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THE ECONOMIC OUTLOOK FOR ALASKA--1967

by

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## "THE ECONOMIC OUTLOOK FOR ALASKA"

by Robert C. Haring and Ichirou Inukai\*

For a period of nearly three years, the Alaskan economy has expanded at a regular and predictable rate. Several major regional economic turning points have appeared which affect the 1967 forecasted performance. Several conditions have arisen which marked a change in times. Post-earthquake construction expenditures, which represented an important stimulus for several years,<sup>1</sup> have been fully dissipated, and construction activities were dampened. The construction industry, an important though seasonally sensitive segment of the economy, has changed markedly in the latter half of 1966. Within recent weeks, a new era of public policy began through a drastic shift within the state government.

### Construction and Military Spending

Federal spending commitments carried the construction industry throughout most of 1966. Considering the restrictive monetary conditions prevalent in the national economy, contract construction proceeded at a level nearly comparable to 1965. Previously funded public works, such as schools, and roads, continued in interior Alaska and substantially offset declines in that region which occurred immediately after the earthquake. At the close of 1966, vacancy rates rose in Anchorage and other urban areas, and residential housing remained in short supply at Kodiak.

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<sup>1</sup>See University of Washington Business Review, (December, 1965), pp. 94-96.

Historically, the state of Alaska has been dependent upon heavy transfer of federal funds to the state. Military employment has declined regularly and consistently, and up to this time these reductions have been entirely offset by increases in non-military federal employment. The Vietnamese War obviously reduced military garrison strengths at various locations throughout Alaska. In addition, the overall flow of federal funds into Alaska has declined recently, and further reductions are likely in the coming year.

#### Public Land Policy

A shortage of privately and state-controlled lands in Alaska represented a serious barrier to growth until 1965, particularly as it affected natural resource based industries.<sup>2</sup> As the title to vast areas passed to the state, land parcels were transferred to borough (county-like) units and to persons. State instigated land auctions have brought about the regular sale of land to private parties, and already this practice has overcome some of the land shortages near Alaskan urban areas.

Several years of extensive non-competitive oil leasing on Alaska's north slope came to a close in 1966. The U.S. Bureau of Land Management announced a cessation of oil lease activities until Native claims on large areas are effectively settled. Legal actions of Native tribal communities have brought this market to a virtual standstill. Delays in litigation and negotiation might easily span several decades, and effectively remove these areas from productive uses. The continuation of this

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<sup>2</sup>In 1965 the state received title to 2 million acres of land from the federal government, another 1.3 million acres had been selected for state ownership.

stalemate situation appears certain to stifle growth opportunities in Interior and Northern Alaska, particularly in the case of mineral exploration and forestry.

#### Foreign Trade and Investment

Alaska maintains a substantial favorable balance of trade with Japan, and this position substantially offsets the recurring deficit balance with other states. In this way, the purchase of manufactured goods produced in the domestic United States depends significantly upon Alaska's export industries, mainly forestry and fisheries.

Japanese investment in Alaska's natural resource-based industries is also significant. The \$56 million Sitka Pulp Company, Ltd. represented the first of several joint acquisitions. Recently, Taiyo and Nichiro Fisheries Companies acquired partial control of four salmon canneries which stretch from Southeastern Alaska to Cordova.

Prospects for a basic petro-chemical industry in the Kenai district called for borough approved funding in 1966 and initial construction beginning in 1967. The proposed ammonia-urea fertilizer plant sponsored by Japan Gas Chemical Company was to begin operations in 1968. A liquified natural gas operation, connected with Tokyo Gas Company, represented a similarly joint venture. Both projects were declared dormant in 1966, and foreign investment plans remain indefinite. Finally, Teikoku Oil Company, Ltd. through its subsidiary Alaska Oil Development Company, has begun long term oil and gas exploration in Alaska. For summary purposes, the rate of foreign investment in Alaska was reduced temporarily in 1966. Basic industries, created by this means, represents a major longer term means of stimulating this region's growth.

### Fisheries and Forestry

The Alaskan fishery industry continued a general expansion in income and production during 1966. The wholesale value of fisheries output is estimated at over \$122 million. King Crab catch continued to expand at an unprecedented pace. Scattered sales to Japanese processing ships were negotiated. International competition from foreign processing ships continued in Alaskan waters and along the Northeast Pacific continental shelf. These large high sea vessels, namely Russian and Japanese, continued to work in and near Alaskan fishery grounds. New federal legislation concerning the 12 mile fishing limit probably will effectively redirect the amount and intensity of foreign fishing in this region.

Forest products manufacturing remains the major seasonally stable basic industry in the state. Output and employment expanded in 1966 with a continuation of the observed trends expected through 1970.<sup>3</sup>

### Monetary Policy

Restrictive monetary pressures clearly affected Alaskan financial institutions in 1966, and have reduced the flow of business and mortgage loans. As a result, new residential construction starts have declined over the year, seasonal expansion of the business sector was dampened, and costs of borrowing have risen materially. As a consequence, the anticipated 1966 expansion in personal income did not fully materialize, and these growth inhibiting factors will continue into 1967.

### Trade and Physical Distribution

Rate adjustments and improved modes of transportation continued

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<sup>3</sup> See R. C. Haring and M. R. Massie, Survey of Alaskan Forest Products Industry, (College: University of Alaska, 1966).

to effectively reduce costs of logistic support to Central and Interior Alaska. In contrast, southeastern Alaska ports have received slower and increasingly costly service. The state-owned and operated ferry system is expected to operate at full capacity through an extended 1967 season. The acquisition of additional vessels and extension of the marine highway are programmed through recent voter-approved indebtedness.

Retail trade, and the closely allied tourist industry, expanded in 1966. Anchorage and Fairbanks enjoyed rapid sales growth in physical distribution and trade while merchants in many smaller communities witnessed declines. This centralizing of wholesaling and retailing has already led to price declines in many product lines, and apparently has counteracted much of the "cost push" inflation associated with procuring manufactured goods from other United States regions. During the 1967 Centennial year, retail sales are expected to increase 30 percent (or more) over 1966 levels. Hopefully, this will generate an annually recurring flow of tourists to the Centennial site much like the Seattle World's Fair experience.

#### Economic Politics

The 1966 election year in Alaska represented a major turning point in the political situation. The first two terms of Alaskan Government remained under the control of a single party. The forthcoming inauguration of a Republican governor and a Republican controlled State house and senate may result in significant public policy changes. The economic implications of such changes are quite serious. The State has at its disposal enormous land, water, transportation resources and regulatory powers. Its public policy position regarding the use of these natural resources

almost certainly will have direct effects on the output and development of the fisheries, forest products and construction industries. In the year 1967, an almost totally new legislature and governmental organization will certainly affect industrial growth.

#### Outlook

Total personal income for 1966 rose 6 to 7 percent over the 1965 levels. Compared to the previous two years of 8 to 9 percent rates, growth in income has slowed slightly. Employment gains of 5 percent probably will be achieved. However, the high annual rate of unemployment continues to persist in many areas. Considering the economic growth record during the first six years since statehood, the Alaskan economy will continue to expand in 1967. Forest products output and employment will increase along with trade and tourism during the Centennial year. The fisheries industry outlook is stable. These positive forces offset expected declines in contract construction and residential building.

In summary, Alaska has become increasingly immune to economic dependence upon military expenditures and federal public works construction. The 1966-1967 reduction in these spending categories will be fully offset by a moderate growth in the private sector of the state's industries. On balance, income gains and employment growth will continue in 1967 at a reduced pace. The magnitude and structure of these changes in demand constitute an outlook for limited growth in 1967; and point out the conspicuous absence of defense (and space) basic manufacturing industries in the region.