NEW SUSTAINABLE
ALASKA
PLAN
Pulling Together to Build Our Future

Alaska's economy and the impacts of a broad-based tax

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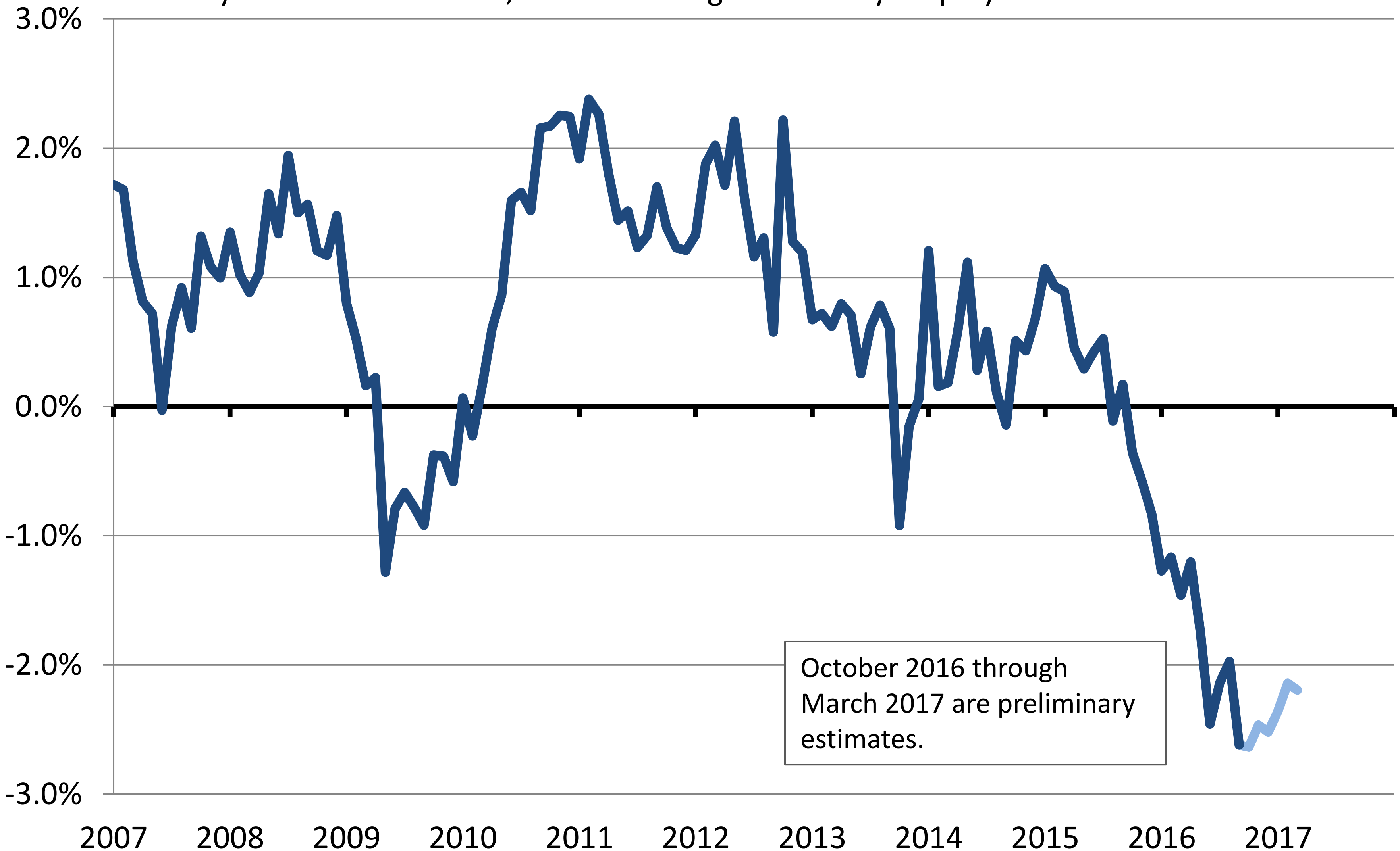
Year-over-year percent change in monthly employment

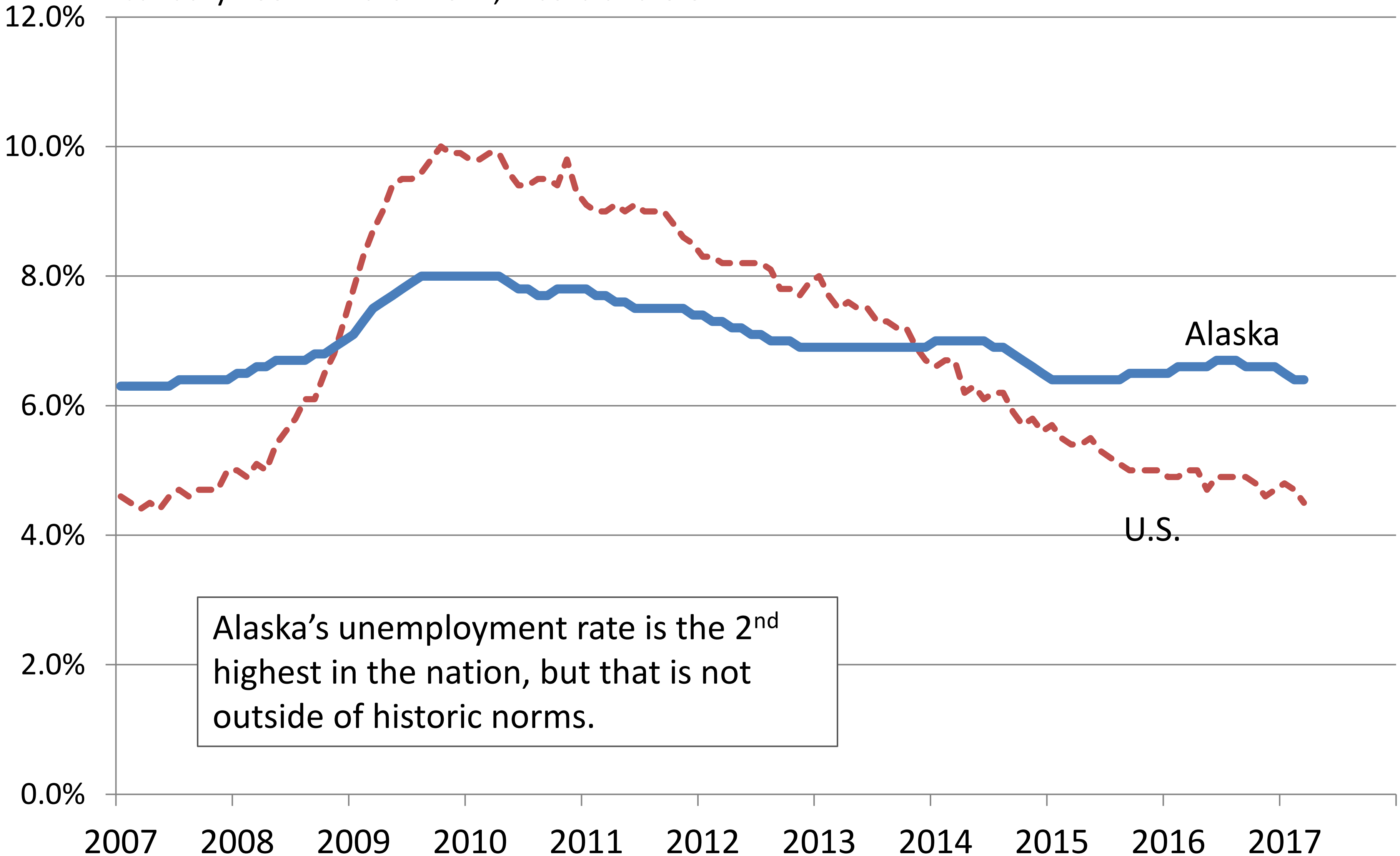
January 2007 – March 2017, Statewide wage and salary employment



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Seasonally adjusted unemployment rates

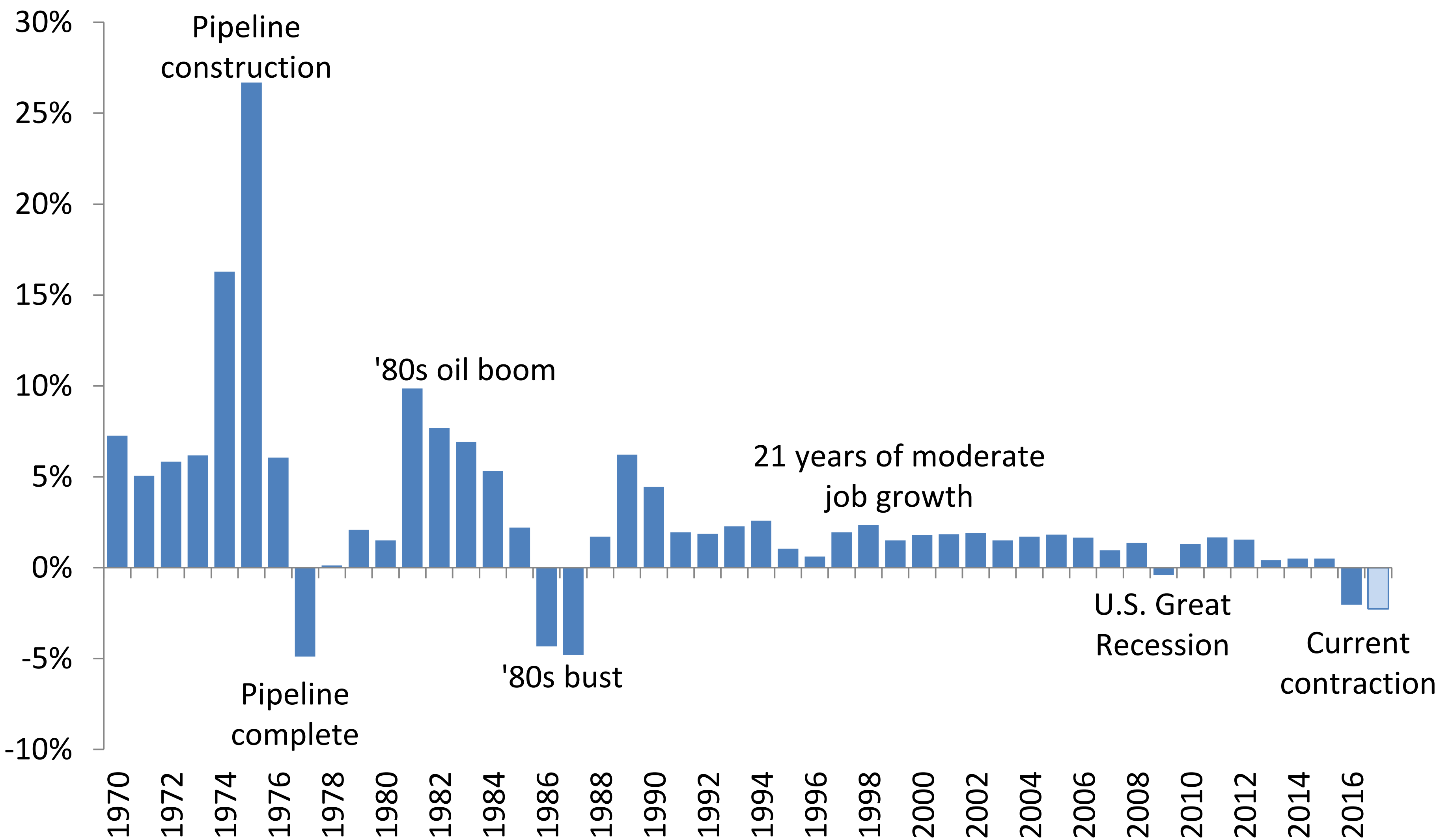
January 2007 – March 2017, Alaska and U.S.



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Looking back at Alaska's modern economic history

Alaska statewide annual percent change in employment, 1970 – 2017* (forecast)



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

A word on state recessions

- While there is no official definition of recession at the state level, a suggested measure is 9 consecutive months of year-over-year job loss.

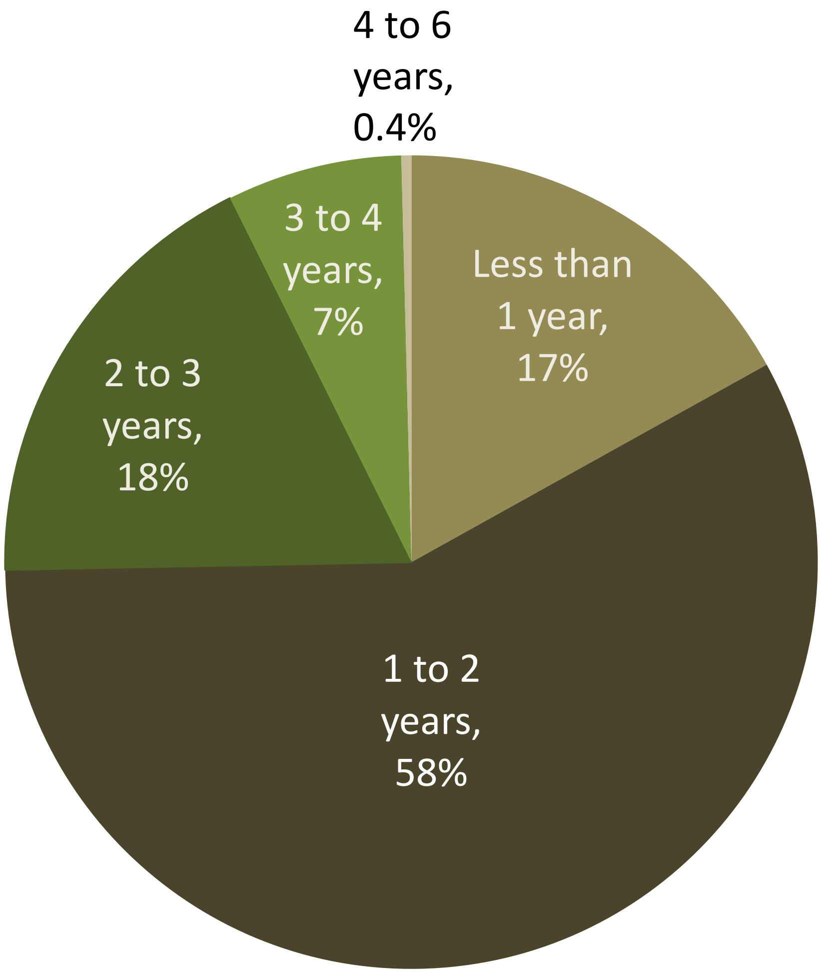
- By this definition, Alaska has had three recessions since 1961, not including the current contraction.

- There have been 259 state recessions, many associated with the six national recessions that have occurred since 1961.

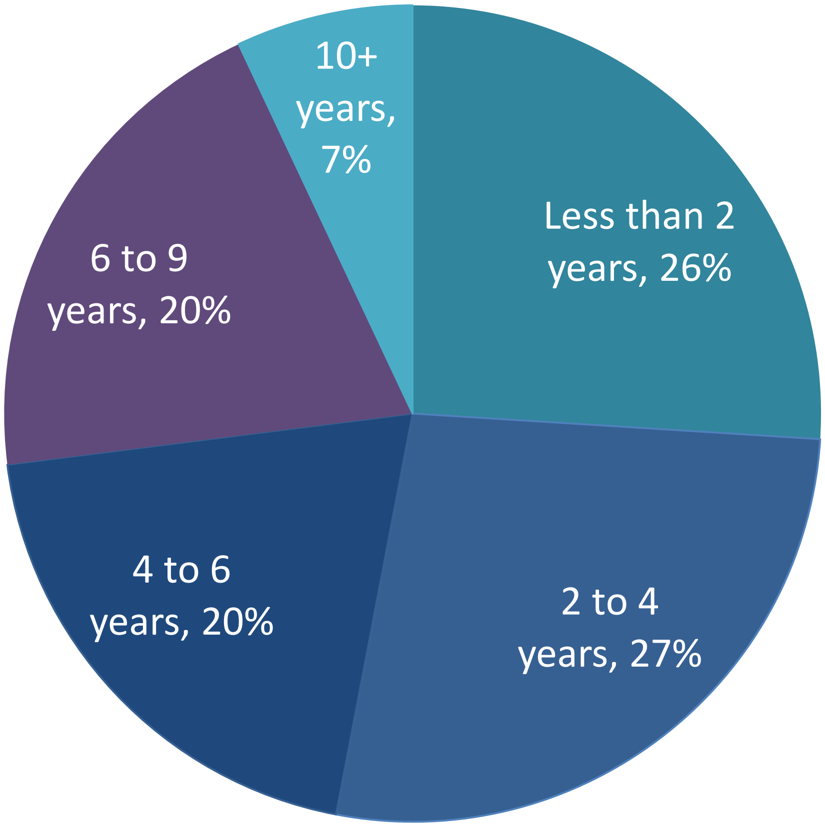
- It is much more common for states to be adding jobs – for all states, 82% of the time, and 89% for Alaska.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Recessions are typically short; recoveries take longer



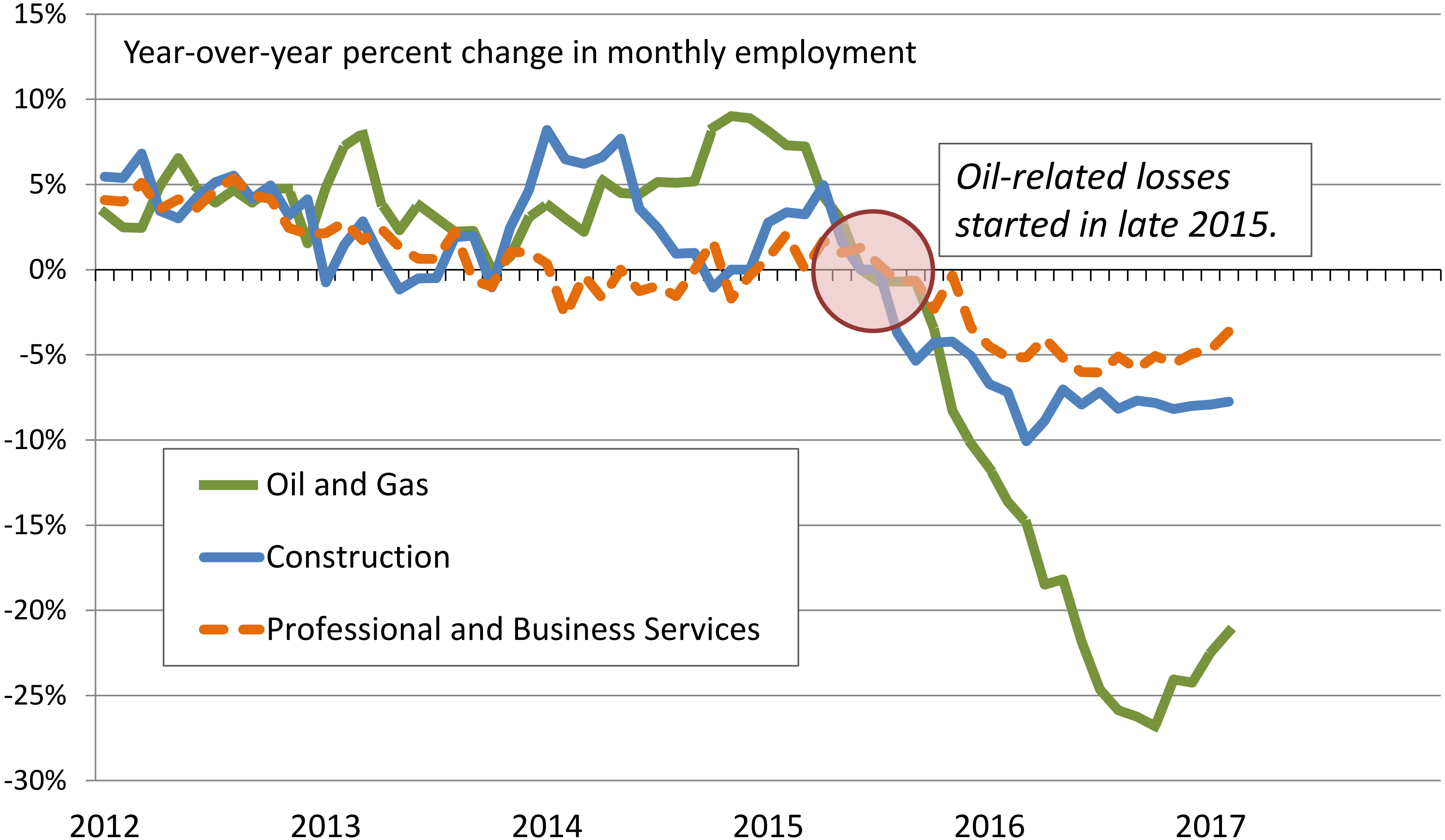
Duration of job losses,
All states, 1961 - 2016



Years to return to pre-recession employment
All states, 1961 - 2016

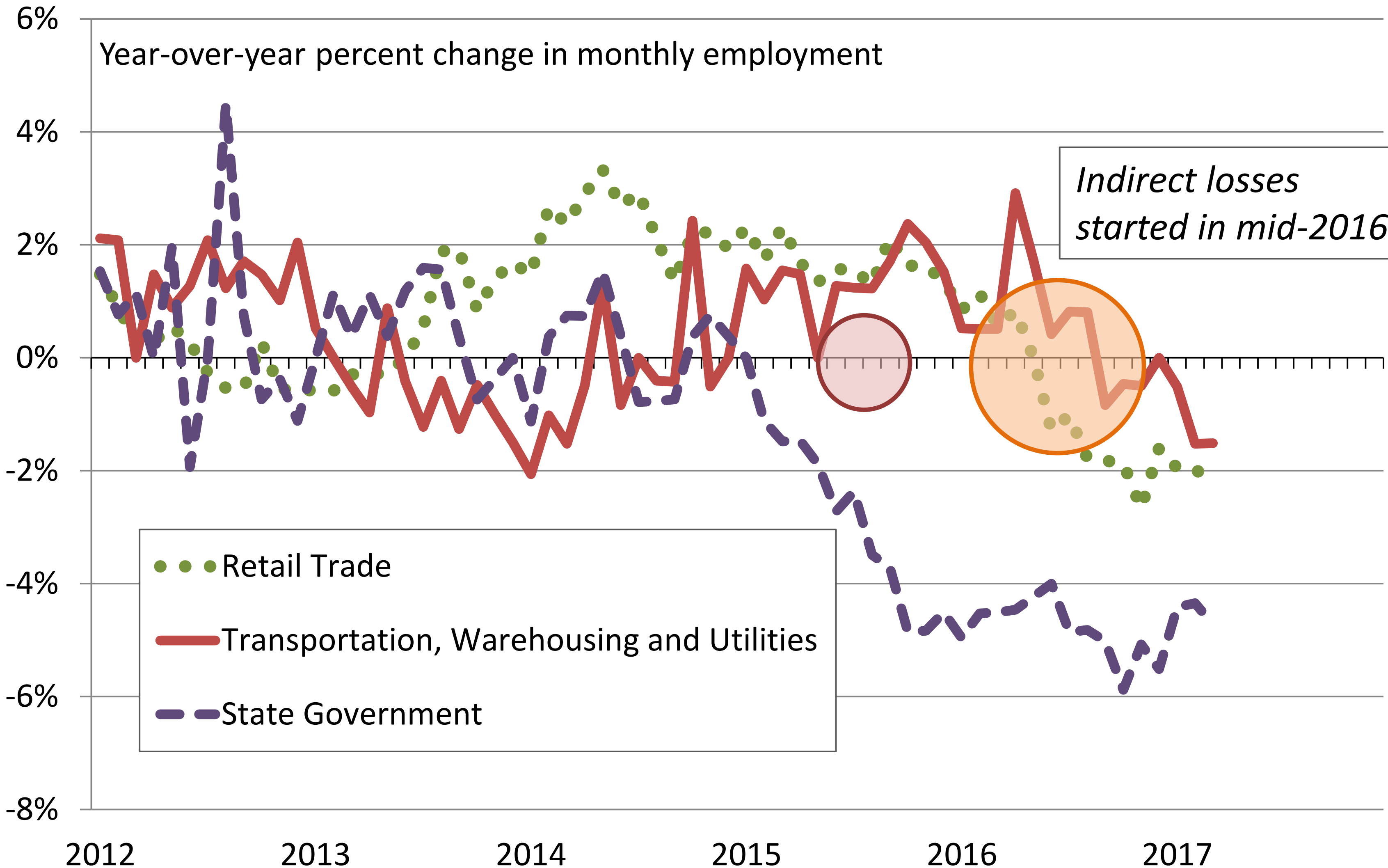
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Stage One: Industries directly tied to oil

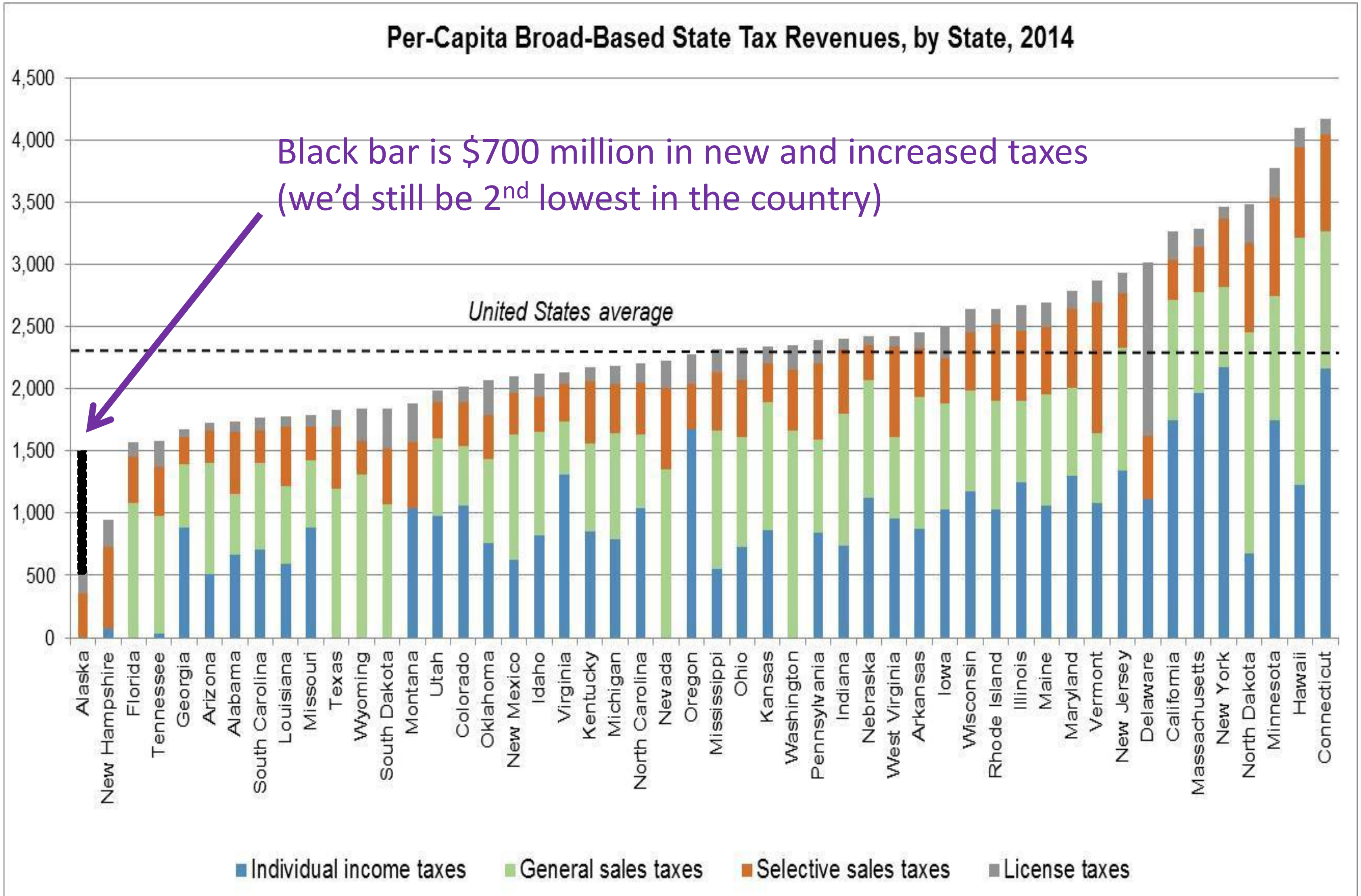


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Stage Two: Secondary impacts from decline in demand



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section



Source: Gunnar Knapp, ISER

Do broad-based taxes hurt states' economies?

What the experts say:

- Economic theory can be murky on the impacts of taxes on employment, productivity and output.
- There is a lack of consensus on the empirical data, even on whether or not there's a lack of consensus.
- The two main schools of thought on the impacts of taxation are at odds with each other.
- Some economists and policy analysts say the complexities of the real world make it too hard to decisively say.

Do broad-based taxes hurt states' economies?

Let's take a look at studies that compare selected state economic performance between 2002 and 2011.

States with higher income tax:

- Oregon
- New York
- Maryland
- Vermont
- California
- Hawaii
- New Jersey
- Maine
- Ohio

States with sales tax only:

- Wyoming
- Washington
- South Dakota
- Texas
- Tennessee
- Florida
- Nevada

Sources: The Laffer Center for Supply-Side Economics, Institute on Taxation and Economic Policy, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Bureau of Economic Analysis

Do broad-based taxes hurt states' economies?

Studies show that states with high income taxes *and* states with only a sales tax had good economic metrics, *depending which metrics were chosen in the study*.

States with higher income tax:

- Higher per-capita gross state product growth rates
- Higher median household income growth rates
- Lower unemployment rates

States with no income tax:

- Higher population growth rates
- Higher gross state product growth rates
- Higher employment growth rates

These statistics are all factual – that's why care must be taken to ensure that researchers don't cherry pick areas or indicators.

Sources: The Laffer Center for Supply-Side Economics, Institute on Taxation and Economic Policy, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Bureau of Economic Analysis

Do broad-based taxes hurt states' economies?

Let's visit our neighbors, Washington and Oregon.

Washington

High sales tax, no income tax

Between 2010 – 2016:

- 37% per capita personal income growth
- 14% employment growth

Oregon

High income tax, no sales tax

Between 2010 – 2016:

- 27% per capita personal income growth
- 14% employment growth

United States

- 23% per capita personal income growth
- 11% employment growth

Alaska

- 14% per capita personal income growth
- 2% employment growth

Do broad-based taxes hurt states' economies?

- We can look at other states that have experimented with putting economic theory into practice, like Kansas.
- Kansas made significant cuts to state tax rates, particularly business taxes and income taxes for upper-income households, which has led to years of growing budget shortfalls.
- Kansas's economic growth by a variety of indicators has been slow compared to the U.S. as a whole and its neighbors, with the exception of Oklahoma.

Do broad-based taxes hurt states' economies?

- There is a wider consensus in the economic literature on the problems associated with deficit spending (or for states, spending from reserves)

- The U.S. can borrow money to spend at a deficit, which can provide a short-term economic stimulus, but hurts economic growth in the long term for two reasons:
  - Deficit spending now creates an expectation that taxes will be raised later
  - Increased demand for borrowed money increases the price of borrowing money (interest rates), all else being equal

Do broad-based taxes hurt states' economies?

- States can't deficit spend, but they can pull from reserves.

- In the short term, this can insulate an economy from shocks, either from increased taxation or budget cuts

- But it can also raise the expectation that taxes will be increased later, when savings run out, which dampens business and consumer spending.

- Pulling from savings is like pulling from retirement – it can stave off hard choices now, but it forces harder choices later.

Volatility

- Much has been said about the negative impacts of uncertainty for Alaska's economy, and volatility is the major driver of uncertainty.
- Alaska has the most volatile tax revenue system of any state.
- Moving toward a less volatile revenue system will decrease uncertainty and increase efficiency, all else being equal.

The Alaska Disconnect

- Economic development that grows and diversifies Alaska's economy is widely recognized as a good thing.

- But adding people to the state means increased demand for public services – more students in the classroom, more roads to be plowed and patrolled, and increased use of state services and programs.

- Without a broad-based tax, Alaska has no means to recoup the increased costs to government, diminishing the state's ability to pay for required services and infrastructure.

Why a broad-based tax, and why now?

- Spending down savings has a measurable cost and does not reduce uncertainty – we will have spent close to $10 billion from savings by the end of this year, sacrificing $500 million in annual earnings on those reserves.

- A broad-based tax ensures SB26 works – we need to maintain $2.5 - $3 billion in CBR for cash flow.

- A progressive income tax coupled with PFD reductions ensures an equitable fiscal solution.

- A PFD-only solution takes only from Alaskans – nonresidents who use Alaska services do not contribute.