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Alaska's Economy - the Next Ten Years

Remarks of  
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To  
Alaska Press Club  
Forty-Niners Awards Banquet  
November 2, 1973

Tonight I want to say something about Alaska's economic boom. Not the boom that so many Alaskans hope or fear will begin when pipeline construction starts, but the boom we have right now - that we have had for the last decade and will have for another decade, no matter what happens in Washington or Juneau next month regarding pipeline legislation.

For Alaska is in the midst of a continuing economic boom that does not depend directly on any one development project or industry. For there has not been a quarter since the beginning of 1968 in which the state's economy did not grow substantially (on a seasonally adjusted basis). The sustained growth of employment, which has averaged about 7 percent per year (compounded) may extend back much further, but 1968 is as far back as I made calculations for the purposes of this talk.

Let us look at what is behind this boom, and at Alaska's economic development, generally. It turns out that there are a number of things we generally take for granted about economic development which, on careful examination, turn out to be false.

One truism is that an area's economic growth is directly related to the growth of its so-called basic industries - the industries that bring in outside money by selling commodities outside, like oil, timber, and fisheries, or which bring in outside money for services performed here, like defense activities and tourism. This principle is valid in the long run,

but it does not explain much about current growth in Alaska. Our two big basic industries are the federal government, and oil and gas. Federal employment (and spending, in constant dollars) levelled off in the mid-sixties, and federal employment in the state is now a little lower than it was in 1967.

After the North Slope exploration boom of 1968-69, the oil industry has declined in every quarter and is now less than half of what it was in 1969. The timber and fisheries industries are also stagnant or in a decline (however temporary). Yet, there hasn't been a single quarter in which total employment in Alaska failed to grow - and over the whole period employment has grown at an average rate of more than 7 percent.

Neither government nor the oil industry is in any direct way the engine of economic growth in Alaska. Nor is there any other industry or group of industries that played that role. That is my main point tonight, and I shall come back to it and speak about where the growth does indeed come from.

A second misconception about the basic industries - the industries like minerals, timber, defense and tourism that bring in outside money - is that their so-called employment multipliers are very large. One of our state officials likes to say that every job in mining produces seven (or is it 17?) jobs in supporting activities. And I recall a brochure by the Alaska Visitors Association saying the same kind of thing about tourism.

These big multipliers just aren't supportable. Multiplier coefficients are difficult to measure, but every careful attempt to assess the actual value of the employment multiplier in Alaska has come up with an estimate that each new job in basic industry accounts for about one-half of one new job in the support industries.

Think about it for a moment. Take a dollar of outside money paid out in Alaska - the wages of an oil industry worker, or a pulpmill worker, or anyone else working in one of the basic industries. Just how much of that dollar stays in Alaska to give employment to other people in the state? First you must deduct federal taxes, maybe twenty cents. Now suppose that the worker spends in Alaska the eight cents that he has left after taxes, and that is an heroic assumption because many boom industry workers are transients or seasonal workers who take a lot of their earnings with them. Look at eighty cents spent in the market here for groceries or clothing, or the like. The only part that stays in Alaska, even on its first round, is the retailer's mark-up, plus in-state transportation charges. How much is that? Thirty cents?

It is probably reasonable to believe that about one-third of each dollar paid out in Alaska by one of the basic industries will stay in Alaska. On the average, one-third of one person's salary will support one-third of a job for someone else. Now that third will be re-spent and a third of it will in turn stay

in Alaska. We end up with one-third plus one-ninth, plus one twenty-seventh, plus one-eighty-first, etc. The total is one-half. You can apply the same kind of reasoning to spending within Alaska by firms in the basic industries for supplies, materials, and services. The point is that the direct leverage of so-called basic employment is not all that great.

My third point is that rapid economic growth in an area like Alaska, with a small population and a mobile labor force, does not reduce employment. There was quite a flap a couple of years back when we at the University concluded that construction of the pipeline would increase the amount of unemployment in Alaska, even at the peak of construction. But this analysis has come to be pretty widely accepted now. At least as many job seekers are expected to come to this area looking for jobs as there will be new jobs. A local hire preference on the pipeline itself won't necessarily protect the interests of local workers in this situation because it will just intensify the competition of the new migrants for jobs in other parts of the economy.

We have an excellent example of this kind of development in the smaller oil boom that occurred on the Kenai Peninsula in the late 1960's. The climax of development drilling there came together with the construction of a gas liquifaction plant, a gas-fed ammonia-urea plant, one refinery, and enlargement of another refinery. The average employment related to petroleum, including construction, increased from less than 200 in the early months of 1965 to a peak of almost 3,000 in 1968. It then fell steadily and finally levelled off to

slightly more than 1,000 throughout 1970. Unemployment increased from about 400 in 1965 to about 600 in 1968, at the peak of the boom, and as the boom turned downward, unemployment more than doubled over the pre-boom level.

The fourth interesting observation I have to make about booms in Alaska is that they don't seem to cause average wages to go up very much. Certain bottleneck occupations and highly organized trades are able to take advantage of a monopoly position. But because there is no shortage of labor generally, most laborers don't benefit either from increased employment or in the form of increased real wages. Curiously enough, consumer prices do not respond very much either to business fluctuations in Alaska. The trend of prices and living costs in Anchorage, compared with the rest of the nation, has been steadily downward - without any noticeable relation to oil industry or construction activity. Since 1967, the United States Consumer Price Index has increased almost ten percentage points more than the Anchorage index average - reducing the price differential between Anchorage and the rest of the United States by more than one-fourth.

Land prices have, however, tended to go up greatly in boom times and one could say with some confidence that landowners are the one group in the economy that seem sure to benefit from extraordinarily rapid growth. But don't take this last observation as a recommendation by me to sink everything you have into land, because it is possible that land prices around Anchorage and Fairbanks have already anticipated the pipeline boom.

My most important point tonight, however, is my first one: that there is a momentum of economic growth in Alaska and particularly in the Anchorage area that does not depend upon the timing of the pipeline or upon any other specific industrial development project. Believe it or not, even Fairbanks has enjoyed substantial and steady economic growth. The alternation of euphoria and despair that afflicts that community is not justified by the economic facts. There are several things that keep the state's economy growing despite the decline in almost all of its major basic industries. One element is of course spending by the state government of bonus money that it received in 1969 from the North Slope lease sale. Sustained growth is in this sense partly an indirect effect of a pipeline and oil project that hasn't gone on stream yet.

The second and most important cause of the same growth is the expansion and deepening of the economic support sector - improved retail trade facilities, rapidly expanding service industries, and a substantial upgrading of the housing of Alaska residents. By far the bulk of the growth both in employment and in business receipts in the state and in Anchorage has taken place in trade and services. The bulk of construction in the state has been residential construction. Alaska is becoming a more comfortable place to live; as it offers more of the amenities of modern life, a bigger proportion of each dollar received in Alaska tends to stay here. One could say that the employment multiplier has been growing, though employment in basic industries has not.

The private investment that is taking place in the support sector is not aimed at making a pile during a construction boom of two or three years. It is investment for the long run and depends upon a broad and optimistic view of the state's development opportunities. Public investment in utility plants, schools or streets has an even longer payout than private outlays. The owners do not amortize investment in expansion of a hotel like this, or in a shopping center on the basis of a three-year boom and bust cycle. The major investments that can improve the quality of life, deepen the economy, keep more money in the state, and provide the bulk of the new employment are investments that pay off over a period of 7, 12, or even 20 years.

To sum up - the critical element in the state's growth is faith in its future growth. This faith rests in part upon conviction that the pipeline will be built soon, but the takeoff to sustained growth in Alaska came before the Prudhoe Bay discovery and growth would have continued without that discovery. If I had to name one thing that was the indispensable catalyst - the thing that guaranteed Alaska's development - I would pick the jet plane, which allows people to get to Alaska (and out of Alaska) quickly, cheaply, and comfortably. But that is another story.

Two things are conspicuous guarantees of growth in the next ten years, whenever oil from Prudhoe starts on stream. First is the worldwide crunch on food and industrial raw materials: oil, wood, and minerals. This commodities boom isn't the final Malthusian crisis of poverty in which the world runs out of natural resources, and everybody starves to death in the cold.



The present tightness in raw materials is related in part to specific events, like the disappearance of the Peruvian anchoveta, which was the world's major source of protein for poultry food, war in the Mid-East, and droughts in Russia. But even more, the commodities boom is the product of undreamed of prosperity, of a Japanese economy growing at faster than ten percent per year, of Western Europe growing at five, and a lot of other countries (Mexico, Brazil, Taiwan, Korea, Iran, the Arabian States) coming up rapidly to standards of living like ours, and beginning to consume natural resources at rates like our own. Alaska's latent resources are becoming economic resources at last. This process has been accelerated fantastically by devaluation of the dollar, which means that Alaska's potential exports cost 38 percent less in yen than they used to, or can command 32 percent more dollars for the same yen outlay than before.

Second is the great fashion - even obsession - for the outdoors and wilderness, for clean air and water. The anti-environmentalist stance of many Alaskans is ludicrous in the face of this fashion. Wilderness, clean air and clean water will be the growth resource for Alaska over the next 25 years that sunshine has been for Southern California, Arizona, and Florida during the last 25. My intuition is that Alaska's environmental amenities will attract a more skilled, more prosperous and more enterprising brand of immigrant than the average of the national population, and a more skilled, prosperous and enterprising brand of immigrant than is attracted by unbridled commercial development.

I suppose there is a moral to all of this. Our basic industries will pretty well take care of themselves. Growing world demand has changed the economics of Alaska's oil, mining, timber, and - also - tourism. The initiative and the capital for this development will come largely from Outside, and the timing of this development is mainly beyond our control. Because of a low employment multiplier and the ease with which the labor force can be expanded from Outside, the direct development impact of individual projects is not very great.

On the other hand, the things that are critical to the future development of Alaska and of Anchorage particularly are, in short, all those things that contribute to the intangible notion of Alaska's "quality of life." They are such amenities as the extent and quality of our trade and service industries of our public services, the attractiveness of our neighborhoods, the quality of air and water, and the presence of unspoiled wilderness.

To sum up, let us look at what's really happening. Let us recognize that there has been steady growth in Alaska's economy, and let us recognize where this growth has come from. We don't need to beat the drum so much on grandiose projects and huge investments in basic industries by Outside firms. Nor do we need to fall all over ourselves making legal or economic concessions to these firms.

I believe that the way to assure continued steady growth for this community is to focus our attention first, on the variety and quality of our retail and wholesale trade, and business and consumer services, second on our public utilities and other

public facilities, and third, on the quality of our natural and human environment. There is no excuse for penny-pinching in state government (or in local government either, at least in Anchorage or Fairbanks).

A pipeline will be built, natural resource industries will develop, but the benefits from these developments are up to us. They are, of course, the things that make it worthwhile to live here.

Notes to Table

a - Nonagricultural Wage and Salary Employment.

b - Change in Anchorage Consumer Price Index divided by

change in United States Consumer Price Index:  $\frac{ANC_0}{ANC_{-1}} \cdot \frac{US_{-1}}{US_0}$

c - July and August only.

d - Last half of 1972 and first half of 1973, compared to  
calendar 1967.

SOURCES: Employment data are from Alaska Department of Labor,  
Statistical Quarterly (through 1972) and Alaska Economic  
Trends (1973). Consumer Price Indexes are from U.S.  
Department of Labor, Bureau of Labor Statistics.

## Change in Average Employment and Cost of Living from Same Quarter of Previous Year (Percent)

Year	Quarter	ALASKA			ANCHORAGE		
		Oil and Gas Industry Employment	Federal Government Employment	Total Employment <sup>a</sup>	Construction Employment	Total Employment <sup>a</sup>	Cost of Living <sup>b</sup> (Compared to U.S. Average)
1968	1	+ 45	- 6	+ 3	- 16	+ 4	
	2	+ 29	- 5	+ 1	- 16	+ 1	
	3	+ 15	- 2	+ 5	- 6	+ 3	
	4	+ 49	- 2	+ 4	- 8	+ 5	- 2.0
1969	1	+ 43	- 3	+ 7	+ 6	+ 7	
	2	+ 79	- 3	+ 11	+ 24	+ 12	
	3	+ 71	- 3	+ 6	+ 20	+ 10	
	4	+ 13	- 4	+ 9	+ 60	+ 13	- 0.9
1970	1	+ 9	+ 4	+ 11	+ 37	+ 14	- 2.1
	2	- 18	+ 2	+ 6	+ 24	+ 11	- 3.3
	3	- 32	+ 3	+ 5	+ 12	+ 11	- 1.9
	4	- 27	+ 5	+ 1	- 10	+ 7	- 2.8
1971	1	- 29	- 1	+ 3	- 5	+ 7	- 2.5
	2	- 26	+ 1	+ 3	- 3	+ 8	- 2.0
	3	- 14	+ 1	+ 6	+ 18	+ 10	- 3.0
	4	- 14	+ 2	+ 9	+ 26	+ 6	- 1.5
1972	1	- 5	+ 2	+ 6	+ 26	+ 6	- 1.1
	2	- 15	0	+ 7	+ 10	+ 6	+ 0.3
	3	- 18	- 3	+ 6	+ 7	+ 5	+ 0.2
	4	- 6	- 1	+ 5	- 1	+ 6	- 0.9
1973	1	- 20	- 2	+ 2	+ 17	+ 7	- 4.2
	2	- 15	+ 1	+ 4	+ 11	+ 5	- 1.9
	3 <sup>c</sup>	- 20	- 1	+ 3	+ 1	+ 3	- 1.7
Net Change Since 1967 <sup>d</sup>		+ 6	- 1	+ 39	+ 65	+ 50	- 9.3