

ALASKA PERMANENT FUND PROTECTION ACT

Alaska's Economic Story

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ALASKA ECONOMIC STORY

- Alaskans have had an economic view
 - Based on other regions' development
 - Based on its own development
- Alaskans need a current economic view
 - Based on how resource economies work
 - Based on Alaska's resource experience
 - Based on future needs
- An economic view provides a framework for policy solutions





ALASKA HISTORICAL ECONOMIC VIEW

FRAMEWORK FOR ECONOMIC ANALYSIS

- Harold Innis- Canada and the export of primary products (“staples”)
 - Export finances modernization, economic growth, and diversification
- “New Economic History” - Douglass C. North, C.M. Tiebout, Robert Fogel, Simon Kuznets
 - Quantification
 - Multiplier mechanism
 - Economic-base analysis, regional forecasting, impact analysis
- Standard approach for development agencies, chambers of commerce, regional planning, governments



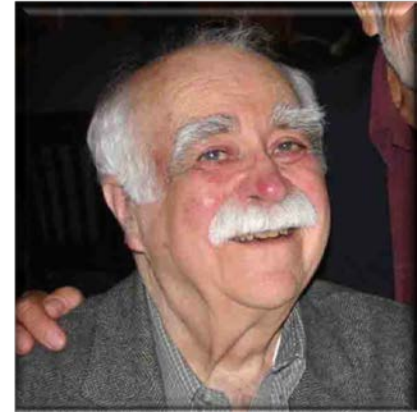
FRAMEWORK FOR ALASKA DEVELOPMENT

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- 19th Century economic success of Canada, US, Australia, Argentina
 - Resource wealth
 - Rejection of “colonial control”
 - Suitable, market-based development policy to optimize wealth
 - Export-led economy
 - Larger, growing, and more diversified economy
 - Economic, political, and social well-being
 - More productive population
 - Wealthier population



MAJOR STRANDS OF ALASKA DEVELOPMENT

- Native Alaska economy (10,000 B.C.-present)
- Russian-American fur (1786-1867)
 - Yankee whaling (1847-1880s)
- Colonial Alaska – federal territory
 - US fur (1867-1911)
 - Gold and copper (Kennecott 1915-1928)
 - Canned salmon (1878-1940s)
 - Military Alaska (1942 – 1960s)
- Alaska oil era (1950-present)
 - Cook Inlet (1950-present)
 - Prudhoe Bay (1969-present)

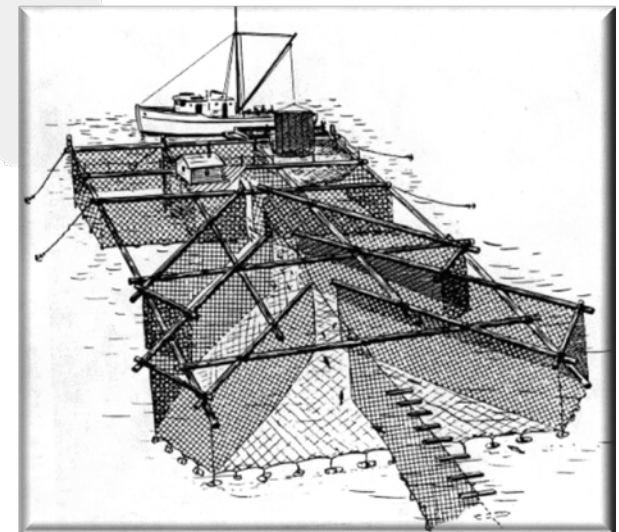
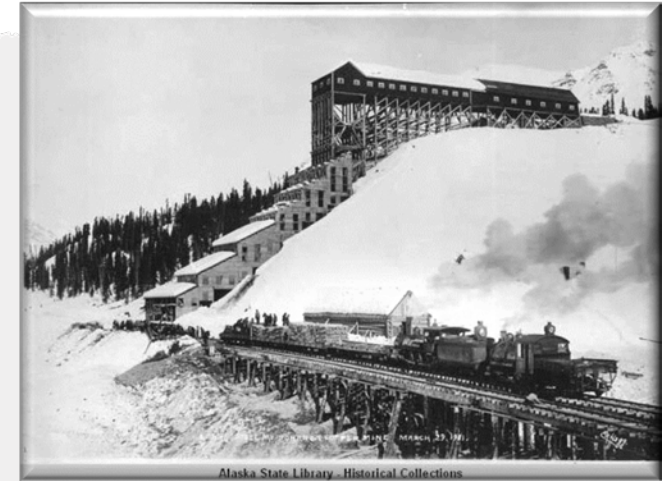


George Rogers &
Arlon Tussing,
University of Alaska,
Institute of Social &
Economic Research



DEVELOPMENT ALONE IS NOT ENOUGH FOR ECONOMIC GROWTH

- Prior to Statehood few benefits stayed within Alaska
 - Kennecott Mine
 - No lasting growth
 - Fish traps
 - Controlled by Outside owners



<http://www.alaskool.org/projects/traditionallife/fishtrap/fishtrap.htm>



POLICY & GOVERNANCE

- Comparative advantage in oil and gas
 - Export-led growth
 - Engine of economic growth
- Market-based economy
- Rule-based, democratic government
- Capture economic rents and revenue
 - Taxation as sovereign
 - Royalty as owner

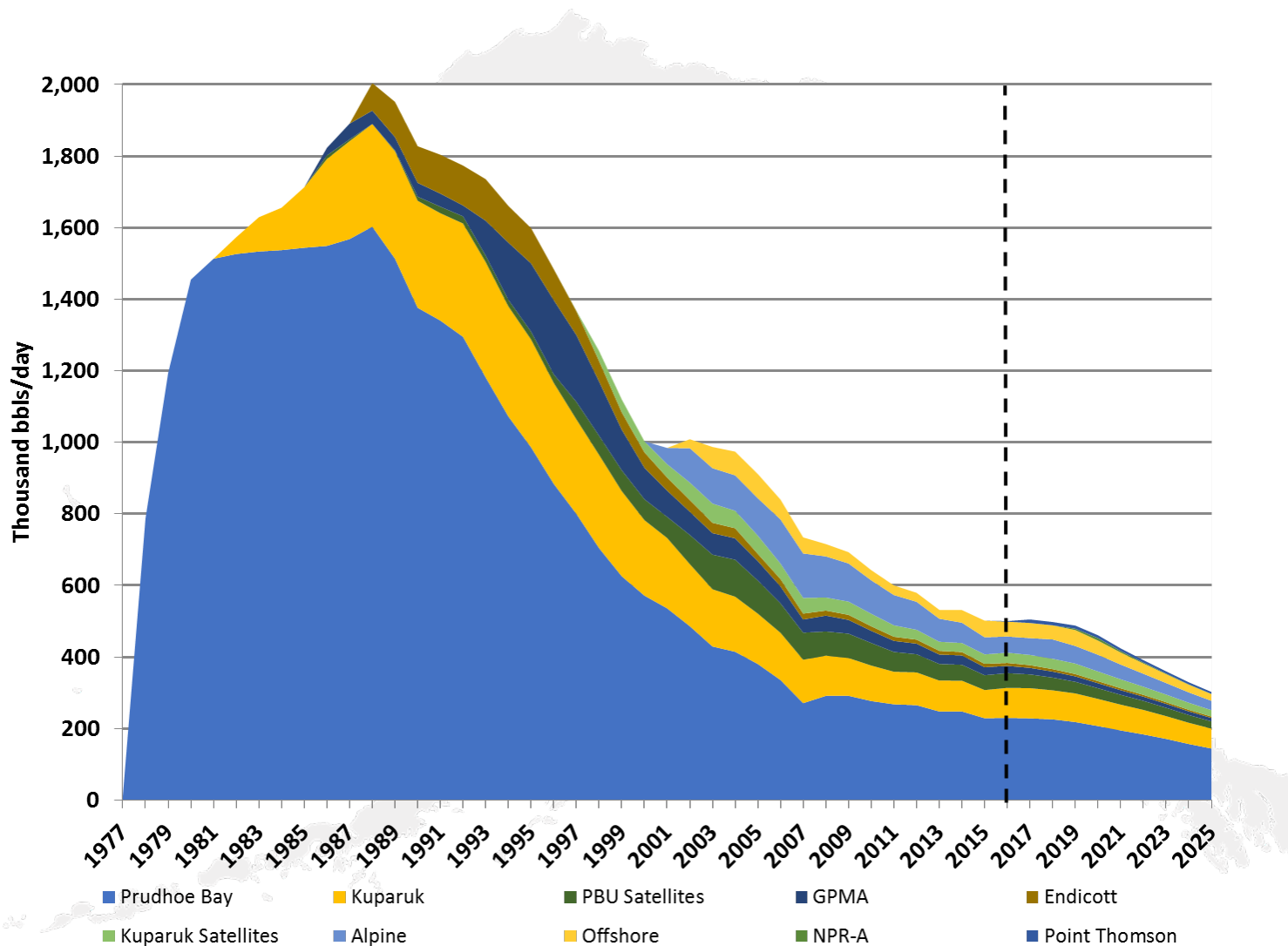


POLICY & GOVERNANCE CONTINUED...

- Strategies to deal with “white elephants” and opportunity costs
 - “*Don’t plant dollars to harvest nickels...*” Governor Hammond
- Save surplus revenue
 - Permanent Fund and other funds
- Alaska developed independent agencies to address economic change
- Realized we couldn’t buy a “balanced economy” or “self- sufficiency”
- Distribute part of resource wealth to population as dividends



PRODUCTION HISTORY AND FORECAST



SOURCE: Department of Revenue - Revenue Sources Book Fall 2015

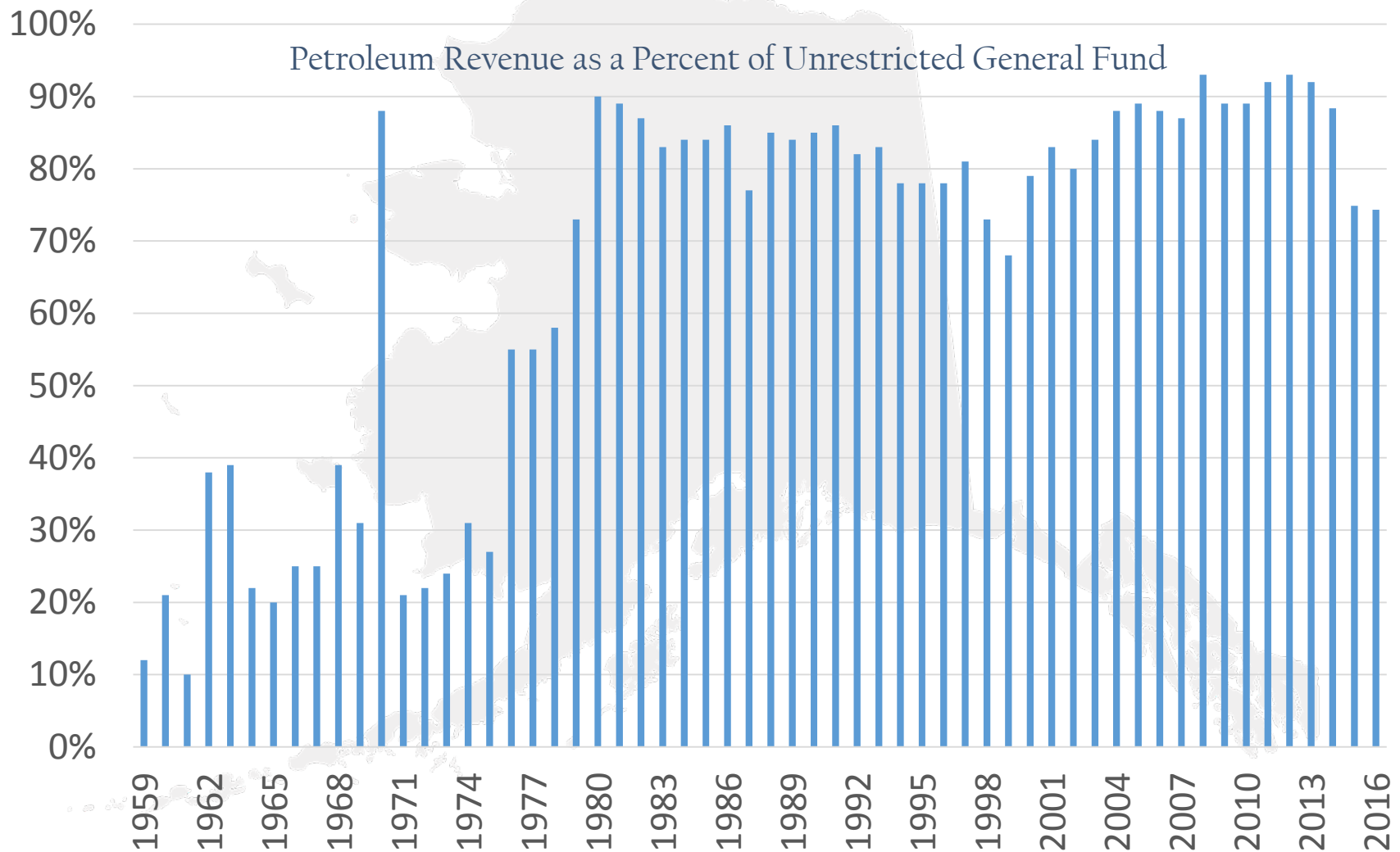


ECONOMIC AND POLICY PATTERNS

- Before 1960 - Statehood and resource control
- 1960s and 1970s - State establishes basic system over oil revenues and creates Alaska Permanent Fund in 1976
 - Rapid economic growth
- 1980s - increasing oil production, changes in oil price
 - Economic expansion followed by contraction
- 1990s - oil production begins to decline, changes in oil price
 - Economic expansion, some diversification, contraction
- 2000s - production declines, but commodity prices increase
 - Slow, steady economic growth
- 2015 - Production continues decline, commodity prices collapse between 2014 and 2015



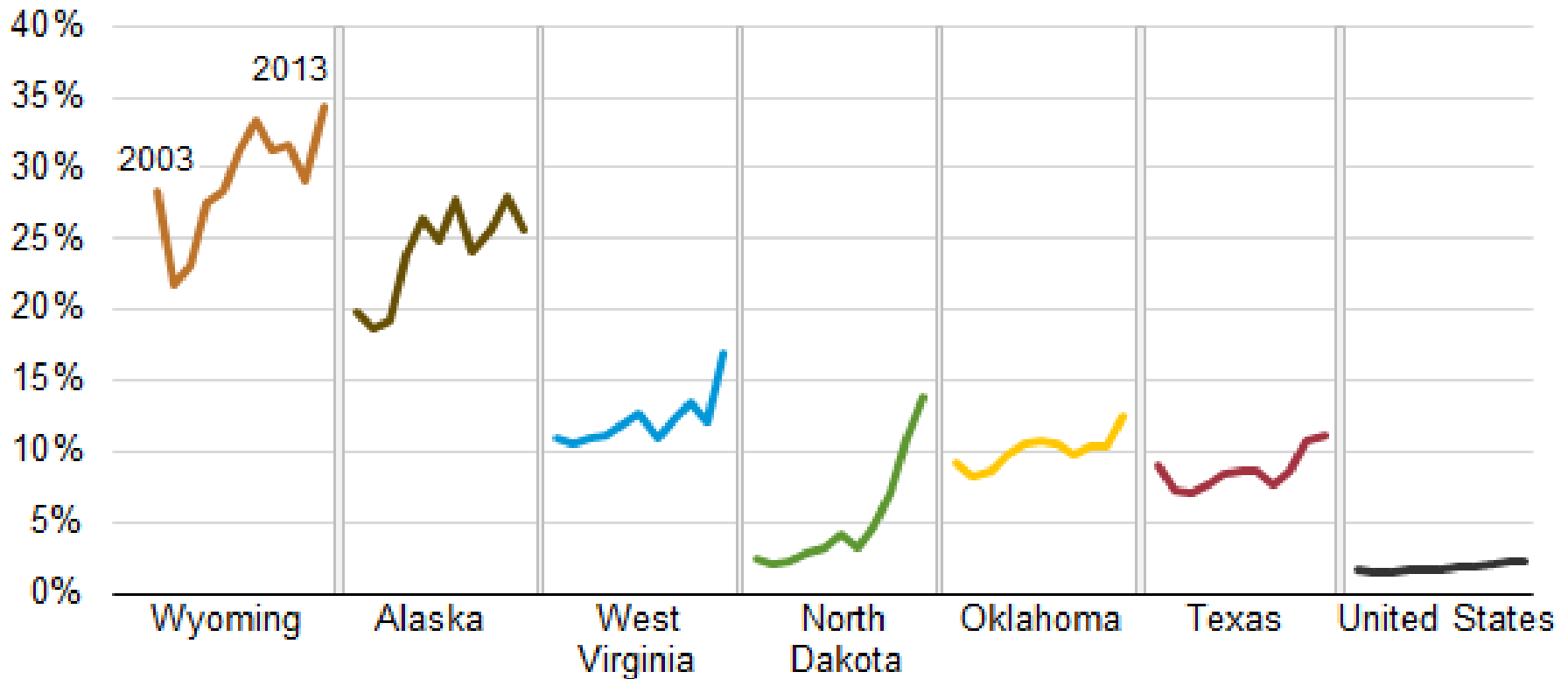
ALASKA BUDGET IS HEAVILY RELIANT ON PETROLEUM REVENUE



US RESOURCE-RICH STATES

percent of real gross state product, 2009 dollars

cia



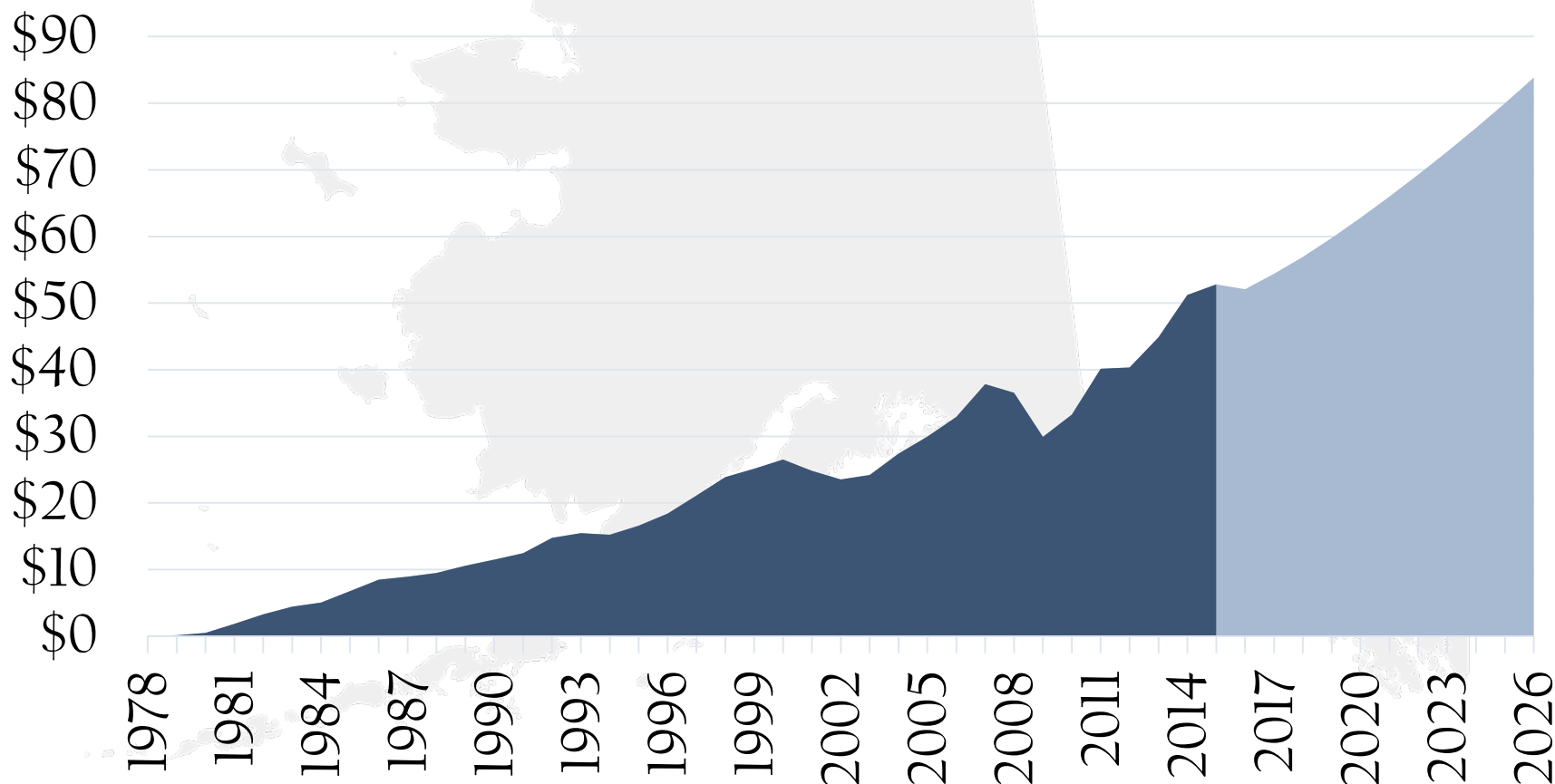
Oil and gas production and mining as a share of the economy, 2003 -2013

SOURCE: US Energy Information Agency



ALASKA'S FINANCIAL ASSETS

Permanent Fund balance (\$ billions, nominal)

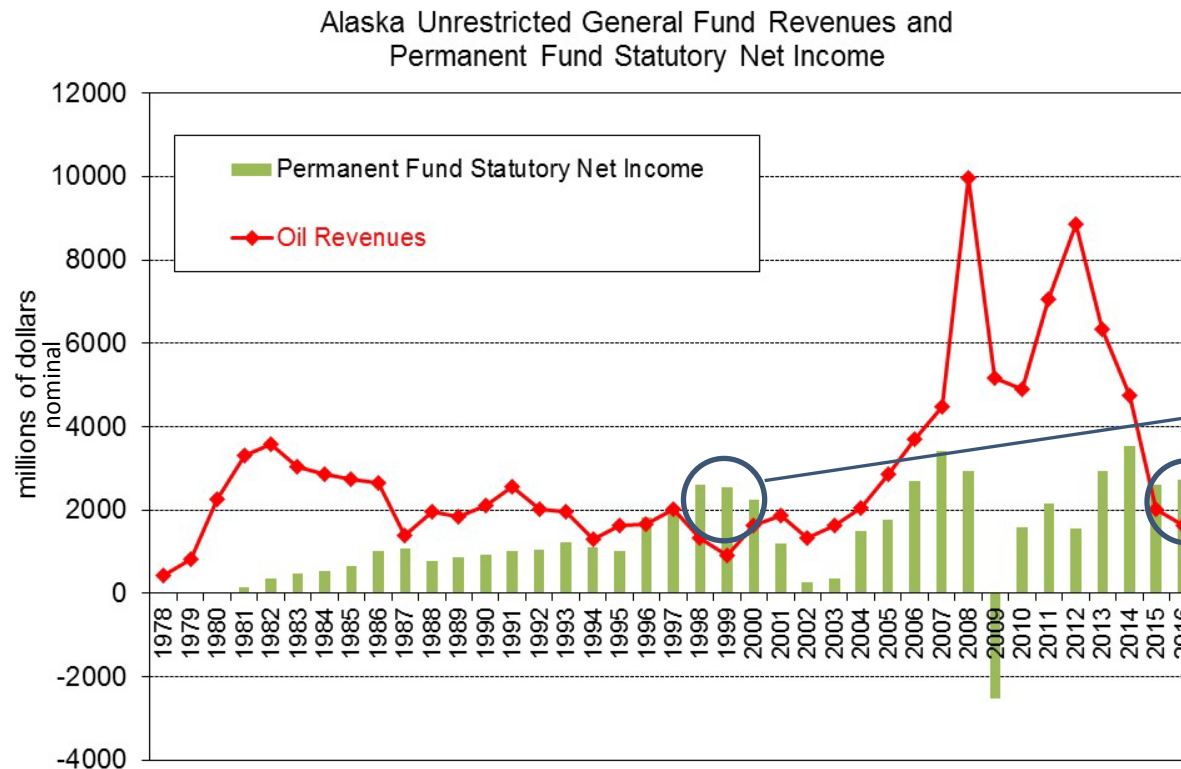


Source: Alaska Permanent Fund Corporation



INVESTMENT - SECOND COMPARATIVE ADVANTAGE

The management of financial assets is probably the state's greatest economic competitive advantage in the 21st Century



Investments
earn more for
the state than
petroleum
revenue

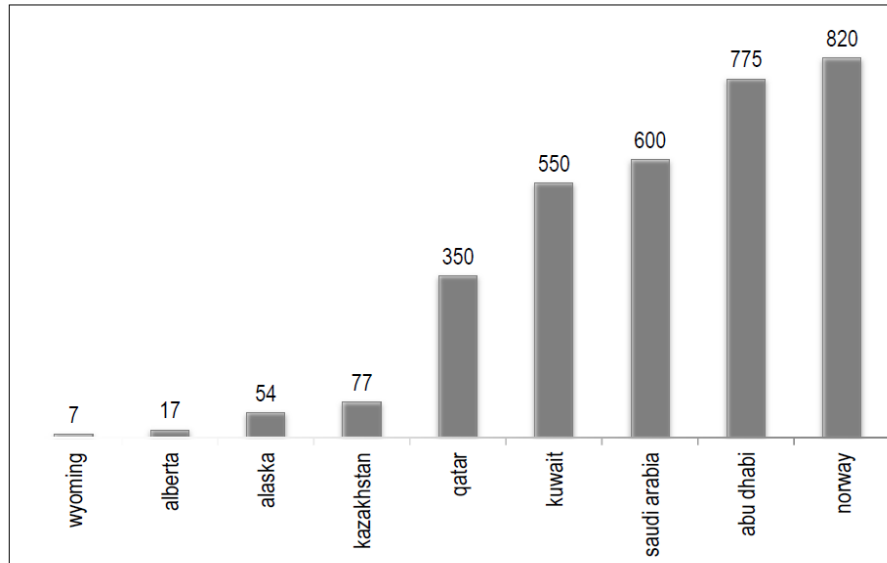
Source: Alaska Permanent Fund Corporation and Alaska Department of Revenue



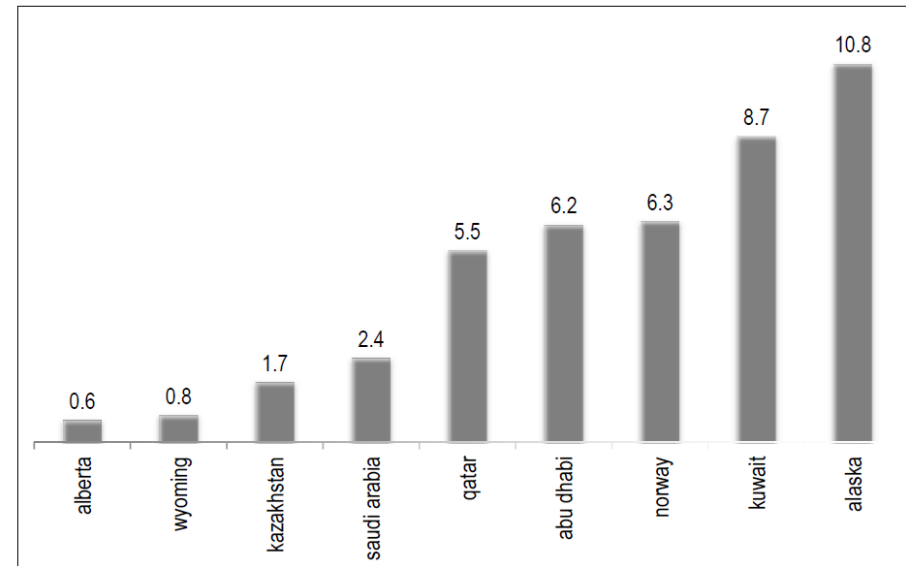
ALASKA — ONE OF THE WEALTHIEST REGIONS IN THE WORLD

SWF assets under management

billions of dollars



Size of assets relative to budget

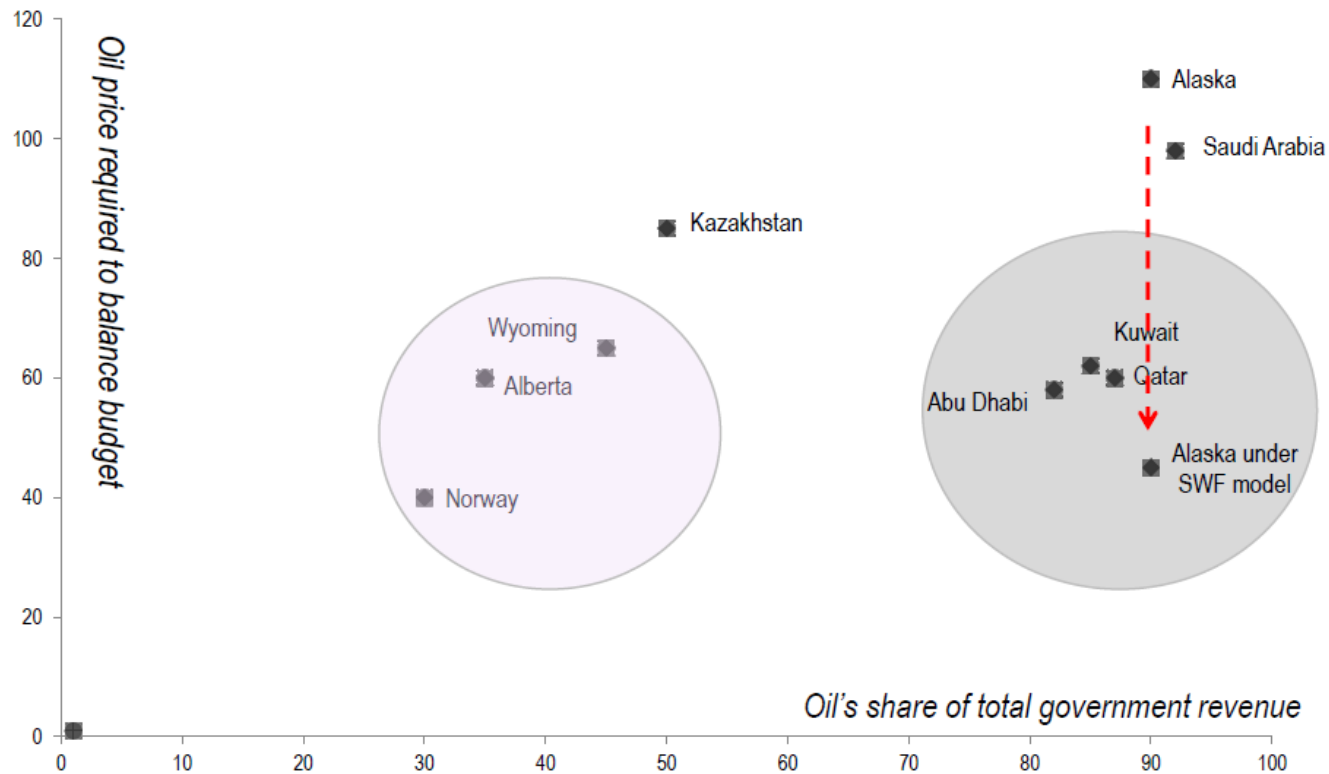


Source: Malan Rietveld



MOVING ALASKA TO A SAFE HARBOR

Oil's % of revenue & fiscal break-even price



Source: Malan Rietveld

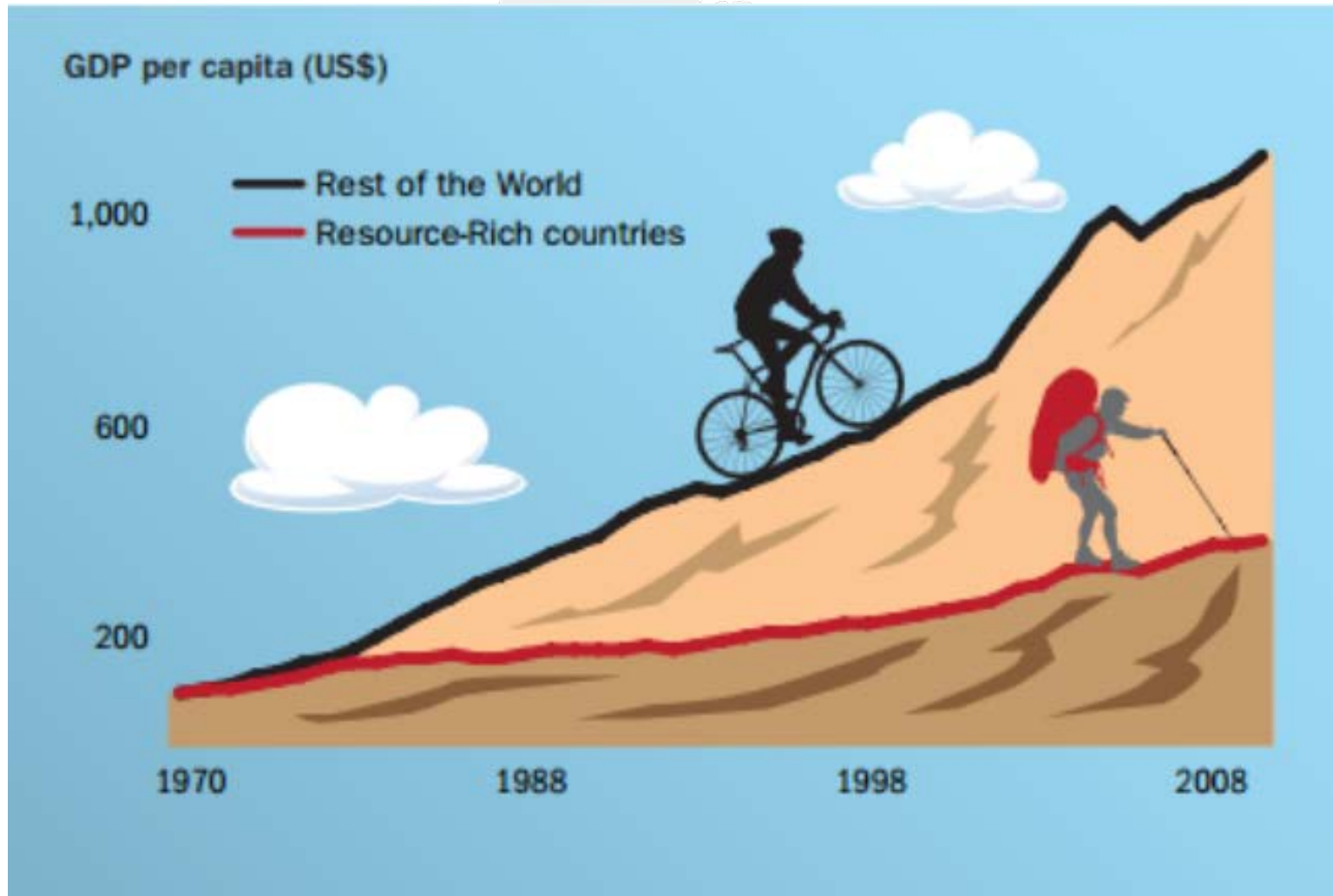




CURRENT ECONOMIC THINKING FOR RESOURCE EXPORTING COUNTRIES AND ALASKA

NATURAL RESOURCE CURSE

Rich in Resources, but slow Economic Growth

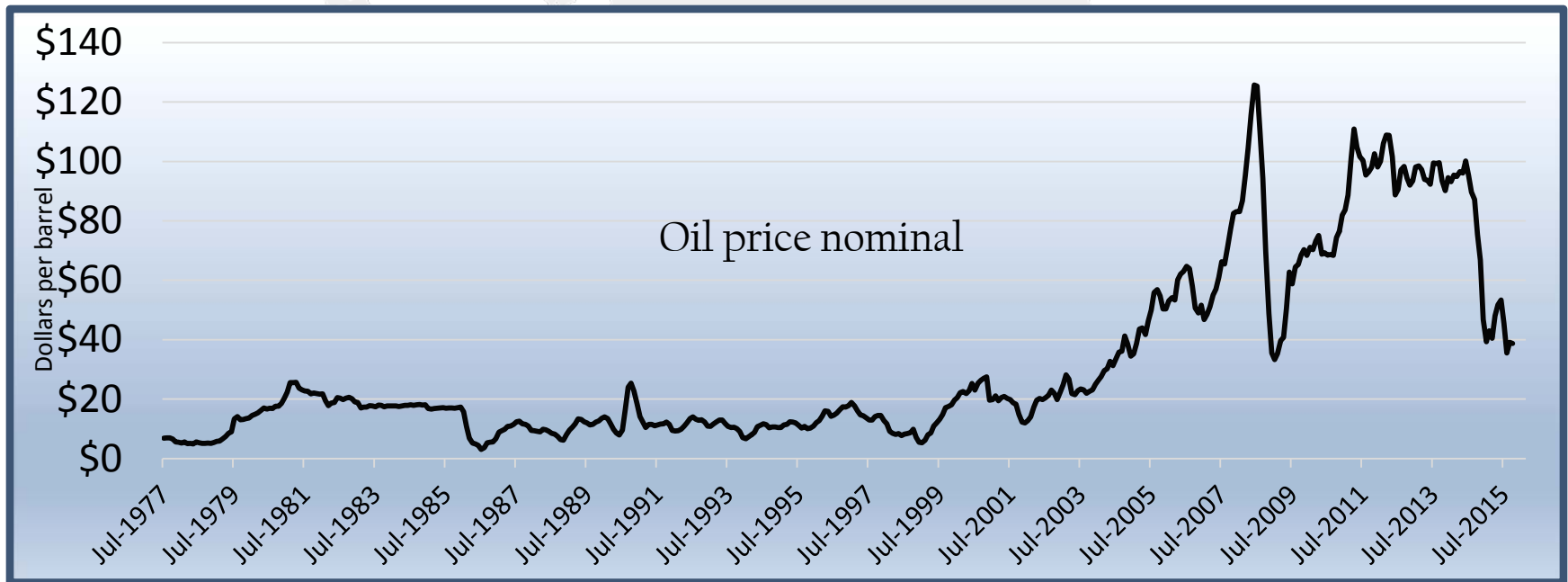


SOURCE: International Monetary Fund



WHAT IS PRICE VOLATILITY?

- Price volatility is the variation (change) in commodity prices
- Commodity prices are volatile, unpredictable, and subject to long-lasting shocks
- Leads to revenue volatility



Source: Alaska Department of Revenue

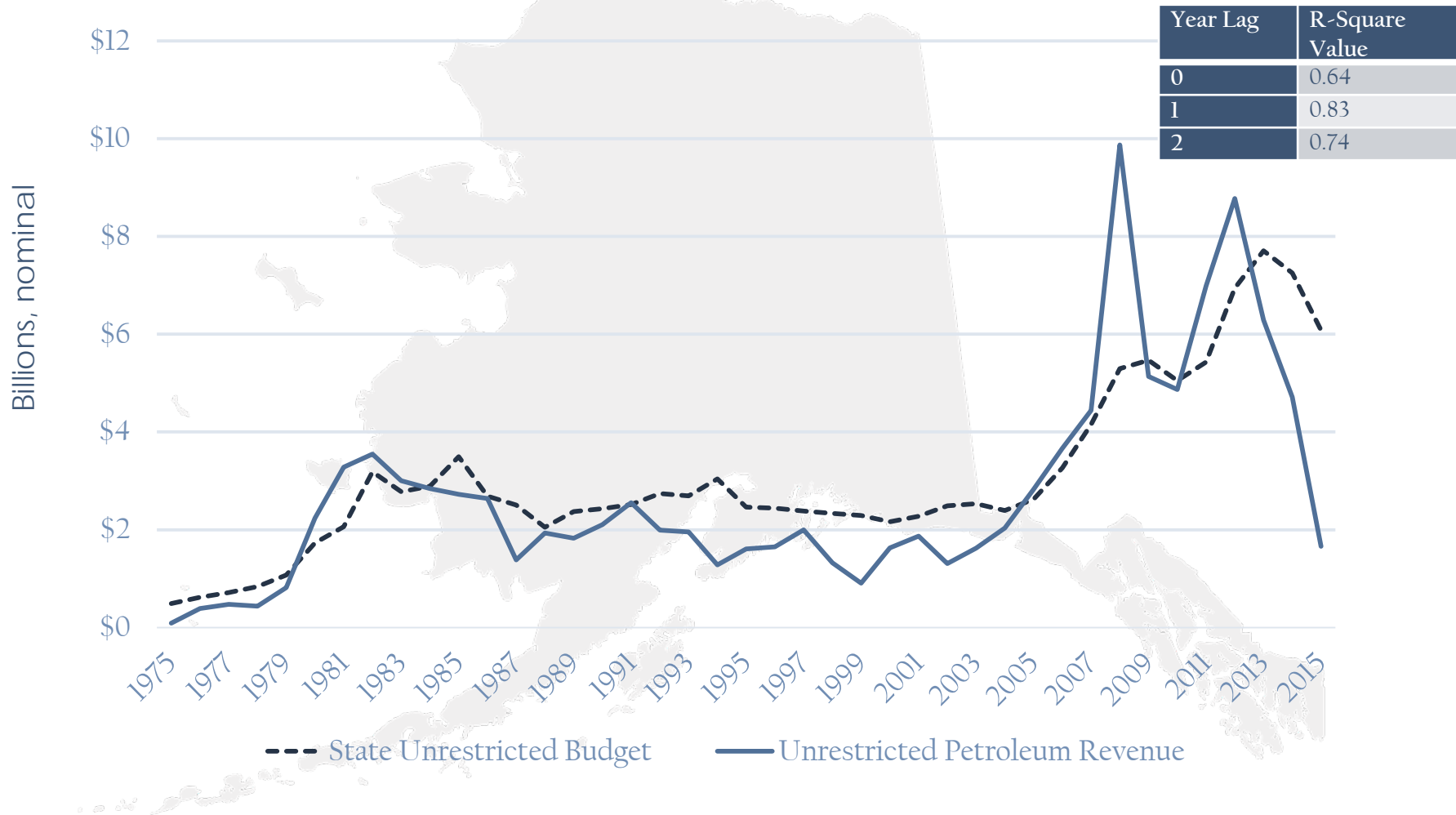


“...VOLATILITY IS A QUINTESSENTIAL FEATURE OF THE RESOURCE CURSE.”

- Government planning, budgeting difficult
 - Pro-cyclical spending or roller coaster spending
 - institutional and political instability
- Economic growth difficult
 - planned development, attracting outside investment, and the well-being of population difficult
- Destabilizes savings
 - spending saved principal undermines future investment return
- Can undermine social stability



Alaska Pro-cyclical Spending



VOLATILITY — A SYSTEMIC ISSUE

- Price volatility leads to....
- Volatile oil revenues lead to...
- Volatile government spending leads to....
- Volatile economy leads to....
- Volatile private investment leads to....
- Volatile labor and real estate markets leads to...
- Overheating or under-heating the economy leads to....
- General economic instability leads to....
- A breakdown in investor confidence leads to ...
- Instability.



WHERE IS LONG-TERM VOLATILITY GOOD?

- Volatility in government budgeting is destabilizing
- Regions with wealth funds mitigate negative effects of volatility
 - Regions with well-developed financial sectors mitigate the negative effects of volatility
- Volatility can be managed in an investment fund to stimulate long-term growth



AN EFFECTIVE FISCAL FRAMEWORK MUST INCLUDE:

Macro-
stability



Build fiscal
buffers; avoid
over-spending in
the good years

More
stable
revenues



Improve
taxation of
resource and
non-resource
sectors

Better
use of
resources



Spend more
efficiently;
reform fuel
subsidies

Strong
Institu-
tions



Improve
medium-term
planning and
investment
institutions

INTERNATIONAL MONETARY FUND / www.IMF.org / #FM

SOURCE: International Monetary Fund



ALASKA PERMANENT FUND PROTECTION ACT

THANK YOU

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