

## Regional Economics of the Palouse Basin

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### Introduction

It has become a truism that many, if not most, rural communities in the Inland West and Northern Rockies of the United States are now or traditionally have been dependent to some degree on natural resources for their economic and social well-being. (This section of the white paper on the regional economics of the Basin was written by Chuck Harris, with input from Dr. Jay O’Laughlin and Phillip Cook; it is excerpted from Harris et al. 2000). Significantly, many rural communities in this region are surrounded by public lands, which limits control over the use of natural resources on those lands as well as the market demands for those resources. Increasing globalization of market economies and decreasing access to natural resources for commodity-production here in the U.S. are especially problematic for these communities, which traditionally have been dependent on industries such as mining, agriculture, and logging and wood-products manufacturing. This changing situation is especially significant for rural communities in the interior Columbia River basin, a region that spans Idaho, central and eastern Washington and Oregon, and western Montana and Wyoming. In that region, 53 percent of the land is publicly owned and managed by land-management agencies such as the U.S. Forest Service (USFS) and the Bureau of Land Management (BLM). This section of the white paper focuses on the economics of this situation, and in particular on the role of the region’s natural resources in economic development and its consequences for rural communities in and around these public lands.

The management of public lands in the Inland Northwest has undergone significant changes in recent decades that are affecting local communities. The amount of timber offered, sold, and harvested has dramatically decreased since the late 1980s (see, for example, Farnham and Mohai 1995, O’Laughlin et al. 1998). During the last several decades, court and administrative appeals (Jones and Taylor 1995) and shifting agency culture (Brown and Harris 1992) have catalyzed organizational change in public resource management agencies, most notably in the USFS (Brown and Harris 1992). These changes represent a shift in management priorities and, in particular, an increased focus on non-commodity values (Farnham 1995). Likewise, rural communities close to public lands possessing high environmental and amenity values increasingly have been striving to capitalize on tourism and amenity-related uses of these lands as recreationists and new residents seek out these areas (Rasker 1993, 1995; Rudzitis 1999).

In responding to these ongoing changes, federal agencies like the USFS have increasingly emphasized both the productivity of the national forests for traditional commodity uses like timber and minerals, and also their use for non-commodity purposes such as wildlife protection and recreation activities. For example, in the 1990s, the USFS’s position on national forest management under the Clinton Administration indicated a shift in agency focus from commodity to noncommodity uses, as evidenced in statements in a 1999 press conference on the Forest Service’s rationale for proposed changes in forest planning regulations; then-Chief Michael Dombeck (1999) noted the diversity of multiple uses of the national forest system and emphasized that the agency is seeking “ways to balance uses of public land, while providing for their long-term sustainability.” Suggesting that “Americans want their forests to look like forests,” he tied the concept of more balanced forest management to the agency’s traditional multiple-use mission.

At the same time, consequent declines in timber harvests on public lands, lower prices for wood products, and increased production and importing of wood products are among the factors resulting in a significant number of mill closures in the Inland Northwest. These changes are dramatically affecting the conditions and situations in a number of the region’s communities (McKetta 1999, McKetta and Robison 1998, Schallau and Goetzl 1992).

## Two Perspectives

It is in this context that two differing perspectives on the Inland Northwest's economy and implications for community development in the "New West" have received increasing attention in the last decade (Krikelas 1992; Miller 1998; Niemi and Whitelaw 1997; O'Laughlin 1998; Power 1988, 1996; Rasker 1993, 1995; Whitelaw 1995). The traditional perspective has been that the region's economy is based on commodity-producing, "export-based" industries like agriculture, mining, (defined here to include the processing of these resources), whose goods and services are exported outside the region. Increases in regional income from these industries, which are viewed as the economic base of future economic growth, in turn attract additional industries and jobs to the region (North 1955, Richardson 1969). Taken to the extreme, an implicit theme in this literature and the popular press has been that traditional commodity-production industries can be critical for rural economies (McKetta 1999, McKetta and Robison 1998, Schallau and Goetzl 1992).

Over the last decade, however, some researchers (e.g., Corkran 1996; Drabentstott and Smith 1996; Krikelas 1992; Niemi and Whitelaw 1997; Power 1988, 1996; Rasker 1993, 1995; Whitelaw 1995) have advanced a second, alternative perspective on the region's economy. This view asserts that the economic importance of traditional commodity-producing industries has declined in the region and that its environmental amenities and related economic development, along with an in-migration of new residents, will comprise the region's future economic base. Power (1996) argues that the region's "primary economic resource should be seen as the high quality natural environment, and extractive activities that threaten to degrade the environment should be assumed to be incompatible with local economic stability." He summarizes the difference between this alternative perspective and that of classic economic-base theory:

The economic base model often degenerates into the claim that site-specific natural resources which industry can extract and process are directly or indirectly responsible for almost all jobs and, therefore, for the ongoing survival of a local economy. The alternative "environmental" view recognizes that people are attracted to certain desirable social and natural environments, creating, by virtue of numbers, an available supply of labor at relatively low cost...Labor supply not only attracts economic activity but also injects income into the local economy as individuals spend and invest. And retirees bring in retirement income. The net effect on the local economy is expansionary... (p.15)

This alternative view is that much of the recent economic activity in the Inland Northwest has been stimulated by environmental amenities that, in turn, stimulate recreation and tourism spending and in-migration of people who place a high value on environmental amenities. Amenity-related sectors of the economy that produce good and services in excess of local demand are viewed as an important part of the region's economic base and, ultimately, the cornerstone of its economic growth. This view of the West's "new economy" is of a region whose economic prosperity is not only advanced by, but dependent on, environmental quality. According to this "amenity-growth" hypothesis, the region's prosperity has become uncoupled from resource "extraction" and may now actually suffer when its environmental amenities are negatively affected by traditional commodity production.

## Data on Amenity-Growth v. Export-Based Economies in the West

The present paper builds on existing research conducted by Harris and colleagues (Harris 1996, Harris et al. 1998, Harris et al. 2000, Russell and Harris 2001) and examines the arguments put forward on the differing perspectives of economic development. The paper has two purposes. First, it seeks to characterize the economy of rural communities in the Inland Northwest in a more comprehensive, and thus accurate and useful, way than has been provided in past analyses. Second, it applies this characterization to a practical assessment of the validity of the "amenity-growth" and "traditional commodity-production" theories of economic development.

The two views of regional economic development have not been without controversy. This debate began among regional economists in the 1950s, when North (1955) posited in an article on the economy of the Pacific Northwest that its development was predominantly driven by basic industries, with the traditional view of the region's rural economies that they were founded upon export-based industries like agriculture, timber, and mining (Richardson 1969, Tiebout 1962). In response, Tiebout (1956) argued that nonexport goods and services may also be central to a region's economic development. Building on this argument, Power (1988, 1996) theorized that growth in nonexport services directly attributable to amenities provided by a region's wildland resources and high quality of life has been the driver for the region's economic development in recent decades by making it a desirable place for people to move and establish businesses.

Recent analyses of the region's economy, particularly those by authors promoting the amenity-growth theory of economic development (Power 1988, 1996; Rasker 1993, 1995), have been problematic to the extent they are perceived to lack objectivity and neutrality in secondary-data analysis and interpretation (Miller 1998, Polzin 1997). These analyses have tended to focus on a region-wide perspective rather than on the role of amenity-based service industries in particular rural communities (exceptions include Russell and Harris 2001). Analyses of commodity-based industries and their importance to rural communities sometimes have been equally lacking (e.g., McKetta and Robison 1998). A criticism of various studies conducted to-date is that they can appear value-laden to the extent that they imply that only certain types of economic growth are valuable, beneficiary, and therefore desirable.

Examples of amenity-growth analyses include The Wilderness Society's report entitled *A New Home on the Range: Economic Realities in the Columbia River Basin* (Rasker 1995), which examined U.S. Census Bureau statistics on income and employment in the Columbia River Basin since the late 1960's. The report correctly documented that, across the region as a whole, the output of traditional "economic base" industries like agriculture, wood products, and mining have remained at a fixed level in terms of employment over the past two decades. Meanwhile, significant increases in the region's economy have occurred in the service industry, suggesting that travel and tourism, along with other amenity-based industries, are a prominent and viable alternative to the traditional economic base of the region.

Unfortunately, many of these existing analyses fail to clarify the specific situations of differing types of rural communities in the region with different kinds of resource bases and dependencies. Approaches to recent analyses characterize only part of the situation in the region and risk presenting an advocacy-based perspective. Despite their focus on communities, these analyses typically draw on regional or county-level data for making inferences at the community-level. A clear picture of the economic situation has thus been lacking at the community-level, with analysts instead presenting generalities supported by total employment and income estimates in certain sectors that are aggregated across counties, often to a regional and multi-state level.

Despite its focus on the region as a whole or collections of counties as the primary unit of analysis, the Wilderness Society analysis, for example, failed to acknowledge that growth and decline in the different kinds of industries typically are not uniform across the region when assessed at the county level. Much of the growth in, say, the service industry has been attributable to economic changes in large metropolitan areas and a select number of tourist towns. Also, although many communities in the region are dependent on travel and tourism for a significant portion of their employment base, as we discuss later in this paper, traditional commodity-producing industries remain a dominant foundation for the economies of many other communities and will likely remain so, given the lack of appeal of these towns to newcomers and amenity-related industries. The implications of these analyses are significant to the extent that the future viability and well-being of rural communities depend on accurate depictions of their economics and the use of adequate economic profiles for effectively improving local economies.

This same concern for depicting the region's economic development in a particular way is raised by Power's (1996) treatise, *Lost Landscapes and Failed Economies*, which reported similar trends while recognizing the structural changes in the U.S. economy over the past century. As the book's promotional synopsis states, it was written to address a situation perceived by Power whereby "efforts to protect unique ecosystems and endangered species are portrayed as threatening entire regions and ways of life" (back cover) and "anti-environmental (sic) groups employ economic insecurity as a weapon in an ongoing attempt to rescind environmental protection measures." Power's book argues that "the quality of the natural landscape is an essential part of a community's economic base" that "should not be sacrificed in short-term efforts to maintain employment levels in industries that are ultimately not sustainable." One need not disagree with Power's desire to sustain the natural landscape of the U.S. West to question his research approach, which builds upon an inadequate representation of rural communities in the region. For residents, planners and decision-makers to make informed decisions for the future of their communities and the public lands surrounding them, a more complete and accurate view of the region is required.

### **The Regional Economics of "Functional Economies"**

These differences can be significant in light of the differing role of large versus small communities in trade hierarchies that comprise functional economies. For example, the functional economic region of eastern Washington and north central Idaho is dominated by Spokane, WA, which is the region's major trade center with a population of approximately 400,000 people. The city of Lewiston, with an approximate population of 31,293 in 2006, is the largest community in north central Idaho and represents a second tier of communities dominated by Spokane in this trade hierarchy. (That is, businesses and producers in Lewiston get many of their supplies from Spokane, and its residents shop there for goods they don't purchase in Lewiston.) Comparable communities in the Palouse Basin include Pullman, WA, and Moscow, ID. Smaller communities in the region, such as Colfax, WA, and Potlatch, ID, with populations of approximately 2,700 and 700, represent the smallest rural towns in the region and the third, or lowest, tier in the hierarchy comprising this functional economy.

This situation can have important implications for a regional economy that is viewed in terms of a functional economy representing a particular trade hierarchy among communities. The service base for some first- and second-tier communities (that is, the largest cities and towns) can be dependent on inputs from smaller towns, whose residents help support that service base but who also are more dependent on commodity-producing industries for jobs and income. Consequently, changes in the smallest, third-tier communities (say, a loss in those commodity-producing industries and jobs) can have significant impacts up the trade hierarchy on the service sectors and economies of communities in the first and second tiers.

The traditional commodity-production model of economic growth is supported by these findings -- especially the major role that resource-based commodity industries can play in the economic development of small towns as opposed to larger ones. This role is especially significant where communities of different sizes in population also vary in the extent of their services and infrastructure development. In our analyses, large and small towns differ significantly ( $p < 0.01$ ) in terms of the proportion of employment in traditional "economic base" industries (i.e., mining, agriculture, wood products). In large towns (over 10,000 in population), those sectors represent, on average, a total of 15.1 percent of all jobs, while in the small towns (under 1,500 in population), those sectors accounted for more than double that proportion, or over 40 percent, of all jobs.

The situation for communities that might be characterized in terms of the amenity-growth model is equally revealing. In contrast to the above finding, employment in the total service economy (here defined to include the trade and travel and tourism industry as well as personal and business service sectors) represents a much higher proportion of the workforce in the larger towns, accounting for 68.8 percent in towns and cities over 10,000 in population, as opposed to 53.8 percent for small towns under 1,500 in population.

## Employment in the Basin

Another key feature of the social setting of the region concerns the economic activity that underlies the employment of the region's populace. Many residents of the Basin are employed by the two universities, and the location of the county seats in Moscow and Colfax also contributes to the economic activity in the Basin. In addition, government jobs include teachers and school administrators in the region's public school districts. Finally, housing construction, retail trade and services (e.g., health, financial, entertainment, etc.) are major sectors of economic activity that provide jobs in the Basin. Many of these jobs are located in the counties' two largest cities (Moscow and Pullman), and many residents of the Basin's rural areas are employed in these major population centers, commuting to these cities for work, as well as to shop, dine out, and attend sporting events and other forms of recreation and entertainment.

When the City of Moscow developed its 1999 Comprehensive Plan (City of Moscow 1999), its staff noted that:

Moscow's economy has changed very little throughout its history. Agriculture was the base industry that brought people to the Palouse and created a need for retail establishments. After the University of Idaho was established in Moscow in 1889, education became as important a sector in the economy of the city as agriculture. Today the traditional agricultural industry and education (concentrated mainly at the university) are equally important in creating a high demand for retail trade and services within Moscow. ...Agriculture; construction; transportation, communication and other public utilities; wholesale trade; business, repair, and personal services; and public administration stayed at the same level.

The greatest [recent] increase within the Moscow economy was caused by the development of the two shopping malls that created 669 new retail employment positions. During the following decade of 1980-1990, the situation leveled off.

The Moscow economy is not typical of the state's economy. The city's economy relies much more heavily on education and retail trade for its employment opportunities than does the state as a whole. In contrast, the city is much less dependent on manufacturing than the state is as a whole. This economic mix helps to account for the city's high quality living environment, which includes a lack of pollution and a wide range of cultural amenities.

...Latah County's unemployment rates have been historically lower than the state's average rates. The county's unemployment rate for the fiscal year of 1994 was the fourth lowest in Idaho at 4 percent, as compared to the state's 6 percent.

Although the importance of agriculture to Moscow's economy is not evident in the city's employment distribution, it is visually apparent in the city and is obvious in county farm income data. Moscow serves much of the Palouse region in the sale of farm machinery and equipment and in the handling and shipping of farm products, as well as normal retail services.

While the number of acres devoted to agriculture in the county has been decreasing, recent statistics suggest that this decrease is beginning to stabilize. According to the federal Census of Agriculture, farm acres in the county decreased by 1.6 percent during the five-year period between 1987 and 1992. Ten years earlier, between 1977 and 1982, the decrease was 0.6 percent.

Moscow is also a center for various types of services within the region. According to the 1990 census, 19 percent of the Moscow work force was employed in business, repair, personal, professional and related services. Though the percentage of the Moscow work force employed in business, repair, and personal services remained the same, the actual number of employment opportunities increased due to the increase of population.

Although the tourist industry is technically considered in the retail and service sectors of the economy, it has sufficient impact on the local economy and the capacity for future growth that it should be examined separately. The University of Idaho and Washington State University both have generated various tourist attractions in Moscow and Pullman. People come to visit the university facilities in order to examine academic conditions and to visit students. Also various activities (sports events, concerts, conferences, etc.) are held at the two universities during the school year.

[In sum,] Moscow has always enjoyed a relatively stable economy due to the focus on education (since the University of Idaho was founded in 1889) and the surrounding area's dry land farming. These factors have created a healthy retail trade and service sectors—and a relatively clean environment. Such stability is hoped to continue by the community.

In June 1995, a report entitled *Why is Moscow Growing* was prepared for the city of Moscow by Jon R. Miller and Steven Peterson of the UI Center for Business Development and Research to determine the cause of a "boom" in construction that was occurring in the early 1990s. After an exhaustive review of the data, they concluded that the city's population had actually been growing only moderately in those years, and that the growth could be explained by the growth in the University of Idaho. Increases in traffic volumes and construction led to the perception that growth was more rapid than it really was. Low interest rates in the early 1990s following minimal construction in the late 1980s resulted in the housing boom. The relatively stable economy thus has endured.

Generally, the community does not desire uncontrolled change to the character of Moscow from that of a relatively small town to that of a large city. The city should encourage and control economic development in order to support the growing population, provide people with jobs, and to sustain existing retail trade and services. Retail trade is not normally considered a base industry (i.e., an industry that brings new money into the community), but Moscow does attract trade from a large marketing area outside of the city limits. Encouraging the development of new businesses in Moscow would re-establish the level of the retail trade's share in the total employment that peaked in 1980 (it decreased three percent in the 1990 census).

The City of Pullman's staff also developed a profile of the city's economy in its 1999 Comprehensive Plan (City of Pullman 1999):

The predominant force in Pullman's economy is Washington State University. WSU is by far the largest employer in the city, with 6,340 full and part-time employees (including about 1,200 graduate student assistants); the city's total employment in 1999 is estimated to be about 12,000. Besides the Pullman residents who work at the university, WSU attracts a substantial number of employees from neighboring towns, including Moscow, Colfax, Clarkston, and Lewiston. A recent analysis found that 50 percent of WSU's classified staff and 18 percent of its faculty commute from homes located outside of Pullman. The influence of WSU provides great stability to the local economy, as major universities are not as susceptible as many private industries to fluctuations in the overall economy.

The community also understands the need to diversify its economy so as not to become overly dependent on any one entity. With the assistance of economic development organizations such as the Port of Whitman County, WSU Research and Technology Park, Pullman Chamber of Commerce, Palouse Economic Development Council, and Whitman County Business Development Association, the community has made great strides in facilitating the expansion of existing business and the recruitment of new industry. Growth of high technology firms in the city has been of particular significance. Currently, apart from the university, the largest employers in the city are Schweitzer Engineering Laboratories, the Pullman School District, Pullman Memorial Hospital, the City of Pullman, the Student Book Corporation, and ...grocery stores.

Precise data for city employment are not available for jurisdictions the size of Pullman. However, employment information for Whitman County is illustrative in depicting the character of the local economy. The county's nonagricultural employment and average wages since 1970 are shown in Table 3-4. This table shows recent growth in manufacturing (59% increase between 1970 and 1996); retail and wholesale trade (81% increase); finance, insurance, and real estate (71% growth); services (99% increase); and government (53% growth). The average 1996 wage of \$23,480 ranks this county 14th out of Washington's 39 counties in this category. Due to the consistency of the local economy, unemployment in Whitman County is usually the lowest in the state. In 1996, the unemployment rate in the county was 2.3 percent, as opposed to 6.5 percent for the state as a whole.

Although they do not generate much in the way of continuing employment, two other significant factors in the Pullman economy are real estate holdings and agriculture. Because the majority of the city's residents are college students who tend to live in renter-occupied housing, much of the private property in Pullman is owned by landlords. It is estimated that about 350 acres of land in the city is developed with rental housing units. Collectively, this represents a substantial investment by a considerable number of local resident and absentee landowners. With respect to agriculture, Whitman County leads the state in the production of wheat and barley, and farm income constitutes about one tenth of all earned income in the county. Nevertheless, only about three percent of total county employment is involved in farming because local crops are capital rather than labor intensive.

Retail sales in the city is another indicator of the health of the economy. Table 3-5 displays retail sales from 1993 to 1997 for Pullman as measured against the average of the top 50 Washington cities listed in the State Department of Revenue's Quarterly Business Review. (In 1997, Pullman placed 37th in retail sales among those cities registered in this publication). As shown in the table, recent retail sales in this community have grown at a much faster rate than that of comparable cities in the state. From 1993 to 1997, Pullman's retail sales increased by 52 percent; during that same period, the average retail sales of the 50 cities in this analysis grew by 24 percent.

The Pullman housing market is driven by Washington State University. Housing for university students, faculty, and staff occupies about two-thirds of the city's housing stock. From the 1970's to the mid 1990's, pressures from university growth created an extremely tight housing market, where estimates of rental vacancies ranged from 1.2 percent to 3.0 percent. Industry standards suggest that a vacancy rate of five percent is considered "full occupancy" for rental housing, as this rate allows for the optimal operation of the free market. Homeowner vacancy rates in 1996 were low (estimated at 1.1 percent), creating a "seller's market," and keeping housing prices high. According to information from the Pullman Chamber of Commerce, the estimated 1995 average selling price for a three-bedroom home was \$118,000, while the estimated rent for an off-campus three-bedroom apartment was \$750. These prices are significantly higher than prices found elsewhere in Whitman County and much of eastern Washington.

Of course, the situation has significantly changed throughout the Basin since the mid-1990s, when these plans were researched. Of particular note, Schweitzer Engineering Laboratories has expanded, development of additional malls and “big-box” stores is on the horizon, and construction and real estate prices have continued to increase significantly.

More recent census projections indicate that a total of 17,933 jobs were recorded for Whitman County in 2003, with an average wage per job of \$28,444. Fewer jobs and lower wages characterize Latah County, for which a total of 16,469 jobs were recorded in 2003, with an average wage per job of \$23,013. However, the sizes of the total work forces in Whitman County (20,565) and Latah County (17,375) reflect the smaller relative labor pool in the latter; not unexpectedly, then, given that many employees in Pullman live in and commute from Latah County, unemployment is higher in Whitman County (4.4%) than in Latah County (3.7%).

In Whitman County, primary industries providing employment include educational, health and social services (45.1%); and arts, entertainment, recreation, accommodation and food services (10.2%). Major types of workers include:

- Private wage or salary: 47%
- Government: 46%
- Self-employed, not incorporated: 7%

In Latah County, primary industries providing employment include educational, health and social services (39.8%) and retail trade (11.4%). Major types of workers include:

- Private wage or salary: 55%
- Government: 36%
- Self-employed, not incorporated: 8%

The mean household income is relatively low in both the Idaho and Washington portions of the Basin: According to the 2000 U.S. Census Bureau data, 16.7 percent of the population is below the poverty line – in comparison, 11.8 percent of the state of Idaho’s population is below the poverty line. In contrast, a much larger percentage of the population in the Washington portion of the Basin is below the poverty line, at 25.6 percent – in comparison, 10.6 percent of the state of Washington’s population is below the poverty line. One explanation for this difference in the two cities in comparison to their states is that they provide a higher level of services for those households in poverty and on state and local assistance, and thus they attract low-income individuals as residents.

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