

THE ECONOMIC OUTLOOK FOR RURAL ALASKA

by

Gunnar Knapp
Associate Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
3211 Providence Drive
Anchorage, Alaska 99508
(907) 786-7717

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Introduction

Since the majority of Alaskans live in urban areas of the state, most projections of the economic outlook for Alaska tend to reflect the outlook for urban areas. Since rural areas of Alaska differ significantly from urban areas, it is important to consider how the economic outlook for rural Alaska may differ from the outlook for the state as a whole.

The major point of this paper is that there are really several different "rural Alaskas," with widely varying economies and economic outlooks. For those parts of rural Alaska with a strong commercial natural resource base, the long-run economic outlook is good. However, for that significant portion of rural Alaska which is primarily dependent upon state and federal spending for its cash income, there are very serious economic problems which are likely to persist long after the recession ends in other parts of the state. We need to be aware of these problems and begin to think of policies to deal with them which are realistic but also compassionate.

Three Rural Alaskas

In order to discuss the economy of rural Alaska, it is useful to divide rural Alaska into three broad regions, which have very significant differences in their economic structure and outlook. These are the North Slope Borough, "Maritime Alaska," and "Village Alaska."

The North Slope Borough

The eight North Slope Borough villages, with one percent of the population of Alaska, have to be considered unique because of the very wealthy local government, which plays a very significant role in providing employment and public services. In 1984, per capita income in the North Slope Borough was about 25 percent higher than in urban Alaska (Bureau of Economic Analysis data).¹ During the early 1980's the North Slope Borough had nearly full employment at very high wages. Local government spending directly accounted for about 70 percent of this employment (Knapp, 1986, page VI-15). This spending was supported by non-sustainable, massive borrowing to build capital projects. However, this borrowing had to come to an end, and employment in the Borough villages has declined significantly over the past several years due to a decline in capital spending. The prospect for North Slope Borough villages is little if any growth, since there is little prospect for resource development in the

1. The figures for different Alaska regions presented in this talk are based on the following definitions of regions in terms of 1980 census areas: "Urban Alaska": Anchorage Borough, Fairbanks North Star Borough, MatSu Borough, Juneau Borough; "Village Alaska": Wade Hampton, Yukon-Koyukuk, Northwest Arctic (Kobuk), Nome, Southeast Fairbanks, Bethel; Maritime Alaska: all other census areas except for North Slope Borough.

villages or for increases in government spending. However, per capita incomes will remain relatively high compared to many other parts of rural Alaska, because the Borough will remain relatively wealthy.

Maritime and Village Alaska

In looking at the rest of rural Alaska, we need to distinguish between those areas which have significant, economically viable natural resources and those which do not. Most of the commercial natural resources of rural Alaska--fisheries, timber, and much of the Alaska's tourism and mining--are located in coastal areas from Southeast to the Aleutians and Bristol Bay. For this reason, I will refer to this part of rural Alaska as "Maritime Alaska." Obviously some important resource activities, in particular mining, are located in other parts of the state, but most are in maritime Alaska. (Our most valuable resource industry--oil--may be considered an urban industry, because most of the people who work in the oil industry live in urban areas of Alaska).

The remainder of rural Alaska--the area to the west and north of the railbelt--has relatively few resources which have been commercially developed or which offer prospects for significant development. Because a substantial portion of the population of this area lives in small villages, I will refer to it as "Village Alaska."

Figure 1 shows approximate boundaries for these different "rural Alaskas," defined in terms of Alaska 1980 census areas. Ideally, we might draw these boundaries somewhat differently, to include other resource developments in "maritime Alaska," or to include other areas with little resource development in "rural Alaska," but our data do not permit this.

Based on these boundaries, 63 percent of Alaskans live in urban Alaska, 28 percent in maritime Alaska, and 8 percent in village Alaska (Alaska Department of Labor, page 7). If we could draw more accurate boundaries, we would probably consider a higher proportion of the rural population to be part of village Alaska. Approximately 6 percent of the population of urban Alaska is Native, 36 percent of the population of maritime Alaska is Native, and 70 percent of the population of rural Alaska is Native (1980 Census of Population, Tables 56 and 58).

Comparing Urban, Maritime and Village Alaska

There are very significant differences in the economic structure of urban, maritime and village Alaska. As shown in Figure 2, per capita income in 1984 was \$19 thousand in urban Alaska, \$15 thousand in maritime Alaska compared, and \$11 thousand in village Alaska (Bureau of Economic Analysis data).

Official unemployment rates vary throughout the year. However they are usually lowest in urban Alaska and highest in village Alaska. For example, in June 1987, rates were 10 percent for urban Alaska, 12 percent for maritime Alaska, and 18 percent for village Alaska (Figure 3).

FIGURE 1

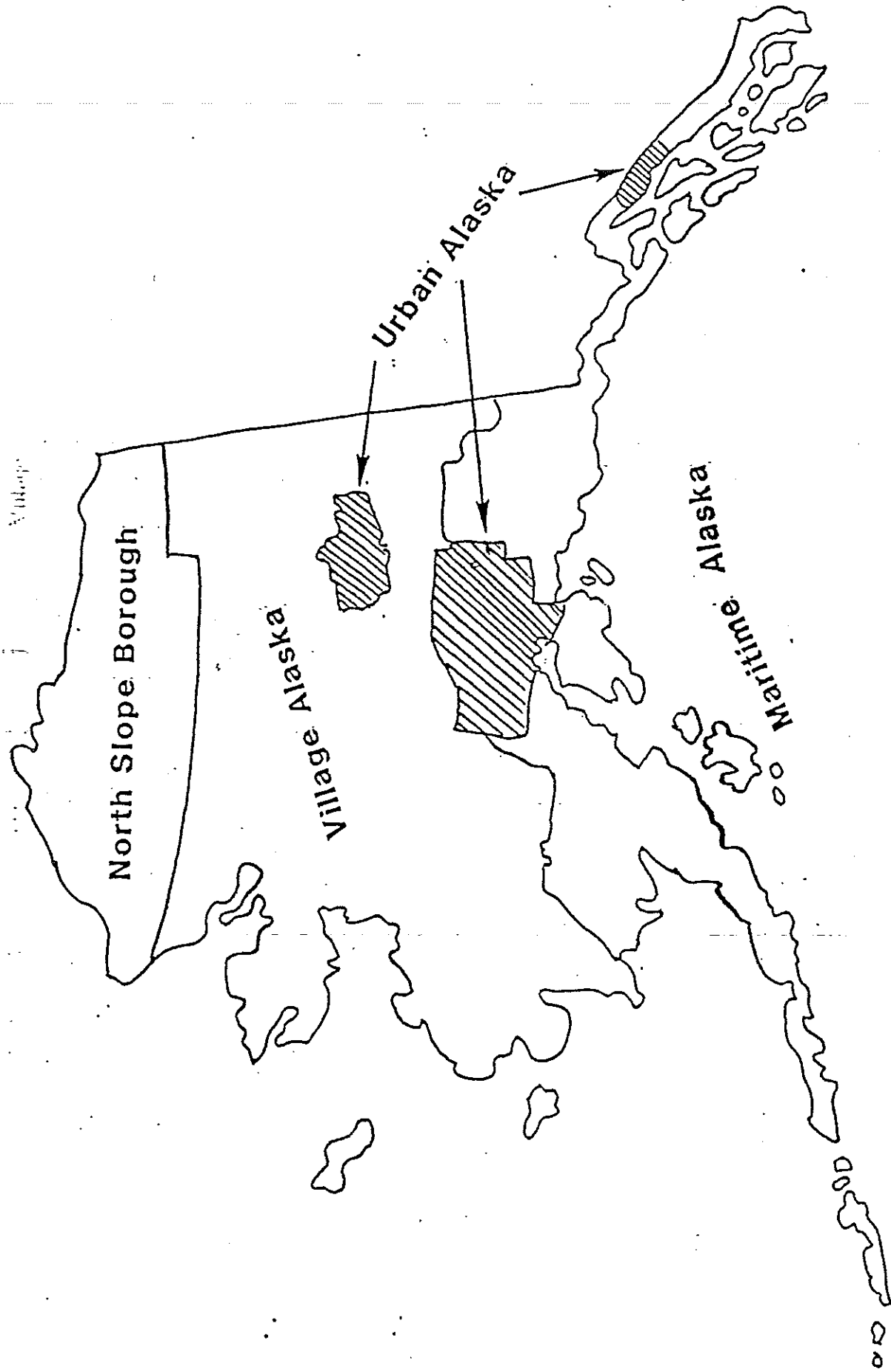


FIGURE 2.

Per Capita Income, 1984

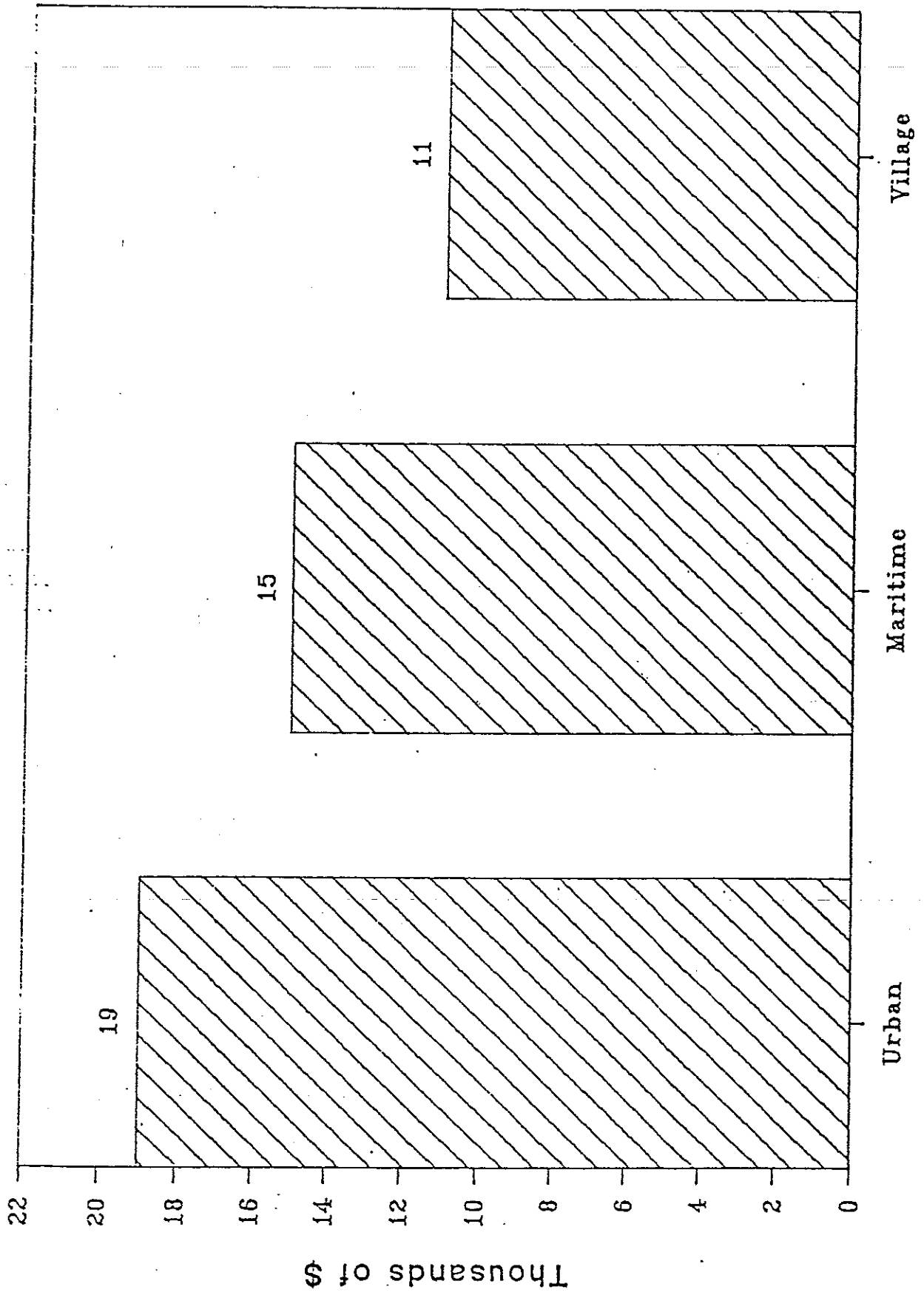
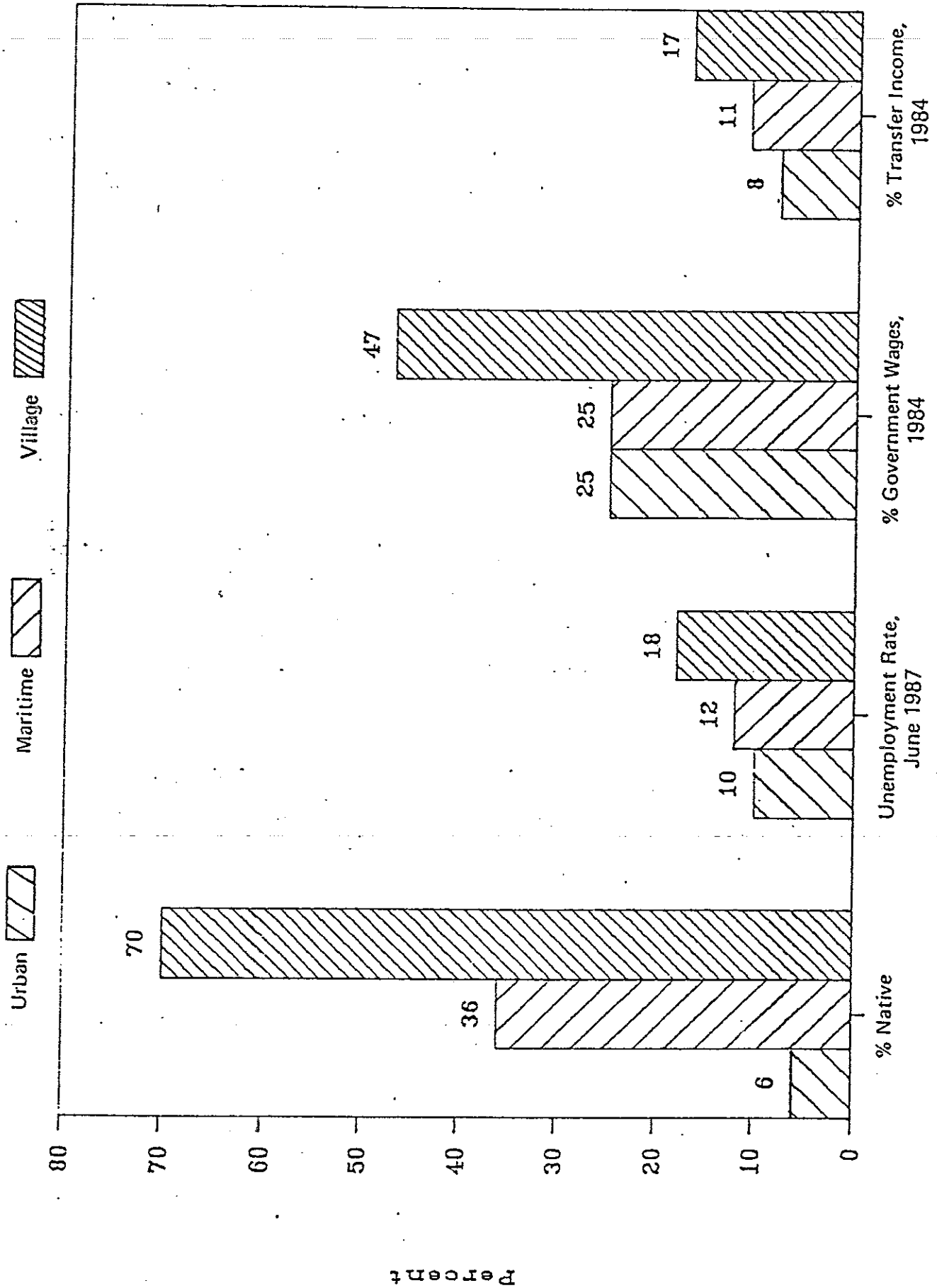


FIGURE 3



The most significant differences in economic structure are in the role of government employment and transfers. In 1984, government (excluding the military) accounted for 25 percent of all wage income in both urban and maritime Alaska. In contrast, government accounted for 47 percent of wage income in village Alaska. Transfers, such as permanent fund dividend checks and AFDF payments, accounted for 8 percent of income in urban Alaska, 11 percent of income in maritime Alaska, and 19 percent of income in village Alaska (Bureau of Economic Analysis data).

In short, there are very significant differences between the economies of those parts of rural Alaska where there are significant resource industries--such as commercial fishing, timber harvesting or tourism--and those parts of rural Alaska which have relatively little commercial resource activity. Put differently, the economic structure of places like Wrangell, Cordova, Kodiak and Dillingham differs significantly from that of places like Sleetmute, Kaltag and Selawik.

The Economic Outlook for Maritime and Village Alaska

The economic outlook is very different for maritime Alaska and village Alaska. We can think of federal and state spending as a rising tide that economically lifted all areas of the state. When this tide receded, it lowered all areas of the state. However, the next "tide" of economic growth will not come from state and federal spending--if anything, state and federal civilian spending appear likely to decline further. Instead, future growth is likely to be based on resource development. Since not all areas of the state are equally endowed with natural resources, future economic growth is going to be much less equally distributed among different areas of the state.

Maritime Alaska

The economic outlook for maritime Alaska is relatively good. After several years of recession, the timber industry is booming. As fish stocks rebound, fish prices rise, and foreign fishing vessels are phased out, many commercial fisheries are also booming. Tourism has also been growing steadily.

Maritime Alaska has significant potential for further economic growth based upon these resources. The economic problems in maritime Alaska arise from the fact that resource exploitation tends to be seasonal, so that there is high unemployment during part of the year. In addition, Maritime Alaska has faced significant periods of boom and bust in the past, which are likely to continue in the future, since most communities are based on a single resource industry.

One of the most significant factors affecting the rate of economic growth of Maritime Alaska will be the rate of economic growth in the nations to which rural Alaska exports--primarily the Pacific Rim as well as the United States. Other key factors will be trends in the value of the dollar (a lower dollar tends to help Maritime Alaska by making its exports more competitive), the extent to which bottomfish processing develops as an onshore or offshore

industry (an onshore industry would have significantly greater impacts), and how rapidly we establish an Alaska mariculture industry.

Ironically, the decline in government spending may actually enhance development prospects in parts of Maritime Alaska. When government spending is high and jobs are easy to find, people demand higher wages and are more selective in what kind of work they are willing to accept. The most talented people may work in government jobs. As these opportunities disappear, people are willing to accept lower wages and to work in new occupations. With less government spending, labor costs will be lower in Maritime Alaska, which may enhance the potential for resource employment--albeit at lower wages than were previously earned in government.

Village Alaska

In contrast, Village Alaska is likely to continue to experience severe economic difficulties while the rest of Alaska begins a gradual economic recovery. The major economic problem facing Alaska in coming years will be dealing with continuing severe economic hardship in Village Alaska.

The fundamental problem in developing a commercial economy in Village Alaska is that where people live does not coincide with where there are development opportunities. Where people live in Village Alaska reflects where there are subsistence resources and public services. Many of these locations are disadvantaged for economic development by lack of resources, remoteness and high costs. With enough money, government spending could support jobs and income everywhere. But government spending cannot create a high-wage, self-sufficient economy everywhere.

There are no easy answers to the economic problem facing Village Alaska. Profitable resource development has been an elusive goal in much of Village Alaska, even when we were wealthier. The state and federal governments are unable or unwilling to support the economy everywhere in Village Alaska at the standard of living which had been hoped for--and in some cases built for. If government spending declines in Village Alaska, as appears likely, we are likely to see more unemployment, lower incomes and a decline or disappearance of some communities.

The current financial difficulties of many rural villages are symptoms of this problem. The solutions which have been proposed, such as loans to local governments, better accounting and more efficient government, may help solve the immediate financial problems of these villages, but it will be more difficult to solve the underlying economic problem.

It is important to make the most of the economic opportunities that do exist in Village Alaska. More of the services provided to Village Alaska, such as retail trade and repairs, could be locally based. Local hire could be increased in government and on public construction projects, if necessary paying lower wages to make up for lower productivity. Local allocations of fish and game resources, for both subsistence and commercial use, could be increased. Exports of labor could be increased, for example in fire-fighting, the National Guard, fishing and fish processing, and the North Slope oil industry. Facilities and rate structures for public utilities could be designed to promote conservation. Taking greater advantage of these kinds of opportunities will not fully solve the economic problems faced by Village Alaska, but could help to make Village Alaska more self-sufficient, without requiring more government spending.

In addressing the problems of Village Alaska, it would help if we had a better idea of what is happening. We need up-to-date economic data for rural Alaska which permits the public and lawmakers to understand and appreciate the differences between different parts of the state. Regular and timely surveys of employment and income in rural Alaska, as well as monitoring of state and federal spending in rural areas, would permit a better understanding of the economic situation throughout rural Alaska.

Finally, as we address the problems of rural Alaska, we need to exercise compassion, even as we grapple with the economic problems of urban Alaska. We need to understand the enormous social and cultural stress that many areas of rural Alaska are facing, which is reflected in tragically high rates of substance abuse and suicide. Urban Alaskans should realize that if we ignore the human problems of rural Alaska they may become human problems of urban Alaska.

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