The Alaska Economy: How Are We Doing?

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The Alaska Economy: How Are We Doing?

- The Structure of the Economy—1/3 Rule
- Growth Since 1980
- Looking Ahead
- Resource Curse
- A Non-Problem
- The Many Alaska Economies
- Population Bubbles
- Take Away Message
ALASKA ECONOMIC INDICATORS

- Jobs
- Unemployment Rate
- Wages
- Income
- Per Capita Income
- Commodity Prices
- State Revenues
- Inflation
- Exports
- Gross State Product
- Construction Spending
- Permanent Fund Balance
- Permanent Fund Dividend
ALASKA ECONOMIC DRIVERS: THE FOUNDATION OF OUR ECONOMY

- OIL AND GAS: 33%
- FEDERAL GOVT: 34%
- OTHER: 33%

Shares of Personal Income in 2000

Structure of the Alaska Economy
Structure of the Alaska Economy
Total Federal Grants

FEDERAL GRANTS
TO ALASKA

Structure of the Alaska Economy
FEDERAL GRANTS

Structure of the Alaska Economy
### Federal Grants: 1999 (Million $)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>$1,932</td>
</tr>
<tr>
<td>Highways</td>
<td>$362</td>
</tr>
<tr>
<td>Medical Assistance</td>
<td>$282</td>
</tr>
<tr>
<td>Indian Health Service</td>
<td>$259</td>
</tr>
<tr>
<td>Health/Human Service</td>
<td>$142</td>
</tr>
<tr>
<td>Bureau of Indian Affairs</td>
<td>$109</td>
</tr>
<tr>
<td>Impact Aid</td>
<td>$101</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>$84</td>
</tr>
<tr>
<td>Federal Aviation Admin</td>
<td>$79</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>$76</td>
</tr>
<tr>
<td>Food/Nutrition Programs</td>
<td>$61</td>
</tr>
<tr>
<td>Jobs and Training Admin</td>
<td>$56</td>
</tr>
<tr>
<td>NOAA</td>
<td>$37</td>
</tr>
<tr>
<td>Justice Programs</td>
<td>$32</td>
</tr>
<tr>
<td>Rural Water/Sewer</td>
<td>$32</td>
</tr>
<tr>
<td>NSF</td>
<td>$18</td>
</tr>
<tr>
<td>Alcohol/Drug Abuse</td>
<td>$15</td>
</tr>
<tr>
<td>Disease Control</td>
<td>$13</td>
</tr>
<tr>
<td>Economic Development</td>
<td>$12</td>
</tr>
<tr>
<td>Energy</td>
<td>$11</td>
</tr>
<tr>
<td>Housing</td>
<td>$11</td>
</tr>
<tr>
<td>All Other</td>
<td>$140</td>
</tr>
<tr>
<td>All Other</td>
<td>$140</td>
</tr>
</tbody>
</table>
Federal Grants Per Capita: Highest in the US

Alaska
Wyoming
New York
North Dakota
Montana
US Average

1990
GROWTH 1990 TO 1995
GROWTH 1995 TO 2000
GROWTH 2000 TO 2005

Structure of the Alaska Economy
Military Spending has Boomed

Structure of the Alaska Economy
Military Spending Per Capita: Second Highest in the US

Structure of the Alaska Economy
Signs That Federal Spending Has Topped Out:
Annual Increase in Military Personnel
Signs That Federal Spending Has Topped Out:
Annual Increase in Health Care Jobs

Structure of the Alaska Economy
Signs That Federal Spending Has Topped Out:
Annual Increase in Public Construction $ (Million)
Signs That Federal Spending Has Topped Out:
Annual Increase in Construction Jobs
FEDERAL $$$
ECONOMIC GROWTH OR DEVELOPMENT?

Structure of the Alaska Economy
TAX BASE FROM FEDERAL

The Alaska Disconnect
1/3 Oil and Gas

Structure of the Alaska Economy
PETROLEUM DOMINATES
ALASKA INDUSTRIAL TAX BASE
(Billion $)

• $14.39 Oil and Gas

• $3.64 Other Industrial
OIL PATCH ACTION

Structure of the Alaska Economy
Structure of the Alaska Economy

OIL TRANSFORMED

ALASKA FUND BALANCES

- Constitutional Budget Reserve (CBR)
- Permanent Fund

SOURCE: ALASKA DEPARTMENT OF REVENUE

Structure of the Alaska Economy
OIL REVENUES PAY FOR GOVERNMENT

Petroleum Revenues
General Fund

SOURCE: ALASKA DEPARTMENT OF REVENUE
Structure of the Alaska Economy

1/3 OTHER

REST OF ECONOMY

NEW RESOURCES

TRADITIONAL RESOURCES
TRADITIONAL NATURAL RESOURCES

Structure of the Alaska Economy
NEW RESOURCES

Structure of the Alaska Economy
FRUIT SALAD COMPARISON

Comparing the Drivers

Billion

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
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<tbody>
<tr>
<td>FEDS</td>
<td>$9</td>
</tr>
<tr>
<td>OIL &amp; GAS</td>
<td>$17</td>
</tr>
<tr>
<td>PF</td>
<td>$1</td>
</tr>
<tr>
<td>MINERALS</td>
<td>$0</td>
</tr>
<tr>
<td>FISH</td>
<td>$0</td>
</tr>
<tr>
<td>TIMBER</td>
<td>$0</td>
</tr>
<tr>
<td>AGRICULTURE</td>
<td>$0</td>
</tr>
<tr>
<td>TOURISTS</td>
<td>$0</td>
</tr>
<tr>
<td>RETIREES</td>
<td>$0</td>
</tr>
<tr>
<td>AIR CARGO</td>
<td>$0</td>
</tr>
</tbody>
</table>

Structure of the Alaska Economy
Structure of the Alaska Economy

A Small Share of Growth Since 1980 is Due to Other Drivers

ALASKA PRIVATE BASE EMPLOYMENT
THOUSANDS

Structure of the Alaska Economy
A Large Share of Growth Since 1980 is Due to Oil
A Large Share of Growth Since 1980 is Due to “Economy Maturing”

Structure of the Alaska Economy
Looking Ahead

Alaska Wage & Salary Job Growth

Institute of Social and Economic Research

Structure of the Alaska Economy
Basic Sectors with Growth Potential

- Petroleum
- Tourism
- Mining
- Retirees
- International Air Cargo
- Footloose Services
The Resource Curse:
Resource Wealth → Slow Growth

- Expansion of the Public Sector
- Dutch Disease (distortion of domestic markets)
- Rent Seeking
- Underinvestment
Example: The Power of Investing

- **Question**--How much wealth would have been created if all $ paid as Permanent Fund dividends had been invested (and an annual 7% return also invested)?

- **Answer**--$31 billion, $50 thousand per capita, or almost enough to replace all the public infrastructure in Alaska.
Example: A Hypothetical Marginal Oil Field

- **INVESTMENT** = $320 million
- Development Phase = 1,780 person years of employment
- Production Phase
  - 190 permanent annual jobs
  - $9.5 million annual payroll
  - $103 million net public revenue (at $12 oil)

Note: This example is about 10 years old.
Alaska State Finances: GF Non-Oil Revenues Insignificant
The Gasline Won’t Solve our Fiscal Problem

- The energy (BTUs) in an oil pipeline carrying 800 thousand barrels per day.

=  

- The energy (BTUs) in a gas pipeline carrying 4.5 bcf per day.
Alaska State Finances: A Problem with an Obvious Solution (Revenue in Billion $)

- $1.0-$3.0 Petroleum Revenues
- $0.6 Non Petroleum Revenues
- $1.0 Half Annual PF Earnings
- $0.8 Sales and Income Taxes
The 3 Alaska Economies: Urban, Rural, Remote

Urban Areas: 10% Native (59,426 Natives)

Remote Rural Areas: 82% Native (49,344 Natives)

Other Rural Areas: 23% Native (19,471 Natives)

Structure of the Alaska Economy
URBAN ALASKA DOMINATES JOBS

- Urban: 78%
- Remote: 11%
- Rural: 11%
BEFORE:
RISING TIDE RAISES ALL BOATS

ANNUAL JOB GROWTH BY REGION

5 YEAR PERIOD

JOB GROWTH

Urban
Rural
Remote Rural

Structure of the Alaska Economy
NOW: RISING TIDE RAISES URBAN BOATS

ANNUAL JOB GROWTH BY REGION

<table>
<thead>
<tr>
<th>5 YEAR PERIOD</th>
<th>JOB GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>90-95</td>
<td>(2,000)</td>
</tr>
<tr>
<td>95-00</td>
<td>4,000</td>
</tr>
<tr>
<td>00-05</td>
<td>6,000</td>
</tr>
</tbody>
</table>

Legend:
- Urban
- Rural
- Remote Rural

Structure of the Alaska Economy
REMOTE RURAL ECONOMY
STRUCTURAL CHALLENGE:
SOURCES OF PERSONAL INCOME

- GOVT PAYROLL: 33%
- NONPROFIT PAYROLL: 11%
- PROPERTY INCOME: 8%
- PRIVATE EARNINGS: 21%
- GOVT TRANSFERS: 27%

Structure of the Alaska Economy
Size Distribution of Remote Rural Communities Outside Regional Centers
## HOW ARE ALASKA FAMILIES DOING?

### NEW JOBS IN ANCHORAGE BY WAGE

<table>
<thead>
<tr>
<th></th>
<th>&lt; $60K</th>
<th>&gt; $60K</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>80's</strong></td>
<td>15,108</td>
<td>5,452</td>
</tr>
<tr>
<td><strong>90's</strong></td>
<td>13,679</td>
<td>(1,260)</td>
</tr>
</tbody>
</table>
Structure of the Alaska Economy

BOOMERS AND BABIES

ALASKA AGE DISTRIBUTION IN 2000

ALASKA

US

Structure of the Alaska Economy
TAKE AWAY MESSAGE

• Solve fiscal problem
• Get serious about investment
• Recognize the limits of government
• Recognize the difference between growth and development
• Look beyond aggregate indicators to monitor economic health
• Focus on the long term