Economic Impacts of Alaska Fiscal Options
Preliminary Conclusions

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Note: This presentation is a summary of preliminary conclusions of ISER's research for this project. We are still working on this research, including systematically reviewing numerous assumptions and checking numerous complex calculations. While we expect to make relatively few changes, all of the results shown in this presentation are potentially subject to revision.

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Outline

- Study design (slides 2- 9)
- Comparative impacts (slides 10-18)
- Distribution of impacts (slides 19-23)
- Total impacts over time (slides 24-28)
- Other impacts (slides 29-30)

Study design

Overview of the study objectives & design

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 ($30K) and the Office of Management and Budget ($30K)
- The study was due in January, but we are behind schedule
  - We will complete a draft report by February 15
  - We will invite review of the draft report
  - We will complete the final report by February 29
- This presentation summarizes selected preliminary conclusions of the study

The study addresses four broad questions

- Comparative impacts: How would the short-term economic impacts of different fiscal options on jobs and income compare per $100 million of deficit reduction?
- Distribution of impacts: How would the total and relative economic impacts of different options vary for different groups of Alaskans?
- Total impacts over time: How would the total economic impacts over time be affected by how fast or slow the deficit is reduced?
- Other impacts: What are other potential economic impacts of fiscal options over time?
  - Many of these are complex and uncertain.
  - We describe them but do not attempt to measure them.

Alaska *fiscal options* are anything the state might do to reduce the general fund deficit

We analyzed options which are:

- Representative of the range of options being discussed by Alaskans
- Significant (could reduce the deficit by at least $20M)
- Short-run (could be implemented within 2 years)
- Sustainable (not one-time draws from savings)

We are not advocating for or against any option.

We focused our quantitative analysis
on the economic impacts of:

- Spending cuts
  - State worker cuts
  - Broad-based cuts
  - Capital spending cuts
- New revenues
  - Income tax
  - Sales tax
  - Other tax increases on households (alcohol, motor fuel, etc.)
  - Selected tax increases on industries (fishing, mining)
- Dividend reductions (and redirecting the money to fund government)
- Saving less (and redirecting the money to fund government)
  - Reducing inflation-proofing transfers to PF principal
  - Reducing growth in the PF earnings reserve

We did not analyze fiscal options with complex effects which are difficult to predict

- Potential changes to oil taxes
- Potential changes to oil tax credits
- Potential cuts to specific state programs
  - There are hundreds of programs for which cuts might have widely varying potential economic impacts
- Potential changes to how the state delivers services
  - UA organization, Medicaid, etc.

We did not analyze impacts of proposals to “re-plumb” state finances (SB114, SB128, etc.).

- These economic impacts of these proposals would reflect the varying extents to which they result in:
  - Spending cuts
  - Dividend reductions
  - Saving less

Comparative impacts

How would the short-term economic impacts of different fiscal options on jobs and income compare per $100 million of deficit reduction?

We used standard "economic impact analysis" methods to compare the economic impacts of different fiscal options per $100 million of deficit reduction

- We made assumptions about:
  - the "direct" income and job impacts caused by each fiscal option
  - How these direct impacts would cause changes in household and business spending
- We used the IMPLAN input-output model to calculate the "multiplier" income and job impacts as the changes in household and business spending cause ripple effects on spending, income and jobs throughout the economy.

We estimated these types of direct, multiplier and total economic impacts.

Typology of Short-Run Economic Impacts

Direct earned income impacts	Changes in wage & salary payments to state and local government employees or contractor employees
Direct other income impacts	Changes in other state government payments to or from Alaska residents (dividends and taxes)
Total direct income impacts	Total short-run direct earned income and other income impacts
Multiplier income impacts	Other changes in income earned in Alaska resulting from short-run direct impacts due to cumulative effects of changes in spending by households and businesses
Total income impacts	**Total of short-run direct income impacts and multiplier income impacts**
Direct job impacts	Changes in full-time equivalent employment associated with direct earned income impacts
Multiplier jobs impacts	Changes in full-time equivalent employment associated with multiplier income impacts
Total job impacts	**Total changes in full-time equivalent employment**

This table compares the estimated short-run economic impacts of several fiscal options per $100 million of deficit reduction

(the report will include impacts of additional options)

Estimated Short-Run Economic Impacts of Selected Options for Reducing the Deficit by $100 Million

Option	Income Impacts (millions of $ of income)				Employment Impacts (FTE jobs in Alaska)		
	Direct earned	Direct other	Multi-plier	Total	Direct	Multi-plier	Total
Spending cut: government workforce reduction	95.0	0.0	42.8	137.8	962	715	1677
Spending cut: across the board	67.5	0.0	47.7	115.2	505	755	1260
Spending cut: capital budget	41.7	0.0	22.3	63.9	506	425	931
Spending cut: government worker pay reduction	100.0	0.0	50.4	150.4	0	897	897
Revenue increase: income tax	0.0	92.9	46.2	139.2	0	832	832
Revenue increase: sales tax	0.0	92.5	46.8	139.3	0	832	832
Dividend reduction	0.0	100.0	49.6	149.6	0	917	917
Savings reduction: reduce inflation-proofing	0.0	0.0	0.0	0.0	0	0	0
Savings reduction: reduce PF earnings reserve growth	0.0	0.0	0.0	0.0	0	0	0

Note: Estimates reflect numerous assumptions about how the fiscal options affect direct payments to workers and businesses and their resulting changes in spending. Changing these assumptions would change the estimated economic impacts.

In general, cutting spending has the biggest total job impacts.
The scale of the impacts depends on how spending is cut.

Cutting government worker pay and dividend reductions
have the biggest total income impacts, followed by income and sales taxes.

Why are total job impacts biggest for cutting government workers?

It's because the job losses include both:
-- the losses of the government jobs
-- the multiplier losses of private jobs because the former government workers spend less.

Estimated Short-Run Economic Impacts of Selected Options for Reducing the Deficit by $100 Million

Option	Income Impacts (millions of $ of income)				Employment Impacts (FTE jobs in Alaska)		
	Direct earned	Direct other	Multi-plier	Total	Direct	Multi-plier	Total
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Note: Estimates reflect numerous assumptions about how the fiscal options affect direct payments to workers and businesses and their resulting changes in spending. Changing these assumptions would change the estimated economic impacts.

Taxing Alaskans or reducing their dividends has only multiplier impacts on jobs:
with less income, Alaskans spend less, which causes multiplier job losses.

The short-run economic impacts of cutting government spending depend critically on what is cut

- You can't generalize about the economic impacts of cuts.
- The economic impacts of cuts depend partly on how the cuts affect:
  - Jobs and income of government workers
  - Profits of private businesses providing services to government and the jobs and income of their workers
- They also depend on the economic impacts of resulting reductions in state services, such as:
  - Instructure development and maintenance
  - Resource management
  - Transportation (Marine Highway service, road plowing, etc.)
  - Quality of social services (schools, health care, parks, etc.)

Saving less (and redirecting the money to fund government) would have no short-run economic impacts.

- Options for saving less include:
  - Reducing inflation-proofing transfers to PF principal
  - Reducing growth in the PF earnings reserve

- Saving less would not:
  - take *any* money out of the economy
  - have *any* short-run impacts on jobs or income

- But it would reduce:
  - our future investment earnings
  - how much savings we leave for future Alaskans

All our other fiscal options—
cutting spending, cutting dividends, and increasing revenues—
would have significant short-run economic impacts—
of similar magnitudes.

They would *all* take significant amounts of money out of the economy.
They would *all* have significant multiplier effects.

But they would do so in different ways, with different impacts on different Alaskans and on the relative scale of public and private sector employment.

Limitations and qualifications to our estimates of short-run economic impacts . . .

- Based on uncertain assumptions about:
  - "direct" income and job impacts associated with the fiscal option
  - changes in household and business spending caused by the direct income impacts
- Don't account for indirect ways they may affect the economy
  - Labor markets and wages
  - Housing markets and housing prices
  - Migration to or from Alaska
- Input-output model limitations
  - Doesn't account for regional difference in spending flows
  - Estimates are for jobs and income in Alaska (not necessarily jobs and income of Alaska residents)
  - Not adjusted for changes in federal tax obligations paid in following year

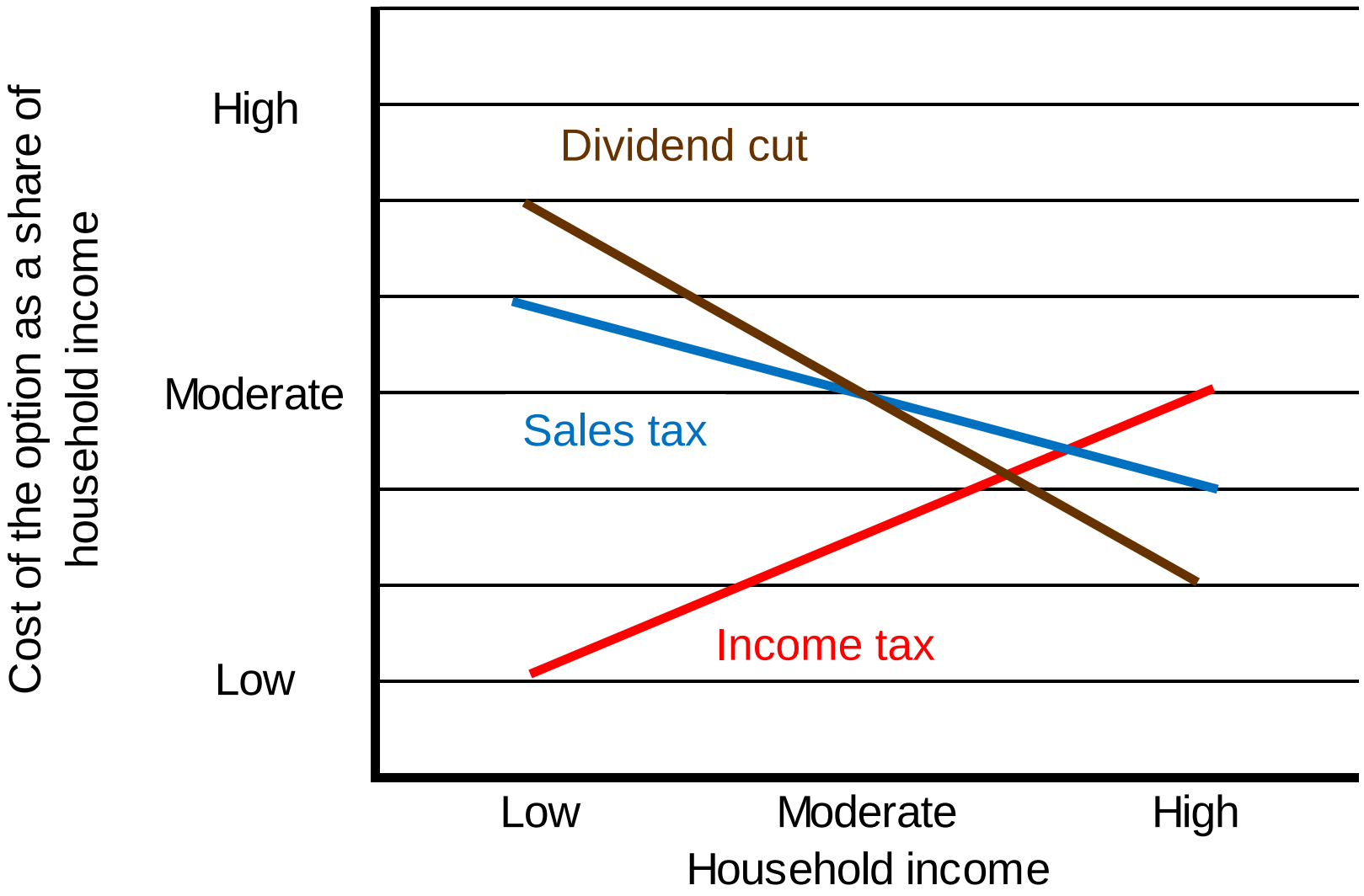
Distribution of impacts

How would the total and relative economic impacts on jobs and income of different fiscal options vary for different groups of Alaska?

Our fiscal options vary significantly in who would be most affected

- Cutting government spending would most affect:
  - government and contractor workers
  - regions with high government employment
  - Alaskans who depend on the government services that are cut.
- Cutting dividends would most affect poorer Alaskans and larger families
- Income taxes would most affect wealthier Alaskans
- Saving less would most affect future generations of Alaskans

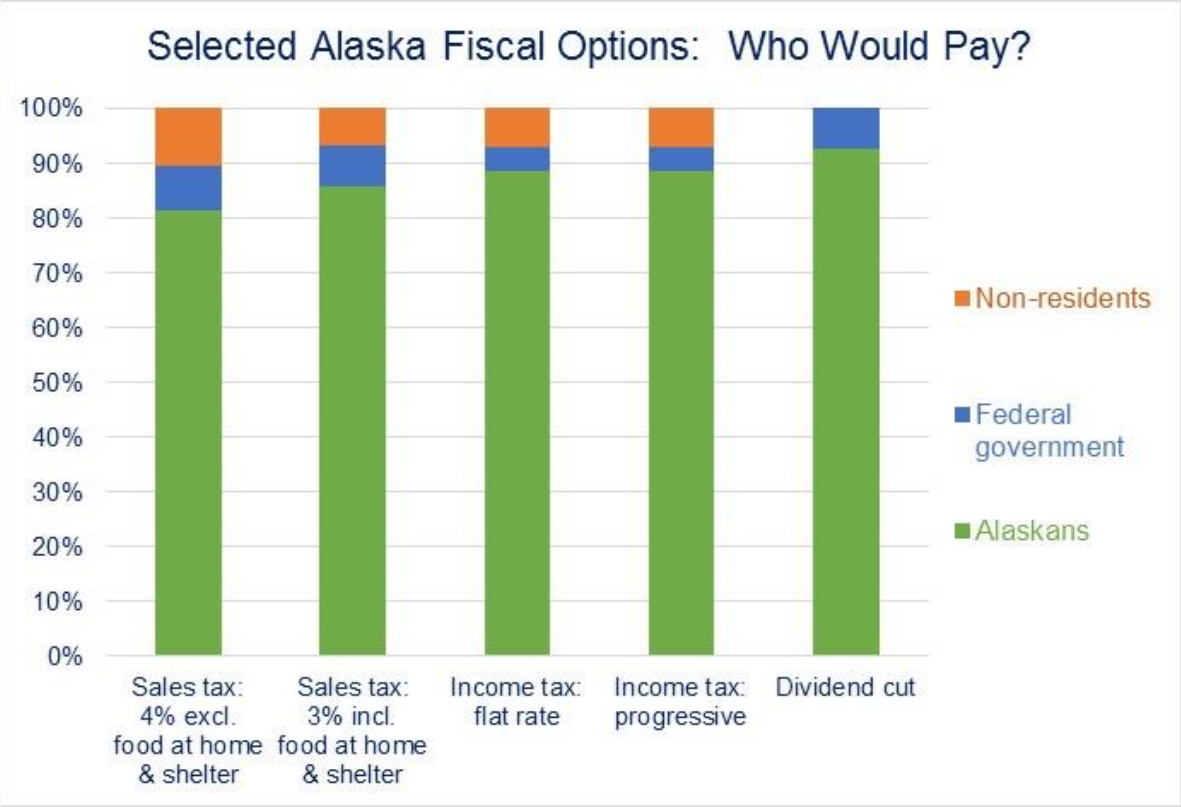
Stylized relative impacts of fiscal options on household income



The federal government and non-residents can help us reduce the deficit.

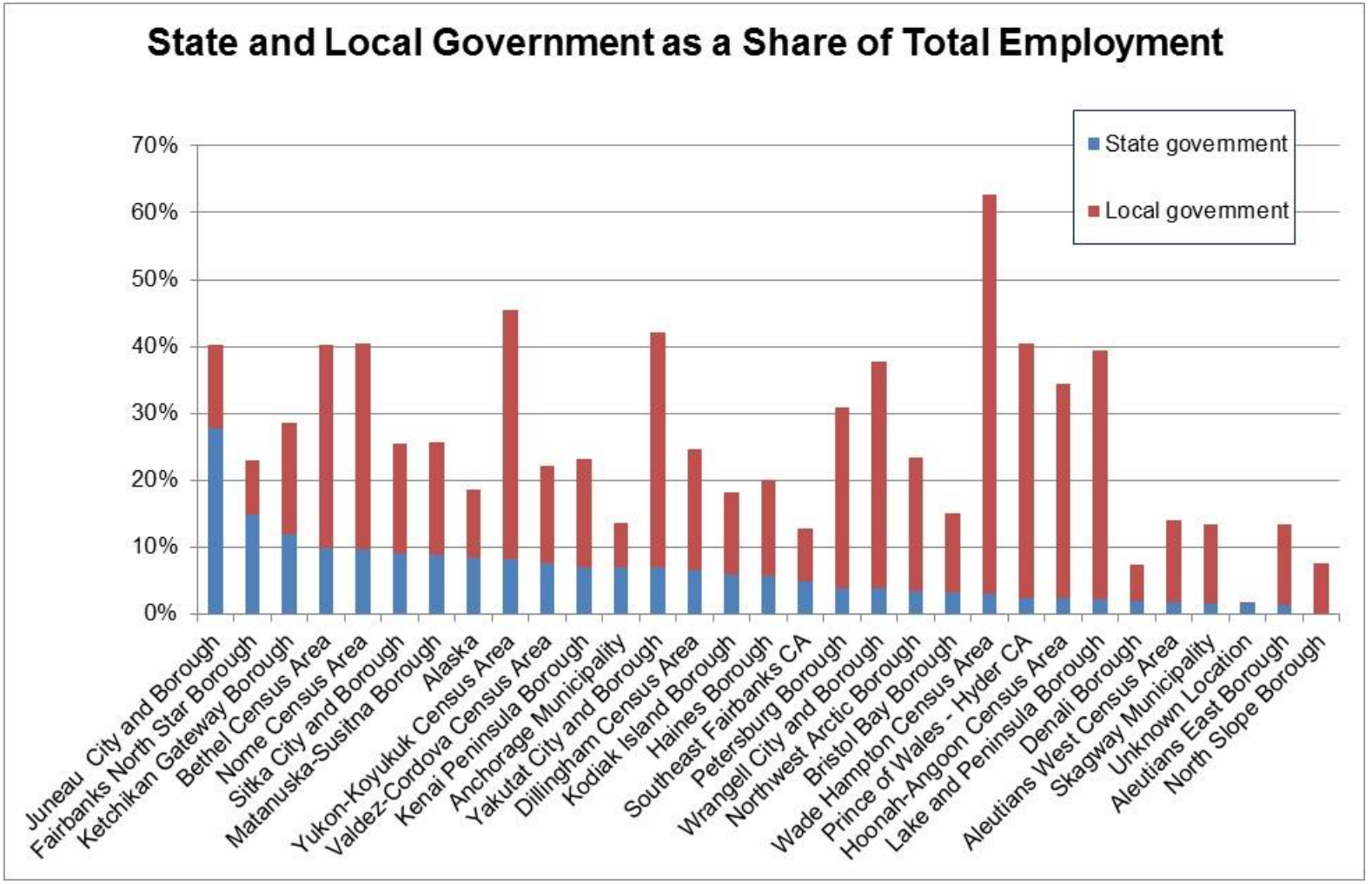
- Lower federal taxes would help to offset the impacts of taxes and dividends
  - dividend cuts would reduce taxable income
  - income and sales taxes would be deductible
  - wealthier people who pay higher tax rates would benefit most

- Non-resident workers and visitors would help pay sales & income taxes



Note: Our estimates of the share of taxes which would be paid by non-residents are less reliable for sales taxes than for income taxes, because we have less information about non-residents' share of total Alaska purchases than we have about non-residents' share of total wages & salaries.

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.



Total impacts over time

How would the total economic impacts over time be affected by how fast or slow the deficit is reduced?

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

- Because our savings our limited, we will have to significantly reduce the deficit within a few years.
- Our only option that would not have impacts would be to save less by reducing inflation proofing or growth in the PF earnings reserve
  - But we could only close part of the deficit by saving less.
- All our other options would impact the economy—but in different ways:
  - Cutting spending
  - Increasing revenues
  - Reducing dividends
- To close the deficit, we may eventually need to use all of these options
- The real choices are between:
  - The relative extent to which we use each option
  - The relative economic impacts on different groups of Alaskans
  - When we implement these options and experience their impacts

Fully closing the deficit this year would have a very large impact on an already-weakened economy.

- Regardless of what we do to address the deficit, we will experience economic impacts of:
  - Reduced state capital spending as “money in the spending pipeline” from past large capital budgets dries up
  - Oil industry employment and investment cutbacks
- Simultaneously adding large spending cuts, new revenues and/or dividend reductions would significantly add to the economic impacts we will be experiencing
- Reducing the deficit by $1 billion could result in a loss of 7,000-17,000 jobs, depending on the mix of spending cuts, new revenues and dividend reductions by which it is achieved.

But not making significant progress on reducing the deficit this year could also significantly affect Alaska's economy

- Downgrading of Alaska's credit rating

- Business and household uncertainty about when and how we will reduce the deficit, resulting in:
  - Reduced business and consumer confidence
  - Reduced investment

- Other implications of not making significant progress include:
  - Significant lag between when new taxes are adopted and when they generate new revenues
  - Lower future investment earnings

We will have a smoother economic transition if we make significant progress on reducing the deficit this year—and planning for future reductions—than if we:

- Fully close the deficit this year, or
- Don’t make significant progress this year towards:
  - Reducing the deficit
  - Planning for future deficit reductions
  - Demonstrating that we will be able to solve the deficit challenge

Other impacts

What are other potential economic impacts of fiscal options and when we adopt them?

Over time our fiscal choices will impact Alaska's economy and society in many ways beyond the short-term economic impacts on jobs and income which we estimated for this study.

- We did not attempt to quantify these other potential impacts
- We briefly discuss some of them.
- Many are uncertain and difficult to quantify but potentially very important.

Examples of other potential economic impacts of fiscal options include impacts on:

- local government finances and local taxes
- user fees which agencies may impose in response to budget cuts
  - university tuition, marine highway fares, park fees, etc.
- state receipts of federal funds and impacts on spending
- government services affecting the economy
  - effects of marine highway service and fares on tourism
  - effects of ADFG research on fisheries management & catches, etc.
  - effects of snow-plowing and road maintenance on transportation costs
  - etc.
- labor markets
- costs of living and doing business in Alaska
- what kinds of people choose to live and work in Alaska
- Alaska's infrastructure and future resource development

Alaska's fiscal choices will significantly affect
Alaska's future economy and society.

We should think not only about their short-term economic impacts
but also about their longer-term economic and social impacts.