

RESEARCH SUMMARY

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Alaska's Economy, 1993-2020

Alaska will see slower economic growth in the future, led by private industry and strongly influenced by how the state government adjusts to less oil revenue. Compared with a four percent annual average growth rate in jobs between 1960 and 1990, the total number of jobs probably won't change much between now and 2000 (although jobs will be added or lost in specific industries). After 2000, job growth will likely resume at a rate close to one percent annually.

These are among the findings of a recent economic projection report prepared by Scott Goldsmith, professor of economics at ISER, for Chugach Electric Association and other southcentral utilities.

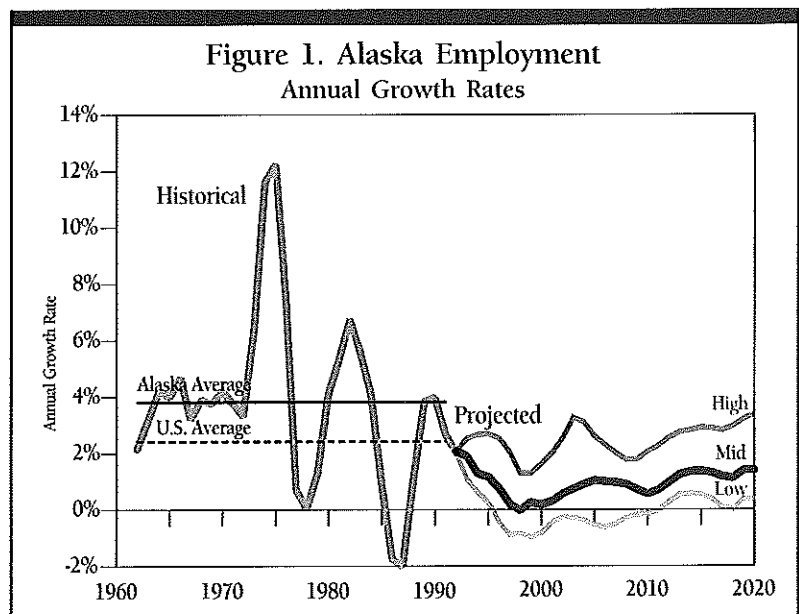
Projecting the future of Alaska's economy is difficult. It's a volatile economy (see Figure 1, showing the growth rate in jobs), heavily influenced by fluctuations in world markets for its resources and by big, unexpected events like the 1989 Exxon Valdez oil spill. That historical volatility is now compounded by uncertainty about how the state will deal with declining oil revenues. It's uncertain exactly how much or how fast those revenues will drop. But they will be smaller in the future than they are today, because new production won't be able to replace production lost as the enormous Prudhoe Bay field is depleted. Circulation of oil revenues through the economy largely fueled growth in recent decades, and state spending today directly and indirectly supports nearly one in three Alaska jobs. The state faces the dilemma of cutting the budget but keeping economic effects to a minimum.

Estimating future growth requires making assumptions about future state fiscal policy, oil prices and production, development in other industries, trends in the national economy, and much more. Because the projections involve so much uncertainty, Goldsmith makes low, medium, and high projections with different assumptions and revises them annually. The mid-range projections seem the most likely today—and those are the ones mainly summarized here—but the low and high projections are also possible.

- *Future state fiscal policies will have major effects on the economy.* The projections assume that in the 1990s the state will cut spending, reduce personnel costs, reimpose a personal income tax, reduce Permanent Fund dividends, and use some Permanent Fund earnings (but not principal) to cushion the drop in oil revenues and help stabilize the economy. If the state uses a strategy like this to gradually move spending to a sustainable level, it can minimize economic effects, keep the number of jobs fairly steady through 2000, and set the stage for resumed economic growth after that. The state might of course take a different path. It could, for instance, use all its assets to maintain spending in this decade—which would create more jobs in the short term but jeopardize long-term growth.

- *Private development rather than state spending will create the new jobs in Alaska.* As the state adjusts to less oil revenue, the economy will lose jobs—but growth in private industry will gradually offset those losses and add new jobs.

- *Among basic industries, petroleum, mining, and tourism are most likely to add jobs.* Employment in petroleum will likely increase even as production falls, because



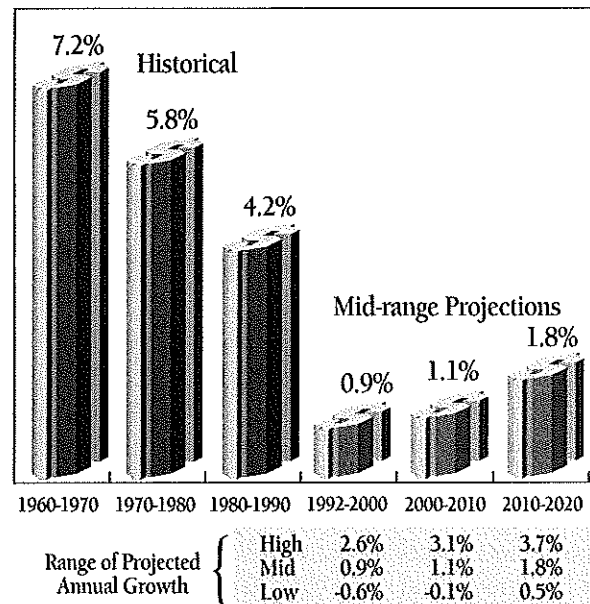
the smaller oil fields now being developed will require more labor. In mining, the combination of a large base of prospects, increasing world demand, and technological advances will lead to more mineral production. However, lack of infrastructure, high construction and operating costs, and dramatic fluctuations in world metal and coal markets are likely to mean only the largest deposits will be developed. Tourism is expected to continue to grow as the number of tourists in the U.S. and other countries grows and as improved facilities attract a bigger share of tourists to Alaska. Other basic industries—seafood, forest products, military and federal government—are projected to remain about the same size, although there could be shifts in the composition of jobs.

- *More jobs will be added in support industries—those that support the basic industries or provide services to Alaska households—than in basic industries.* The support industries grew very rapidly in Alaska over the past 30 years, as Alaska's economy matured. That maturation process will continue, but more slowly.

- *Population will probably grow slightly faster than employment—averaging an annual rate slightly above one percent.* As the population ages more Alaskans who choose to stay in the state will be too old for the labor force. Some existing jobs now held by non-residents will go to Alaskans. The availability of jobs will, however, largely continue to determine population growth. Under the most likely circumstances, more people will leave the state than move in, because there won't be enough new jobs to absorb all those that natural increase will add to the labor force.

- *Total Alaska real income (which represents purchasing power adjusted for inflation) will likely grow at about the same rate as population—meaning that real per capita income will not change much.* Total personal income (Figure 2) consists of wages, salaries, transfer payments,

Figure 2. Alaska Real Personal Income Annual Growth Rate



dividends, and more. Historically, almost all personal income came from wages and salaries, because most Alaskans were young working people. Many jobs were high-paying. But the average wage rate is not projected to continue to increase. Many of the new jobs will be in trade and service industries, which pay lower wages. However, non-wage income is projected to increase modestly, offsetting the loss in wage income. The increased number of older Alaskans with income from pensions and assets will generate non-wage income—but at the same time, a tighter state budget will constrain state transfer payments.

This summary is based on Economic Projections: Alaska and the Southern Railbelt, 1993-2020, by Scott Goldsmith. The full report is available from ISER (786-7710) for \$12.00.



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