Written testimony of

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My name is Dr. Sven Larson, and I am an economist among several who advise the Compact for a Balanced Budget and the Debt Default Clock, which estimates America's vulnerability to a default as debt grows to an ever larger proportion to GDP.

I also live in Wyoming, a state which relies on minerals revenue -- that is revenue from mining, oil and gas -- for a large proportion of the state budget. I am not here today to tell Alaska to renew participation in the Compact, but I hope your state does and I have supported efforts by legislators from Mississippi, North Dakota, North Carolina to renew and accept Arizona's offer to continue this effort.

It is important to force a national conversation on the debt and the deficit, and to require Congress to spend and borrow within limits.

Alaska, like Wyoming, cannot any longer rely on the minerals industry for its government revenue. Both these states need to radically rethink both what role government plays in their states, and how they fund that government.

The key concept in this rethinking plan is "fiscal sustainability". The State of Alaska could lead the country in this regard not only by facing your own deficits, but by helping the Federal Government face theirs.

At the heart of the problem in your state and mine lies the decline in minerals as part of the Alaskan economy. This is a long-term problem, although it has of course been exacerbated by the economic shutdown in 2020.

From January of that year to January this year, Alaska lost 7.6 percent of all its jobs, a total of 23,700. The loss rate has declined from its peak of 13.8 percent in May last year, but it flattened out last fall and the Alaskan economy does not currently seem to be capable of recovering further.

Not surprising: things are especially bad in the minerals industry, which in June last year had lost more than one fifth of all its jobs. Since then, it has not recovered. The job loss actually continued down to 10,200 in October. Since then, it has remained at approximately that level.

The loss of minerals jobs is only the latest leg of a long, slow decline that is reflected in the economic value that the minerals industry produces:

In 2005 the minerals industry produced a total economic value in Alaska of $10.4 billion in current prices;

In 2019, the last year before the coronavirus economic shutdown, the industry contributed less than $7.4 billion to the Alaskan economy.

By the third quarter of 2020, the annual value of minerals economic output was less than $5.3 billion. Even if that is expected to rise with higher oil prices, it is a safe bet that minerals will drill and pump oil, pay salaries and wages and in other ways produce economic activity, well below historic levels.

The sad part for Alaska, as with Wyoming, is that there is no apparent replacement for the minerals industry. At the end of 2019, total state GDP in Alaska was $54.4 billion in current prices. This is $300 million less than it was in 2008.

One reason for this economic stagnation is that the state's fiscal policy is too focused on doing things they have always been doing. The problem is that this business-as-usual attitude relies critically on the state's tax base continuing to grow. As in Wyoming, government is sized after the presumption that minerals will continue to feed government with an unending stream of revenue.

To re-think the role of government is a multi-pronged project, but one essential part of it is to make sure the state does not get badly hurt by a future federal fiscal crisis.

Already before the 2020 shutdown, Congress was borrowing almost one quarter of every dollar it spent. That share has grown to almost half of every dollar spent, and there are no immediate signs that the deficit is going to shrink. Sooner or later - and I fear sooner rather than later - Congress will reach a point where it cannot borrow any more money, and where the room for tax hikes has been filled up.

At that point, heavy cuts in federal spending will be inevitable. Those cuts will include federal money to the states. This would be particularly hurtful for Alaska, whose Medicaid program gets more than two thirds of its funding from the federal government. Even a ten-percent cut in those funds would be harmful for those dependent on Medicaid.

As if to add insult to injury, when the federal government makes its cuts, those who will be held politically responsible by the voters are not Congress. It will be the lawmakers in Juneau.

Fortunately, there are many steps that the legislature can take in order to shield itself from a future fiscal crisis. In addition to fiscally sustainable reforms of spending, the state could recommit itself to the Compact for a Balanced Budget and the fight to place a balanced-budget amendment on the U.S. Constitution. The Compact has a unique amendment model that gives the states influence over the federal budget, and thereby a seat at the table.

The Federal Government has run budget deficits annually since 1969, with the exception of President Clinton's second term. If Alaska is going to have peace of mind to reform its own state government to be fiscally sustainable, the state needs peace of mind when it comes to Congress and the reliability and predictability of federal funding.