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CHAPTER I

ALASKA REGIONAL INFLATION: AN OVERVIEW OF THE PROBLEM
FROM THE STANDPOINT OF FEDERAL GOVERNMENT POLICY

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Introduction and Summary

Alaska's high prices and high money wages are legendary. To the typical American, and to many Alaskans, these conditions are no mystery; Alaska is generally seen as a remote place with a hostile climate, and these circumstances alone are a sufficient explanation. It is the thesis of this paper that "Alaska regional inflation" is explained only in part--and in the most populous part of the state, hardly at all--by "real cost factors"; e.g., climate and extra transportation charges stemming from physical isolation. It is suggested here that Alaska consumer and business costs remain at levels far above national averages largely because of programs and policies of the federal government, and that the federal budget in turn bears much of the burden of the regional inflation to which it contributes.

The analysis in the following pages is not complete, nor is it fully documented. The purpose of this chapter is to establish a *prima facie* case that the abnormal price level in Alaska is an issue worthy of attention by the federal government on an interagency basis and that it is a condition which can be influenced substantially by deliberate policy choices on the part of the federal government. The formal conclusions and recommendations of this paper are limited to (1) establishment of a federal government working group on Alaska regional inflation composed of representatives of the Bureau of the Budget, Treasury department, Civil Service Commission, Council of Economic Advisers, the Labor department, some of the federal agencies

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¹The term "regional inflation" is used to denote not the change in price and wage levels over time, but the chronic differentials in their levels between Alaska and the lower, 48 states.

having disproportionately large activities in the State of Alaska; and (2) the support of further research into the levels, structure, and origins of the abnormal prices and costs which prevail in the state.

It should be emphasized that this report was written as a working staff paper, and does not necessarily reflect the views or conclusions of the Chairman or members of the Federal Field Committee for Development Planning in Alaska.

Price Levels and Trends

There are no reliable official indexes comparing the cost of living or the costs of doing business in Alaska communities with corresponding United States averages. The Bureau of Labor Statistics published through 1967 "Indexes of Intercity Differences in the Cost of Equivalent Goods and Services" in Anchorage, Fairbanks, Juneau, and Ketchikan, using Seattle prices as a base. These indexes, being the only published approximation of price-level differentials, are widely cited (and abused). They are also widely criticized; and Bureau of Labor Statistics personnel freely acknowledge their shortcomings in concept, in construction, in weights, and--except in the case of Anchorage--in the quality of the primary price data from which they are constructed. Dissatisfaction with the indexes has apparently caused the Bureau to suspend their publication; no 1968 figures have been released. Nevertheless, the figures for 1956 to 1967 in Table 1-1 give a useful first impression of the magnitude and the trend in the price differentials.²

Other sources of comparative data are the prices of 25 food items in selected Alaska cities published by the Alaska Agricultural Experiment Station, and a construction-cost index for Alaska published by the Army Corps of Engineers and based upon the Corps' experience in the kinds of projects it carries out. The February 1967 figures are shown in Table 1-2. In Chapter II of this report, R. W. Fischer has calculated 1968 production and occupancy costs for individual

²The Bureau of Labor Statistics collects and processes data for Anchorage which correspond to those published for 39 metropolitan areas in the United States in the *City Workers Family Budget for a Moderate Standard of Living*. The publication of these figures would be the cheapest and simplest way by which the federal government could furnish a more reliable indicator than any now published of relative living costs between (one community in) Alaska and the rest of the United States.

TABLE 1-1

BUREAU OF LABOR STATISTICS INDEXES OF INTERCITY DIFFERENCES
 IN THE COST OF EQUIVALENT GOODS AND SERVICES, 1956-1967
 ANCHORAGE, FAIRBANKS, JUNEAU AND KETCHIKAN
 Seattle, Washington = 100

City and Year	All Items	Food	Housing		Apparel and Upkeep	Other Goods and Services
			Total	Rental		
Anchorage						
1956	141					
1957	139					
1958	135					
1959	130					
1960	127	129	140	178	112	117
1961	126	128	139	177	112	115
1962	125	128	136	172	112	115
1963	123	123	135	172	111	115
1964	124	121	132	162	110	120
1965	123	123	130	157	110	117
1966	122	123	130	152	112	116
1967	122	122	130	146	108	116
Fairbanks						
1956	154					
1957	156					
1958	145					
1959	148					
1960	136	144	154	219	118	122
1961	136	146	153	213	122	120
1962	135	143	152	202	119	120
1963	136	142	151	205	119	120
1964	134	138	143	188	124	127
1965	133	140	141	187	124	123
1966	132	139	141	180	122	122
1967	130	142	140	179	120	121

TABLE 1-1 (cont.)

City and Year	All Items	Food	Housing		Apparel and Upkeep	Other Goods and Services
			Total	Rental		
Juneau						
1956	124					
1957	129					
1958	121					
1959	122					
1960	123					
1961	123	125	137	177	116	113
1962	123	123	136	175	113	113
1963	123	122	137	180	114	114
1964	122	123	133	150	118	119
1965	123	126	134	151	116	116
1966	125	127	135	147	115	117
1967	125	132	137	147	115	119
Ketchikan						
1956	123					
1957	123					
1958	120					
1959	119					
1960	119					
1961	119	121	122	148	113	115
1962	117	120	118	143	110	116
1963	117	119	118	146	110	117
1964	119	118	121	126	117	117
1965	117	119	121	127	116	113
1966	118	122	122	127	114	113
1967	118	123	122	126	117	113

Note: 1956-1959 indexes are for August for all places; 1960-1964, October, and 1965-1967, November, in Anchorage; 1960-1965, October, and 1966-1967, November, in Fairbanks; and 1960-1967, November, in Juneau and Ketchikan. Over the period covered by this table, there have been at least two changes in calculation procedures, so that the figures do not constitute a valid time series.

Source: U. S. Department of Labor, Bureau of Labor Statistics.

TABLE 1-2

U. S. ARMY CORPS OF ENGINEERS
 CONSTRUCTION COST INDEXES FOR ALASKA, FEBRUARY, 1967
 Seattle, Washington = 100

City	Index
Point Barrow	360
Nome	230
Kenai	210
Kodiak	200
Fairbanks	190
Sitka	180
Juneau	180
Anchorage	170

TABLE 1-3

REAL ESTATE COSTS PER SQUARE FOOT
 ANCHORAGE, ALASKA, 1968

	Production Cost		Total Occupancy Cost	
	Seattle = 100	U. S. = 100	Seattle = 100	U. S. = 100
Single-family dwelling	177	190	176	187
Multi-family dwelling	126	130 (rental	146 139)	150 147)
Shopping center	151	159 (rental	224 226)	228 230)
Commercial warehouse	134	142	144	157

Source: R. W. Fischer, Chapter II of this report.

representatives of four different types of private construction in the Anchorage area and compared them with comparable instances outside of Alaska. His findings are summarized in Table 1-3. In Chapter III of the report, Gene Erion examines the call reports for insured commercial banks in Alaska and finds average interest charges on bank loans during the period 1960 to 1966 32 percent higher than the comparable national average. The average rates of interest plus service charges and fees together were 43 percent higher than the national figures.

In using indexes with a Seattle base to judge Alaska cost levels, it should be kept in mind that Seattle is itself one of the highest cost market areas in the contiguous 48 states; the total cost of family consumption in the *City Workers Family Budget* for 1966 was 7 percent higher than the average for the urban United States. Seattle's position should also be kept in mind in evaluating the *trend* of Alaska prices. Viewing the overall differentials in the intercity indexes since 1956 makes it apparent that Anchorage and Fairbanks made spectacular improvements in their relative positions in the late 1950's, but the indexes show little if any additional improvement during the 1960's if the 4 percentage point increase over the same period in Seattle's cost of living relative to the national average is taken into account. Seen in this light, the relative situation in Juneau has become substantially *worse* in recent years, and the existence of any improvement in Ketchikan is doubtful. All generalizations based upon the indexes mentioned here must be used with extreme caution; but it appears beyond a doubt that (1) living costs in urban Alaska remain at least 20 to 40 percent higher than national averages; that (2) housing costs are the most outstanding component of this differential; and that (3) despite past reductions in differentials, there is little indication that Alaska costs and prices will converge with their national counterparts in the foreseeable future.

Impact of Regional Inflation

It is not apparent that the typical non-Native resident of urban Alaska suffers significant reductions in welfare because of higher price levels. Wages and salaries in Alaska are substantially higher than those in comparable industries and occupations "outside"--the fact that net in-migration to the state from the lower 48 is continuing in apparent response to Alaska employment opportunities suggests that money income differentials are, on the average, sufficient to offset higher money levels in the cost of living. On the surface, for instance, Table 4-1 indicates that the 25 percent tax-free cost-of-living allowance for federal employees seems to result in some disadvantage for lower grade personnel and in an overpayment to those in the highest grades, at least in the Anchorage area, where the greatest number of personnel are stationed. It is widely believed--but we have not confirmed--that individual positions in Alaska tend to be upgraded over the classification they have elsewhere. If this belief is correct, Table 1-4 understates the adequacy of the cost-of-living allowance in compensating for higher prices.

TABLE 1-4

NATIONAL EQUIVALENT PURCHASING POWER OF ALASKA (ANCHORAGE)
SALARIES OF FEDERAL CLASSIFIED EMPLOYEES
FALL, 1967

Grade (Step 1)	Base Pay	Equivalent Purchasing Power of Salary Plus COLA	Alaska Purchasing Power Penalty (-) or Advantage (+)
GS - 1	3,776	3,550	-6%
2	4,108	3,915	-5
3	4,466	4,257	-5
4	4,995	4,761	-5
5	5,565	5,297	-5
6	6,137	5,853	-5
7	6,734	6,434	-4
8	7,384	7,099	-4
9	8,054	7,796	-3
10	8,821	8,590	-3
11	9,657	9,455	-2
12	11,461	11,330	-1
13	13,507	13,464	0
14	15,841	15,921	+1
15	18,404	18,638	+1
16	20,982	21,389	+2
17	23,788	24,410	+3
18	27,055	27,939	+3

Source: Note to Appendix Tables 2-9; equivalent figures by linear interpolation. Anchorage data, family of four.

The industry categories in Table 1-5 are too wide for the figures on hourly earnings of private-sector employees in Alaska and the United States to be strictly comparable. Nevertheless, most of the wage ratios are far above the 1.26 (Ketchikan) to 1.39 (Fairbanks) cost-of-living ratios given by the Bureau of Labor Statistics intercity indexes adjusted for the Seattle/U. S. differential. Even if the Alaska figures are taken as requiring a large discount for seasonality and uncertainty, the magnitudes of the differentials are such to indicate that, on the average, local wage rates *more than compensate for* high local commodity prices.

In the Bureau of Labor Statistics intercity indexes, the largest differentials are found in food and housing, especially rental housing; these items account for the greatest proportion of the Seattle/U. S. differential as well. Since the proportion of family income spent on these items is greatest at lower incomes, high consumer prices in Alaska must have their most severe impact on the poor. Our data are inadequate to test the proposition, but we are convinced that *middle- and upper-income* urban whites in Alaska are on the whole materially better off than their occupational and status counterparts in other states. (See Appendix tables 2 through 9.)

The ratios in Tables 1-8 and 1-9 show business markups and net profits, measured against either sales or equity, are (or were in 1965) consistently much higher in Alaska than in the United States as a whole. These figures in themselves do not prove that Alaska businessmen either cause or "profit from" regional inflation, but they do indicate that the returns to capital and entrepreneurship, like employee compensation, are generally sufficient to more than compensate for higher living costs. Erion's analysis of the Alaska banking industry in Chapter III has a similar implication for that sector, but Fischer's four real estate examples in Chapter II do not support this pattern.

It is apparent that the federal government bears the major direct burden of Alaska regional inflation. Several agencies have attempted to total federal outlays in or on Alaska, but we are not aware of any which is comprehensive or even composed of comparable items. Our own rough estimate of wages, salaries, and allowances paid to civilian and military personnel of the federal government stationed in Alaska; outlays for construction at sites within Alaska; federal procurement from vendors doing business in Alaska; and transfers to Alaska state and local governments were in the order of \$650 to \$750 million in fiscal year 1969. (This compares with an Alaska gross domestic product on the order of \$1.5 billion.) With the conservative assumption of an average 25 percent inflation factor on a federal outlay of \$700 million, the price and wage differentials for Alaska would have a direct cost to the Treasury of \$140 million. Because of the crudeness of the primary expenditure estimate and the lack of a satisfactory general equilibrium model of the Alaska economy, it is not in order to estimate tax effects or other second- or higher-order impacts.

TABLE 1-5

AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS
MAJOR INDUSTRIAL DIVISIONS
ALASKA AND U. S., 1967

	Alaska	U. S.	Ratio Alaska to U.S. X 100
Mining	\$ 5.44	\$ 3.19	171
Contract Construction	7.50	4.11	182
Manufacturing	4.86	2.83	171
Food Processing	3.31	2.64	125
Lumber and Wood Products (including pulp)	4.74	2.51*	189
Wholesale Trade	4.34	2.88	151
Retail Trade	3.50	2.01	174
Finance, Insurance, and Real Estate (weekly)	111.21	95.46	116

*Weighted average of Lumber and Wood Products and Paper and Allied Products, Alaska Weights.

Source: *Monthly Labor Review*; and Alaska Department of Labor, Employment Security Division, *Statistical Quarterly*.

Regional inflation can be expected also to place a substantial direct and indirect burden on the subsistence sector, the rural unemployed and underemployed, and Alaska Natives generally. The bias of the price structure against low income people has been noted above. In addition, a substantial component of the cash income enjoyed by these people lacks any explicit or implicit cost-of-living adjustment; this is true of state welfare programs as well as the prices of furs, fish, etc., produced by traditional methods. It is, on the other hand, in the remote Native villages where price differentials are most extreme. The hypothesis that prevailing high money wage levels, also reduce Native employment opportunity by imparting to Alaska industry an additional bias in favor of capital and skill intensity deserves to be investigated.

TABLE 1-6

ESTIMATED PRICE DIFFERENTIALS ON CONSUMER GOODS AND SERVICES
 FAIRBANKS AND JUNEAU/UNITED STATES
 AND YUKON/CANADA, 1966

Category	Fairbanks (U.S. = 100)	Juneau (U.S. = 100)	Yukon Territory (Canada = 100)
Food	147	135	125
Housing			
(Total)	147	140 (shelter)	130
(Renter Cost)	214	175 (operation)	129*
Apparel and Upkeep	134	126	110

*Subcategories weighted by Bureau of Labor Statistics Alaska Weights.

Source: Alaska: Bureau of Labor Statistics, Intercity Differentials, 1966, Table 1-1, multiplied by corresponding indexes for Seattle vs. Urban U. S. in *City Workers Family Budget*, Autumn, 1966. Yukon: Appendix Table 1.

will have expensive transportation and high commodity prices. Less than one-fifth of the state's population, however, lives in such places; their special problems are outside the scope of this discussion, except to the extent that high costs arising from small volumes of activity and an unfavorable transportation situation are added onto the abnormally high costs in Alaska's market towns.³

Climate-Related Costs

As with transportation costs, we have only indirect evidence on the real impact of climate. Cold winters ought to affect particularly the cost of housing operation, through some combination of more severe structural requirements (insulation, etc.) and higher fuel consumption; it also would be expected to increase the cost of actually producing equivalent structures because of some combination of seasonal restrictions on construction with higher costs of on-site operation in the winter (heating of the premises during construction, snow removal, lower productivity due to worker discomfort, etc.).

We have attempted to find a statistical association between indicators of climatic severity and housing costs in the United States outside of Alaska, but these attempts have not been wholly satisfactory. The strongest association between the two is a Spearman rank correlation coefficient of .36 between the number of degree days and total housing costs for 28 U. S. cities in the *City Workers Family Budget*. By linear least-squares regression, climate expressed in degree days explains only about one-fifth ($r^2 = .22$) of the variation in housing costs, and the standard error of estimate is greater than the entire range of cost variation in the sample. Deflating housing costs by an index of total consumer costs or by SMSA per capita personal income allows for the climate to explain about one-third of the variation in cost ($r^2 = .34$ in both cases), but here each thousand degree days adds on the average only about 1 percentage point to the index of total housing costs.

Even if the relationship were a clear and consistent one, it need not be linear; a far better fitting function for lower-49 data might not be expected to predict "normal" values for real estate costs in places with climates as extreme as Barrow or Fairbanks. But Table 1-7 makes a simple comparison of Alaska places with the four coldest

³See the Joint Federal/State Transportation Task Force, *Transportation and Economic Development in Alaska*, Anchorage: Federal Field Committee for Development Planning in Alaska, 1968; and Federal Maritime Commission, Bureau of Domestic Regulation, *Alaska Trade Study*, Washington, D. C., July 1967.

TABLE 1-7

SEVERITY OF CLIMATE;
HOUSING AND CONSTRUCTION COSTS, SELECTED ALASKA AND U. S. CITIES
1966

	Degree Days, Normal Year	Mean Daily Minimum, Coldest Month	Consumer Housing Cost, B.L.S. (Seattle =100)	Construction Cost Index, Army Engineers (Seattle=100)
BARROW	20,174	-24.4°F		360
FAIRBANKS	14,279	-21.4	141	190
ANCHORAGE	10,648	- 1.0	130	170
Duluth	10,000	- 0.6		
JUNEAU	9,075	4.3	135	180
Minneapolis	8,382	2.3	101	
Milwaukee	7,635	12.8	109	
Portland, Me.	7,511	11.7	99	
SITKA	7,464	28.8		180
KETCHIKAN*	7,069	30.3	122	
Buffalo	7,062	18.2	103	
Seattle	5,145	33.0	100	100
New York	4,871	26.9	115	
Los Angeles	1,799	45.0	94	
Honolulu	0	65.8	124	

*Climate data for Annette, Alaska.

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cities included in the *City Workers Family Budget*: Minneapolis, Milwaukee, Portland (Maine), and Buffalo; and indicates at least that housing costs for Southeastern Alaska points and for Anchorage are substantially out of line from what one might expect from the operation of climatic factors alone. This judgment is further strengthened by the fact that elsewhere in the United States housing costs seem to be *inversely* related to size of place; for instance, in the *City Workers Family Budget* for 1966, total housing costs in nonmetropolitan areas--which would normally include all of the Alaska places listed in Table 1-7--averaged 17 percent lower (!) than those for metropolitan areas--which include all the non-Alaska places in the table. Using the number of degree days and the metropolitan-nonmetropolitan division alone as the basis for prediction, Anchorage, Juneau, and Ketchikan ought to have slightly *lower* housing costs than the national average!

Market Power--Monopoly, Unions

Another popular line of explanation for Alaska regional inflation centers on the cupidity of entrepreneurs and of labor unions; a more sophisticated version of the same argument is analogous to the concept of cost-push inflation as an explanation of price rises over time. That is, certain sectoral interests, particularly industries or trades represented by only one or a handful of enterprises in each community, plus a group of effective labor unions, have sufficient market power that they can successfully raise their own prices without suffering an offsetting loss in sales volume, or raise their own wages without suffering unemployment. The same power, it is believed, allows them to "pass on," rather than to absorb, increases generated elsewhere in the economy.

This explanation is at least in part supported by the evidence. The money wage rate ratios between Alaska and U. S. averages, Table 1-5, are indeed ranked in the same order as the degree of unionization of the respective industrial sectors in Alaska. Tables 1-8 and 1-9 indicate that markups and the resulting profits in Alaska business are consistently higher than in the rest of the country. In 24 of 27 industry groups in Alaska, gross margins are higher than United States averages. In 15 of 16 cases, net profits on net sales are higher; and in 16 of 16 cases, net profits on tangible net worth are higher in Alaska. These figures establish a presumption that businessmen in Alaska successfully *overcompensate* for the higher cost levels.⁴

⁴As Gene Erion points out in his illustration on page 72 with respect

TABLE 1-8

COST OF DOING BUSINESS RATIOS--U. S. AND ALASKA CORPORATIONS
(Percentage of Business Receipts)

SIC	INDUSTRY AND NUMBER OF CORPORATIONS REGISTERED IN ALASKA, 1965	COST OF GOODS SOLD				GROSS MARGIN			
		U. S.		Alaska		U. S.		Alaska	
		1962 -63	1963	1964	1965	1962 -63	1963	1964	1965
10-14	MINING (53)	60.3	38.3	37.9	38.0	39.7	61.7	62.1	62.0
10	Metal Mining (15)	55.0	64.0	49.0	52.2	45.0	35.0	51.0	47.8
13	Crude Petroleum & Natural Gas (31)	57.7	30.9	31.5	33.2	42.3	69.1	68.5	66.8
15-17	CONTRACT CONSTRUCTION (218)	84.0	82.3	81.5	62.7	16.0	17.7	18.4	37.3
15	Building Construction (56)	89.1	79.5	85.8	80.6	10.9	20.5	14.2	19.4
16	Nonbuilding Contractors (40)	82.8	89.7	84.7	84.5	17.2	10.3	15.3	15.1
17	Special Trade Contractors (112)	79.6	78.9	73.9	70.8	20.4	21.1	26.1	29.2
20-39	MANUFACTURING (129)	71.0	68.2	66.1	71.4	29.0	31.8	33.9	28.6
20	Food & kindred canning & preserving (56)	79.7	75.0	78.7	82.8	20.3	24.0	21.3	17.2
203	Canneries (43)	76.2	78.2	81.8	87.8	23.8	21.8	18.2	12.2
24	Lumber & wood products (29)	77.4	58.0	59.1	62.7	22.6	42.0	40.9	37.3
26	Paper & allied products (2)	69.1				30.9			
27	Printing, publishing (13)	65.5	49.7	52.1	50.3	34.5	50.3	47.9	49.7
41-49	TRANSPORTATION, COMMUNICATIONS, PUBLIC UTILITIES (155)	---	---	---	---	---	---	---	---
42	Motor freight (33)	67.5	65.7	65.7	66.3	32.4	34.3	34.3	33.7
44	Water transportation (34)	72.2	52.3	47.0	49.3	27.8	47.7	53.0	50.7
45	Air transportation (36)	67.9	47.3	59.3	58.3	32.1	52.7	40.7	41.7
48	Communications (22)	51.3 66.3	41.7	44.5	35.2	48.7 33.7	58.3	55.5	63.8
483	Radio & television (10)	57.1	46.9	50.5	43.5	42.8	61.3	49.5	56.5
49	Electric, Gas, and Sanitary Services (13)	39.9 61.5	68.5	70.5	48.7	60.1 38.5	31.5	29.5	51.5
50-59	WHOLESALE & RETAIL TRADE (418)	79.6	75.7	75.1	75.4	20.4	24.3	24.9	24.6
50	Wholesale trade (128)	85.3	79.5	80.7	79.8	14.7	20.5	19.3	20.2
501	Motor Vehicles & Automotive Equipment (11)	82.8		73.4	71.8	17.2		26.6	28.2
521	Retail Trade--Lumber, Construction Materials (15)	85.4	81.0	80.4	81.2	14.6	19.0	19.6	18.8
53	Retail Trade--General Merchandise (38)	64.9	69.8	69.0	70.3	35.1	30.2	31.0	29.7
54	Retail Trade--Food (20)	79.5	80.2	77.6	76.8	20.5	19.8	22.4	23.2
55	Automotive Dealers, Gasoline Service Stations (53)	85.4	81.5	78.2	81.6	14.6	18.5	16.8	18.4
551-552	Motor Vehicle Dealers (27)	87.0	82.8	80.0	82.1	13.0	17.2	20.0	17.9
56	Apparel & Accessories (22)	65.8	61.3	61.3	61.7	34.2	38.7	38.7	38.3
57	Furniture, Home Furnishings (17)	66.4	64.0	63.4	65.1	33.6	36.0	35.6	34.9
58	Eating & Drinking places (39)	48.7	42.6	50.1	50.3	51.3	57.4	49.9	49.7
59	Retail Trade--Miscellaneous (55)	80.6 57.3	64.4	64.5	63.6	19.4 42.7	35.6	35.5	36.4
70-99	SERVICES (115)	---	---	---	---	---	---	---	---
70	Hotels & Rooming Houses (30)	46.5	37.5	41.3	39.5	53.5	62.5	58.7	60.5
72	Personal Services (14)	53.2 41.8	38.2	31.5	34.6	46.8 58.2	61.8	68.5	65.4

Source: United States: Dun and Bradstreet, *Key Business Ratios*, calculated from *Source Book of Statistics of Income*, U. S. Department of the Treasury, Internal Revenue Service, Statistics Division. Alaska: calculated by Roger A. Bye from Alaska state business tax returns.

TABLE 1-9

SELECTED BUSINESS RATIOS, U. S. AND ALASKA CORPORATIONS
MEDIANS, 1965

GROSS MARGIN			INDUSTRY		Current Assets to Current Debt TIMES	Net Profits on Net Sales PERCENT	Net Profits on Tangible Net Worth PERCENT	Net Sales to Tangible Net Worth TIMES	Net Sales to Inventory TIMES	Total Debt to Tangible Net Worth PERCENT
1963	1964	1965								
Alaska										
1.7	62.1	62.0								
6.0	51.0	47.8								
9.1	68.5	66.8	1	General Building Contractors	U. S. 1.5 Alaska 3.4	1.4 6.6	9.7 29.1	7.2 7.6	-- --	196.0 171.1
7.7	18.4	37.3								
0.5	14.2	19.4	2	Heavy Construction Contractors	U. S. 1.7 Alaska 3.0	3.2 12.5	11.5 76.4	3.7 9.2	-- --	109.3 161.0
0.3	15.3	15.1								
1.1	26.1	29.2								
1.8	33.9	28.6	1	Plumbing, Heating, Air Conditioning Contractors	U. S. 1.8 Alaska 4.3	1.7 4.7	9.0 28.0	5.8 8.3	-- --	156.1 88.1
4.0	21.3	17.2								
1.8	18.2	12.2	3	Electrical Contractors	U. S. 2.1 Alaska 3.5	2.2 4.9	11.7 32.1	5.3 5.7	-- --	119.4 52.3
2.0	40.9	37.3								
10.3	47.9	49.7	0	Food & Kindred Products Manufactures	U. S. 2.7 Alaska 5.0	5.0 5.3	13.6 19.1	8.6 3.2	31.1 2.4	95.4 69.2
--	--	--	3	Canners	U. S. 1.7 Alaska 4.4	2.5 5.2	10.1 14.6	3.6 2.8	4.5 2.0	95.4 57.2
34.3	34.3	33.7								
17.7	53.0	50.7								
32.7	40.7	41.7	2	Lumber Manufacturing	U. S. 2.4 Alaska 7.8	3.9 11.1	10.0 35.5	2.6 3.2	5.6 3.2	70.5 44.6
38.3	55.5	63.8								
51.3	49.5	56.5	7	Printing, Publishing, Etc.	U. S. 3.0 Alaska 14.3	7.4 14.1	14.7 37.6	2.7 3.1	-- --	81.5 161.4
31.5	29.5	51.5								
24.3	24.9	24.6	1	Motor Vehicle & Supply Wholesalers	U. S. 2.7 Alaska 5.1	2.5 2.7	9.8 14.5	4.2 5.4	5.0 1.7	154.3 62.1
20.5	19.3	20.2								
	26.6	28.2	4	Grocery Wholesalers	U. S. 2.7 Alaska 5.4	1.2 2.1	10.0 24.2	11.0 18.0	50.5 5.4	150.8 290.3
19.0	19.6	18.8	3	Machinery, Equipment Wholesalers	U. S. 2.5 Alaska 2.6	1.9 8.6	9.6 33.9	4.8 3.6	6.8 2.1	112.0 110.5
30.2	31.0	29.7								
19.8	22.4	23.2	9	Miscellaneous Wholesalers	U. S. 2.4 Alaska 17.4	2.4 2.4	12.9 19.1	11.4 7.7	2.2 5.1	154.7 372.2
18.5	16.8	18.4								
17.2	20.0	17.9								
38.7	38.7	38.3	1	Lumber & Other Building Materials Dealers	U. S. 3.7 Alaska 2.5	1.9 2.8	7.4 27.6	3.4 5.8	7.7 2.8	89.7 214.1
36.0	36.6	34.9								
57.4	49.9	49.7								
35.6	35.5	36.4	1	Groceries and Meats Dealers	U. S. 2.0 Alaska 2.9	1.3 2.3	12.2 13.7	9.0 6.4	16.6 7.3	87.1 167.8
--	--	--	5	Automobile Dealers	U. S. 1.9 Alaska 2.4	1.3 1.5	10.7 15.7	8.4 13.7	8.8 4.5	138.5 287.7
62.5	58.7	60.5								
61.8	68.5	65.4	5	Clothing & Furniture Stores	U. S. 3.4 Alaska 14.9	2.6 4.4	8.8 12.3	3.9 3.0	6.7 1.2	124.5 37.4

Source: Book of Service, State business tax sources: United States: Dun and Bradstreet, *Key Business Ratios*, 1965. Alaska: calculated from state business tax returns by Roger A. Bye.

The small size of Alaska's economy and of the local service economy in the various Alaska communities, together with their relative distance from one another and from the rest of the country, certainly offer a substantial number of monopoly situations and opportunities for formal or informal collusion. The market power of other groups, particularly in the professions and in the "regulated" industries, is strengthened by protectionist or cartel-fostering provisions of local, state, and federal law. Emphasis upon market power and cost-push factors alone fails to explain why merchants and unions in Alaska are more successful in the exercise of market power than in other states. Conventional cost-push inflation can be perpetuated only if the banking authorities are willing to let the money supply expand to finance inflation. Otherwise the rise in administered prices will ultimately be halted by declining sales, excess capacity, and unemployment. Monopoly, price-fixing, and protectionism are not unique to Alaska; their existence is not an adequate explanation for existence of Alaska price and wage levels substantially higher than those in communities of comparable sizes elsewhere. The question remains, *How is chronic regional inflation financed?*

The Federal Role in Financing Regional Inflation

In our view, the answer to the above question is found in the disproportionately large role of the federal government. Simply put, for almost 30 years the federal government has dominated the economy of Alaska; and each federal agency has been willing to pay whatever prices were demanded of it for the goods and services necessary to accomplish its mission. Each agency has accepted the prevailing wage and price structure; and by doing so, has helped to validate and to perpetuate it. In technical terms, the largest exogenous component of demand in the Alaska economy has been almost totally inelastic with respect to prices.

The biggest individual item in this demand over the whole period has undoubtedly been defense construction. Whatever the mode of contracting or the cost rationale at the particular time, defense construction has been *de facto* a "cost-plus" operation since the beginning of World War II, and remains so today. Defense department

to bank interest rates, a higher price level requires only *equal* percentage rates of profit, interest, or markup to obtain an equal level of "real" business income.

missions have been charged with exceptional urgency; and if they had cost constraints, they were certainly small compared with those of other government programs, and virtually nonexistent compared to the normal situation in private industry. The small number of contractors with the experience and capability to operate in Alaska and the requirement that defense contractors pay "prevailing wages" in an area where the current wages prevail precisely because the government is willing to pay for them--has provided a bonanza for contracting entrepreneurs and transient construction laborers alike.⁵ Thus, it is instructive to see that construction wage differentials are the highest among the industrial groups in Table 1-5 (after those of the wood-products industry for which there is a similar explanation based on federal policies). Nor is it surprising that heavy-construction contractors constitute the most profitable business sector in Table 1-9, with a median (!) net profit in 1965 of 76.4 percent against tangible net worth, 6.6 times the comparable proportion for the United States. The other lines of business which are spectacularly more profitable consist of the other contractor categories, and lumber and building-materials dealers.⁶

Market power in the construction industry is based upon "normal" (i.e., of the same kind which exist elsewhere in the United States) barriers to entry of labor, capital,⁷ and enterprise, and upon the sluggish adjustment of these factors to increases in demand, coupled with a willingness of the federal government to pay whatever costs "prevail" under these circumstances. The rates of return to

⁵Another cost-inflating aspect of the Alaska construction situation which federal agencies have consistently accepted and probably exacerbated in their contracting practices is the extreme seasonality of Alaska construction activity, even in those areas with relatively mild climates. Coupled with this seasonality is the practice of paying for great amounts of overtime during the short construction season--this despite evidence that construction crews accomplish little more in twelve hours than in eight.

⁶Lumber manufacturing as an industry does not serve primarily an Alaska market, and should not be considered in this group. The explanation for its high profitability, however, is similar. See page 23.

⁷The conclusions of R. W. Fischer in Chapter II, and Gene Erion in Chapter III point to a sticky supply of bank capital as one inflationary factor. A relative shortage of loanable funds is further suggested by the fact that the ratio of current assets to current debt is higher in Alaska in 15 of 16 industrial groups in Table 1-9. It is the author's belief that this situation is exacerbated by state restrictions on entry into banking by out-of-state interests.

labor, to capital, and to entrepreneurship in government contracting have thus become the opportunity costs of the respective productive factors in the private housing market and in business construction. It would not be surprising if inefficient patterns of work and of seasonal activity, developed in a sector where cost constraints are minimal, were also carried over into the nongovernment sector. To the extent that parts of the local service sector also have market power, to the extent that federal recognition of differentials becomes a benchmark for other markups, and to the extent that construction payrolls and profits provide the income with which to finance inflated prices for other goods and services, federal contracting and procurement sustain both the demand factors "pulling" and the cost factors "pushing" up Alaska prices.

Our intention here is not to single out defense contracting and defense procurement as a culprit. Almost every federal agency and almost every federal program in Alaska has participated in the inflationary process to the extent that it was required to pay Alaska prices for construction, materials, services, and personnel. Earthquake and flood recovery projects underwritten by the Corps of Engineers and the Small Business Administration; projects of the Economic Development Administration for depressed areas; real estate appraisals of the Federal Housing Authority, the Veterans Administration, and other mortgage-guarantee agencies; cost levels authorized by the Bureau of Public Roads in Alaska highway projects; and, very importantly, the 25 percent tax-exempt overseas cost-of-living allowance for federal employees, and the setting of wage-board rates for federal personnel on the basis of rates prevailing in Alaska, are all part of the picture. In addition, federal regulatory agencies seem to have been especially tolerant of, if not favorable to, transport monopolies, and have been inclined to predicate rates upon the protection of particularly inefficient carriers.

The inability of competitive cost constraints in the private sector of Alaska's economy so far to hold down the prices and wages paid by the federal government reflects the fact that the private economy is relatively small and is composed almost entirely of a few natural-resource industries which, because of the institutional regime in each one, are unable to resist inflationary pressures generated elsewhere, and of service activities dependent almost entirely upon the multiplier effects of income from federal expenditures and (much less) from crude-materials exports. The most recent year for which Alaska gross product has been estimated and disaggregated is 1965; the state's economic structure for that year is shown in Table 1-10. Less than 1 percent of value-added was accounted for by agriculture, forestry, and fisheries combined (!); and mining accounted for less than 4 percent of the total. Manufacturing, including both the processing of primary products (fish packing, lumber and pulp manufacture, etc.), and residentiary manufactures (like baking, soft-drink bottling, and printing and publishing) together contributed 8 percent of the total. Commodity production in

TABLE 1-10.

ALASKA GROSS PRODUCT, 1960-1965
 (Millions of Current Dollars)
 (Italics denote percent)

	1960	1961	1962	1963	1964	1965
Agriculture, Forestry and Fishery	4.3 <i>0.6</i>	5.7 <i>0.8</i>	6.3 <i>0.8</i>	5.2 <i>0.6</i>	5.8 <i>0.6</i>	8.3 <i>0.8</i>
Mining	28.3 <i>3.8</i>	34.4 <i>4.6</i>	38.8 <i>4.8</i>	37.2 <i>4.5</i>	36.2 <i>3.9</i>	38.3 <i>3.7</i>
Contract Construction	98.9 <i>13.2</i>	64.1 <i>8.7</i>	64.8 <i>8.4</i>	69.2 <i>8.4</i>	105.3 <i>11.2</i>	117.5 <i>11.4</i>
Manufacturing	65.4 <i>8.8</i>	58.0 <i>7.8</i>	61.0 <i>7.9</i>	65.1 <i>7.9</i>	68.7 <i>7.3</i>	82.3 <i>8.0</i>
Transportation	45.0 <i>6.0</i>	42.7 <i>5.8</i>	45.0 <i>5.8</i>	47.6 <i>5.8</i>	52.6 <i>5.6</i>	56.4 <i>5.5</i>
Communications	34.2 <i>4.6</i>	59.8 <i>8.1</i>	55.1 <i>7.2</i>	55.5 <i>6.7</i>	53.0 <i>5.6</i>	55.0 <i>5.3</i>
Electric, Gas, and Sanitary Services	9.4 <i>1.3</i>	11.0 <i>1.5</i>	13.8 <i>1.8</i>	15.7 <i>1.9</i>	18.2 <i>1.9</i>	21.0 <i>2.0</i>
Wholesale and Retail Trade	85.2 <i>11.4</i>	96.1 <i>13.0</i>	95.3 <i>12.4</i>	100.2 <i>12.1</i>	109.3 <i>11.6</i>	126.1 <i>12.3</i>
Finance, Insurance and Real Estate	42.6 <i>5.7</i>	44.8 <i>6.0</i>	51.1 <i>6.6</i>	58.4 <i>7.1</i>	66.6 <i>7.1</i>	77.4 <i>7.5</i>
Services	42.6 <i>5.7</i>	44.8 <i>6.0</i>	50.4 <i>6.5</i>	51.4 <i>6.2</i>	66.9 <i>7.1</i>	74.5 <i>7.2</i>
Government and Government Enterprise	290.8 <i>39.9</i>	279.8 <i>37.7</i>	291.0 <i>37.8</i>	321.0 <i>38.8</i>	369.9 <i>38.2</i>	372.2 <i>36.2</i>
Totals	746.8 <i>100.0</i>	741.2 <i>100.0</i>	770.7 <i>100.0</i>	826.5 <i>100.0</i>	942.1 <i>100.0</i>	1029.5 <i>100.0</i>

Source: Bradford H. Tuck, *An Aggregate Income Model of a Semi-Autonomous Alaskan Economy*, prepared for the Federal Field Committee for Development Planning in Alaska, Anchorage, 1967, p. 68.

its totality, then, made up only about one-eighth of the volume of activity in Alaska's economy. On the other hand, government activity alone directly produced well over one-third of Alaska gross income and product; and as late as 1968, federal payrolls were more than one-third of Alaska personal income, and federal, state, and local government employment accounted for about two-fifths of all employment and for about one-half of all wage and salary payments in the state. In addition, the activity of the service sectors of the private economy and of construction ultimately depend largely upon the income injected into the state from government expenditures. Prior to the Arctic Slope oil boom of 1968-69, federal expenditures must have been responsible through income multipliers and "backward linkages" for about three-fourths of Alaska's gross product.

Natural-Resource Industries

The three important groups of natural-resource industries in Alaska are petroleum and natural gas, the fisheries, and the wood-products industries. This is not the occasion for a lengthy discourse on the economics of natural resources, but a critical feature of each of these industries in Alaska is the fact that the basic resource stocks are either government-owned or "unowned" (the case of fisheries). The prices of final products exported from Alaska by these industries are determined in national or world markets.⁸ The price levels of construction, supplies, and labor help determine the location of the "economic margin" in extractive industries, but they exert little pressure on average enterprise profit expectations because competitive petroleum leasing and the appraisal practices for Forest Service timber allow these higher costs to be passed "backward" to the landlord (federal and state governments). In the regulated fisheries, including the salmon fishery which dominates the industry in Alaska, open access to the resource requires the conservation authorities to use cost-inflating regulatory tools in order to insure the escapement necessary to preserve the fish stocks. The regulated fisheries are a totally buffered system in which catch volume and consumer prices are both independent of the regional price level.⁹

⁸The fact that the product markets for Alaska timber products and for crude oil are far from competitive is a matter of great public importance, but does not concern us here.

⁹For a full explanation of the dynamics of the fisheries, see James A. Crutchfield and Giulio Pontecorvo, *The Pacific Salmon Fisheries, a Study of Irrational Conservation*. Baltimore: The Johns Hopkins Press, 1969.

Among the natural resource industries in Alaska, the wood-products industry deserves special attention because it is another instance in which federal government policies in the pursuit of other ends have fostered and perpetuated regional inflation. It is our belief that Forest Service timber-sale policies are the most important factor perpetuating regional inflation in the timber-producing areas of Southeast Alaska.¹⁰ The Forest Service objective has been the establishment of wood-processing industry within the region in order to assure stable and permanent local employment. Since, for whatever reason, price and wage levels in the communities of Southeast Alaska were at the outset higher than those of British Columbia, the Puget Sound area, or Japan, establishment of sawmills or pulp mills in Alaska did not appear attractive to private enterprise. There has in addition been chronic unemployment and excess mill capacity in the Pacific Northwest, so that the "normal" pattern would be for Alaska logs to be purchased by operators with mill capacity outside the state. Competitive sale of timber would have conformed to this pattern, and would also have maximized returns to the federal treasury from the sale of government-owned timber. The Forest Service decision to emphasize local industrial development at the expense of timber-sale revenues and, incidentally, of national economic efficiency, required insulating the Alaska timber-processing industry from competitive forces. The wage and price differentials which existed because of either physical factors or monetary-fiscal factors were "validated" in fifty-year exclusive timber-sale contracts at prices for stumpage a small fraction of the competitive value. These stumpage prices are subject to further renegotiation as "costs of production" change, so that the incentives for the timber industry in Alaska either to strive for technical efficiency or to resist union demands for higher money wages are extremely weak. In other words, just as federal agencies throughout the state have been willing to pay the inflated "going rates" for whatever they require, so the Forest Service has been willing to pay-- indeed has insisted upon paying, through depressed timber revenues to the government--inflated prices and money wages in the mill towns of Southeast Alaska. The Forest Service seems to assume that manufacturing in Alaska will always be noncompetitive and, by basing policy on this assumption, virtually guarantees it will be true.

¹⁰These policies and their economic dynamics are analyzed at length in *Federal Land Laws and Policies in Alaska*, a study prepared by the University of Wisconsin, School of Natural Resources, Center for Resource Policy Studies and Programs, for the Public Land Law Review Commission (Madison: March, 1969, Chapter III, "Timber," pp. 359-561). Further evidence for this analysis is found in Michael R. C. Massie and Robert C. Haring, *The Forest Economy of Haines, Alaska: A Study of Current Forest Utilization, Forest Management, Utilization Alternatives, and Resultant Economic Impact*, University of Alaska, Institute of Social, Economic and Government Research, 1969.

The Federal Policy Dilemma

Even if the above analysis is wholly accepted--that the federal treasury has financed and continues to finance regional inflation in Alaska by its across-the-board acceptance of, and willingness to pay, "prevailing" wage and price levels--the remedy is not easily apparent. Each federal agency operating in Alaska is still faced with the situation it faced all along. If it would obtain the structures, supplies, and personnel necessary to accomplish its mission, it has no choice but to pay the going prices. There is no single tool like currency devaluation to bring Alaska price levels quickly into line with those of the "Outside." Withdrawing the cost-of-living allowance from federal personnel would be a serious injustice to those employees who remain in Alaska, and would make it almost impossible to fill their positions. Refusal to pay inflated construction costs would mean simply that federal Southeast Alaska timber industry to competitive pressures for log supplies would generate serious unemployment in the pulp and lumber mills. No one agency or type of action has sufficient economic leverage to deflate the regional economy, and any adjustments to disinflationary policies will inevitably be both slow and uneven. A history of decades of high prices has introduced and perpetuated economic distortions and innocently vested interests in inefficiency, neither of which will be easily or painlessly corrected. In addition, there are clearly groups which greatly benefit from the existing situation--if our hypothesis is correct, they benefit largely at the expense of the federal treasury--and vigorous political opposition can be expected to disinflationary policies.

The federal government, however, does itself have substantial "market power" as the biggest customer of Alaska private enterprise and the state's biggest employer. It is probably, through the Small Business Administration, the Federal Housing Authority, etc., the state's leading banker. We propose that the government make concerted use of this market power.

For the reasons listed above, any set of policies aimed at reducing the government's contribution to and burden from regional inflation must be gradual and must operate on many fronts. These policies require operationally realistic goals, operational measures of success, and a strategy applied across the board in the federal government. It obviously entails an unusual degree of interagency coordination and cooperation. For this reason, we suggest that an interagency task force on Alaska regional inflation be established under the leadership of the Bureau of the Budget.

Elements of a Federal Program

The following remarks are intended merely as suggestions of elements which might make up a federal program to cope with regional inflation in Alaska. Further research in price and wage levels and structures, and on the dynamics of the regional economy are warranted; and each of these suggestions requires intensive scrutiny.

The program's goals would be (1) a rough parity within ten years in cost-of-living levels between Alaska population centers having year-round surface transportation and levels in the Pacific Northwest. Differences at the end of ten years would be limited to those justified by real cost differentials. And (2) elimination of the cost-of-living allowance for federal employees in Alaska--and of its necessity--and a rough equivalence of Alaska wage-board rates to Pacific Northwest averages.

These objectives are not aimed at by means of *reducing* the money values of any individual wage or price, but by the retardation of increases in Alaska, allowing price and wage levels in other states to converge upward toward Alaska levels over a period of ten years. *It is important to emphasize here that any set of policies which would be either fair or politically acceptable would have to attack inflation by increasing factor and commodity supplies as well as by controlling demand.*

The federal government would *announce* its position on regional inflation--that it is not justified by physical cost factors and that the Treasury will not continue to finance private windfalls or noncompetitive economic activity in Alaska. The operational goals and their timetables should be announced along with the progress expected toward those goals during the forthcoming two or three fiscal years. *These announcements are themselves one of the most essential parts of a strategy against regional inflation because of their impact on business and employee expectations.* That is, public knowledge of such a policy on the part of the government will, *if the government's seriousness is believed,* prevent the expectation of future inflation from being capitalized into higher values for land and for existing homes and businesses. It can also be expected to affect investment plans predicated on continued inflation, to reduce relatively the demands of individual unions and planned increases in individual commodity prices.

In demonstrating the government's seriousness, the Bureau of the Budget should prescribe and publicize guidelines for federal agencies concerning contracting and procurement, which provide gradual, scheduled reductions in the differentials permitted between Alaska and the lower 48 in prices paid for materials and services, or prices *paid by contractors* for materials and labor used on government-financed projects.

Similar guidelines would be established regarding the appraisal of residential and business properties whose financing is underwritten or guaranteed by federal agencies.

Similar schedules would be established for the reduction of federal pay differentials. For classified personnel, one approach would be to increase the cost-of-living allowance for each position to a level equivalent to 30 percent of basic salary (in place of the present 25 percent), but to make the allowance taxable. Doing so would result in a slight net saving to the Treasury over the present arrangement, but would remove the steeply regressive character of the present allowance.¹¹ The allowance would be *redefined in dollar terms* rather than as a percentage, and each grade's allowance would be frozen for the next five years at the fiscal-year-1970 dollar amount. The allowance would be phased out completely over the second five years. Over the same ten-year period, a formula would be in effect to move the private labor market base for calculation of wage-board rates to parity with the averages in the Pacific Northwest states.

The federal government might flatly refuse to approve new civilian public works in Alaska where the anticipated construction cost is more than a specified percentage, declining from an initial 25 percent at 2-1/2 percentage points per year, above the costs which would be justified by physical factors alone. The federal financing of all such public works should be examined with special scrutiny; and, in view of the state's prospective wealth from mineral leasing revenues, there seems no justification for the federal government to entertain proposals to finance transportation facilities and other elements of the economic infrastructure (apart from those programs normally available to all the states, judged by the cost standards applied to other states). Renegotiation of contracts or payment for overruns on federal contracts as a result of wage or price increases exceeding the guideline figures would not be permitted.

The federal government would attempt to increase the available local supply of skilled labor, particularly in the construction trades, by on-the-job training and apprenticeship programs aimed at the unemployed and underemployed in Alaska, particularly Alaska Natives. It would not cooperate in other programs directed at achieving "local hire" by restricting labor-market entry.¹² Federal

¹¹See Appendix Tables 6 through 9.

¹²There have been instances in the past where military commanders in Alaska, in response to local pressures, have attempted to discourage military personnel from "moonlighting," and to discourage military dependents from taking jobs in the local labor market.

regulatory policy toward interstate carriers and public utilities in Alaska ought to be directed at achieving rate parity rather than at perpetuation of existing differentials.

The primary-processing requirement should be progressively relaxed on new federal timber sales in Alaska, and timber-appraisal practices should provide for a gradual adjustment of appraised prices to represent after ten years the full range of production and export possibilities which would exist in competitive markets.

An effort should be made to obtain state participation in the program of disinflation and the coordination of state personnel and contracting practices with those of the federal government. The adoption of a federal policy, however, should not be made conditional upon state participation, because of the higher vulnerability of the state to sectoral pressures.

Necessary Research:

Confirmation of the hypothesis outlined here and the implementation of the strategy based upon it require additional research and analysis. Among the tools required are:

(1) A study of the level and structure of existing price and wage differentials and the design of indexes for continuing assessment of these differentials.

(2) A reliable set of quarterly regional economic accounts is required along the lines initiated by Bradford H. Tuck in the study cited as reference for Table 1-10. More detailed industrial divisions are required, separating forestry from fisheries; oil and gas production from building materials production and from hardrock mining; lumber manufacturing, pulp manufacturing, and fish processing ought to be separated from one another and from other manufacturing; and federal government should be segregated from state and local government.

(3) An econometric model is needed of the Alaska economy by which the impact of changes in federal fiscal behavior could be simulated. Construction of such a model would rely upon the same primary data and would ideally be expressed in the same variables as the regional accounts. The two projects should probably be combined.

(4) A more comprehensive study of real estate costs in Alaska along the lines of Chapter II of this report, but encompassing a larger sample, instances from Fairbanks and Juneau as well as from Anchorage, and including representative government- or institutional-type structures.

(5) A study of federal government contracting policies and practices in Alaska.

(6) A new comprehensive assessment and analysis of Alaska regional inflation superseding the treatment presented here, using the findings of new research projects such as those listed above.