

ALASKA RESOURCES DEVELOPMENT:
THE LIMITS OF POLICY

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Faculty and associates of the Institute of Social and Economic Research carried out a series of studies of Alaska resource development issues under a grant from the Andrew W. Mellon Foundation between 1981 and 1983. These studies will be published later this year by Westview Press in a book, Alaska Resources Development, edited by T. Morehouse. This paper summarizes the results of those studies.

The present critical issue before the State of Alaska is what to do to ensure a viable resource-based economy after Prudhoe Bay oil has been depleted. Royalties on and taxes from Prudhoe Bay oil production currently provide about 90 percent of the state's general revenues--around \$3 billion this year. But this huge oil field will be substantially depleted within the next decade.

We focused on this current problem, but our findings have broad, long-term implications. I will present our conclusions first and then discuss how we got there: We found that there is little public policy makers can do to influence future development of Alaska's resources. Development will depend on economics and not on politics. What state policy makers can best do, perhaps, is to save more of current oil revenues to help keep state government fiscally viable after Prudhoe Bay oil is gone.

We attempted to answer several questions in our examination of the future of Alaska resources development: How much of national

needs for energy, strategic minerals, fisheries products, and other resources can Alaska supply? Can Alaska public and industry leaders diversify the economy, ensure the state's fiscal future, protect environmental and ecological values, and compete effectively in national and world resource markets? What are the economic, geographic, and biological constraints? What choices will be open to federal and state policymakers, and what decisions are they likely to make?

We addressed these questions by examining the relative roles of resource endowments, markets, and policies. Examination of resource endowments told us what Alaska resource owners and managers have to offer--the actual or potential supply of renewable and nonrenewable resources. Examination of markets told us which of these resources are in demand and what cost-price tests they must meet in order to compete with alternative sources of supply or with substitutes. And, examination of policies told us what decision makers can and cannot do to influence the market factors that may either favor or oppose development of a resource and how policies can affect the distribution of benefits and costs.

Alaska's onshore and offshore lands may contain from a quarter to a third or more of the remaining undiscovered recoverable oil under U.S. jurisdiction. Most of these Alaska resources are expected to be found on federal lands, including the outer continental shelf. The Prudhoe Bay field--the largest yet discovered in the United States and

Canada--has been a bonanza for the State of Alaska because it lies on state lands. Today, Alaska accounts for about 20 percent of total U.S. oil production and supplies about 10 percent of total U.S. oil consumption. Almost all of this production is from the Prudhoe Bay field. The Sadlerochit reservoir at Prudhoe Bay, now producing at a rate of 1.5 million barrels a day, will begin to decline in production in the mid-to-late 1980s or early 1990s.

Other major Alaska resources of current national interest are fisheries products, primarily salmon, crab, shrimp, and halibut--all high-value species. Salmon provides the greatest volume of Alaska fisheries production, accounting for about 15 percent of the world salmon catch in the early 1980s. While there is some potential for expansion of the U.S. harvest of Alaska bottomfish--sablefish, Pacific cod, Pacific Ocean perch, Alaska pollock, and other low-value species of fin fish--these fisheries are dominated by foreign fleets today and, because of adverse U.S. cost and market factors, are likely to remain primarily foreign fisheries for the foreseeable future.

Potentials in other Alaska resource industries are limited by either their physical or biological endowments, or their high costs of production, or both. Alaska has millions of acres of timber, but commercially harvestable acreage is not unusually abundant and production costs are high relative to world market values. Alaska's timber, developed primarily for Japanese markets, is a significant part of southeast Alaska's economy, but it is not of national importance. In

the late 1970s and early 1980s, the total annual timber harvest in the United States was from sixty to seventy times the production from Alaska's forests. Alaska's vast coal resources still lie mostly untouched because of high costs of production and transportation. For the same reasons, most of the state's massive physical endowments of metallic and industrial minerals remain in the ground.

The broad, long-term pattern of national interests in Alaska's resources has been selective and uneven, as first one then another resource attracts attention and is intensively exploited. The resource--whether fur, gold, copper, fish, or oil--becomes attractive because of its short supply or high value, or both, in world markets and, therefore, its ability to overcome Alaska's high costs of production and transport. Over the long term, Alaska's economy has been subject to booms and busts associated with on-again, off-again resource exploitation.

Alaska's oil-boom economy of the 1980s has been built on these traditional foundations--a fluctuating and selective national interest in Alaska's resources, unevenness and instability in the pattern of economic growth, and local economic expectations and fortunes tied to a boom-bust cycle. This is an especially unnerving situation in the 1980s. Since the Prudhoe Bay discovery in 1968, the proportion of total state revenues accounted for by petroleum revenues has risen from an annual average of about 12 percent to over 90 percent. During the seven years from 1977 to 1983, the State of Alaska took in about

\$17 billion in petroleum revenues and promptly spent about 80 percent of that amount, placing only about 20 percent in the Alaska Permanent Fund, the state's savings account.

With the huge increases in state capital and operating expenditures made possible by Prudhoe Bay oil revenues, state spending by 1982 directly and indirectly accounted for one-third or more of total personal income in Alaska. The State of Alaska virtually advertised itself as a place whose streets were paved with (black) gold when, in 1982, it offered one-time thousand-dollar checks to all who could claim at least six months' residence. The state government also pumped billions of dollars into the Alaska economy in the early 1980s through huge appropriations for public works projects and a variety of housing, education, and other loan programs.

While most of the nation outside of Alaska was caught in the deepest economic recession in the post-war period, Alaska's boom economy, fueled by state spending, was attracting large numbers of migrants from other states in search of economic opportunity in the north. Between 1970 and 1980, Alaska's population grew by a third, from 302 thousand to 402 thousand; and by the end of 1982, with the population expanding even more rapidly, some unofficial estimates added another 75 thousand to the total.

The problem Alaska faced in the early 1980s was that Prudhoe Bay oil production would begin to decline within a few years, and so,

consequently, would the state revenues that were propping up the economy and luring thousands of migrants. Further, the likelihood of finding another giant oil field like Prudhoe Bay on state lands was negligible. Thus, given the economic constraints, physical and biological limits, and uncertain prospects associated with the development of other natural resources, the outlook began to seem bleak.

In response, state political leaders looked for ways of enhancing Alaska's longer-term economic and fiscal prospects. Some urged increased saving of oil dollars and their investment in relatively safe securities, while others pressed for investments in power, transportation, and other projects that might support expanded development and diversification of Alaska's natural resource economy.

Petroleum development and state spending of oil revenues thus brought economic opportunity and growth, but they also brought social and economic competition and crowding as well as uncertainty and fear about the future. Increasing numbers of Alaskans began questioning the wisdom of the economic and fiscal policies their political leaders were pursuing in the 1980s.

Three articles appearing in Anchorage newspapers in 1982 and 1983 illustrate some of the basic sources of the problem. One article, headed "Resource-rich Alaska leads nation," told of a report by the U.S. Department of the Interior, documenting Alaska's vast oil reserves and "important discoveries of coal, peat, uranium, geothermal

resources, and a variety of other minerals" (Anchorage Times, December 1, 1982). Another article ran under the headline, "State officials disappointed at lease sale." It reported that a recent "sale of oil and gas drilling rights in the Beaufort Sea drew dispirited bidding . . . , while the state's geothermal lease sale was anything but competitive and a coal lease offering just plain bombed" (Anchorage Daily News, May 18, 1983). (The geothermal sale drew one bid, and the coal sale on Beluga River lands drew no bids at all.) A third story was headed "Poll shows Alaska business leaders see state as rudder for development." The story reported that "37 percent of those Alaska business leaders polled [by the Alaska Department of Commerce] believe state government holds the key to future development, while 35 percent said it was the federal government and only 28 percent said it was the private sector" (Anchorage Daily News, May 19, 1983).

Alaska does, in fact, have a large endowment of natural resources, as the Interior report confirms, but this is so not because Alaska is an unusually rich resource region, but because it is an unusually large region with chance occurrences of rich resource deposits. Prudhoe Bay is the outstanding contemporary instance. But Alaska is not the nation's resource storehouse in the conventional sense of that phrase. The "storehouse" metaphor implies stored-up wealth, or physical materials of proven value, just waiting to be withdrawn and used. This is not the case with most of Alaska's presently unused resources, as the newspaper story about the unsuccessful

state lease sale illustrates. Resources have economic value only if they can be sold for more than it costs to extract them and deliver them to market. In Alaska, resources usually must be found in large, rich deposits--and then they may need to be skimmed--in order to overcome high costs associated with the remoteness and cold climate of the region. Alaska's cold climate also limits biological yields of certain renewable resources, including agricultural products, land animals, timber, and freshwater fish.

Alaska's natural resources are exploited when they meet world or national needs at a competitive price. But this market test is not easily met in the arctic and subarctic. Alaska's high costs may partly explain why many local business leaders, as quoted in the third newspaper article above, see government rather than private industry as the "key to future development" of the state's resource economy. Government leases the resources and, in a variety of ways, can subsidize their development. These business leaders have also seen that state spending of petroleum revenues has sustained a prolonged economic boom. Many look for continued state spending to maintain the economic momentum and possibly to push a few high-risk ventures over into longer-term profitability.

The fact that the state government has been able to use its oil wealth in recent times to create an economic boom has reinforced an ingrained Alaska belief in the "power of policy"--the ability of government to either thwart or create sustained economic development.

In extreme form, this belief can lead to the ironic and contradictory promise of a richer capitalist economy through government action. The newspaper story about the poll of business leaders quotes the state commissioner of commerce as saying that by diversifying the economy, creating jobs, and providing venture capital, "State government is committed to making Alaska a bastion of free enterprise" (Anchorage Daily News, May 19, 1983).

This belief in the power of public policy to overcome Alaska's economic development problems is a long-standing one. It emerged in Alaska's pre-statehood colonial period, when the region's white inhabitants believed that the federal government followed a policy of neglect and oppression, designed to keep Alaska under outside corporate control and underdeveloped at the same time. Until statehood, the federal government owned virtually all of Alaska's land, and federal agencies controlled Alaska's fisheries. Anti-federalism and its correlate, anti-colonialism, were in fact the rallying cries of the statehood movement. These old sentiments persist in new forms in the 1980s. Some Alaskans, for example, suspect that a number of major development projects--including an Alaska natural gas pipeline--are being blocked, not by economic barriers but by anti-development and anti-Alaska forces. They demand that government remove the obstacles to development, that government provide the capital, and that somehow, government make the projects feasible or the resources exploitable.

Our studies challenge this belief in policy as the key either to resource development or more broadly to economic development in Alaska. We found generally that the assumptions and expectations about the role of policy in promoting or hindering economic development do not hold, and that often what pass for resource or economic development policies are really schemes to transfer benefits or costs from one group to another. More specifically, we found that:

- The carving up and distribution of Alaska's land since statehood has been more closely related to issues of political development and change than to issues of economic development and resource exploitation; government control and distribution of land has not been the determining factor in Alaska resources development.
- Today's petroleum development is a contemporary form of the traditional Alaska experience of resource skimming in order to overcome cost barriers to resource development; petroleum development in Alaska has not led to profitable investments in related resource areas--refining, petrochemicals, natural gas exports, and others.
- Development of Alaska's minerals and fossil fuels depends primarily on national and world market conditions, not on policies such as lower environmental standards or more favorable tax structures; moreover, for the foreseeable future, Alaska resources can contribute little to meeting national needs for strategic and other nonfuel minerals.
- The critical policy issue in the renewable resource area is not how to develop these resources--which are generally over-allocated and harvested at their biological limits--but how to allocate them more equitably and efficiently among competing groups while reducing the role of government regulation.
- Environmental protection standards have generally accommodated developmental pressures in Alaska rather than impeded them; only in a few highly visible and controversial cases (including trans-Alaska pipeline construction) or where major constituencies have felt threatened (e.g., Alaska fishermen) have environmental standards become a significant factor affecting resource development activities.

- The investment of state oil revenues in infrastructure projects such as hydropower and transport facilities is not the key to the future of Alaska resources development. Revenues probably will not be sufficient for such purposes and, in any case, such investments would not likely overcome long-run market constraints affecting the development of Alaska resources.

Changes in Alaskans' beliefs about the role of public policy are overdue. Public policies, whether federal or state, have not been the primary determinants of past Alaska resources development, and they are not likely to be so in the future. The primary determinants have been the values of Alaska resources in relation to national and world market conditions, even (or especially) when these conditions have been affected by world geopolitical forces, including global and Middle Eastern wars. Contrary to Alaska mythology, the long-term fortunes of resources development and economic change in the region historically have been and today still are affected only secondarily by U.S. or Alaska public officials and their domestic policies, no matter whether those policies have been "oppressive," supportive, or neutral.

Since statehood, Alaska has assumed its current identity as an "international resource" political economy. The region's economy has become less a function of government activity and more distinctly oriented toward and integrated into national and world markets. Also, through a series of massive land ownership transactions--authorized by the statehood act, the Native claims act, and the Alaska lands act--the region's resource development activity is slowly shifting from an

exclusively public land base to a mixed public-private base, especially with the emergence of the Native regional corporations. Neither of these shifts has yet resulted in any fundamental transformation of the economy--federal and state governments still play basic roles, and they continue to own the bulk of Alaska's land and resources. But, given the historical patterns of government monopoly in the region, even marginal shifts in roles and ownership can be significant.

If the power of public policy over Alaska resources development has been exposed as more myth than reality, and if the governmental monopolies of land and resources are being modified, older beliefs and behaviors nonetheless persist. In Alaska, government and industry officials continue to look for economic solutions in large-scale resource development projects--oil and gas processing, gas transport, hydropower, primary manufacturing, agriculture--often subsidized and sometimes administered by public bureaucracies.

Individuals in an economy like Alaska's, where public wealth is large relative to private wealth, see that government policy might increase their economic well-being. Public attitudes about the role of the state and federal governments in resources development may reflect this perception of how the government can redistribute wealth in ways that benefit selected groups and individuals. Whether it is land ownership, petroleum wealth management, mining infrastructure, renewable resource rights, or environmental regulations, individuals

see that government can do a lot for them (or a lot to them). But since the primary effect of government action is not to increase the total wealth but rather to redistribute it, people will usually expect more of public policy than policy is able to deliver.

