

Economic Impacts of Alaska Fiscal Options: A Study ISER is Starting Some of What We Already Know

Gunnar Knapp
Director and Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
Gunnar.Knapp@uaa.alaska.edu

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UAA Institute of Social
and Economic Research
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Alaska is facing difficult choices between difficult fiscal options.

- We have been running very big deficits
- We have been using reserve funds to pay for the deficits
- Our reserve funds are running out
- Within a few years, we will have to reduce the deficits
- Our only options are:
 - More spending cuts
 - New revenues
 - Using Permanent Fund earnings

One of the issues in making these choices is how different options would affect our economy.

ISER is doing a study of economic impacts of Alaska fiscal options

- \$60,000 study funded by DOR and OMB
- Study is just beginning
- Timeline
 - Mid-September: Preliminary report
 - Mid-December: Draft final report
 - Early January: Final Report

We welcome your advice about this study

- We want the study to be helpful to Alaskans
 - Particularly to the legislature which has to make the hard choices
- We welcome your advice:
 - Today or any other time
 - By email, phone, meetings
 - What fiscal options do you want to know about?
 - What economic impacts do you want to know about?
- We will form an informal study advisory group:
 - Looking for a wide range of perspectives
 - Will meet by teleconference two or three times
 - To advise about study design
 - To review preliminary and draft final reports
 - We would welcome legislative participation

We are not advocating for or against any options

- Our goal is to help inform the discussion
- We will compare impacts of different options in a consistent, objective way

We will study economic impacts of a broad range of fiscal options, including but not limited to:

- SPENDING CUTS
 - Capital budget
 - Operating budget
 - Across the board
 - Specific kinds of spending
- NEW REVENUES
 - Income taxes
 - Sales taxes
 - Resource taxes (fishing, mining, etc.)
 - Changes to oil taxes and credits
- USING PERMANENT FUND EARNINGS
 - By using earnings which would otherwise go to dividends
 - By using earnings which would otherwise be saved

We welcome advice about what fiscal options we should study.

We will study several different types of economic impacts

- Impacts on jobs and income of Alaskans
 - By sector (government and private)
 - By industry
 - By region
 - By income group
- Impacts on Alaska migration and population
 - Migration within Alaska and between Alaska and other states
- Short-run and long-run impacts
 - Short-run effects on jobs and income
 - Long-run “feedback loops” on investment and development
- Who pays for fiscal options:
 - Extent to which they collect revenues from non-residents
 - How they affect our federal income taxes

We welcome advice about what impacts we should study.

We will study both absolute and relative economic impacts of fiscal options

- Absolute impacts:
 - total jobs and income impacts of each option
 - A \$600 million income tax has a bigger impact than a \$100 million school tax
- Relative impacts:
 - Jobs and income impacts per \$100 million saved or raised
 - Per \$100 million raised, the impact of an income tax might be bigger or smaller than a school tax

How we will do the study

- Review major findings of past ISER studies
- Update past ISER studies using current data
- Review other studies
- Use “input-output modeling” to estimate short-run job and income impacts of different options
- Use ISER’s *Alaska Economic and Demographic Model* to estimate long-term economic and demographic impacts
- Use IRS income data to estimate how fiscal options would affect different income groups

Limits to the study

- We will have to make a lot of assumptions
 - How spending cuts would be made
 - How new revenue options would be designed
 - How the Alaska economy works
- Longer-term “feedback” impacts of fiscal options are harder to project and analyze
 - investment
 - migration
 - economic development
- We will provide the best available estimates of impacts given the limits of data
- We will discuss the relative certainty or uncertainty of our estimates

We already know a lot about economic impacts of different fiscal options.

ISER has been studying this issue for a long time.


A COMPARATIVE ANALYSIS OF THE ECONOMIC EFFECTS OF
REIMPOSING PERSONAL INCOME TAXES, REDUCING
PERMANENT FUND DIVIDENDS, OR REDUCING STATE SPENDING

prepared by

Oliver Scott Goldsmith
Institute of Social and Economic Research
University of Alaska, Anchorage
3211 Providence Drive
Anchorage, Alaska 99508

prepared for

Special Committee on Taxation
Alaska State Legislature
Representative John Sund, Co-Chair



May 1987

From ISER's 1987 study . . .
(28 years ago)

How would Alaska's economy be affected if the state government replaced some of its declining oil revenues by reimposing a personal income tax or by reducing the amount paid out in Permanent Fund dividends? Or what if state officials did neither and simply reduced state spending? Would one measure affect the economy more than the others?

The most important fiscal challenge the Alaska Legislature and Governor Cowper face is bringing state spending in line with revenues the state can sustain, while at the same time minimizing further loss of resident jobs and income. We looked at the effects on Alaska jobs and incomes of several proposed ways of balancing the state budget; there are, of course, many other considerations in taxing and spending policies.

What we've learned from past studies

- There are no painless options
- All our fiscal options would affect Alaska's economy
- Different options have different economic impacts
 - Different impacts on industries, income groups and regions
 - Different effects on investment, development and future revenues

From ISER's 1987 study . . .
(28 years ago)

In our examination of these selected fiscal issues, we found that either reimposing income taxes or reducing dividends would reduce purchasing power of Alaskans and, therefore, cost the economy jobs and income. But our analysis shows that a personal income tax at the level proposed by Governor Cowper would cost the state somewhat fewer jobs and less income than would a similar dollar reduction in Permanent Fund dividends. It also demonstrates that state spending of either taxes or dividend money could, if targeted toward certain kinds of expenditures, more than offset the number of jobs initially lost by creating additional public and private jobs.

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This conclusion was because higher-income people, who would pay relatively more in income taxes, tend to spend less of their money in the Alaska economy than average-income Alaskans who would be giving up dividends. Whether this conclusion would still hold depends on how the income distribution and spending patterns of Alaskans may have changed.

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This conclusion implied (indirectly) that cutting state spending *could* have an even greater effect on jobs than imposing income taxes or cutting dividends—*depending on the type of spending.*

"Cash on the Street" Job Multipliers for 1999

ISER 1999 estimates:

How many jobs are created by \$1 million in state spending?

Category	Govt Jobs	Other Jobs	Total Jobs
Operations: Personnel	15	12	27
Operations: Local Operating Grants	10	12	22
Operations: Local Debt Service	-	-	-
Operations: Grants to Persons	-	11	11
Operations: Contracts	-	12	12
Operations: Debt Service	-	-	-
Operations: Commodities	-	7	7
Operations: Travel	-	8	8
Operations: Equipment	-	7	7
Operations: Misc	-	7	7
Capital	-	10	10
PF Dividend	-	11	11
Other	-	-	-
Public Employee Retirement	-	6	6
Unemployment Comp	-	6	6
AK Railroad	-	11	11
State Shared Taxes	-	17	17

Source: ISER calculation. Annual jobs per \$1 million of state expenditure.

ISER 1999 estimates:

How many jobs are created by \$1 million in state spending?

Spending money on state workers creates the most jobs because you create government jobs directly and then more jobs when the government workers spend their income.

Spending money on dividends creates fewer jobs because you don't create any direct jobs directly—you only create jobs when people spend their dividend income

"Cash on the Street" Job Multipliers for 1999

Category	Govt Jobs	Other Jobs	Total Jobs
Operations: Personnel	15	12	27
Operations: Local Operating Grants	10	12	22
Operations: Local Debt Service	-	-	-
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Operations: Contracts	-	12	12
Operations: Debt Service	-	-	-
Operations: Commodities	-	7	7
Operations: Travel	-	8	8
Operations: Equipment	-	7	7
Operations: Misc	-	7	7
Capital	-	10	10
PF Dividend	-	11	11
Other	-	-	-
Public Employee Retirement	-	6	6
Unemployment Comp	-	6	6
AK Railroad	-	11	11
State Shared Taxes	-	17	17

Source: ISER calculation. Annual jobs per \$1 million of state expenditure.

ISER 1999 estimates:

How much personal
income is created by
\$1 million in state
spending ?

Paying Alaskans
money directly creates
the most income for
Alaskans!

"Cash on the Street" Income Multipliers for 1999

Category	Personal Income
Operations: Personnel	\$1,106
Operations: Local Operating Grants	\$807
Operations: Local Debt Service	-
Operations: Grants to Persons	\$1,323
Operations: Contracts	\$389
Operations: Debt Service	-
Operations: Commodities	\$243
Operations: Travel	\$243
Operations: Equipment	\$243
Operations: Misc	\$243
Capital	\$432
PF Dividend	\$1,323
Other	-
Public Employee Retirement	\$662
Unemployment Comp	\$662
AK Railroad	\$455
State Shared Taxes	\$807

*Source: ISER calculation. Annual personal income
(thousand \$) per \$1 million of state expenditure.*

How you cut spending has a big effect on what the economic impacts are
(Preliminary ISER estimates, February 2015)

Preliminary Estimates of Economic Impacts of Cutting State Spending by \$100 Million

How the \$100 million is cut	Employment Impacts (full-time equivalent jobs in Alaska)			Income Impacts (millions of \$ of labor income earned in Alaska)		
	Direct	Multiplier	Total	Direct	Multiplier	Total
Cutting agency operations by \$100 million*	318	548	866	30	31	61
Cutting capital spending for buildings by \$100 million*	506	425	931	42	22	64
Cutting the state workforce to reduce total pay by \$100 million (<i>cutting about 1466 jobs averaging about \$68K/job</i>)	1466	499	1965	100	22	122
Across the board pay-cuts for state workers totaling \$100 million (<i>cutting all workers' pay by the same %</i>)	0	499	499	100	22	122

From a 1993 ISER study:

“Whatever the state does to balance the budget will cost Alaskans jobs and income—but the effects will not be the same in all households and communities.”

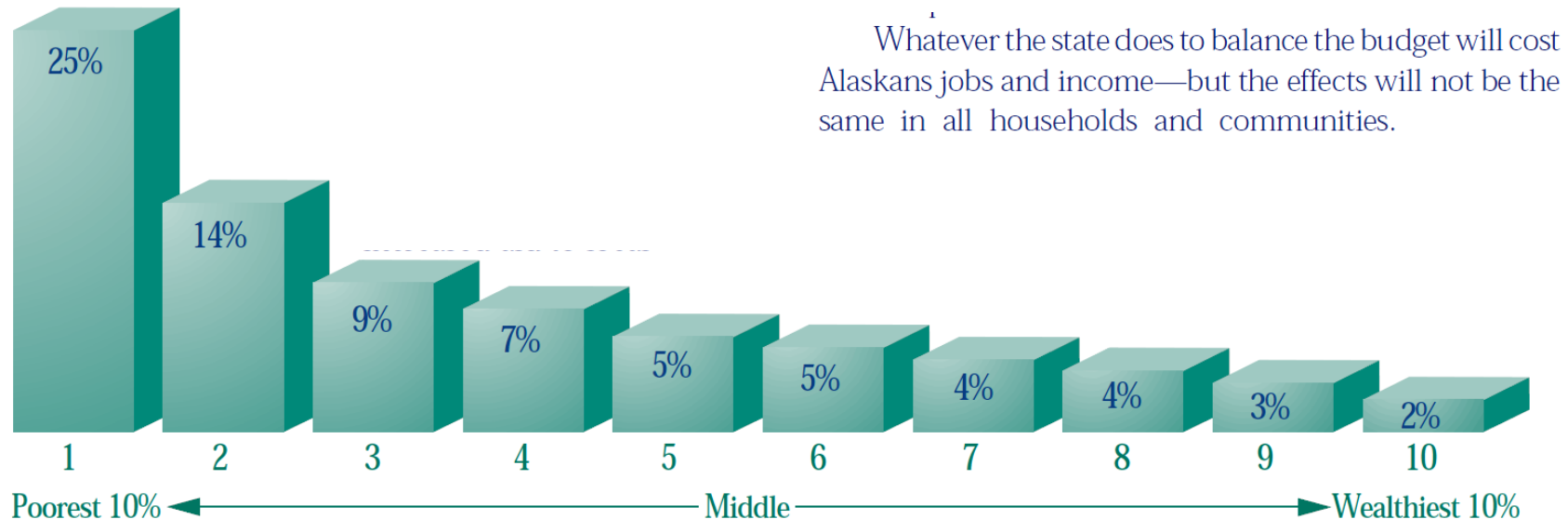
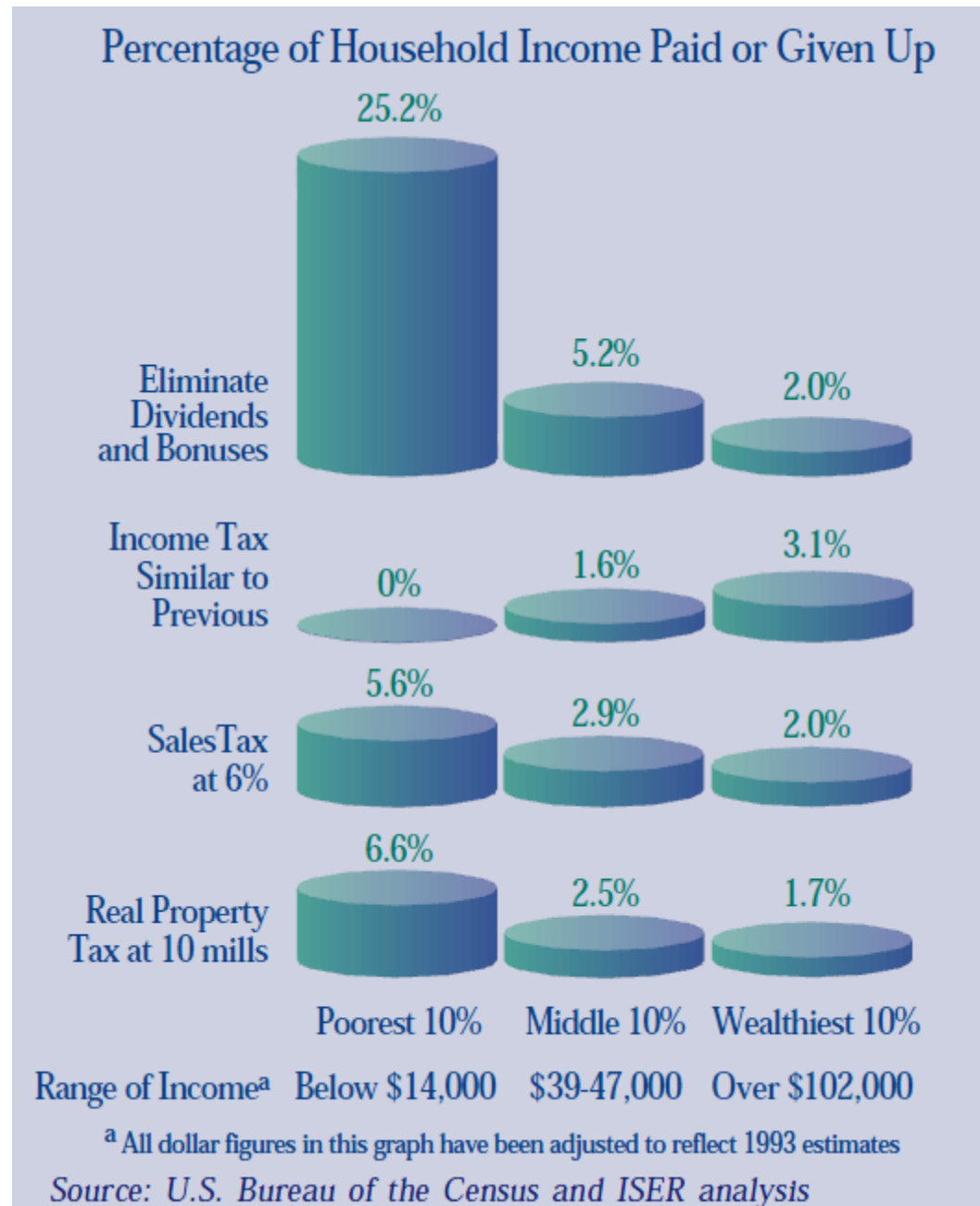


Figure 1. Percentage of Household Income from Dividends and Bonuses
(Households by Decile, Based on 1990 Census)

From a 1993 ISER study:

Different fiscal options would have widely different effects on different income groups



Regional economic impacts of spending cuts would depend on how important government jobs and income are in the regional economy. Some regions are much more dependent than others.

