

Economic Impacts of Alaska's Fiscal Options: Summary of Preliminary Conclusions

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ISER's study of economic impacts of Alaska fiscal options

- ISER is doing a study of economic impacts of Alaska fiscal options
- The study is funded by the Alaska Department of Revenue and the Office of Management and Budget
- The study is primarily looking at:
 - Comparative short-term economic impacts of different Alaska fiscal options per \$100 million of deficit reduction
 - Distributional impacts of Alaska fiscal options: which groups would pay the most and/or experience the greatest impacts on jobs and income
 - Short-run economic impacts of reducing and not reducing the deficit
 - Other economic impacts of fiscal options (we are only discussing these qualitatively)
- We expect to complete a draft study in late January and a final study (after review) in mid-February
- This presentation briefly summarizes some preliminary findings of the study.

The reality of Alaska's fiscal choices

- Alaska faces a \$3.5 billion deficit.
- We will *have to* greatly reduce this deficit within a few years.
- Hoping for oil prices and revenues to rise enough to close the deficit is neither realistic nor responsible.
- Our only real options for closing the deficit are some combination of:
 - Cutting spending
 - New taxes
 - Cutting dividends (and using the money to fund government)
 - Saving less (by cutting Permanent Fund inflation proofing or earnings reserve growth)
- None of these options could fully close a \$3.5 billion deficit.
- There are limits to how much we could get from each option: we may need to use *all* our options.

There is no way to close Alaska's \$3.5 billion deficit without significant short-term economic impacts on Alaska's economy.

- Closing the deficit in one year could have a large economic impact on an already-weak economy.
- But delaying significant progress on reducing the deficit could also have large economic impacts due to:
 - Business uncertainty and loss of investor confidence
 - Impacts on Alaska's credit rating
- We will *have* to close most of the deficit in the near future.
- We will face a smoother economic transition if we make significant progress this year on reducing the deficit and planning for future reductions than if we
 - Fully close the deficit this year
 - Don't make significant progress this year

Comparative short term economic impacts of Alaska fiscal options . . .

- The economic impacts of **cutting spending** depend critically on what is cut.
 - They would be largest for cutting government workers.
 - They would be smallest for cutting government purchases from outside Alaska.
 - They include the economic impacts of resulting reductions in state services (which would vary widely depending on what is cut).
- **Cutting spending**, **new taxes**, and **cutting dividends** would all have significant short-term economic impacts on Alaska jobs and income.
 - Total job impacts would be greatest for **cutting government workers**.
 - Total income impacts would be similar for all three options
- Of Alaska's fiscal options, only **saving less**—by reducing inflation proofing or adding less to the earnings reserve and using the money instead to fund state government—would have no short-run economic impacts. But:
 - Saving less would reduce future Permanent Fund earnings
 - We can't close the deficit solely by saving less.

Different fiscal options have different distributional implications

- Our fiscal options vary significantly in who would be most affected
- **Cutting spending** would most affect government and contractor workers and regions with high government employment—as well as Alaskans who depend on the government services that are cut.
- Of our other fiscal options:
 - For wealthier Alaskans, the impacts would be greatest for **income taxes**, followed by **sales taxes** and **dividend cuts**.
 - For poorer Alaskans, the impacts would be greatest for **dividend cuts**, followed by **sales taxes** and **income taxes**.
- The impacts of our fiscal options would be partly offset by lower federal tax payments (because **dividend cuts** reduce income and **income and sales taxes** would be deductible).
- **Income taxes** and **sales taxes** would be partly paid by non-resident workers and visitors.

Short-term economic impacts matter—
but they should probably not drive our fiscal choices.

- Our fiscal options differ with respect to many longer-run economic impacts which are difficult to quantify but which may be very important, such as impacts on:
 - labor and other costs
 - future economic development opportunities
 - the attractiveness of Alaska as a place for people to live and businesses to invest
 - what kinds of people choose to live and work in Alaska
 - Alaska income distribution
- We should think about these kinds of longer-run impacts as we think about our fiscal choices.
- We should think about what we want Alaska to be like in the future