

ECONOMIC IMPACT OF GOOD FRIDAY, 1964

The impact of the Good Friday disaster in terms of human life can be enumerated but never evaluated. Specific property losses are real and of most critical importance to individual Alaskans who had a personal equity in the physical assets destroyed. Alaskan residents are tied to Alaska by a combination of their past invested equity and their future hopes. With the destruction of their equity, many will be left with only future hopes as their remaining toe-hold. To those who have already devoted the better part of their economically productive lives to the establishment of this past investment, hope will not be enough. It is within this private sector of our economy that immediate and unusual relief is needed to give these Alaskans something salvaged from their pasts to enable them to continue. This is clearly recognized and a number of special proposals are under consideration.

Evaluation of total property loss is complicated, not only because of the incomplete knowledge of the actual extent and nature of physical damage and the several possible basis upon which property values can be estimated, but also because we are still in the initial state of recovering from the shock and are simultaneously engaged in negotiating for Federal assistance. Preliminary estimates

have ranged from \$300 to \$750 million, but soon an official figure will be agreed upon. Whatever the final figure is will be of secondary importance in discussing the economic impact. Whatever its amount it will constitute a significant benchmark in the history of Alaska's development, for it has been made upon an immature economy and a State government which was still struggling to stand on its own feet.

Impact Upon the Basic Economy

Comprehensive statistics for the total economy and its elements are available in terms of annual population estimates, total employment and personal income through calendar year 1962 and provide a means for putting the disaster into its proper economic perspective (refer to statistical appendix). Looking back ten years, Alaska's population has experienced continued growth, but its rate of growth has been less than that for the Nation as a whole and considerably lower than the rate of growth in the Far West. There has actually been a significant decline in total employed labor force, as compared with continuing growth in the Nation's total employed labor force and spectacular growth in the Far West. Total personal income received by Alaskans has increased, but again it has fallen far short of the rate of growth enjoyed in the Far West and the total United States.

These statements are not necessarily in contradiction to those which have claimed great growth in Alaska's economy and population since the advent of Statehood. Reviewed in the longer context of a decade, Alaska suffered a severe business recession

about 1958 and since the granting of Statehood has been in the process of recovery. The question is still open as to whether or not this constitutes merely a recovery of ground lost immediately prior to Statehood, or whether it is truly the start of a take-off of greater future growth. In either case the impact of the Good Friday disaster should not be assessed solely or even primarily in terms of estimated value of property loss. Of greater importance to the reconstruction and long-run future development of Alaska is an estimate of the impact of these events upon the basic economy of the State in terms of its ability to sustain a regular flow of income and employment.

The statistical series referred to above reflect the several industrial sectors of the economy and can be organized into two major groups--the basic or primary industries and the supporting--and provide a preliminary basis for pinpointing areas in which impacts are focused. To an extent unique among other regional economies, that of Alaska since the 1940's is based upon government activities and related activities in contract construction industries. The balance of the basic economy is comprised of other "commodity producing" industries including the harvesting and extraction of natural resources and manufacturing. Together these activities comprise the basic or dynamic elements of the total economy. All other activities--transportation, communications, trade, services, etc.--are dependent or supporting activities.

(1) Government, civilian and military: Since the 1940's more than half the employment and personal income received by Alaskans

has been from wage and salary employment directly in civilian and military government agencies at all levels. In 1962 about 57% of total employment and 48.9% of personal income received by Alaskans came from these sources alone.

The quake and its aftermath will not diminish civilian government employment and income immediately, although within the southcentral region efficiency of operations will be adversely affected until order is restored and basic facilities reconstructed. There may be a decline in State government activities following the emergency period as a result of lessening of the State's ability to support the present level of service. This will depend upon the extent to which the financial burdens of reconstruction must be shared by the State and the effects of business losses upon State revenues. There is no expectation that any military personnel and dependents will be withdrawn from the State as a result of the disaster.

(2) Contract construction: employment in construction has declined in relative importance from 11.5% of total employment in calendar year 1951 to 4% in 1962. In view of the destruction of physical property, this is one sector of the economy which would be expanded during the reconstruction period. Other than current employment, however, much of the benefits of these activities would be realized outside the Alaskan economy by suppliers of materials and equipment. The recent past has demonstrated that this sector of the economy does not possess any self-sustaining power beyond the specific projects upon which it is currently

based and any decrease is immediately translated into the social and economic problems associated with unemployment.

(3) Other commodity producing industries: In 1962 about 8.5% of total employment came from "commodity producing industries" other than construction. Most of this was accounted for by fisheries and fish processing operations extending from southeast Alaska around the entire coast into Bristol Bay and beyond and pulp and lumber in southeast Alaska. Although value of petroleum and natural gas production in the Kenai-Cook Inlet area was significant, in terms of employment and income to residents it was less important. The major natural resource effects of the quake and its aftermaths, therefore, would be focused upon fisheries in southcentral Alaska which have accounted for 30 to 40% of total State fisheries production in recent years. Only time will permit an assessment of the effects of destruction or modification of salmon spawning areas by the quake and related land shifts and the blockage of salmon streams by slides. The destruction of vessels, gear, harbor facilities and processing plants by the tidal waves is not yet fully assessed, but appears to have been extensive. Some of this may be restored before the coming season begins and other units were excess or obsolete, but there is a likelihood that there may be a shift of some of the 1964 catch and pack from resident to non-resident operating units.

(4) Distributive industries: The remaining industries (transportation, communications, public utilities, trade, services, real estate, finance, insurance) are supporting or dependent upon

the basic industries included in the previous sections. In 1962 about 30% of total employment came from distributive industries. The southcentral region, and particularly the immediate Anchorage area, contained an unusually high proportion of the total State employment and income in these industries due to the location of the major military installations and the concentration of transportation and communication facilities. Although these industries comprise the superstructure of the economy, the destruction of property or disruption of these industries could hamper the future growth of the basic sectors of the economy.

Tidal waves and the subsequent general slumping and verticle raising of the land masses extending from Cordova through the Gulf coast to Kodiak Island and beyond have inflected damage on all port facilities. The ports of Seward and Valdez were totally destroyed, Kodiak seriously damaged and Whittier, Anchorage and other ports receiving varying degrees of damage. The Alaska Railroad line between Seward and Anchorage will require substantial rebuilding and possible relocation of portions. The highways system will require some road rebuilding and relocation and extensive replacement of bridges. Undoubtedly the State highway construction program will be modified to shift projects from other regions to meet the reconstruction needs. The Anchorage International Airport terminal building and much of the fuel storage facilities were totally destroyed, but the landing field is already back in limited use by intercontinental jet flights.

Destruction of business and rental housing properties was most intensive in the Anchorage area. Since the 1958 Alaska busi-

ness recession there has been a rising incidence of business failures in this area, and it is doubtful that the business community and local banking institutions will be able to finance a restoration of business properties without unusual forms of public assistance. Previous to the quake there were surplus housing units on the market, but it now appears that there will be a serious shortage.

Impact Upon State Government and Finance

The 1964 Legislature was in the final phases of arriving at agreement upon the most critical budget since Statehood when the quake and its aftermaths struck. The weaning period of Federal transitional grants was ended and all functions had been fully assumed by the new State. Revenues had kept pace with expenditures in previous fiscal years, but principally because of unusual income received from petroleum and natural gas developments, and this suddenly dropped. The State had drawn heavily upon bond financing and was beginning to experience some tightening of this source of further financing. There was a general tightening of belts on existing State programs and services, and the Governor had asked authority to borrow on anticipated revenues during the coming fiscal year to assure uninterrupted services.

To this already precarious fiscal position the provision of emergency and special reconstruction programs adds further financial burdens. Federal assistance, including possible extension of the transition grant program, will ease some but certainly not all of the added burden. At the same time costs will be expanding,

there will be a drop in revenues collected by the State due to loss of income and the need for special tax relief. (The preliminary estimates by the Department of Revenue are that the revenues for the coming fiscal year will be 20 percent below those anticipated when the 1964-65 budget was originally prepared.) Finally, the Legislature has authorized the issuance of \$50 million in general obligation bonds to finance reconstruction needs. If issued, this would more than double the present outstanding bonded indebtedness of the State and would only serve the purposes of recovery or not falling back.

To meet this financial crisis, some raising of State taxes is inevitable. This had been avoided prior to the disaster, but even without these events the likelihood of some increases being required was becoming more certain. There will be a reorientation of programs and projects from longer-run development goals to immediate reconstruction. Increased taxes and decreased development programs will lessen the State's effectiveness in fostering further economic development, an area in which performance to date has already been disappointing.

Progress toward the accomplishment of Statehood in fact as well as in name has been set back. On the eve of the projected full fiscal independence from direct Federal support of purely State government functions, Alaska has been thrust back into a further period of continued direct Federal subsidy of its government. (This is quite apart from the greater reliance of the basic

economy upon Federal money in the form of reconstruction financing and the rebuilding of Federal facilities.) With the new Federal aid will also come greater Federal participation in and direction of the management of local affairs.

The Role of Research

There was no time nor need for research in the initial emergency and reconstruction periods. Meeting the immediate basic physical needs of Alaskans who bore the brunt of the quake and tidal wave, restoration of minimum community services and provision of temporary transportation and communication arrangements required prompt action. This was carried out by appropriate public and private agencies in accordance with past practice and predetermined emergency plans. The initial reconstruction also places emphasis upon timely action to take care of basic necessities which require no deep research to determine. The Governor and Legislature have been concerned with setting up the legal and administrative machinery required to put into action further relief and reconstruction programs. Although many basic questions have not been answered, at this stage they did not require final answers.

In the light of the difficulties the Alaskan economy was experiencing in taking off into further sustained growth, attention is now centering upon the determination of the impact of the disaster upon the economy. The President's Commission has underway the detailed evaluation of losses which will supplant the earlier estimates and provide the basis for estimating this impact. Several task forces are being formed to gather data and draw plans

for both the reconstruction and the fostering of further development of the economy.

There is a clear recognition at all levels that the impact, whatever it was, could be a devastating one to the Alaska economy, or the event could be taken as an opportunity to rebuild the State on a better base than before. To do so takes determination, courage, money, etc., but it also requires a sound knowledge of what is and could be, a sense of direction, etc. These last requirements can be met only on the basis of a background of fact, analysis and evaluation drawn from objective and comprehensive research and investigation. The task forces of the Federal and State commissions will provide much of this, but there will still be a role left to be played by the University of Alaska and private research institutions and foundations.

The governmental research effort will be wed to specific policy determinations and action programs, and because it will be carried out by teams of technical specialists will tend to be fragmentary. Unavoidably, as time goes on it will be carried out in a political atmosphere which will further influence or limit its effectiveness. Research by more independent and less involved groups can provide a more objective and comprehensive basis for critically evaluating what is being planned and done. This would be of great value to Alaska in giving further perspective and assuring a more complete consideration of alternative directions and paths which its development effort might take. Beyond Alaska's needs, it would contribute to our general knowledge of the processes of economic development and change.