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FACTORS HAMPERING TRADE IN PACIFIC NORTHWEST AGRICULTURAL PRODUCTS

by

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It is customary in discussing the economic potentialities of a region to concentrate upon its strong points and either wholly ignore or regard as mere annoyances those weaknesses which play a role in determining the extent to which the strong points can be exploited. This paper is an attempt to accomplish an opposite objective; it is an effort to concentrate on those factors limiting agricultural trade expansion in the Pacific Northwest. Little will be said about the economic advantages of the region because a knowledge of them on the part of the listener will be assumed.

The half-dozen limiting factors to be discussed here are economic. They are due either to nature or to man-made restrictions on both the use of resources for agriculture and the marketing of agricultural products. Although agricultural techniques will not be discussed, their effect upon trade activity in agricultural commodities is not to be minimized. For example, the improvement of the strain of dairy herds could lead to a rise in dairy production, thereby increasing substantially trade in agricultural products. A second illustration is the growth of freezing plants which will probably lead to an increased production of certain fruits and vegetables. The conventional economic assumption of no change in the state of the arts is made in this paper, but it is fully appreciated that an important phase of the problem is being omitted.

Before launching directly into the subject, the region under discussion must be defined.

Regional Boundaries

The phrase "Pacific Northwest" refers to the Puget Sound area, the Willamette Valley, the Inland Empire and a varying amount of hinterland, the extent of which depends upon the context.

For the purposes of this paper, the Pacific Northwest is considered as being bounded on the north by the Canadian line, on the west by the Pacific Ocean, and on the south by California and Nevada. The eastern limits are ill defined. The northern portion of the eastern boundary may be placed at the continental divide, giving western Montana to the Pacific Northwest. The southern part of the eastern boundary cuts diagonally across Idaho in such a way as to include Boise but exclude most of southwestern Idaho as it is part of the inter-mountain country that looks to Salt Lake City as its trade center.

Physical Characteristics

The mountains of the Pacific Northwest constitute one of the most important factors limiting trade in agricultural commodities. In the first place, their ruggedness removes much of the region from agricultural and industrial use. A mere listing of the more important mountain systems gives a hint as to

the large proportion of the region that they cover; the Coast Range including the Olympics, the Cascades, the Bitter Roots, the Klamaths, and the western slopes of the Rockies. In addition, there are such rugged expanses as those constituting the Blue-Wallowa-Seven Devils Mountains area and the Okanogan highlands, both of which are largely unsuitable for agriculture.

A second role played by the mountains relates to their influence upon climate. The Cascades are the important range in this connection as they divide the Pacific Northwest into two markedly different climatic sections. The western one-fourth is favored by a marine climate and a relatively heavy rainfall. Most of both the arable land and the population of this section are located in the Puget Sound-Willamette Trough lying between the Coast Range and the Cascades. The eastern three-fourths has a continental climate and such a light rainfall that intensive agriculture is seldom possible without irrigation.

At the present time only 5 percent of the Pacific Northwest is in productive crops. The total devoted to all forms of agriculture is, of course, somewhat higher. The principal reasons for this low percentage are the rugged relief, inadequate water supply, inferior soils, and remoteness from markets. It has been estimated that scientific reclamation may be able to increase the cropped area to $7\frac{1}{2}$ percent of the total. The full development of the Columbia Basin project will account for about one-fourth of this possible expansion.

The physical character of the region also limits trade by making transportation more difficult and expensive than would otherwise be the case, and also by making it extremely difficult to bring water to many locations where the soil would be highly productive if it were irrigated.

The greatest single physical attribute unifying the Pacific Northwest is the Columbia River and its tributaries. Historically, it was the great artery which linked the people of the region and made possible the transportation of goods entering into trade. However, its present and probable future role as a transportation agency is not great.

Geographic Isolation

The distance separating the Pacific Northwest from centers of population elsewhere is a severe hindrance to trade development. The Pacific Northwest is encircled by either sparsely settled country or by ocean; the immediately contiguous territory contains neither sizeable markets for products grown in the region nor sources of needed supplies. This separation lowers the amount Pacific Northwest growers can receive from the sale of their crops in markets outside the region because at least part of the freight must be absorbed. Likewise, costs of production are raised because of the necessity of the Pacific Northwest buyers paying a part of the freight on incoming farm equipment, machinery, fertilizer, etc.

It is approximately 1700 miles from Puget Sound and Portland to the Twin Cities and Omaha. Chicago is 500 miles still farther removed. The magnitude of the expanse between the Pacific Northwest and the western margin of the Mississippi Valley may fade in our memory unless it recently has been traversed.

The northern populated sections of California are separated from the populated parts of southern Oregon by a belt of mountains. The distance to California's large cities is much greater than the width of this mountain belt. San Francisco is 400 miles from Klamath Falls and Los Angeles is twice as far.

Although the Pacific Ocean provides access to markets all over the world, they are remote and the exchange of agricultural commodities is far less than if an area populated by people having relatively high incomes were to the west.

The special problems presented by the man-made international boundary to the north will be treated separately at another point.

Compared with many other parts of United States, the Pacific Northwest is still in a pioneer state of development. Its economy is based largely upon the exploitation of its natural resources, much of the processing being done elsewhere. By far the largest part of the imports from the other sections of the United States are manufactured goods. It is only natural that the region should be extremely conscious of the high transportation costs necessitated by its isolation. In the case of agriculture, success has depended upon careful crop specialization which results in considerable surpluses that must be sold outside of the region in markets far away from the point of production.

Population

The Pacific Northwest accounts for approximately 10 percent of the area of continental United States, but it contains only 3 percent of the population. The resources of the region warrant a larger population than is now here and it seems reasonable to anticipate a continued growth in the future.

If the population were larger, there would be a proportionately greater local market for agricultural products provided the average per capita real income remained the same. At the present time there are normally large fruit surpluses which are sold east of the Rockies and wheat surpluses which are sold in the Orient, California, and other sections of the United States. In both cases there is a considerable freight cost. It is probable that a larger population would make it possible to alter the crops produced so that little would be shipped outside of the region, thereby avoiding the freight charges.

Although the per capita income in the Pacific Northwest is now relatively high, if it were to increase still more (in real terms), the existing population would consume part of what is now shipped outside of the region. This would increase the local trade in agricultural commodities.

Resources

The principal reason why the urban population of the Pacific Northwest has not grown more rapidly is because the mineral resources commonly associated with heavy industry (primarily those using steel) are either absent or have not been economically available. Moreover, the transportation cost of bringing in steel for further fabricating in this region has been a discouraging factor.

Iron ore, which could be the base for an iron and steel industry, occurs in considerable abundance. However, it is by no means as cheap to obtain as that in the Mesabi Range in Minnesota; virtually nothing has been done to date in the way of developing these deposits. Perhaps the combination of cheap electric power (much Pacific Northwest iron ore can be reduced in electric furnaces), the approaching exhaustion of the Mesabi deposits, and the growth of population on the West Coast may make a local iron and steel industry feasible in the future. Until this occurs, it seems reasonable to presume that the steel plant built by the government during the war at Geneva, Utah,

and very recently purchased by the United States Steel Company, and the Kaiser plant at Fontana, California, will somewhat alleviate the cost disadvantage that Pacific Northwest users of steel products now experience.

The coal deposits have not been extensively developed, largely because of cheap electricity and fuel oil. In fact, the peak of production was reached 28 years ago (1913). The quality of coal deposits in the region is probably better than is generally realized. It runs all the way from lignite through high-grade bituminous, and north of Mt. Baker, in Washington, there are two exposed veins of anthracite.

The enormous volume of developed and potential water power is the resource that distinguishes the Pacific Northwest from other parts of the United States. The influence of cheap power upon trade in agriculture products is, for the most part, indirect being limited to lowering cost of some farm operations and increasing the population of the local market; the improvement in farm living, however, due to extension of electrical facilities is very great but it is something that cannot be measured in terms of money.

This paper deals with factors which currently hamper further growth of trade and not in obstacles already overcome. Therefore, no review of the growth in the use of electricity in the region will be undertaken nor will there be any detailed discussion of the effect of cheap electricity upon industrial activities up to the present time. People living in this region are particularly conscious of the aluminum industry, but many other types of manufacturing have also benefitted.

A particularly unfortunate factor hampering the expansion of our water power is the most of that additional projects, such as the McNary Dam, are so large that they are unlikely to be undertaken by private capital. Moreover, to get on a highly controversial subject, it appears that Bonneville Power is partly subsidized since it is being sold below its full cost of production. Additional power developments are dependent upon Congressional action and not entirely upon economic factors so that future expansion is fraught with all the hazards that are inherent in politics. Even many operational decisions are exposed to political pressures, the recent demand that the Bonneville rate be raised to that of the Shasta Dam being a case in point. A region with comparatively small population labors under a severe disadvantage in playing a purely political game.

It should also be pointed out that the type of industrial expansion which can be stimulated by cheap electricity--light metals and fertilizers in particular--are not employers of large amounts of labor. However, the production of cheaper fertilizer surely should be an advantage to agricultural production in this region.

Logging operations were, several decades ago, the forerunner of agricultural production because they were the means of clearing land which later became farms. Now, however, there is little, if any, Pacific Northwest land covered by timber that is suitable for agricultural production. On the other hand, there is some land upon which farmers are struggling to make a bare existence, which would be fine forest land. Thus, logging no longer means an increase in land available for agricultural production.

The local lumber manufacturing industry could, it seems perform much more remanufacturing than is currently the case. If further processing were to be

done in this region, the lumber industry could support a much larger number of employees who would augment the market for Pacific Northwest agricultural commodities. This is especially desirable now as the number of employees associated with the lumber industry (especially in Washington) is in a secular decline despite the emphasis upon sustained yield.

From the point of view of this paper, the most important resource is the soil of the region. Space forbids a discussion of the types of soils that are found in the Pacific Northwest and their relative agricultural desirability. The limitations upon the amount of land available for agriculture that are imposed by the ruggedness of the terrain and the lack of water have already been mentioned. The construction of irrigation projects, in addition to the Columbia Basin and others now under way, will be very expensive.

A somewhat closely related topic is soil conservation, for without proper policies in this regard, the present area under agriculture cannot be maintained.

Freight Rates

The importance of freight rates in the agricultural economy of the Pacific Northwest has already been mentioned. The cost of freight on supplies and equipment imported from other parts of the United States is a consequential part of the cost of production of agricultural commodities. The freight charges on surplus crops sold outside the region decreases the net receipts to the producers. There is some correlation between the distance that freight must be moved and traffic density on the one hand and freight costs on the other although the type of carrier--railroad, highway, or boat--modifies this relationship.

It does not appear necessary to labor the point that freight costs hamper trade in agricultural commodities more in the Pacific Northwest than in such a region as the corn belt states where freight is a less important cost constituent. It follows that a larger population coupled with greater industrialization could alleviate this by (1) making the Pacific Northwest less dependent upon markets outside of the region, and (2) increasing the freight traffic density.

The topic of freight rate structure is so complex and the ramifications of changes in individual rates are so far reaching that it is hazardous to open up the subject when it cannot be treated adequately. In general, rail rates should be such that the carriers earn enough so that they can attract new capital as it is needed. According to this criterion, the freight rate structure in the western territory does not appear to be too high as the roads do not give evidence of being unduly profitable. In fact, upward adjustment in the immediate future seems almost certain.

Rates on individual commodities (by far the bulk of agricultural products move under commodity rather than class rates) is an entirely different problem. Due to the large proportion of railroad costs that are relatively fixed in nature--taxes, interest, depreciation, and some of the maintenance of ways and structure--much of the income of a railroad goes for expenses not directly applicable to transportation and even though revenues are inadequate to cover these costs entirely, service may continue for a long time but will eventually cease when capital replacement becomes imperative. Therefore, there is a danger that rates here and there may be reduced until finally the entire rate structure may be undermined so that fixed costs are no longer covered.

The direct expenses involved in the carriage of freight are joint costs which means that it is impossible to segregate the costs to the railroads of hauling a ton of apples from that of hauling a ton of lumber on the same train. Uniform rates are not feasible because many items would not move at all if they were adopted. No wholly satisfactory formula for rate making has yet been devised.

In recent years, the southeastern states have been very actively agitating for lower outgoing rates on manufactured commodities, claiming that the rate structure in the southern territory in conjunction with that in the eastern territory was keeping the southern states in a colonial status. They have been partly successful in winning their demands. They have used political pressures of many kinds in their fight. It is worth pointing out that the Pacific Northwest would probably fare badly under a regime of political rate making because of its small population.

There is no denying that competition is a powerful factor in adjusting freight rates. The canalization of the Columbia River, when completed, will make possible bulk shipments by water at very much lower rates than currently prevail by rail.

In its recent study of river transportation in the Columbia Basin, the Bureau of Reclamation estimates that freight costs on general merchandise from Portland to Central Washington can be reduced by as much as \$2 per ton over present costs of rail transportation. It is estimated that the total savings in transportation attributable to the canalization of the Columbia River (due both to the direct use of the river and to a reduction in rail rates to meet water competition) will amount to \$732,000 annually.

The expenditure of public funds on inland waterways opens up many problems of public policy. The most important being those of subsidies and the effect upon existing transportation agencies.

Normally, a good deal of fresh and canned fruit moves east by inter-coastal steamship service. Our navigation laws reserve this trade to American vessels. Were these laws to be repealed so that foreign vessels could compete, the rates would be much lower. The effect of this upon the American merchant marine would probably be disastrous, but agriculture would benefit.

International Boundary

The Canadian boundary cuts in two what, from a physical standpoint, is the Pacific Northwest. Were it not for this artificial line, the Pacific Northwest, for marketing purposes, would include what is now southern British Columbia. With the exception of the lower part of the Fraser River valley, the British Columbia valleys run north and south so that the natural local trade routes tend in that direction rather than east and west. The 49th parallel is a purely arbitrary line that has no geographical justification as a boundary.

The boundary is important partly because it is a customs barrier to some goods, but primarily because it necessitates a different political orientation on either side of the line. In the modern world, economic policies are more and more becoming tools of politics and this makes international borders of much greater economic importance.

The Canadian-American reciprocal trade agreement opened the door to the export of some Pacific Northwest agricultural commodities to Canada, but the customs barrier has by no means been eliminated.

Canada is a specialized producer and is far more dependent upon foreign trade than is the United States. She is in a very difficult economic situation as she normally sells more to Britain than she buys, whereas she buys more from the United States than she sells. The excess funds from the sale of goods to Britain is normally used to finance the excess of purchases from the United States. This means that Canada is vitally interested in being able to convert sterling into dollars. Should the proposed British loan fail to pass Congress, Canadian purchases in the United States would probably be far less than if it passes because one of the primary purposes of the loan is to "unfreeze" sterling balances due Canada and countries in the so-called sterling area. For the same reason, Canada wants the monetary fund of the Bretton-Woods Agreements to function smoothly. The relationship of Canadian imports of American commodities and trade in Pacific Northwest agricultural products is obvious.

Other Factors

There are many other factors that merit discussion, but must be excluded from consideration because of time limitations. Some of them may be mentioned, however.

- (1) Tariffs and other barriers to foreign trade, both American and foreign, although the former are the more important for the long-run. These obviously limit exports.
- (2) Lack of capital for investment in the region.
- (3) Expense in marketing due to lack of specialized agencies for handling agricultural products. This may be overcome, in part at least, by an expansion of cooperatives.
- (4) Local monopolies on the part of both business firms and labor groups.
- (5) An absence of the aggressiveness of the residents of this region; that is, a lack of the optimism which has been such a large factor in Southern California development.

