The Economy of Alaska

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The Economy of Alaska
Oct 31, Nov 7, Nov 14 & Nov 21, 2019
oleanchorage.org
Briefly about me . . .

• PhD in Economics, Yale University, 1981

• Professor of Economics, University of Alaska Anchorage Institute of Social and Economic Research (ISER), 1981-2016

• Director of ISER, 2014-2016

• 38 years studying and teaching about:
  – Alaska economy
  – Alaska resource management, particularly fisheries
  – Alaska and global seafood industry
  – Alaska fiscal issues

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## Organization of this course

<table>
<thead>
<tr>
<th>Class</th>
<th>Date</th>
<th>Topics</th>
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<tbody>
<tr>
<td>1</td>
<td>Oct 31</td>
<td>Some major themes of this course</td>
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<tr>
<td></td>
<td></td>
<td>Overview of Alaska’s economy</td>
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<tr>
<td>2</td>
<td>Nov 7</td>
<td>Theory for explaining Alaska’s economy</td>
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<tr>
<td></td>
<td></td>
<td>Major Alaska industries</td>
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<tr>
<td>3</td>
<td>Nov 14</td>
<td>Alaska fiscal challenges, options and economic implications</td>
</tr>
<tr>
<td>4</td>
<td>Nov 21</td>
<td>The future of the Alaska economy</td>
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<td>Alaska economic strategies</td>
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<td>Rural Alaska economic challenges and strategies</td>
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<td>Other topics (as requested)</td>
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There is no single “Alaska economy”!
There are important economic differences between different regions!
Alaska’s geography creates and constrains opportunities for Alaska’s economy.

Natural resources (oil, minerals, fish, forests)
Natural beauty & wilderness
Strategic location

Remoteness from major markets
Cold climate, mountainous topography, and permafrost

In areas with permafrost, buildings like this facility at Prudhoe Bay need to be built on pilings to keep the permafrost underneath them from melting.
Alaska resource development—and who benefits from it—is driven by land ownership and the priorities of landowners.

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Federal government</td>
<td>59%</td>
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<tr>
<td>State government</td>
<td>28%</td>
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<tr>
<td>Native corporations*</td>
<td>12%</td>
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<tr>
<td>Other owners</td>
<td>1%</td>
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</tbody>
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*Native corporations were created by the Alaska Native Claims Settlement Act of 1971. The shareholders of these corporations are Alaska Natives.
Federal lands are managed by different agencies for widely differing management objectives.

Who Owns/Manages Alaska?

- **Private Ownership** - 12.1%, 46.2 million acres
- **State of Alaska** - 24.1%, 89.9 million acres
- **U.S. Government** - 63.8%, 237.8 million acres

Russian traders arrived in Alaska in the mid-1700s and established small, scattered trading posts and settlements. Alaska Natives (the Eskimo, Indian, and Aleut peoples) continued as the primary landowners during this period of Russian occupation. On October 18, 1867, Russia sold Alaska to the United States government. As a result, the federal government owns 70% of Alaska, approximately 373 million acres - about one-fifth the size of the rest of the U.S.

- **State of Alaska - 69.9 million acres**
- **Bureau of Land Management - 82.5 million acres**
- **U.S. Fish & Wildlife Service - 78.0 million acres**
- **National Park Service - 52.4 million acres**
- **National Forest Service - 22.3 million acres**
- **U.S. Forest Service - 22.3 million acres**
- **Department of Defense - 1.7 million acres**

Alaska is one-fifth the size of the conterminous 48 states.

http://forestry.alaska.gov/Assets/pdfs/posters/07who Owns_alaska_poster.pdf
North Slope oil production has had profound implications for Alaska’s economy.
Fluctuating oil prices have had profound implications for Alaska’s economy.

Average Annual Crude Oil Price (ANS West Coast)

"Real" price (adjusted for inflation, expressed in 2017 dollars)

"Nominal" price (not adjusted for inflation)

Source: Alaska Department of Revenue Fall Revenue Sources books. Adjusted for inflation based on Anchorage CPI.
The value of North Slope oil production has fallen dramatically—with profound implications for Alaska’s government and economy.

Value of Alaska North Slope Oil Production

"Real" value
(adjusted for inflation, expressed in 2017 dollars)

"Nominal" value
(not adjusted for inflation)

Source: Alaska Department of Revenue Fall Revenue Sources books. Adjusted for inflation based on Anchorage CPI.
Alaska is a state, not a country!
This has major implications for Alaska’s economy!

- Federal spending, subsidies and taxes
- Federal ownership/control of Alaska lands and fisheries
- Federal economic and environmental regulations
- Free trade with US market and relatively free trade with world markets
  - Bigger markets for Alaska
  - More competition for Alaska
- Free migration to and from other states
  - Access to high-skilled labor
  - Significant non-resident employment
  - High migration in and out as economic conditions change
- Free investment flows in and out
  - Significant investment from other states and countries
  - Significant flow of profits to other states and countries
  - Significant non-Alaska control of the economy
Alaska faces significant economic development challenges

• Alaska is a high-cost place to do business.

• It’s hard for many kinds of economic activities to be competitive with other places that have:
  – lower labor costs
  – better infrastructure
  – larger internal markets
  – lower transportation costs to world markets

• We don’t agree about what kind of development we want
  – Almost every Alaska resource development opportunity—oil, mining, logging, cruise ships, sport fishing lodges, fish farming—is opposed by at least some local residents or other resource users who prefer to keep things as they are.
The economic activities in which Alaska can most easily compete, and which make up for most of Alaska’s economy, include:

• Industries paid for in full or in part by the federal government
  – Military
  – Federal civilian government
  – Construction (federally funded projects)
  – Healthcare (federal health care grants)

• Industries producing natural resources in limited global supply
  – Oil, Seafood, Mining, Tourism

• Industries taking advantage of Alaska’s location
  – International air cargo

• Industries producing for the Alaska market
  – Retail trade, Services
It is difficult for government to promote Alaska economic development

• Government can create jobs anywhere by spending money.
  – Governments have done that throughout Alaska’s economic history
  – But jobs supported by state or federal spending are only as sustainable as state revenues
    and federal willingness to spend in Alaska.

• The federal and state governments have a generally poor track record in creating sustainable,
  profitable private-sector industries in Alaska by spending money.
  – Businesses which need government support to get started often need government support
    to keep going.

• Many government-funded projects economic development projects have ended in complete
  failure
  – Delta Barley project, Point McKenzie dairy project, Alaska Seafood International plant

• Building infrastructure such as roads, ports and energy projects can help development by
  lowering the costs businesses face.
  – But lowering transportation and energy costs isn’t necessarily enough to overcome other
    cost disadvantages of remoteness, low population, and a harsh climate.

The $50 million Alaska Seafood International Plant in Anchorage was sold to a church group for $25 million.
**Surprises**

Many of the most important events which have changed Alaska’s economy have been almost completely unexpected. Examples include World War II, the 1964 earthquake, the discovery of the giant Prudhoe Bay oil field, the Exxon Valdez oil spill, and dramatic fluctuations in oil prices.

There are probably more surprises in Alaska’s future, which may have similarly unanticipated and dramatic effects.