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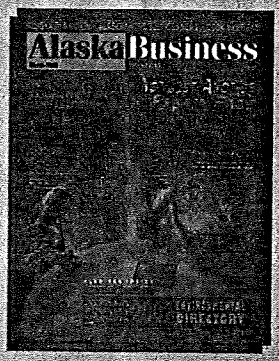


about the cover

Sylvia Medina, president of North Wind Environmental Inc. (left), and Kimberley Kearney, vice president of business development for the company, pose as if they were investigating a drum of hazardous waste. An article about North Wind Environmental begins on page 30. Photo by Clark James Mishler.

features

environmental SPECIAL SECTION

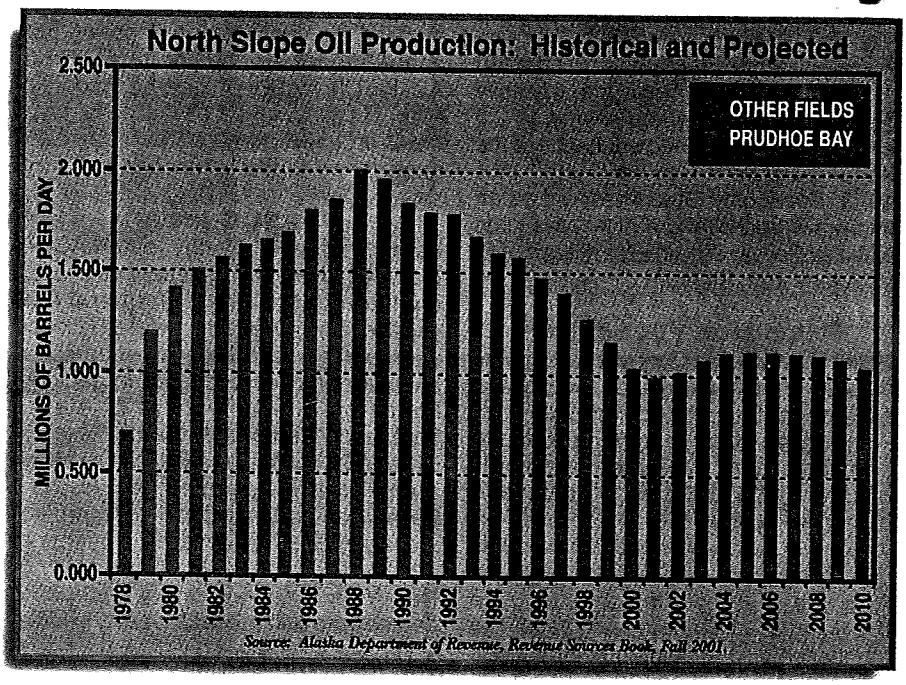
Alaska Native Business News

1025

The 10 Most Important Things to Understand About Alaska's Economy

By Gunnar Knapp

Alaska's economy is changing with the times. What changes are occurring? And what are the most important things Alaskans should understand about our economy? Here is my list of the 10 most important things we need to understand to make informed decisions for ourselves and for our state.



1. Federal spending and the oil industry drive most of Alaska's economy. Together they are responsible for about two-thirds of all the income earned here.

The federal government injects billions of dollars into Alaska's economy through defense employment, contracting and construction; civilian employment in agencies like the Forest Service and Bureau of Land Management; grants to state and local governments for education, health and social services; capital projects like roads and airports; and Social Security and other transfer payments.

The oil industry pays for exploration, development and production on the North Slope and in Cook Inlet. It pays taxes and royalties that support most of state government and a large share of local government. And it has indirectly paid for Permanent Fund dividends and the recent state budget deficits–because the Permanent Fund and the Constitutional Budget Reserve are built on past oil revenues.

The other "basic" industries–those that bring money into Alaska's economy–are mainly seafood, mining, timber, tourism and air cargo. They're very important to some regions, but play a much smaller role in the overall state economy.

2. Most jobs created in the 1990s were in lower-paying trade and services industries.

Historically, Alaska had relatively fewer jobs in trade and service industries than other states. Alaskans were more likely to shop outside Alaska when they bought cars, or had heart surgery, or wanted something printed.

As Alaska's population and economy grew, the local market was able to support a wider variety of jobs in trades and services. These sectors grew faster than other sectors and became a larger share of our economy. But because trade and service jobs pay much less, on average, than other kinds of work, average earnings in Alaska fell. And as our economy catches up and gets more and more like that of other states, the rate of growth in trade and service jobs is likely to slow.

3. Alaska's economic growth has slowed.

During the 1990s, employment in Alaska grew only half as fast as it had during the 1980s, and real personal income (adjusted for inflation) grew only a third as fast. With slower job growth and declining average earnings, the real value of what Alaskans earned from working actually fell during the 1990s. Almost all the growth in our real income was from investment income, federal transfers and Permanent Fund dividends.

Alaska's economic growth slowed because several important industries stopped growing or declined. North Slope oil production dropped sharply, military bases closed and pulp mills and sawmills closed. Prices of oil, salmon, timber and gold declined in real terms. Even though tourism, mining, air cargo and seafood added jobs, Alaska lost 4,000 jobs in basic industries in the 1990s.

4. Things may get worse before they get better.

Alaska's growth in the 1990s was driven largely by higher federal spending and Permanent Fund dividends. Neither are likely to keep growing as they did in the 1990s.

State government spending this year will inject about $1 billion more into the economy than the state collects in taxes and royalties. We've been paying for budget deficits–and the economic stimulus they provide the economy–by drawing down the state's Constitutional Budget Reserve. At current oil prices (close to historical averages), that fund will run out of money in as little as three years. When that happens, about $1 billion will disappear from the Alaska economy, one way or another. What doesn't disappear from state spending will be taken out of the economy in taxes or diverted from Permanent Fund dividends.

Alaska's coming fiscal, economic and political crisis can only be postponed if oil prices go back up and stay up–or if the state spends down the capital of the Permanent Fund.

5. Much of what drives Alaska's economy is beyond our control.

Most Alaskans want an economy that will grow and provide opportunities for our children. But after 20 years of oil wealth, that economic growth seems elusive–partly because much of what drives Alaska's economy is beyond our control.

Our resource industries–petroleum, mining, seafood, timber and tourism–compete in world markets. Fluctuating resource prices–driven by world demand, supply and politics–constrain the profitable scale of Alaska resource development, as well as employment and profits in our resource industries.

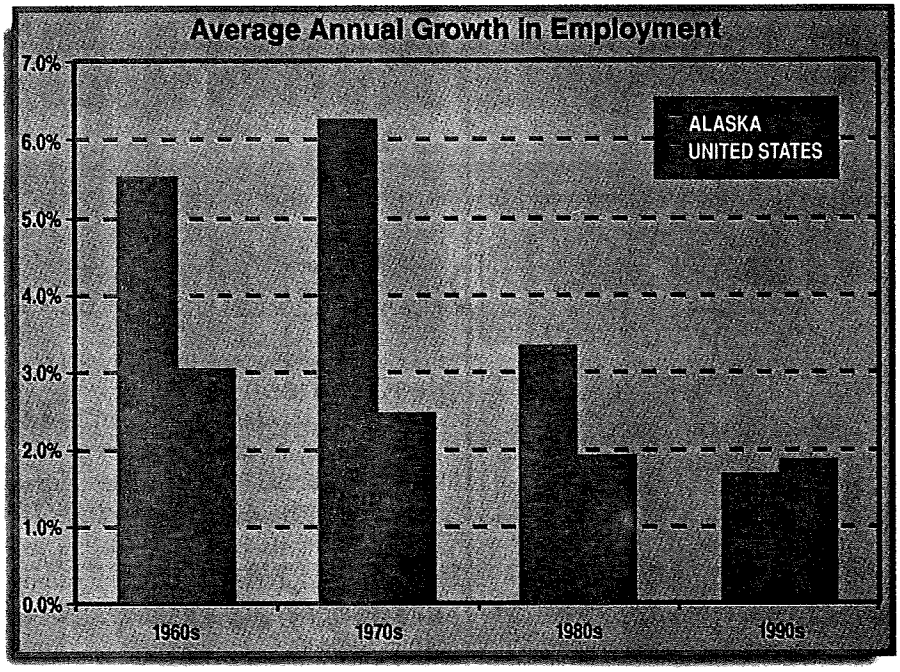
Permanent Fund earnings depend on the stock market's performance. The federal government controls our offshore fisheries and 59 percent of our land. National politics can limit our resource development, beyond the limits imposed by global markets.

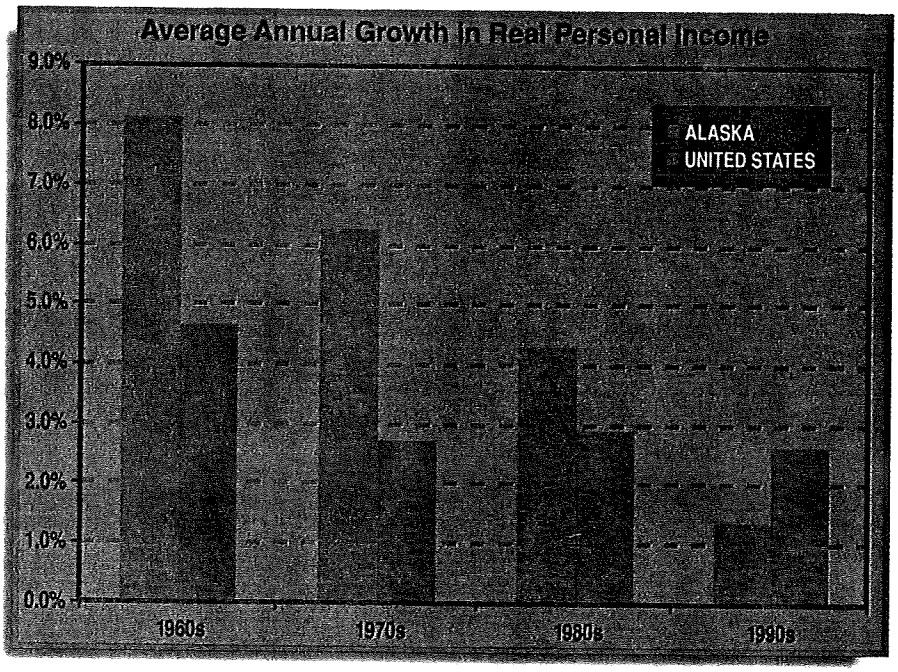
We're a state, not an independent country. We can't make people who live here work here. We can't make Alaskans buy Alaska products. We don't have the final say on what environmental standards are established or which foreign carriers can land at our airports or where we can sell our oil.

6. Many of our resource development opportunities conflict with each other.

Many Alaskans feel resource development has fallen short of its potential. Why? Part of the answer is that many resource development opportunities conflict with each other.

Timber and mining conflict with tourism and fishing–or people in tourism and fishing tend to think so.





Commercial fishermen don't want fish farming. Sport fishing guides want less commercial fishing. These kinds of conflicts are becoming increasingly apparent in fights over ANWR, logging in national forests, commercial fishing in Glacier Bay and allocation of Cook Inlet salmon.

We want it both ways. We want more jobs, but we don't want more traffic or more crowding at fishing streams. We want an air cargo industry and tourism, but we don't want noise from jets or pollution from cruise ships. We want more oil development–but we want zero tolerance for oil spills or other environmental risks.

We haven't found easy ways to make compromises. It's been easier to stop resource development than to compromise over conflicts.

7. *Oil wealth is a mixed economic blessing.*

Many Alaskans hoped we could use our oil wealth to stimulate sustainable economic development–and we've done that in one way, by saving some oil revenues in the Permanent Fund. The fund's investment earnings provide a permanent stream of income to pay for dividends or state government.

But in other ways, we've been less successful in turning our wealth into development. We have a poor record from investments in new industries, like agriculture. That's not surprising. Only projects that can't find private investors look for public money. The politicians and bureaucrats who make the decisions aren't risking their own money.

Oil wealth pays for thousands of state and local government jobs. But those jobs reduce the incentive for individuals and communities to seek other opportunities–and drive up the wage rates for new businesses. Oil wealth diverts much of our energy and talent to getting money out of Juneau rather than creating new products or services. "Getting a grant" has become the first step in many economic development plans.

Being rich has allowed us to postpone hard choices about what kind of economy we want and how we should use our resources. We've come to depend on government more and more–not only for services and jobs but also to send us money every year.

8. *Our biggest economic challenges are in rural Alaska.*

More than two-thirds of all Alaskans live in urban Alaska. Urban Alaska has most of the jobs, most of the income and most of the federal and state spending. Urban areas certainly face challenges as our economy slows.

But much of rural Alaska faces far greater economic challenges. Coastal communities depend on resource industries, like timber and commercial fishing, that are vulnerable to changing world markets, changing resource

conditions and changing politics.

Alaska Native villages in the Interior and Western regions overwhelmingly depend on federal and state spending and subsidies for their cash economy. These communities already have high unemployment. Their housing, utilities and schools fall far below the standards of urban Alaska. They will face growing hardships as state spending declines and as growing rural and urban populations put increasing pressure on fish and game.

Many urban Alaskans have the option of "going home" to other states if times get tough. For most Alaska Natives, rural Alaska is home–and leaving would be very difficult.

9. We're part of America.

Alaskans like to complain about nonresidents taking seasonal jobs in construction, fishing and tourism. But there's an economic upside to being part of America–beyond receiving more federal spending per capita than any other state.

We have far lower unemployment rates than we would if all the workers in seasonal industries lived here yearround. We also have lower costs of labor in those industries, fewer children to educate in our schools and fewer people to share dividends with. If all the money stayed in Alaska, the booms would be bigger–but so would the busts.

And it goes both ways. Many Alaskans supplement their incomes with jobs outside Alaska–and we can find opportunities elsewhere if we can't find them here.

Migration from and to other states keeps Alaska's unemployment rates, wage rates, and average incomes from staying very much higher or lower than other states' for very long.

10. Expect surprises.

Some of the biggest events in Alaska's economic history were surprises. No one expected World War II, the 1964 earthquake and the 1989 Exxon-Valdez oil spill–or the massive amounts of money they brought into Alaska. No one expected the Sept. 11 terrorist attack, which hit our tourism industry hard.

We should continue to expect surprises. We can imagine many kinds of surprises (try it), delivered by nature or by people, that could affect our economy in a big way. The chance for any particular surprise may be small, but the chance for some kind of surprise is large. So as you think about Alaska's economic future, keep in mind that there are wild cards out there that could change the picture–for better or for worse. ❑

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