased much faster than in Boston and the total tonnage in each port is now greater than that in Boston.

The Port of Boston's relative decline is largely explained by the smaller hinterland served by the Port. At other large ports along the Atlantic Seaboard railroads provide direct long haul freight service to the Midwest. Manufacturers in Connecticut are closer to New York, and even manufacturers in northern New England usually export through the Port of New York because it offers better service and more frequent sailings. Altogether about 85 percent of the foreign exports from New England move through the New York port.

New England ports do permit manufacturers to import from other countries a variety of raw materials and semi-finished goods, such as wool, hides and skins, rubber, steel, and industrial chemicals. In this way, imports to a small extent offset the dearth of raw materials available within the region,

However, Federal import restriction on crude oil negate one of New England's most important locational advantages—its easy access to supplies of oil in South America and the Near East. If import restrictions did not exist, New Englanders would buy petroleum products at substantially lower prices. New Englanders are paying some \$200 million more for petroleum products each year than they would if they had free access to world oil markets.

The Problem

How can economic growth be sustained in such a poorly endowed region which is an integral part of a very well endowed national economy? If New England suffers from so many locational disadvantages, it would seem logical for industry and population to move to better endowed regions. The region would then suffer from a population decline. In fact, the population of New England and each of its constituent states has increased almost continuously for the last 100 years, despite the migration of farmers in the 19th century and the loss of much of the textile industry to the South in the 20th century. Furthermore, in recent years the unemployment rate has been lower in New England than in the United States as a whole.

The Explanation

How can this paradox be explained? I have a five-point explanation.

(1) Manufacturers and other employers in New England generally enjoy a wage rate advantage over similarly placed employers hiring semi-skilled and skilled labor in other parts

of the country. This wage advantage often amounts to 10 percent or more of wage costs and in many industries is equivalent to 5 percent or more of total production costs. This advantage often makes up for the raw material and marketing advantages of employers in other regions. It is particularly important in New England's rapidly growing metal working industries.

(2) Despite low wage rates, New England has a high level of per capita income. This phenomenon can be explained largely by two factors.

(a) The region's industrialization and urbanization create job opportunities for a great variety of people—particularly women. The labor force participation rate is higher here than in most other regions, and a slight difference in participation rate has a very significant influence on the level of per capita income.

(b) New Englanders continue to benefit from substantial property income. Much of this income arises from inherited wealth created in the 19th century, when the region was more favorably situated.

(3) The third point in my explanation is this. Despite higher wage rates elsewhere, most New Englanders choose to live in the region in which they were born. Those who do move out are usually between the ages of 20 and 40. They have a high school education, speak good English, have learned basic skills, and are readily accepted in all parts of the country. During periods of full employment they have the option of accepting higher paying jobs in other regions. In recent full employment decades, the average annual net out-migration of native born whites averaged somewhat over 10,000 persons annually. However, in very few decades during the last 100 years has the net out-migration of native-born persons exceeded the natural rate of increase of population of native-born persons, in any state in New England.

In addition, foreign-born persons continue to move into New England. Apparently the availability of work in the textile, apparel, lumber, jewelry, and shoe and leather industries continued to attract the foreign born. It is also probable that new immigrants wish to join earlier immigrants who speak the same language, have the same religion, and enjoy the same type of social life. In recent decades, the net-immigration of the foreign born has averaged somewhat less than 10,000 persons annually.

Altogether, then, there has been little net migration from New England. The explanation of New England's slower population growth (12.8 percent in New England compared to 18.5 percent in the United States between 1950 and 1960) must be explained by a low fertility rate and other demographic

characteristics of the population. It cannot be explained by out-migration of the population in search of higher wage rates elsewhere. Before we would have substantial out-migration, wage levels would have to fall to much lower levels than those prevailing in New England today. In a recent Ph. D. thesis at the University of Chicago, Larry Sjaastad estimated that wage levels in most states must fall to levels 50 percent below the national average before the net out-migration exceeds the natural rate of population increase.

This is occurring in certain parts of Northern Vermont, New Hampshire, and Maine where good jobs are scarce and wage levels are very low. In most parts of New England, however, the population continues to increase.

(4) The fourth part of my explanation of economic growth in New England is that a wage cost advantage is more important in a labor intensive industry than in a resource based industry or a capital intensive industry. It is not surprising to find, therefore, that employers in New England specialize in the type of economic activity that requires a labor intensive technology.

Firms in every important New England industry manufacture specialties which are generally labor intensive products. Paper companies sell a great variety of industrial technical papers. The furniture industry creates high quality merchandise or items such as doll furniture, while the textile industry produces unique products for the New York City market. Manufacturers of drop forgings sell specialty hand tools. Producers of electronic parts, instruments, and machinery manufacture tailor-made equipment for industry and the Department of Defense.

Specialty items are usually labor intensive products. However, some products which cannot be classified as "specialties" are also labor intensive. The aircraft engine industry, one of Connecticut's most important employers, is an excellent example. Computers are now manufactured in metropolitan Boston. Although computers are a symbol of modern automated technology, they must be manufactured with labor intensive techniques. According to my calculations, the manufacture of computers is one of the most labor intensive industries in the United States.

I have found that the term "labor intensive" has unfavorable connotations to both laymen and economists. They generally identify it with the apparel, shoe, textile, jewelry, and other low wage industries. However, the new labor intensive industries in New England require a more skilled labor force, and as a result are highly prized by industrial developers. They are particularly desirable for New England because these industries do not have to be located near sources of raw materials or near mass consumer markets.

So far as public policy is concerned, it suggests that the future of New England depends more on training a highly skilled labor force than it does on trying to compete by very low wage rates in the conventional mass production industries.

Within New England the skill level of the labor force varies considerably. Connecticut and Massachusetts have a very high skill level, but in Maine, New Hampshire, Vermont and Rhode Island the skill level is below the national average. Our experience in Connecticut and in Massachusetts suggests that the other New England states should attempt to shift their industrial specialization to a different type of labor intensive industry. The manufacture of technical items and speciality products, which requires that a very substantial amount of human effort be devoted to a small volume of raw materials, can be accomplished profitably in New England's economic climate.

(5) My fifth and final point is this: part of New England's continued growth can be attributed to its "head start."

(a) Most regional manufacturing firms are managed by New Englanders. The heads of these firms generally do not consider relocating their plants to improve their competitive situation, but adjust to their locational disadvantages by changing their product line. These changes are likely to move them into labor intensive products. In addition, studies have shown that New England management is partial to a New England location for new plants. George Ellis, President of the Federal Reserve Bank of Boston, found in an interview study that the vast majority of new plants established in New England immediately after World War II were managed by New Englanders who preferred to remain here. Moreover, he found in a few cases that outside firms deliberately chose locations in Vermont and other scenic areas because they preferred the people and the countryside.

Another advantage of New England's head start is the fact that New Englanders have long specialized in the metalworking industries and in providing insurance, banking, engineering, and consulting services. All of these activities have a high income elasticity of demand, and the natural growth of the United States economy has benefited this type of economic activity. Unfortunately, Vermont, Maine, and Rhode Island until recently have been oriented toward agriculture or textiles and have not benefited from a rapidly growing demand for their products. Now that textiles and farming have become less important in those states, it is likely that their economic adjustment problems will be less difficult.

The "head start" has helped the New England economy in still another way. The region has long had a manufacturing economy. As a result, our labor force is well trained and manufacturers find it possible to recruit a specialized labor force and to purchase parts and services of all sorts from specialized suppliers. One unique aspect of industrialization in New England is that each metropolitan area is within a six-hour drive (at the most) of every other metropolitan area, and in most cases they are less than 100 miles apart. Altogether,

88 percent of New England's population lives within a 20-mile drive of the exterior boundaries of a standard metropolitan area. Specialized manufacturers and suppliers of parts, specialized repairmen, and specialized consultants in one metropolitan area are within easy reach of almost any manufacturer in the region.

In some ways New England is like a giant Los Angeles. We have millions of people living within a short distance of each other. However, our metropolitan areas are separated by green spaces, rural land, and forest land. This is very fortunate. New Englanders have most of the benefits of the external economies which go with being part of a huge megalopolis, but as of now we do not have all the problems associated with urban sprawl.

Inevitably, the future will bring urban problems to our rural communities. All of New England's metropolitan areas are being linked with high speed interstate highways. The northern reaches of the eastern seaboard's megalopolis is creeping into Southern Vermont, Southern New Hampshire, and Southern Maine. Today, very few of New England's rural towns are predominantly oriented toward agriculture. In most cases the rural nonfarm population far exceeds the rural farm population. People live in rural areas but they work in the adjoining metropolitan area. As urban life is introduced into all the space between metropolitan areas, our rural communities will need to introduce local and regional planning arrangements which will prevent urban blight.

Conclusions

I hope some of this information I have provided is useful background for your conference on rural development. In summary, my main points have been:

(1) New England has very few physical, geographical, or locational advantages to attract and support industry and agriculture.

(2) Nonetheless, certain types of high-quality labor intensive industries continue to grow and thrive in New England's economic climate. I see no reason why this growth will not continue in the future.

(3) New England's growing industries are very dependent upon a plentiful supply of semi-skilled and skilled labor. In the future, public educational systems must provide even better training for the labor force.

(4) If industrial growth is maintained in the future, agricultural production will continue to grow even if the farm labor force continues to shrink. Farm products which must be grown near their point of consumption will continue to be produced here.

(5) The designations "rural" and "urban" have much less meaning now than they did 10 or 20 years ago. Today few "rural" towns in New England are predominately agricultural. Manufacturing and commerce are interspersed with farming in almost all parts of the region, and the eastern seaboard's megalopolis is now moving into Southern Vermont, Southern New Hampshire, and Southern Maine. The public and public agencies must make area and regional planning arrangements which will prevent future industrial and commercial developments from blighting the landscape as they have in so many parts of the country. If this can be accomplished we can have the best of both worlds—the high incomes that go with an industrialized society and the attractive scenery and surroundings that are associated with a rural environment.

Conclusions

I have some of this information I have provided is useful for your conference on rural development. In summary, my main points have been:

(1) New England has very few physical, geographical, or economic advantages to attract and support industry and agriculture.

(2) Unfortunately, certain types of high-paying jobs have been attracted to the region to grow and sustain the growth of the economic situation. I see no reason why this growth will be sustained in the future.

(3) New England's growing industries are very dependent on a plentiful supply of semi-skilled and skilled labor. In the future, public educational systems must provide even better training for the labor force.

(4) If industrial growth is maintained in the future, agricultural production will continue to grow even if the farm labor force continues to shrink. Farm products which need be grown near their point of consumption will continue to be produced near