
The Alaska Economy: How Are We Doing?

House Special Committee on
Economic Development, Trade, and Tourism
October 25, 2007
Juneau, Alaska

Scott Goldsmith
Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
afosg2@uaa.alaska.edu

Structure of the Alaska Economy

The Alaska Economy: How Are We Doing?

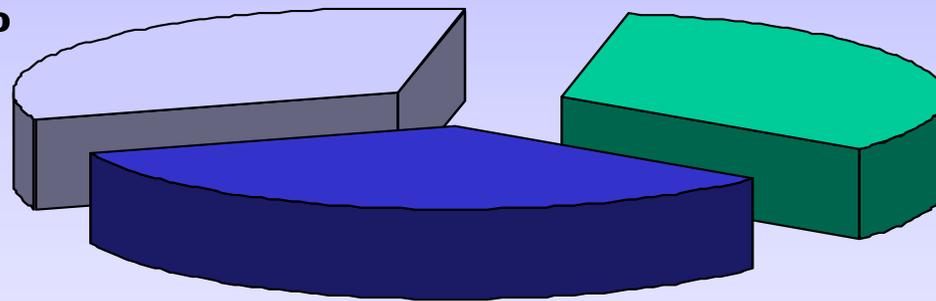
- The Structure of the Economy—1/3 Rule
- Growth Since 1980
- Looking Ahead
- Resource Curse
- A Non-Problem
- The Many Alaska Economies
- Population Bubbles
- Take Away Message

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%**



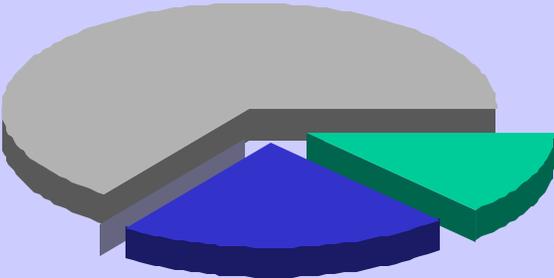
**OTHER
33%**

**FEDERAL
GOVT
34%**

Shares of Personal Income in 2000

1/3 FEDERAL GOVERNMENT

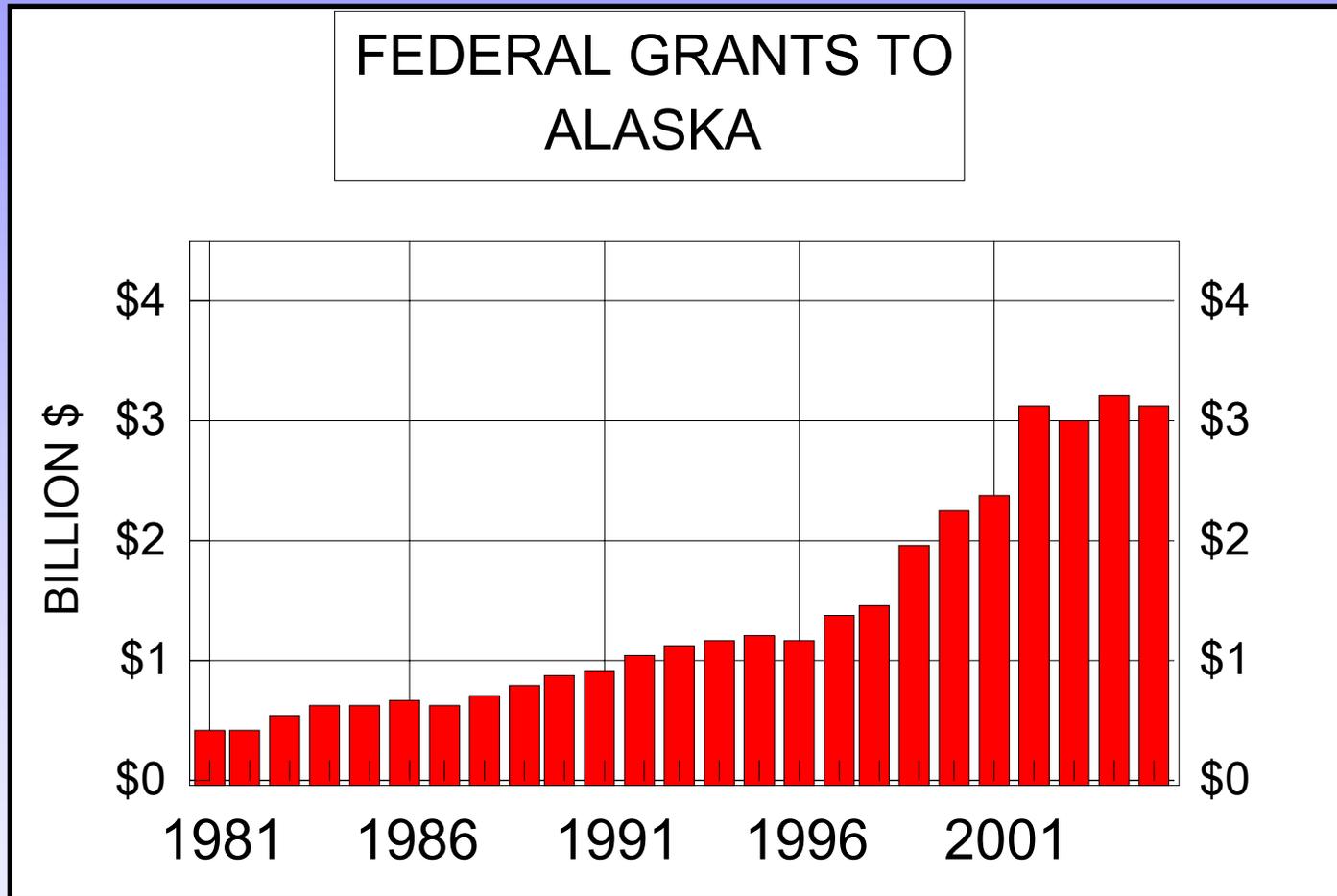
REST OF
ECONOMY



MILITARY

CIVILIAN

Total Federal Grants



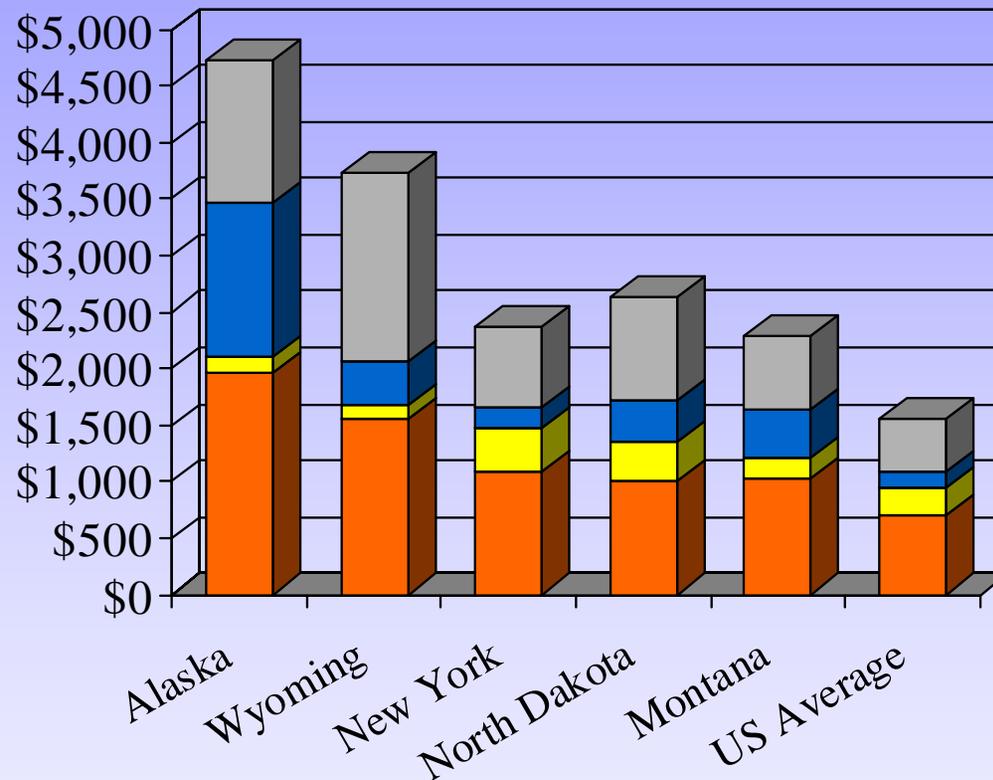
FEDERAL GRANTS



Federal Grants: 1999 (Million \$)

• TOTAL	\$1,932	• Jobs and Training Admin	\$ 56
• Highways	\$362	• NOAA	\$ 37
• Medical Assistance	\$282	• Justice Programs	\$ 32
• Indian Health Service	\$259	• Rural Water/Sewer	\$ 32
• Health/Human Service	\$142	• NSF	\$ 18
• Bureau of Indian Affairs	\$109	• Alcohol/Drug Abuse	\$ 15
• Impact Aid	\$101	• Disease Control	\$ 13
• Environmental Protection	\$ 84	• Economic Development	\$ 12
• Federal Aviation Admin	\$ 79	• Energy	\$ 11
• K-12 Education	\$ 76	• Housing	\$ 11
• Food/Nutrition Programs	\$ 61	• All Other	\$140

Federal Grants Per Capita: Highest in the US

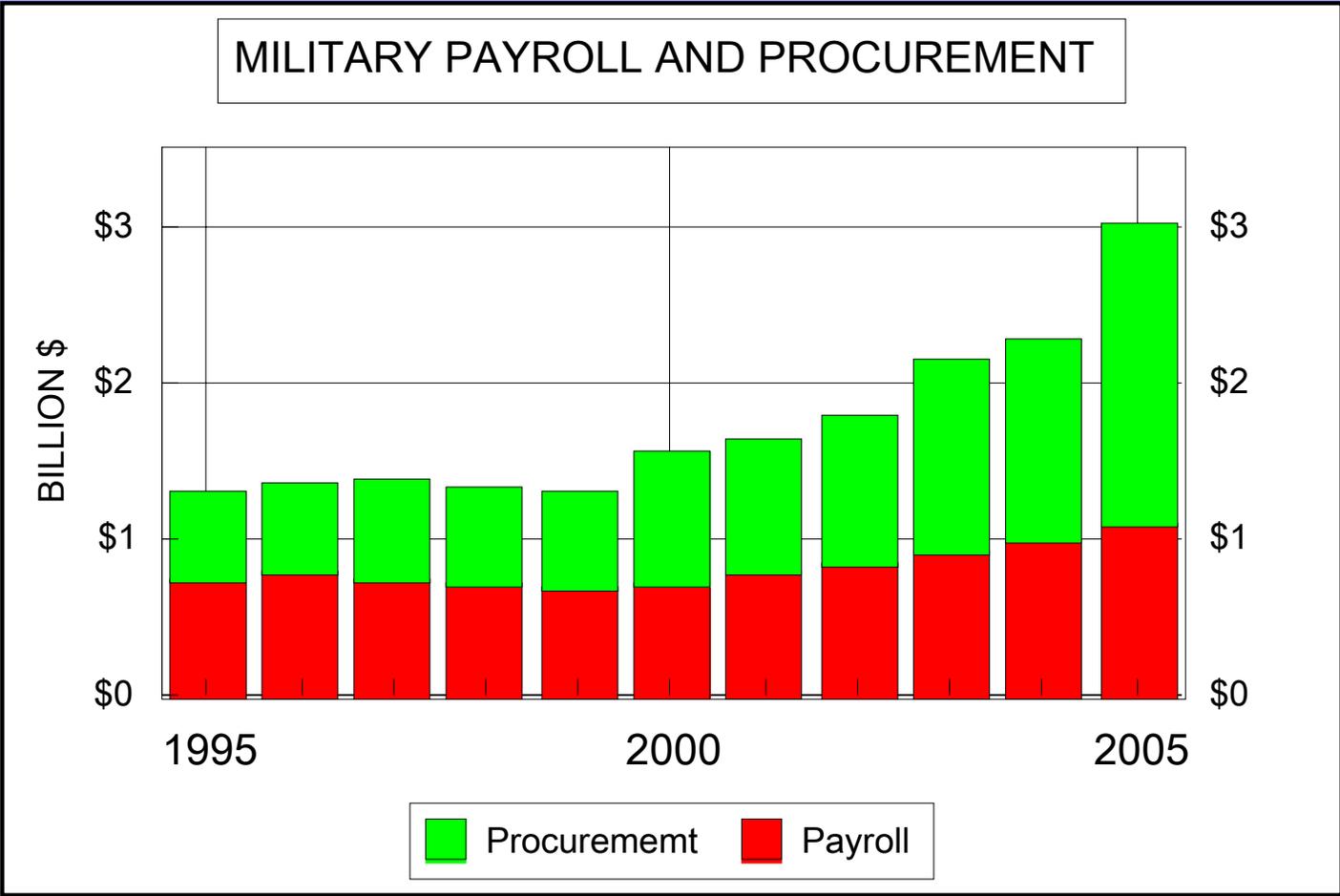


■ 1990 ■ GROWTH 1990 TO 1995 ■ GROWTH 1995 TO 2000 ■ GROWTH 2000 TO 2005

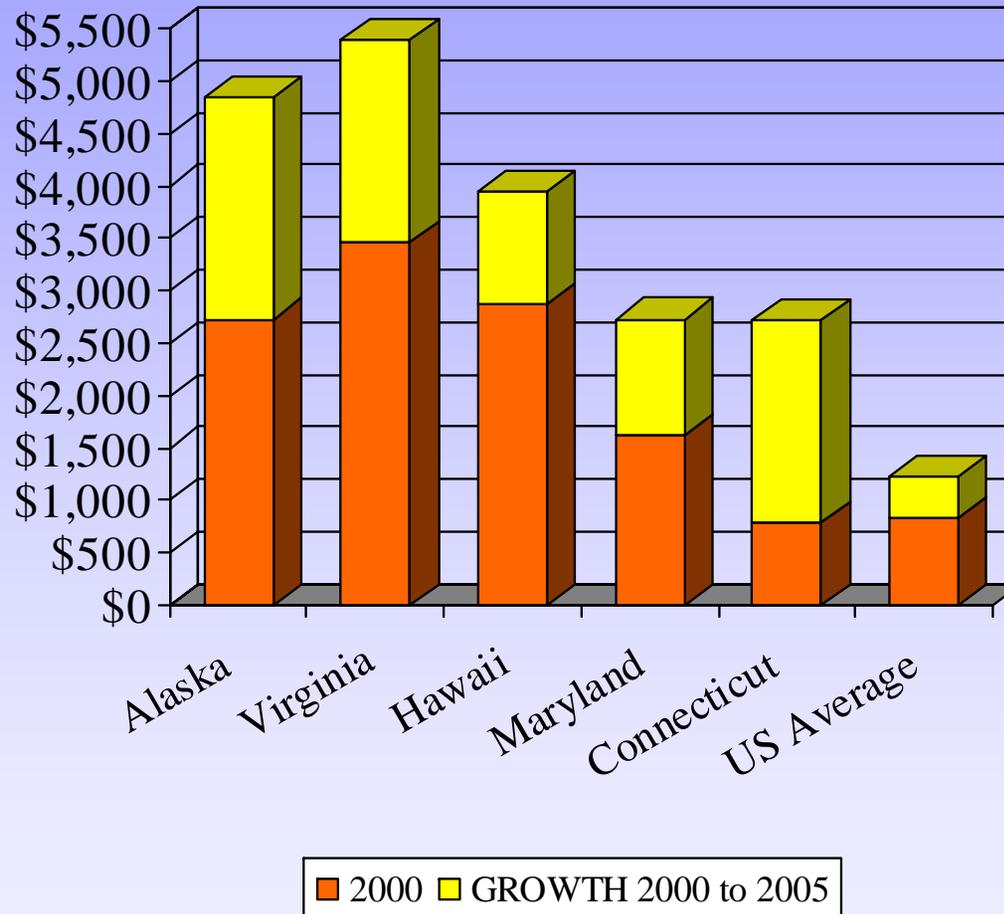
Federal Agency Spending in Alaska



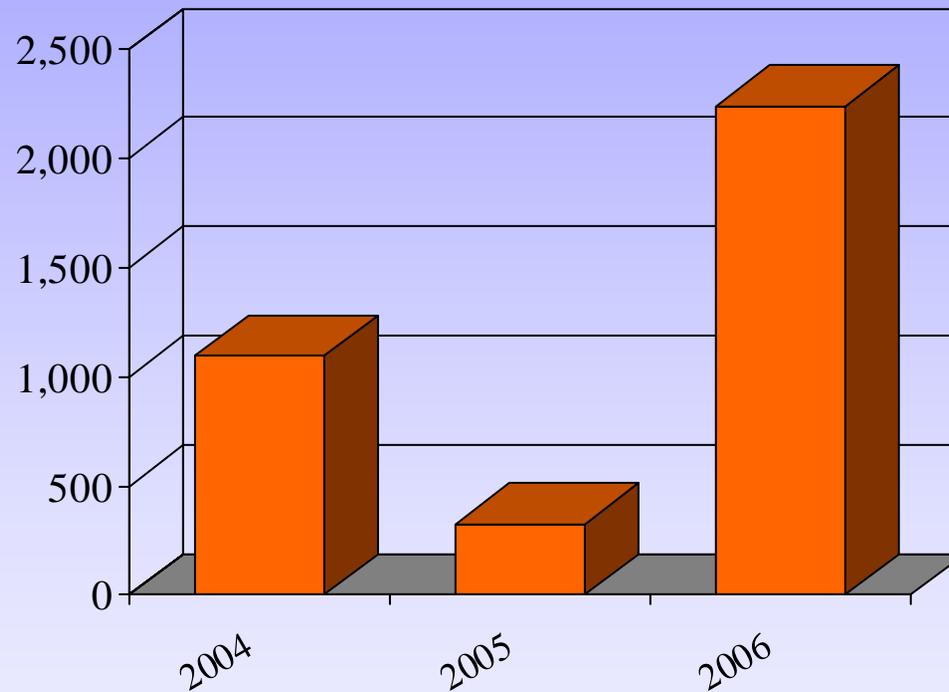
Military Spending has Boomed



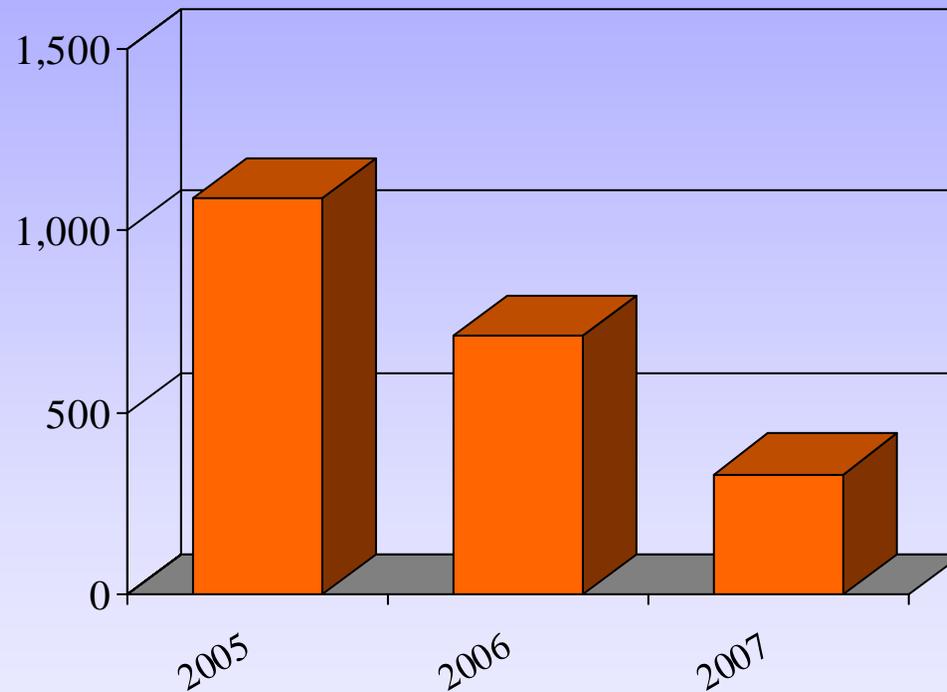
Military Spending Per Capita: Second Highest in the US



Signs That Federal Spending Has Topped Out: Annual Increase in Military Personnel

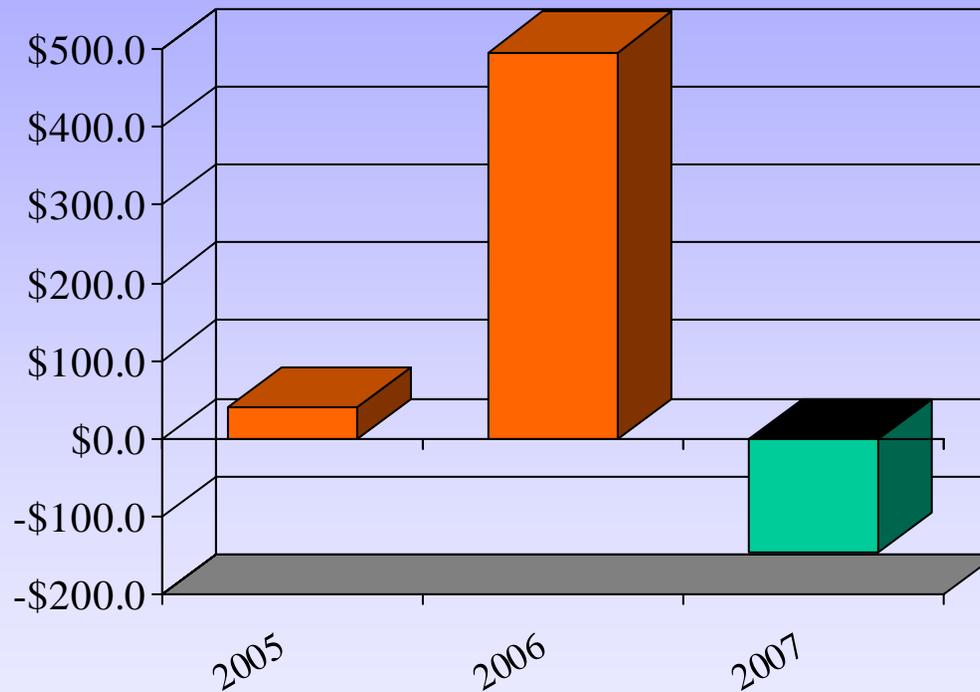


Signs That Federal Spending Has Topped Out: Annual Increase in Health Care Jobs

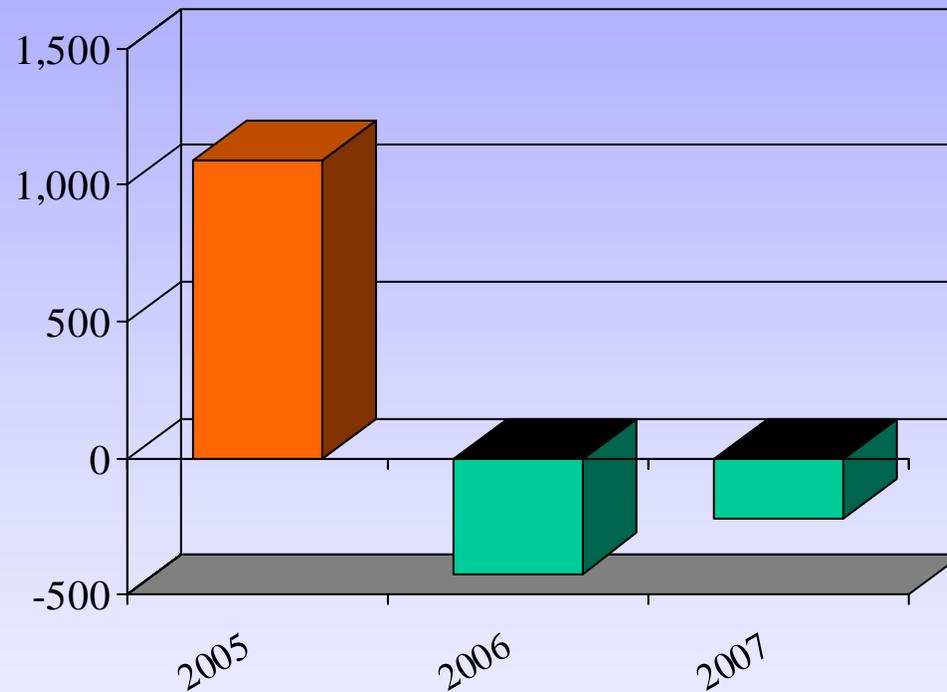


Signs That Federal Spending Has Topped Out:

Annual Increase in Public Construction \$ (Million)



Signs That Federal Spending Has Topped Out: Annual Increase in Construction Jobs



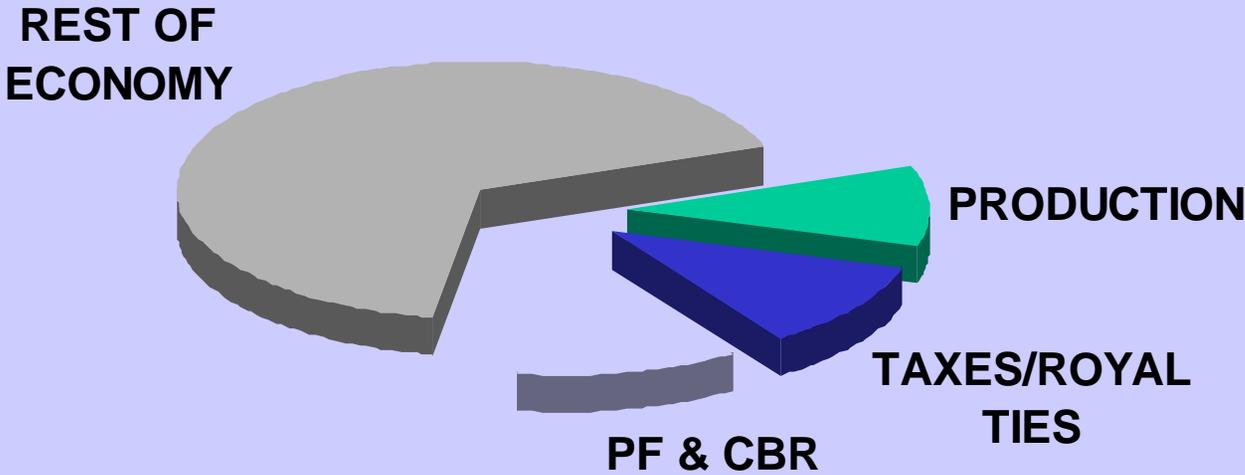
FEDERAL \$\$\$ ECONOMIC GROWTH OR DEVELOPMENT?



TAX BASE FROM FEDERAL \$\$\$

The Alaska Disconnect

1/3 OIL AND GAS

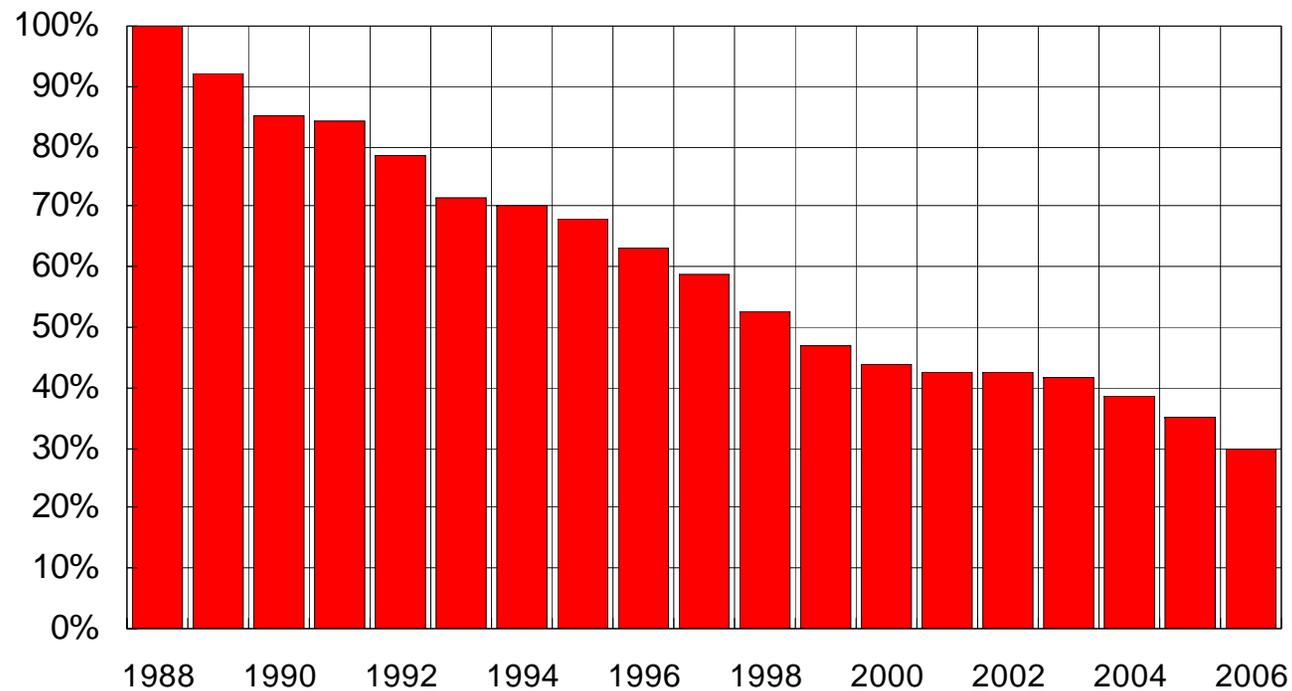


PETROLEUM DOMINATES ALASKA INDUSTRIAL TAX BASE (Billion \$)

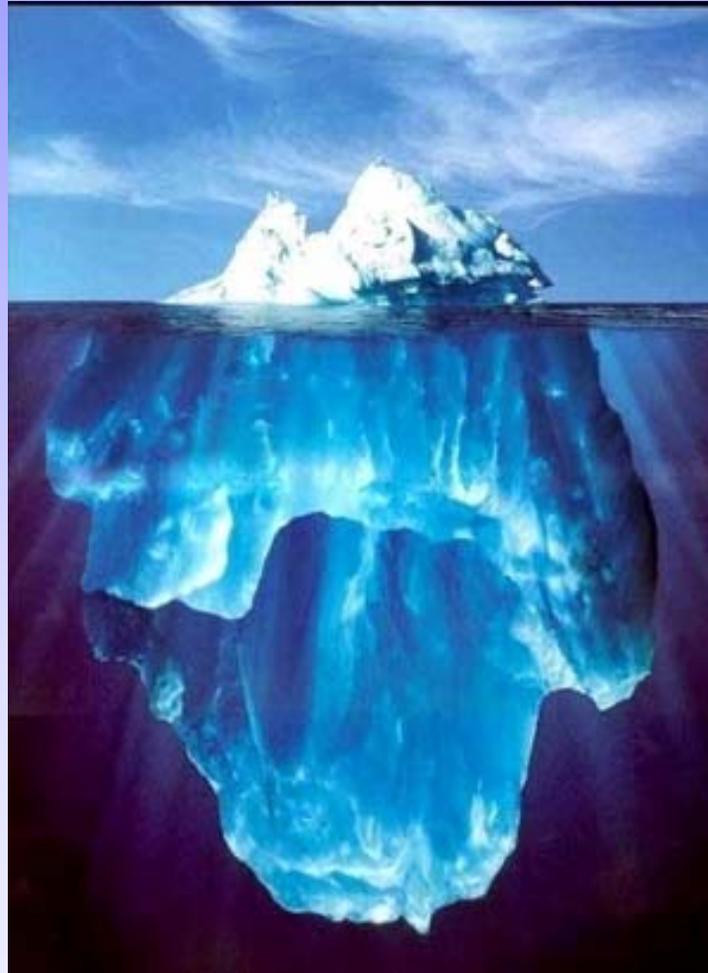
- \$14.39 Oil and Gas
- \$3.64 Other Industrial

DISAPPEARING PETROLEUM PRODUCTION

**ALASKA OIL PRODUCTION--PER CAPITA
PERCENT OF THE PEAK YEAR--1988**

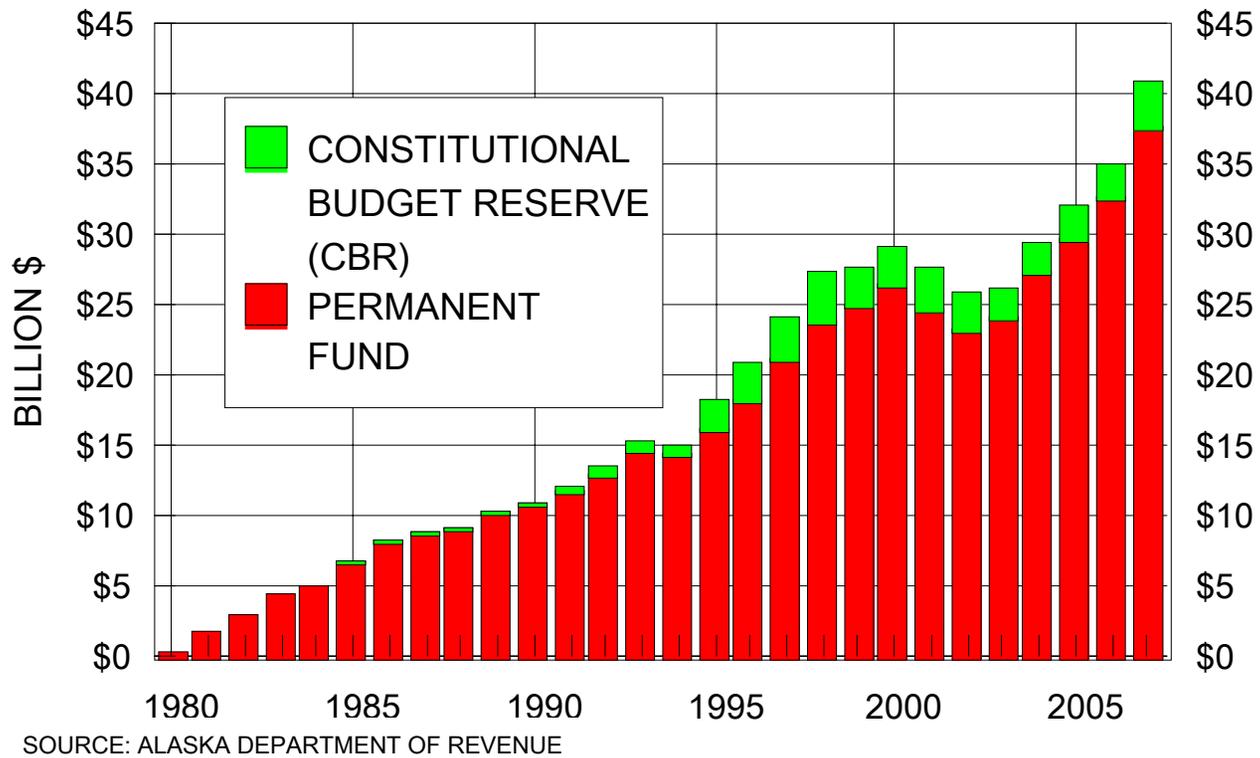


OIL PATCH ACTION

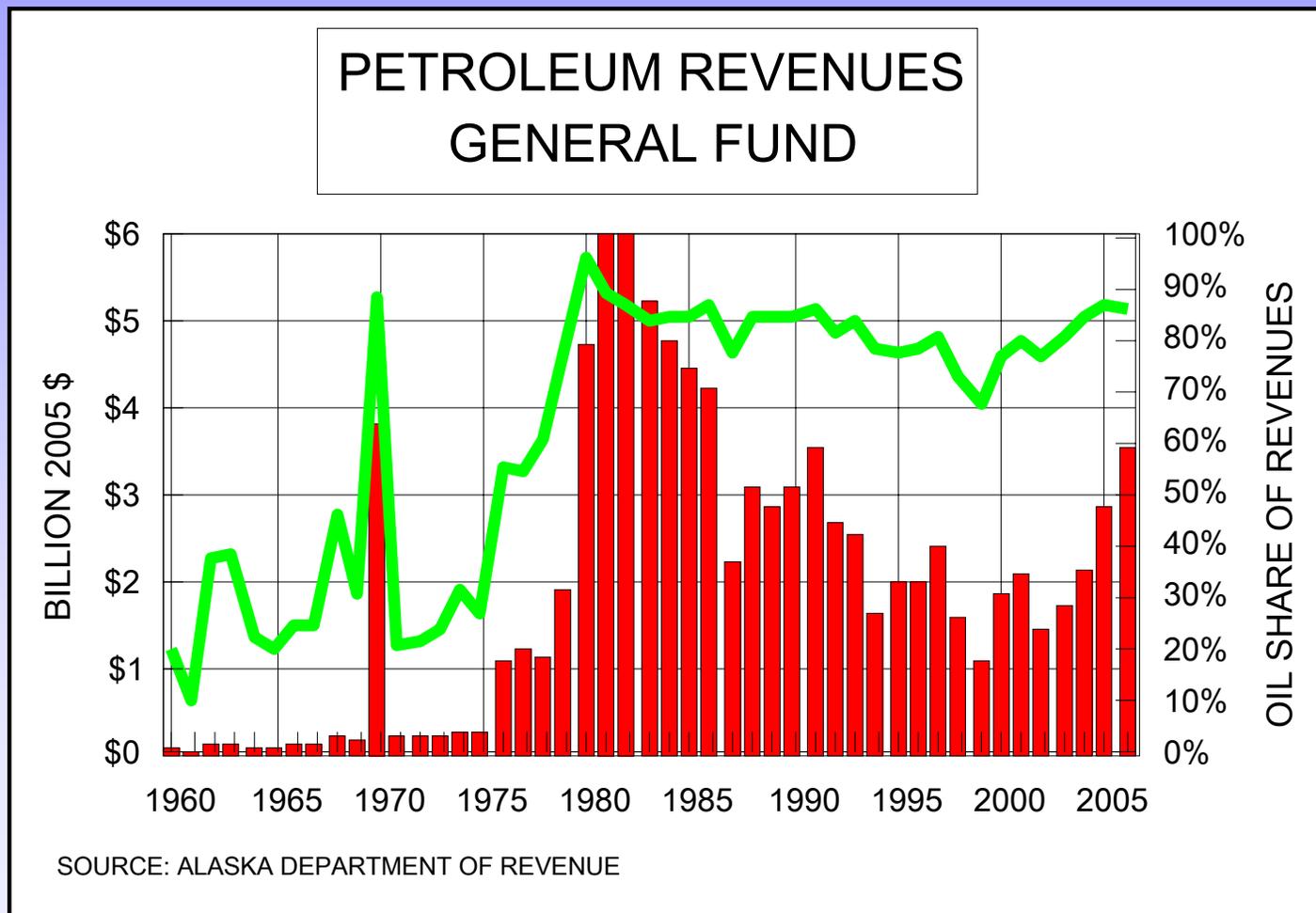


OIL TRANSFORMED

ALASKA FUND BALANCES

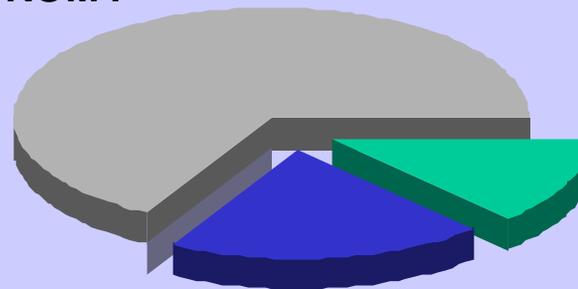


OIL REVENUES PAY FOR GOVERNMENT



1/3 OTHER

REST OF
ECONOMY



NEW
RESOURCES

TRADITIONAL
RESOURCES

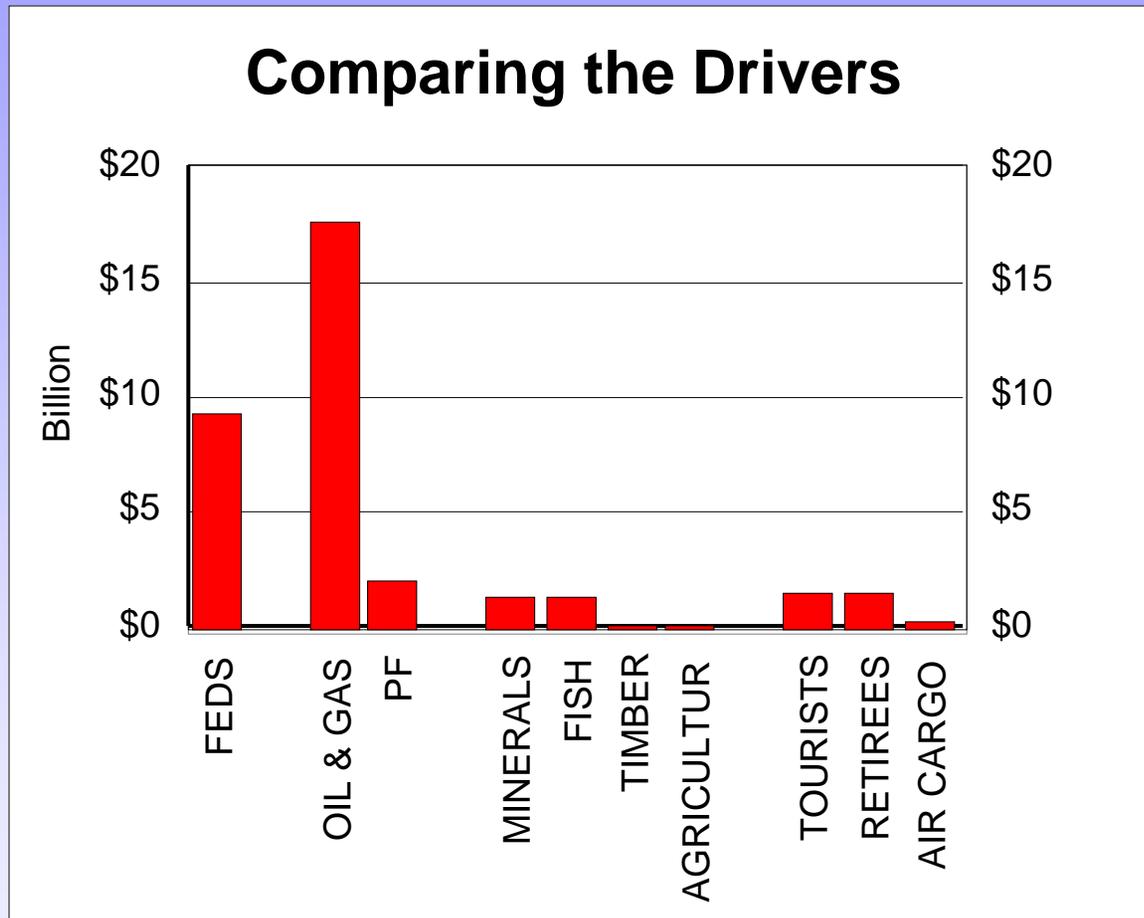
TRADITIONAL NATURAL RESOURCES



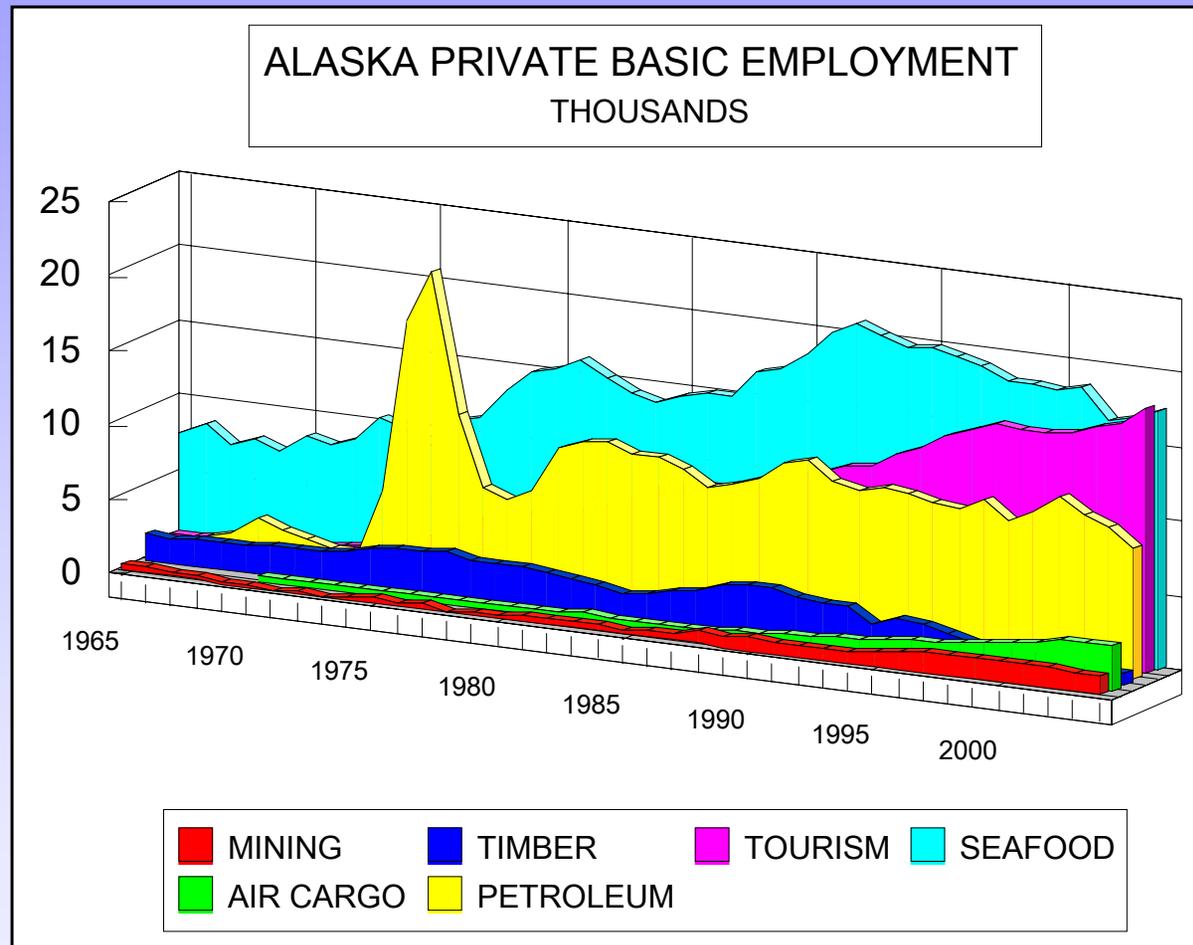
NEW RESOURCES



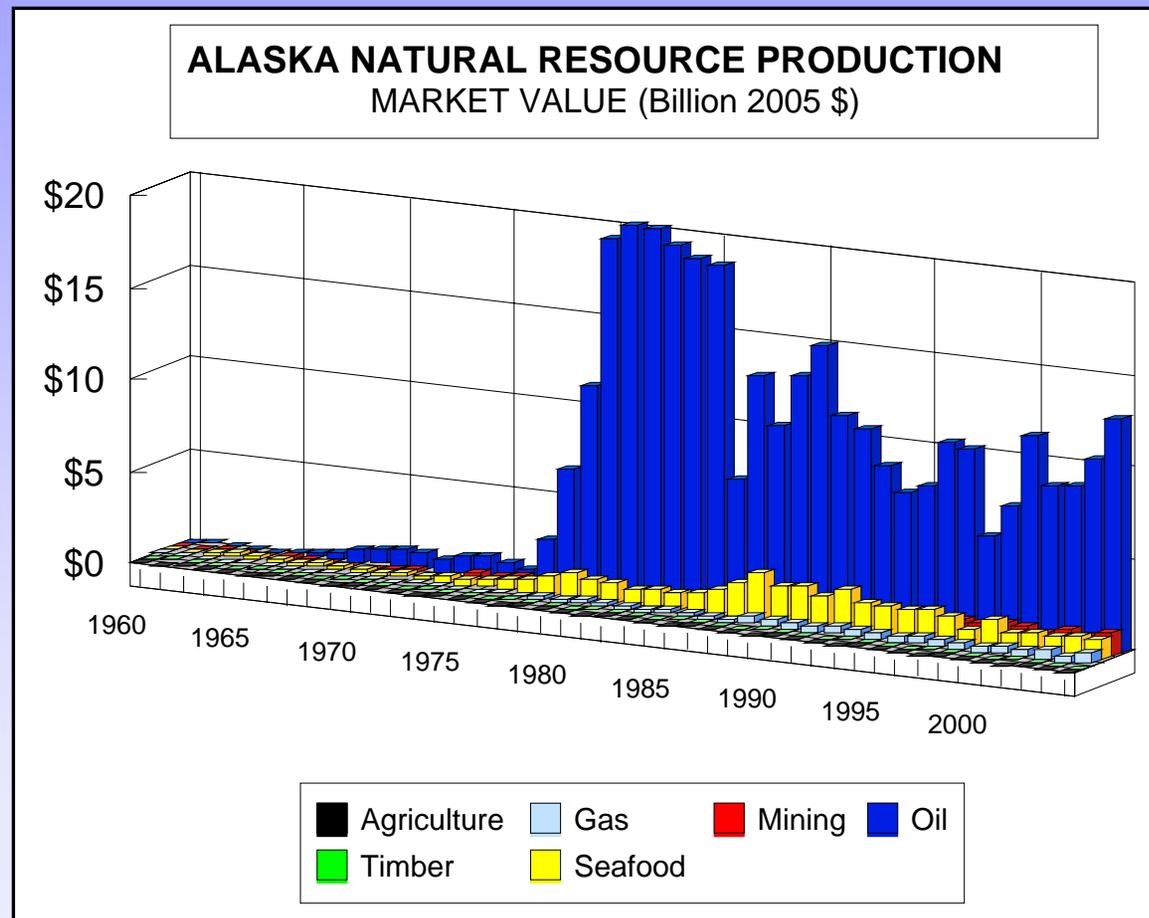
FRUIT SALAD COMPARISON



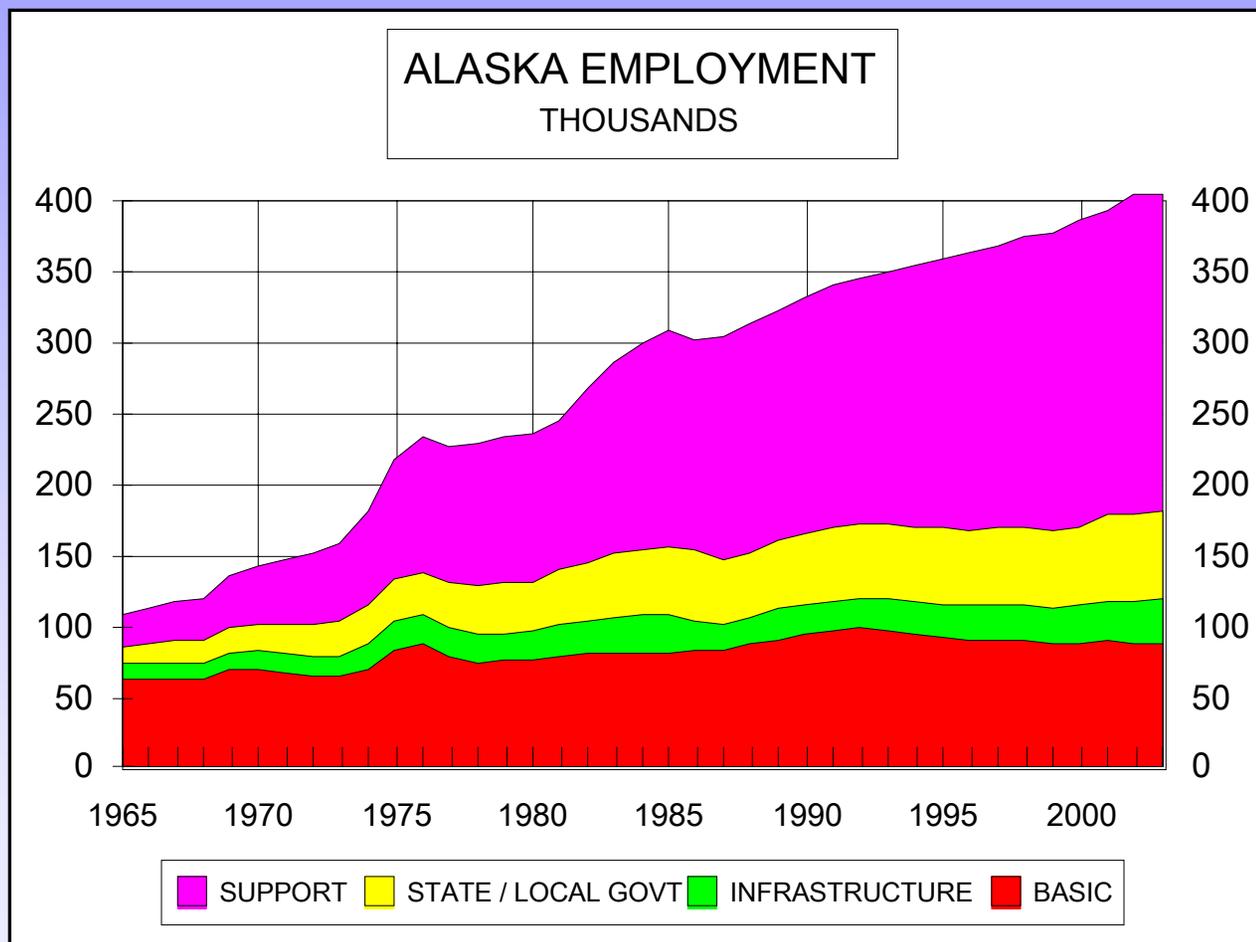
A Small Share of Growth Since 1980 is Due to Other Drivers



A Large Share of Growth Since 1980 is Due to Oil

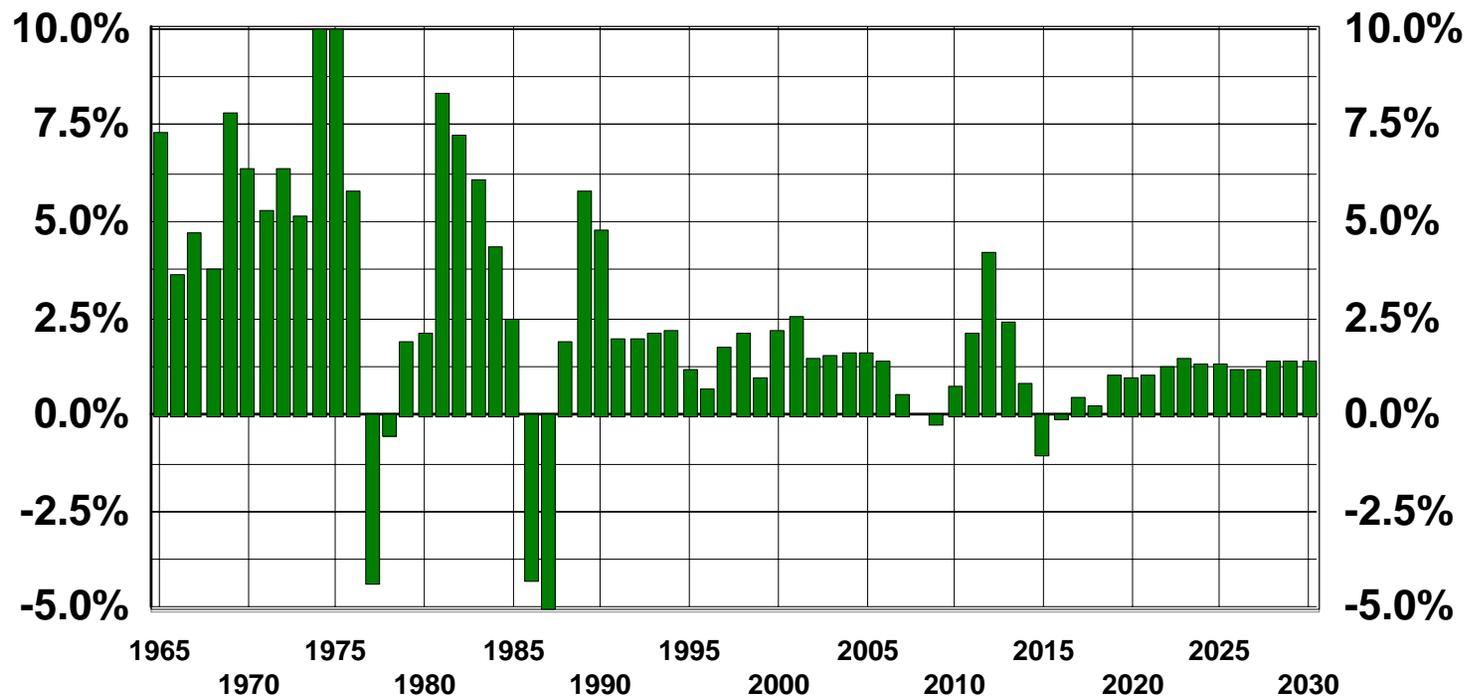


A Large Share of Growth Since 1980 is Due to “Economy Maturing”



Looking Ahead

Alaska Wage & Salary Job Growth



Institute of Social and Economic Research

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

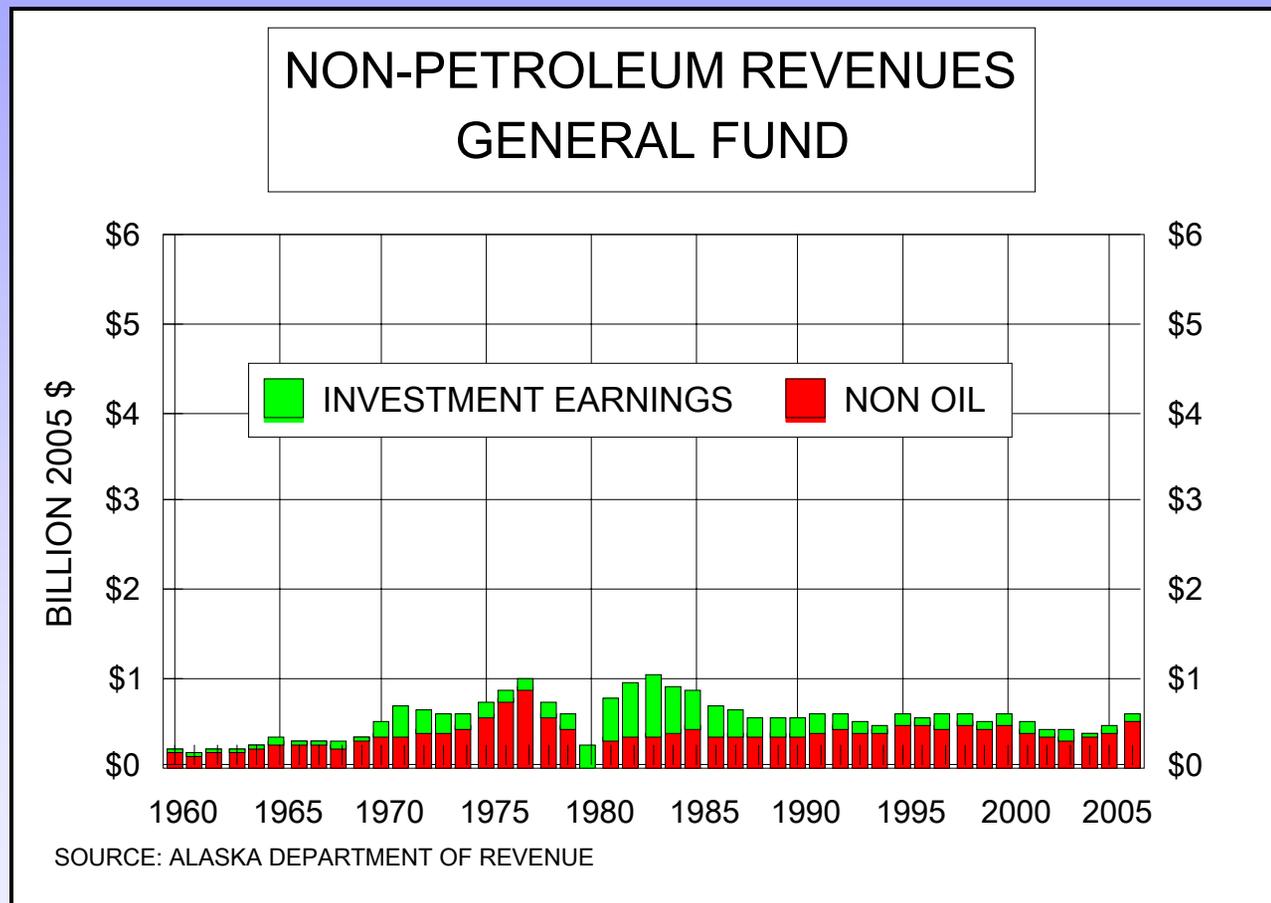
- **Question**--How much wealth would have been created if all \$ paid as Permanent Fund dividends had been invested (and an annual 7% return also invested)?
- **Answer**--\$31 billion, \$50 thousand per capita, or almost enough to replace all the public infrastructure in Alaska

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



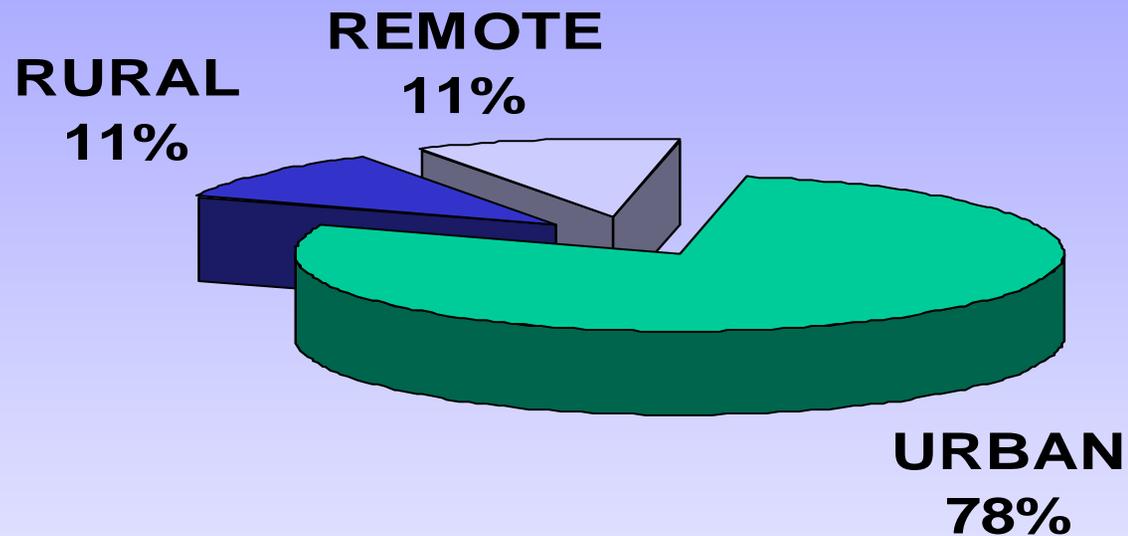
The Gasline Won't Solve our Fiscal Problem

- 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.

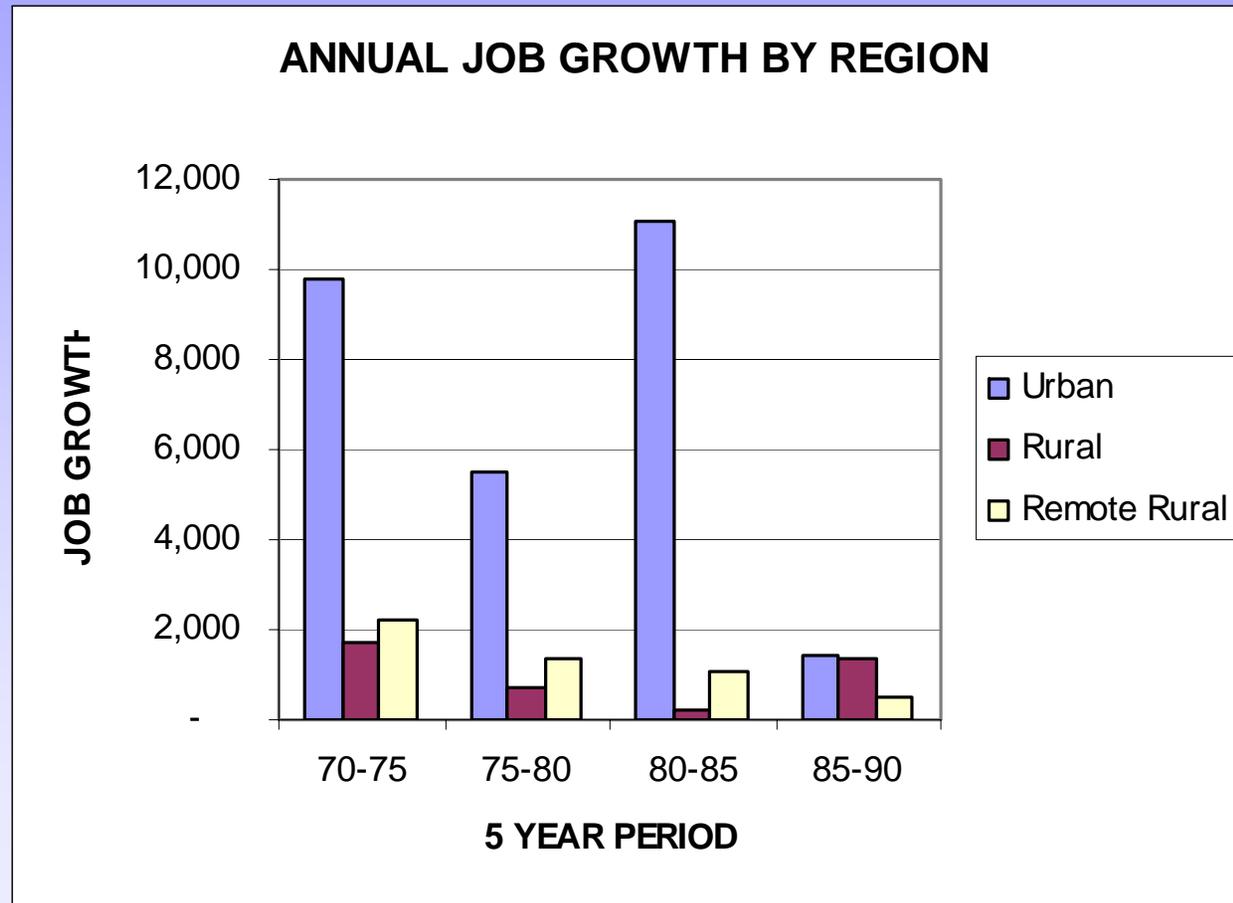
Alaska State Finances: A Problem with an Obvious Solution (Revenue in Billion \$)

- \$ 1.0-\$3.0 Petroleum Revenues
- \$.6 Non Petroleum Revenues
- **\$1.0 Half Annual PF Earnings**
- **\$.8 Sales and Income Taxes**

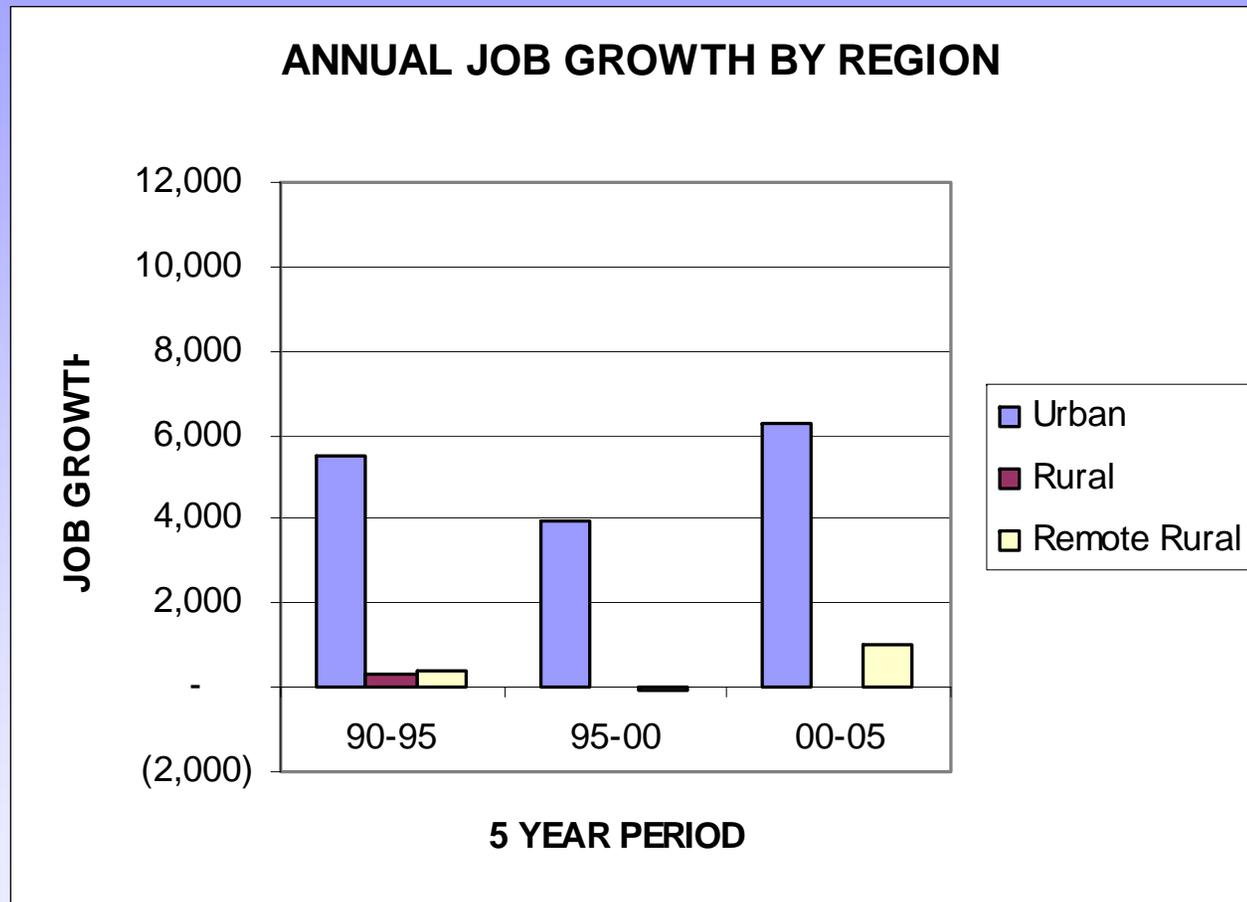
URBAN ALASKA DOMINATES JOBS



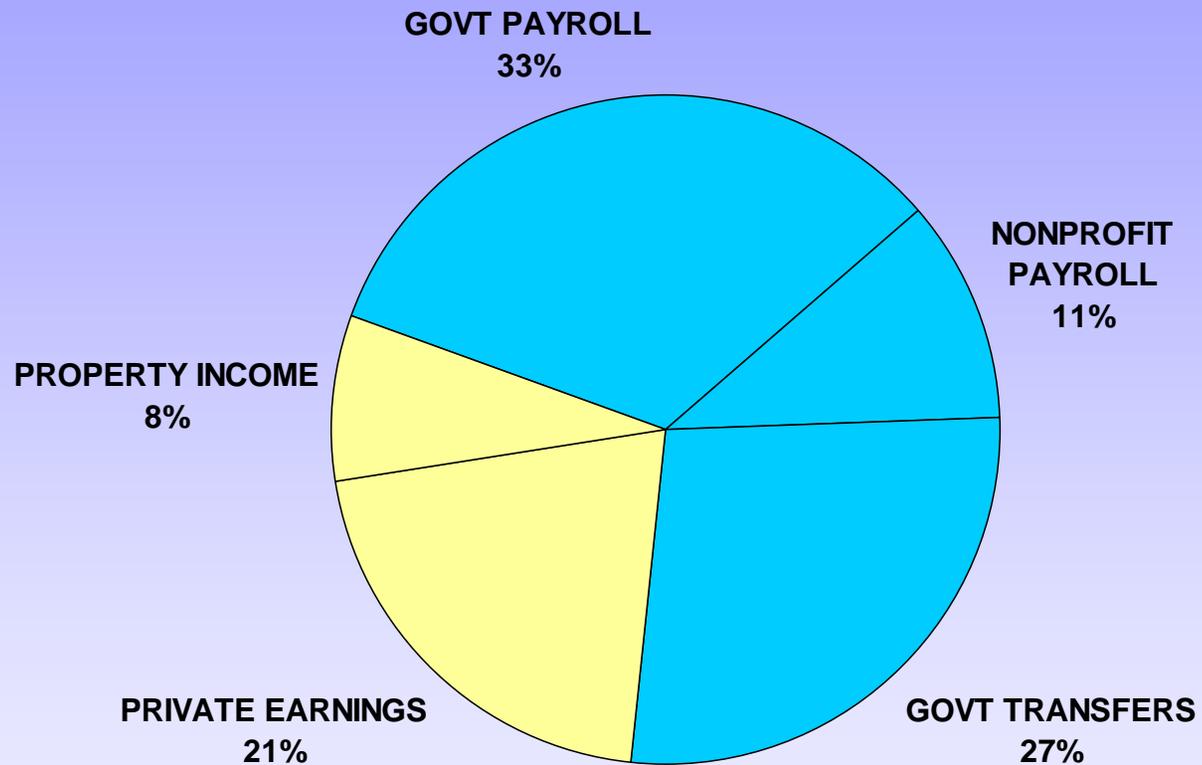
BEFORE: RISING TIDE RAISES ALL BOATS



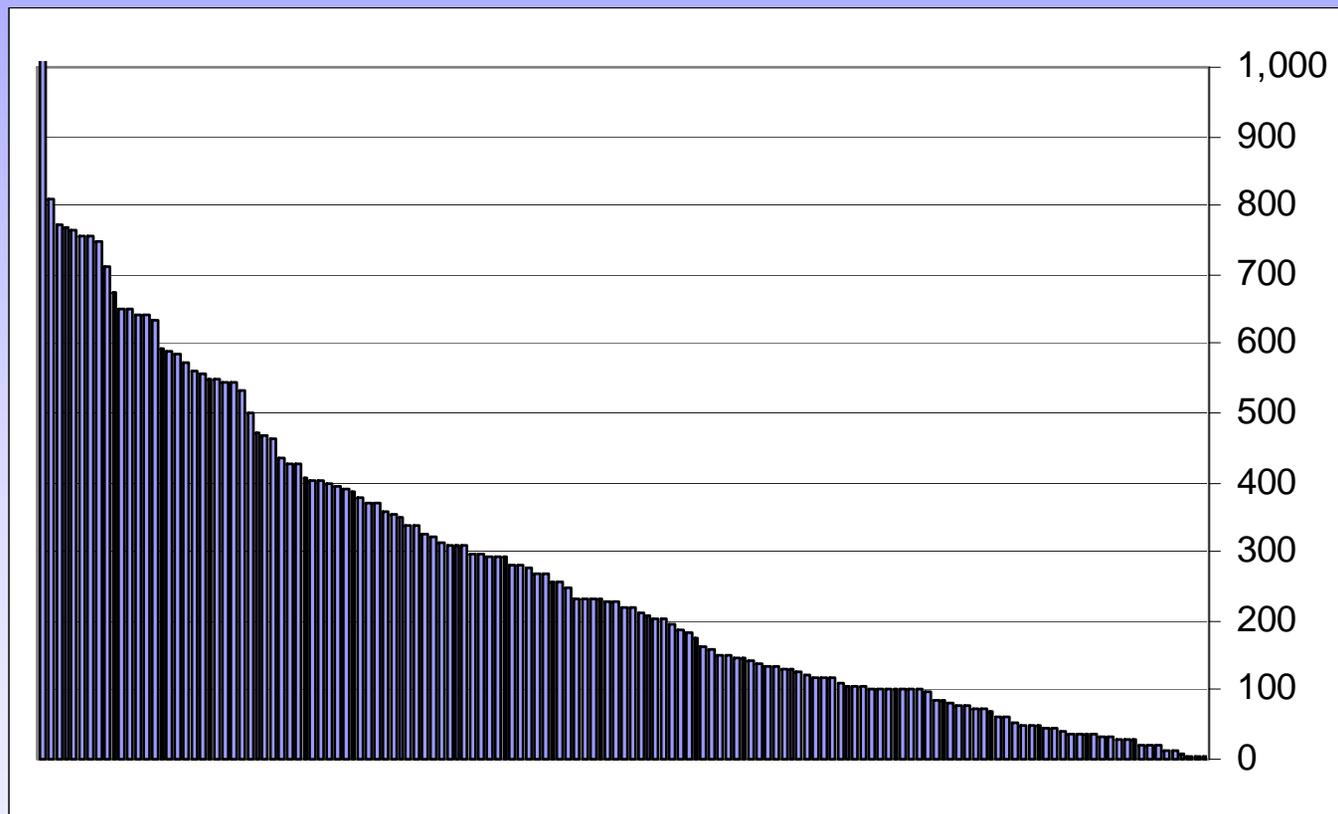
NOW: RISING TIDE RAISES URBAN BOATS



REMOTE RURAL ECONOMY STRUCTURAL CHALLENGE: SOURCES OF PERSONAL INCOME



Size Distribution of Remote Rural Communities Outside Regional Centers

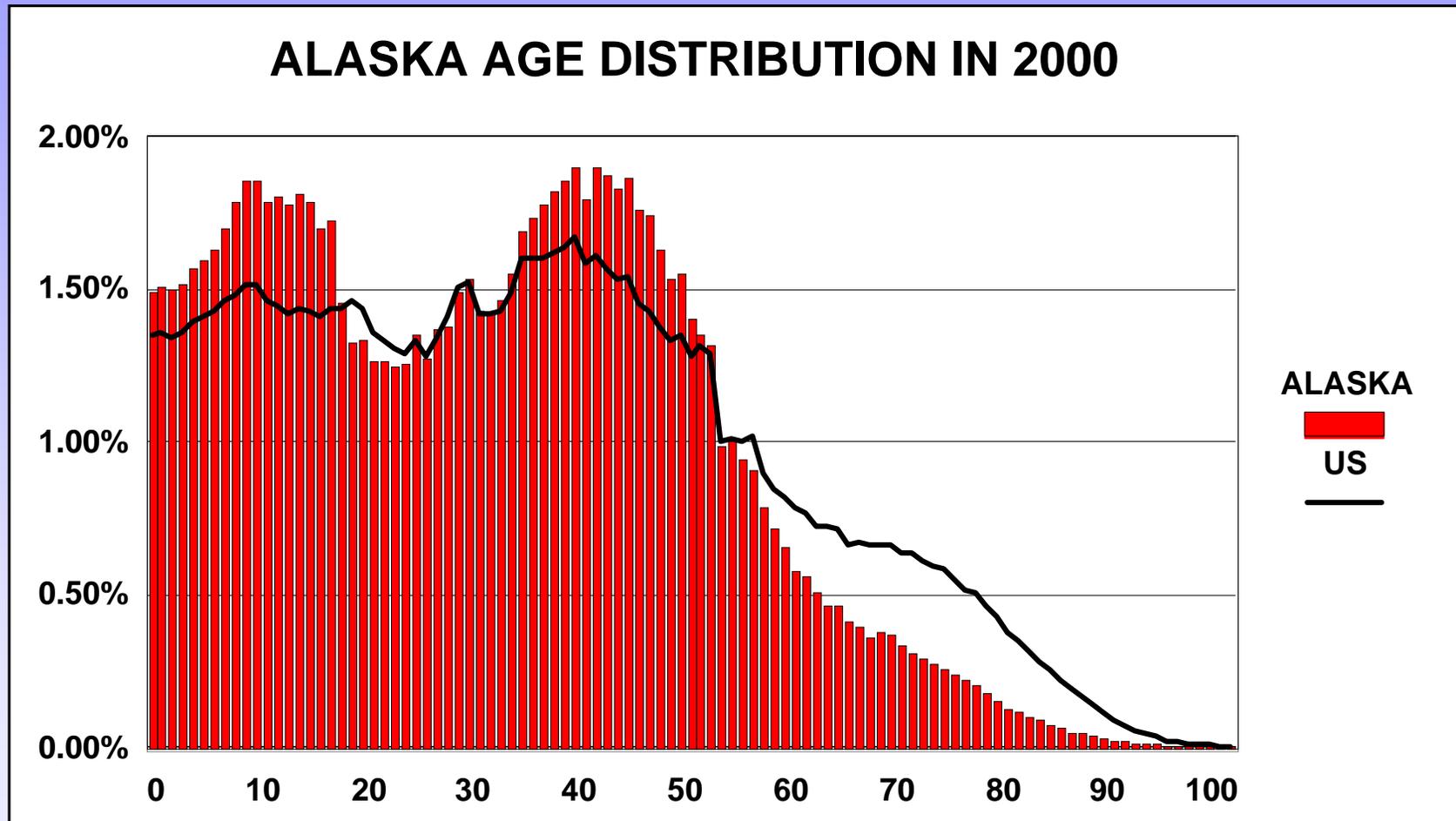


HOW ARE ALASKA FAMILIES DOING?

NEW JOBS IN ANCHORAGE BY WAGE

	< \$60K	> \$60K
80's	15,108	5,452
90's	13,679	(1,260)

BOOMERS AND BABIES



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