Marketing in the Economic Growth and Development of Alaska

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Introduction

The formal purchase and transfer of Russian America to the United States, later designated the Territory of Alaska, occurred on October 18, 1867. Though this seemed to conclude a federal debate on the value of this large arctic area, a political argument continued almost without interruption for almost a century.[1] The purchase, for a mere $7.2 million, was followed by the establishment of American military outposts, the famous Klondike gold rush, and the limited creation of "infant" manufacturing industries. The territorial economy was comprised principally of mineral extraction, fisheries (namely Alaskan salmon) and trapping.[2] Not until World War II, with enormous federal expenditures and investment in the territory, did real and general economic growth occur. Only recently, with the advent of statehood in 1960, has the economic base of Alaska shown internal signs of self-generating growth.

Changing Economic Base

The economic transition in Alaska postwar was very severe. Employment in precious metals mining was decimated, and most of the antiquated equipment used by that industry was never replaced. Overall poor efficiency in the

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1 See Ernest Gruening, The State of Alaska, (New York: Random House, Inc., 1954), Chs. 5-21.

2 Richard Cooley, Politics and Con servation - The Decline of the Alaska Salmon Industry, (New York: Harper and Row, Publishers, 1963); and George Rogers, The Future of Alaska - Economic Consequences of Statehood, (Baltimore: Johns Hopkins University Press, 1962).

fisheries, barely adequate earlier, then resulted in the abandonment of practically all land based salmon canneries. The market for natural furs faced severe price and quality competition with the national introduction of hides of domesticated animals and synthetic furs and fibers. The marketing of fur-using clothing products was not synchronized effectively with erratic and uncertain fur harvesting. These conditions, along with rising imports of natural furs to New York from abroad, resulted in a long term decline in the effective economic use of these local renewable resources.[3] The decline in activity in these basic industries was offset by an expanding wood products industry, the exploitation of other minerals, and the rapid growth in the recreation-tourist sector of the region.

Federal expenditures. Per capita and household federal expenditures in Alaska rank highest in the United States. Much of the military expenditures, however, have limited effects upon the local economy.[4] Federal government employment, twenty-three percent of the labor force in 1964, is large and relatively stable. Where no fully linked economic system existed prior to 1940 in Alaska, significant expenditures (and corollary public works) were

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[3] No doubt this pleases some "conservationists" who have recently discovered that stocks of some Alaskan wild game, e.g. fur bearing animals and big game, probably exceed in size the natural resources available in 1900.

[4] Federal expenditures per capita in Alaska of $2,629 compared to $456 for the overall U. S. cf. "Federal Revenues and Expenditures in the Several States," (Washington: Library of Congress Reference Service, September, 1962).

required in constructing the existing military bases.[5] Overall federal expenditures have supported a large construction industry which operates within tight seasonal boundaries.[6]

Natural resources. The decline in sales of the canned salmon industry has been offset by a pattern of improvement in other fisheries product lines. The harvest and sale of fresh and frozen seafood products are profitable and expanding, particularly King Crab, halibut and fresh salmon. This expansion in sales has begun to overcome years of local failures in adapting the fisheries "product" to new tastes and markets.[7] Discovery of large petroleum reserves in Cook Inlet have led to the substantial

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5 In addition to the usual federal assistance in school and road construction, the federal government participates in many sides of the "regional markets." For example, the Department of Interior owns and operates the sole railroad, the Alaska Railroad. The Forest Service, Bureau of Land Management and Bureau of Indian Affairs directly or indirectly controlled, until recently, in excess of 90 percent of all land area. The national military establishment, in the case of locally produced coal, power and utility services, is the single largest customer. cf. Richard Cooley, "Land policy in Alaska," Natural Resources Journal, (January, 1965), and R. C. Haring, "Comment," Natural Resources Journal, (January, 1966).

6 Much of this construction occurs at isolated locations. Also, most bases are self-sufficient in housing, commissary, etcetera. See R. C. Haring and Charles Beasley, Marketing Cement Products in Alaska and Opportunities for Regional Production, (College, Alaska: University of Alaska, 1965), and The Market for Insulation in Alaska and Feasibility of Regional Manufacture, (College, Alaska: University of Alaska, 1965).

7 James Crutchfield, "The Marine Fisheries: A Problem in International Cooperation," Amer. Econ. Rev., 54, (May, 1964), pp. 207-218; and R. C. Haring, "Regulation of the Northeast Pacific Fisheries," Papers of the Western Economic Association, (San Diego: August, 1965).

expansion of oil exploration operations. Since statehood the pace of mineral exploration in Alaska has increased to a point unparalled since the gold rush era of the 1890's.

Import-Export. Alaska purchases practically all manufactured and assembled goods from "outside." Within the state, practically no agricultural sector exists. Regional warehousing and wholesaling are tied directly to ocean and air transportation, and interior markets to the Alaska Railroad belt, a very few highways, and local air service.[8] Inter-regional and international exports are the major economic tie which provide purchasing power for the large volume of commodities brought into the state. The exports, in order of importance, are woods products e.g. pulp, cants, recreation-tourism "services," and fisheries products.

Pricing. Wholesale and retail prices in Alaska fluctuate seasonally in direct relation to transportation problems and costs. Among wholesale outlets, there prevails striking price uniformity.[9] Retail prices for nationally branded items regularly exceed those advertised nationally.

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8 Southeastern Alaskan markets are tied directly to Seattle, and operate largely independent of the remainder of the state. cf. George Rogers, Alaska in Transition, The Southeast Region, (Baltimore: Johns Hopkins Press, 1960), pp. 16-29.

9 In recent studies, the pricing situation revealed corresponds closely and strongly with "administered prices." cf. David Revzan, Wholesaling in Marketing Organization, (New York: John Wiley and Sons, 1961), pp. 367 ff.

Seasonal patterns. With few exceptions, the major income producing industries in Alaska do not complement one another seasonally. Overall employment increases sharply in April, peaks during late summer, and usually is fading rapidly in October. Seasonal unemployment is now very pronounced. Skilled laborers migrate to Alaskan industries during the employment season, and leave immediately afterward. This transient and mobile labor force, the normal turnover of personnel in the military establishment, and Alaska's severe weather all contribute to high regional labor turnover.[10]

Logistics

With the build-up in military activity in the 1940's, the federal government operated Alaskan ports and docks, provided labor for the coal mines, and generally carried on many physical phases of marketing. By 1945, sales branches of national manufacturers and newly created city governments had absorbed most of these operations. In this unique way, physical distribution in Alaska became tightly controlled: (1) Factory sales branches controlled major industrial markets. (2) Retail outlets and warehouses of large national chain stores were introduced before locally established retail shops had expanded sales significantly. These two factors still principally govern marketing channels of the region.

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[10] In contrast, the Native labor force is relatively immobile, a condition attributed to a lack of education, isolation, and perhaps different motivations. See George Rogers, "Preliminary Comments on Alaska Native Population and Employment Prospects, 1960-2000," (College, Alaska: University of Alaska and Bureau of Indian Affairs, mimeographed, 1965).

Consumer Demand

Consumer demand for "new" products and modern merchandising methods are very strong. These preferences have appeared principally because of the labor turnover situation and relatively high distribution of personal income. With these conditions retailing institutions in the urban areas have "skipped" conventional stages of marketing evolution, while rural towns and villages retain primitive marketing practices.[11]

Marketing Influences Upon the Region

The early introduction of factory sales branches facilitated rapid improvements in marketing and increased efficiency in physical distribution in the region. The "need" for locally manufacturered products was dampened, and small manufacturers never appeared in significant numbers. Wholesale and retail prices in many product lines have declined in spite of seasonal price uniformity among some manufacturers and rising labor costs. These marketing institutions brought into Alaska new products with little time lag as compared to other regions in the United States.

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11 Reavis Cox, Wroe, Alderson and Stanley Shapiro, Theory in Marketing, second series, (Homewood, Illinois: Richard D. Irwin, Inc., 1964) pp. 142-148; and George Schwartz, Development of Marketing Theory, (Cincinnati: South-Western Publishing Company, 1963), pp. 80-82. The economic development problems identified here probably are more general and affect more than marketing institutions. See Douglas North, "Location Theory and Regional Economic Growth," Jour. Political Econ., 43, No. 1 (June, 1955); and Charles Tiebout's comment "Exports and Regional Economic Growth," Jour. Political Econ., 44, No. 2 (April, 1956).

Two conditions have seriously limited marketing efficiency in Alaska. (1) Low sales to inventory or low inventory turnover, caused principally by delays in supply. e. g. adverse transportation conditions, and need to acquire quantity discounts; (2) Sharp seasonal changes in sales volume, following personal income and employment patterns. Both of these barriers to efficiency by marketing institutions are being reduced gradually.

Implications

The pattern of marketing changes and composition of the economic growth of Alaska suggest several unique trends on the one hand, and problems common to developing nations at the other extreme. The trends are listed as - -

1. Continued economic growth depends principally upon the successful marketing of natural resource products and services. Past "production-oriented" exploitation in fisheries and mining have resulted in enormous income losses to the region and "social waste."

2. Federal and state regulation of the resource-base industries must change accordingly. Government control in fisheries and recent land management policies have favored manufacturing-oriented resources uses, and antiquated manufacturing processes and products.

3. Diversification of the economic base of the region will depend upon the expansion of marketing operations by existing producers and the additional sale of processed raw materials to industrial markets. It will not be based initially upon attracting "basic" manufacturing.

The development problems are --

1. Can an economic region (or nation) pass over or rapidly through the conventional growth stages observed in the history of advanced industrialized nations? Alaska's experience in marketing suggests that regions can shift from "barter exchange" marketing to modern merchandising in less than a decade. Such a transition, however, was associated with severe corollary problems in growth.

2. Is actual regional (and national) growth significantly and necessarily tied to regional and international exports? Alaska, as an economic region, does and will depend upon its export sector for nearly all of its "real" growth. In this respect, the natural resources "products" are particularly marketable in foreign countries, especially Japan and those in the Pacific perimeter.

Regional development and marketing efficiency could be improved with a strong program of public policy changes. First, the adaptation of fisheries regulations which govern production, to existing and anticipated markets. Second, an increase in flexibility in pricing public resources, e.g. minerals, timber and others not designated "common property," to a point where idle, but renewable, resources are harvested and available for marketing.