

The Foundations of Alaska's Economy

And the role state government plays in it



*House Ways and
Means Committee*

February 8, 2023

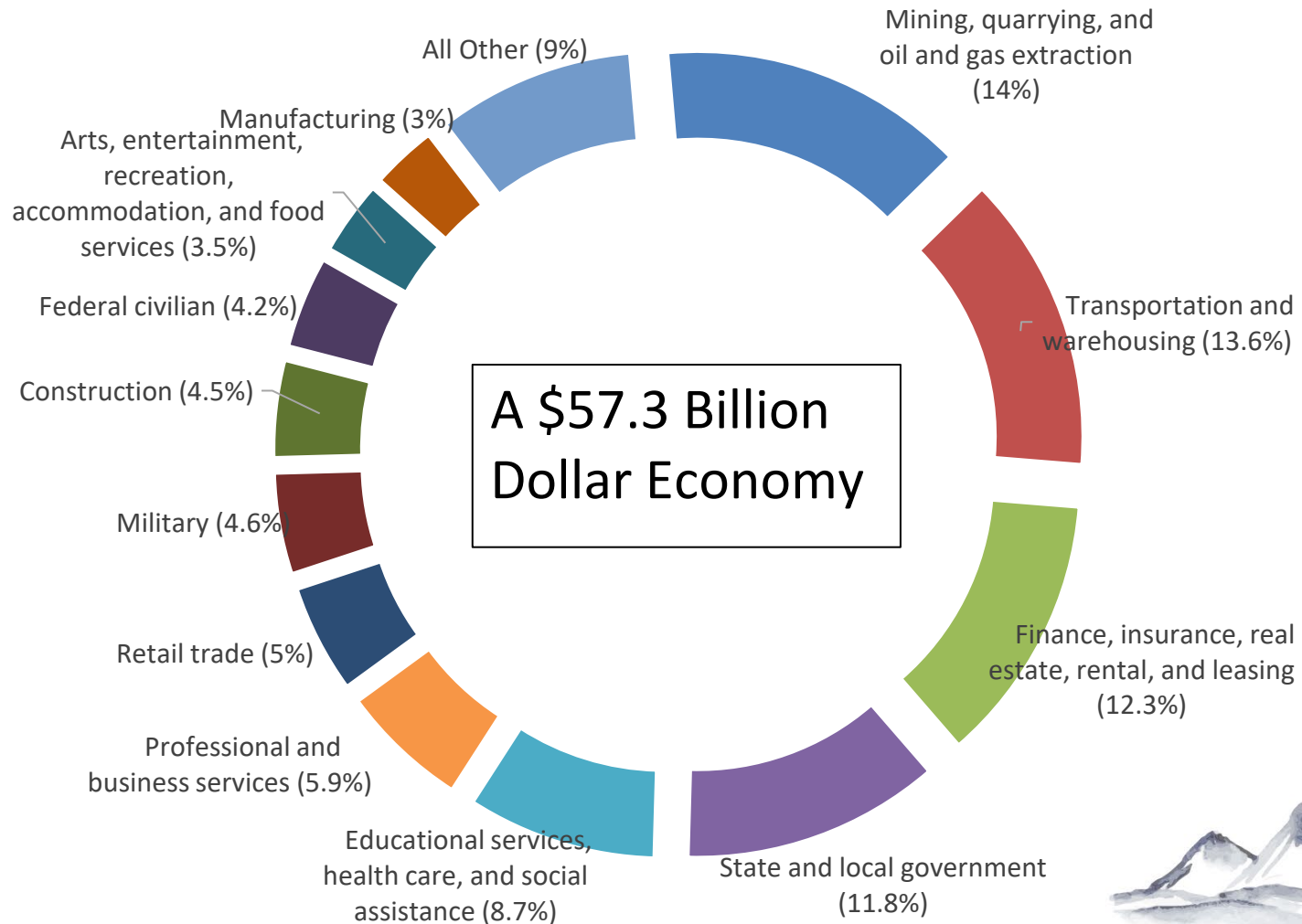
What Are Our “Basic Sectors”?

“The foundation for any economy is the money it brings in by providing something the rest of the world wants to buy.”

– Scott Goldsmith, ISER

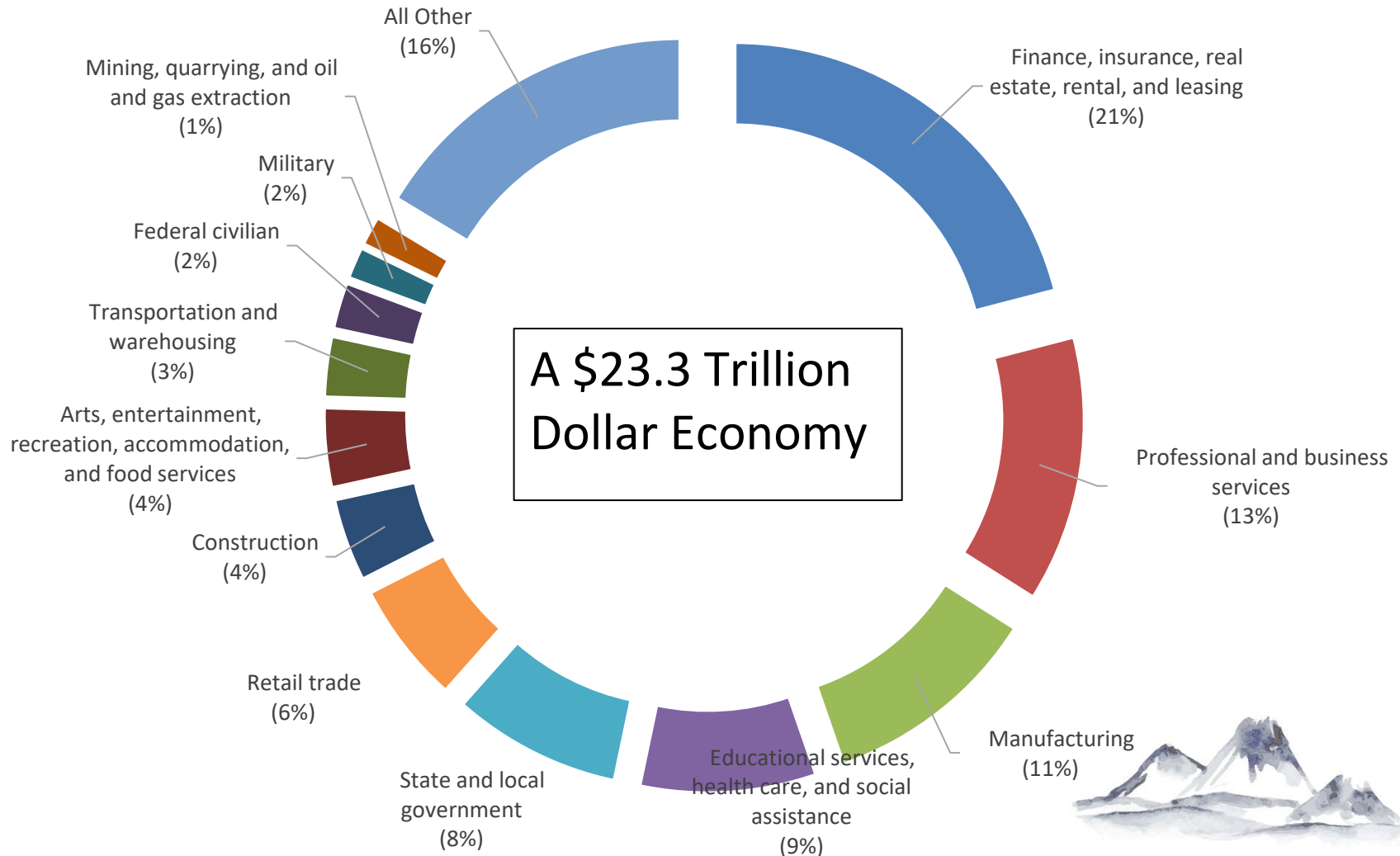
GDP - The Value of What We Produce

Alaska's Gross Domestic Product, 2021



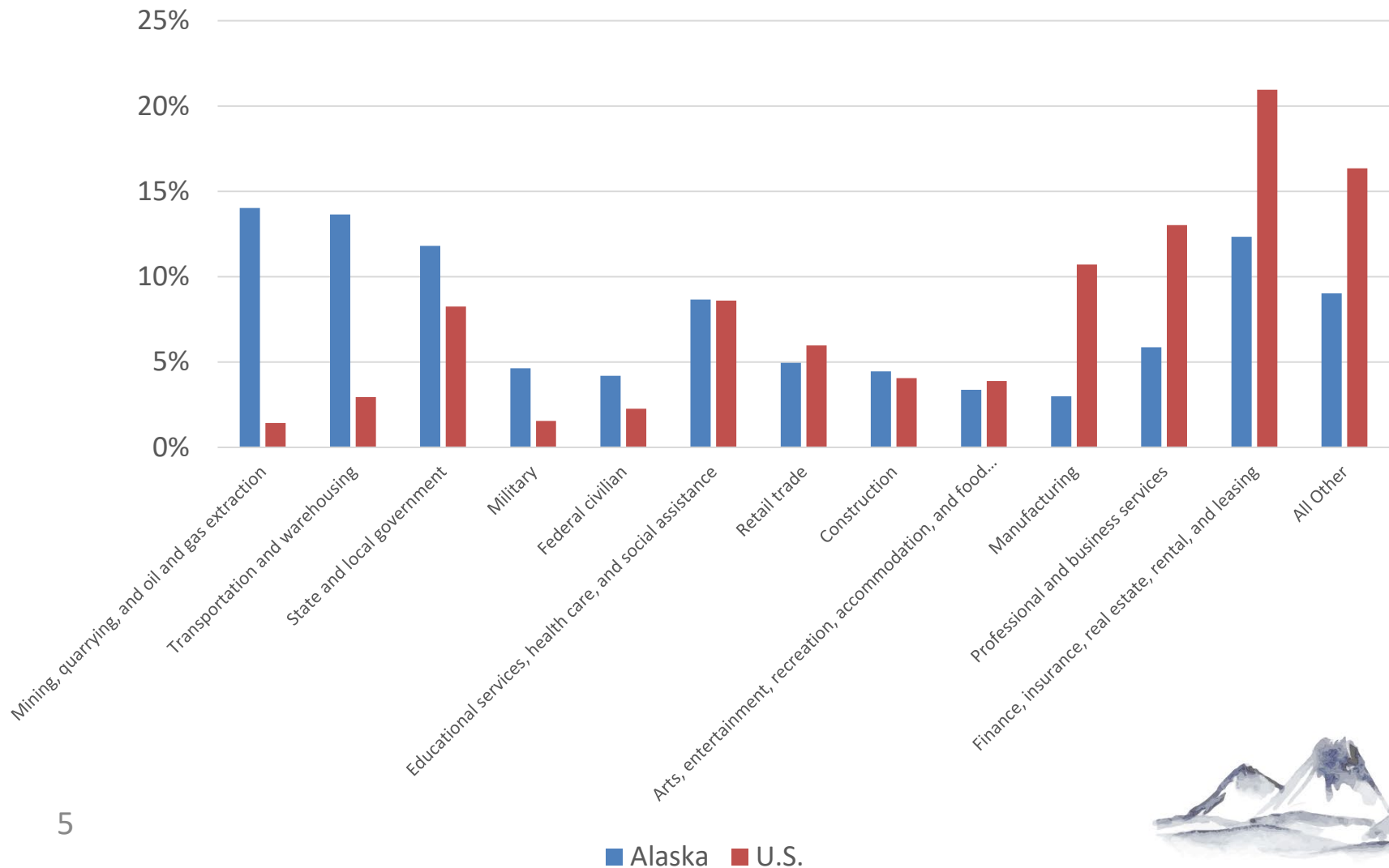
How We Compare to U.S.

U.S. Gross Domestic Product, 2021



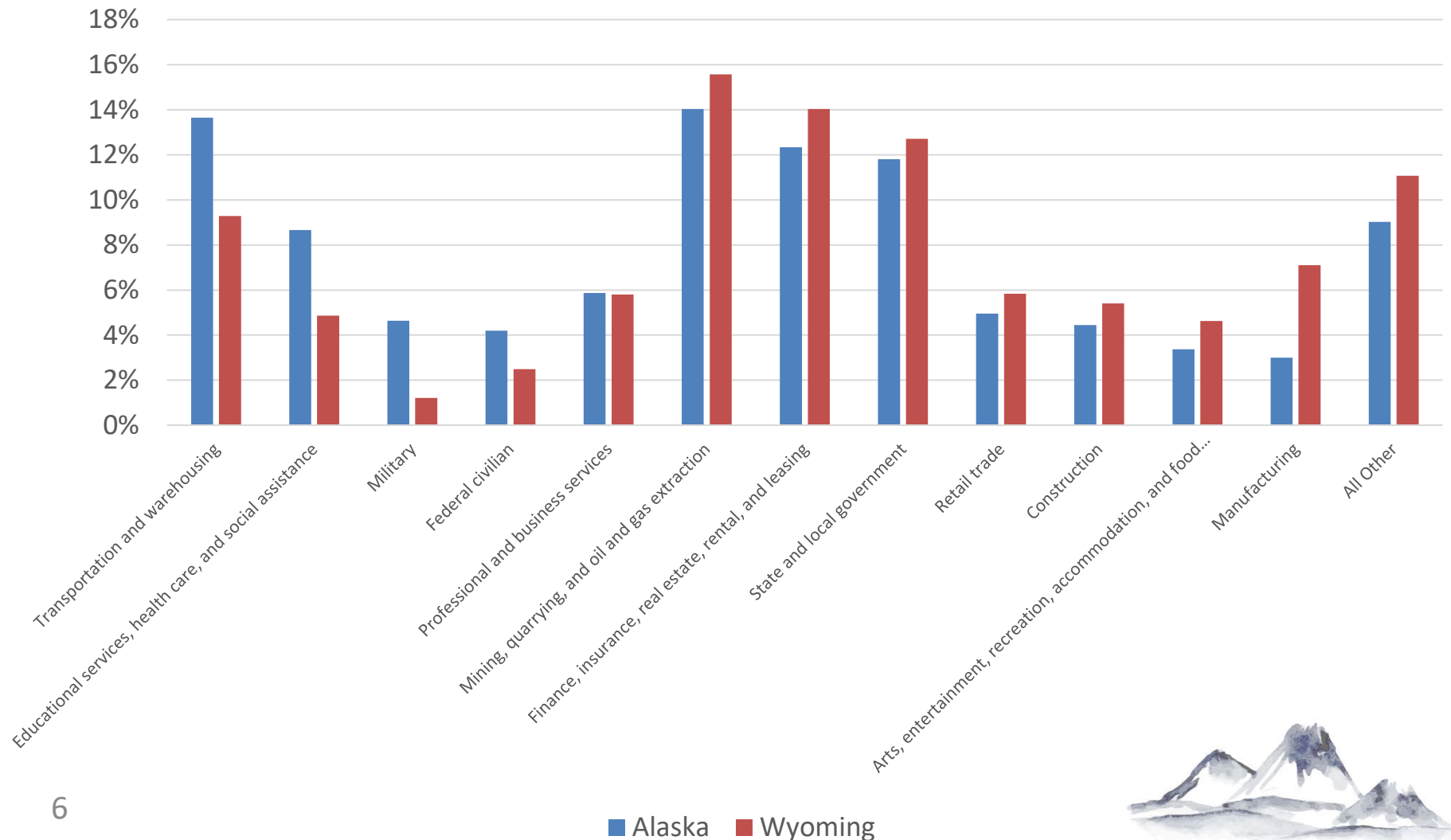
Another Way to Compare ...

Alaska and U.S. GDP, Percentages of Total, 2021



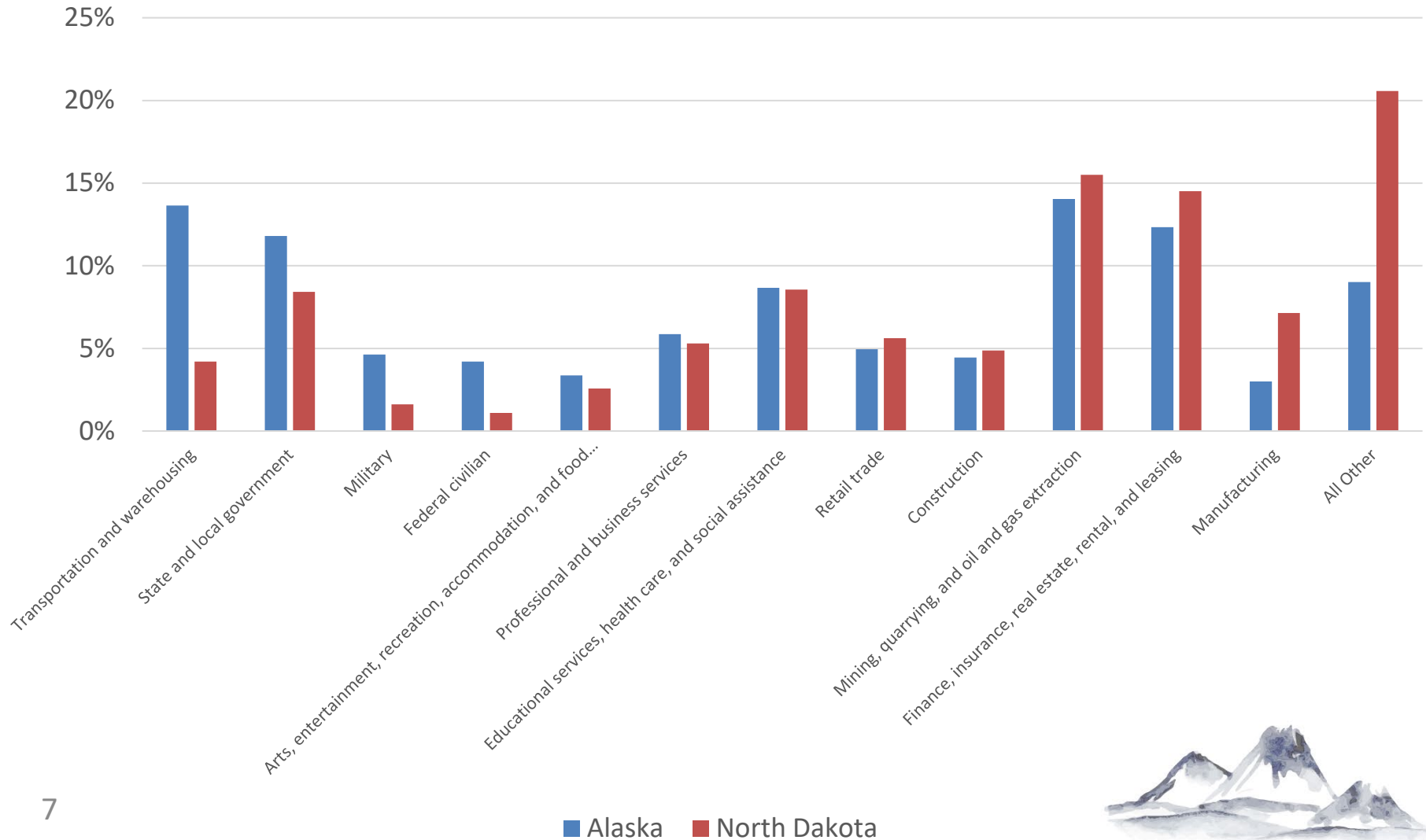
How Do We Compare to Wyoming?

Alaska and Wyoming GDP, Percentages of Total, 2021



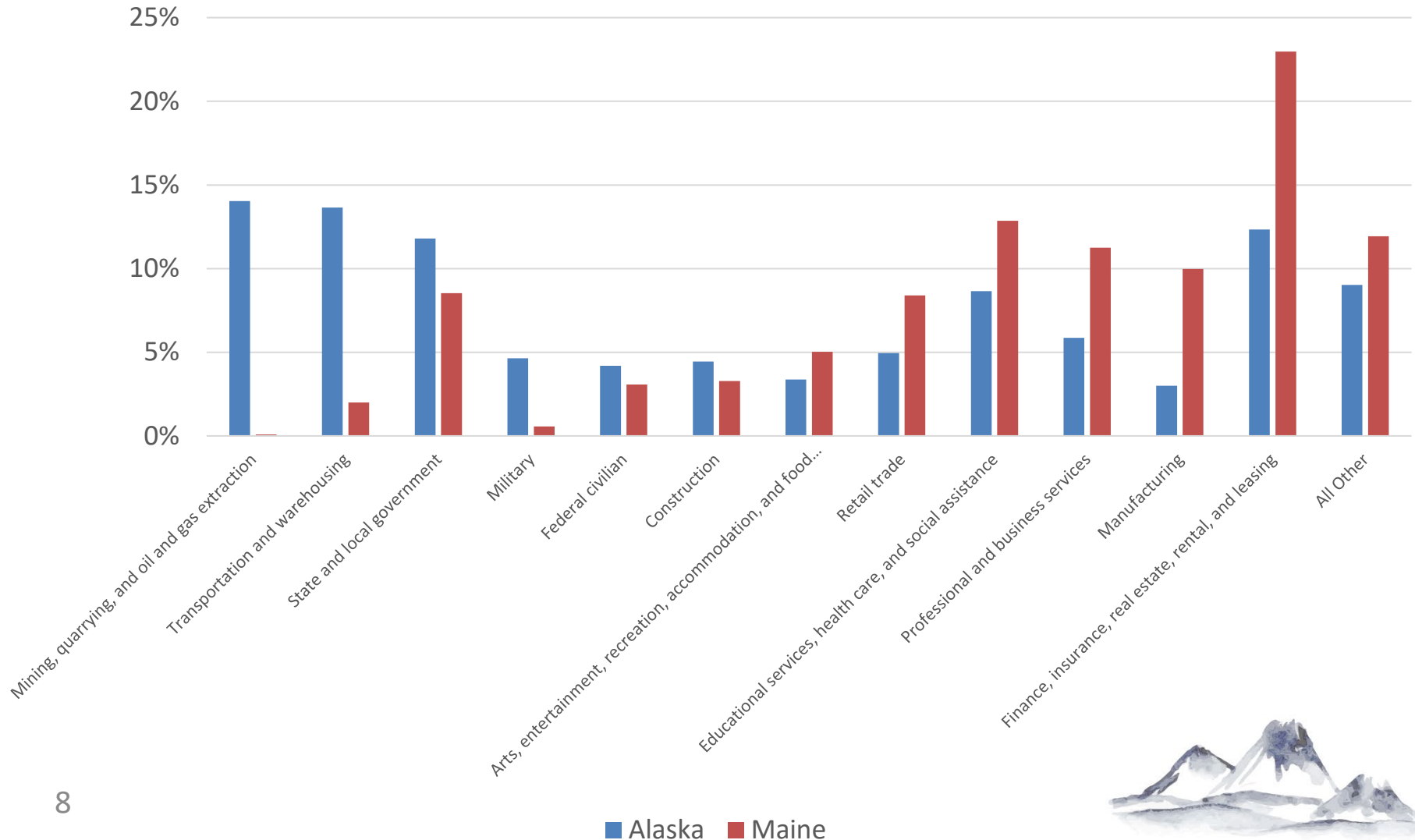
How Do We Compare to North Dakota?

Alaska and North Dakota GDP, Percentages of Total, 2021



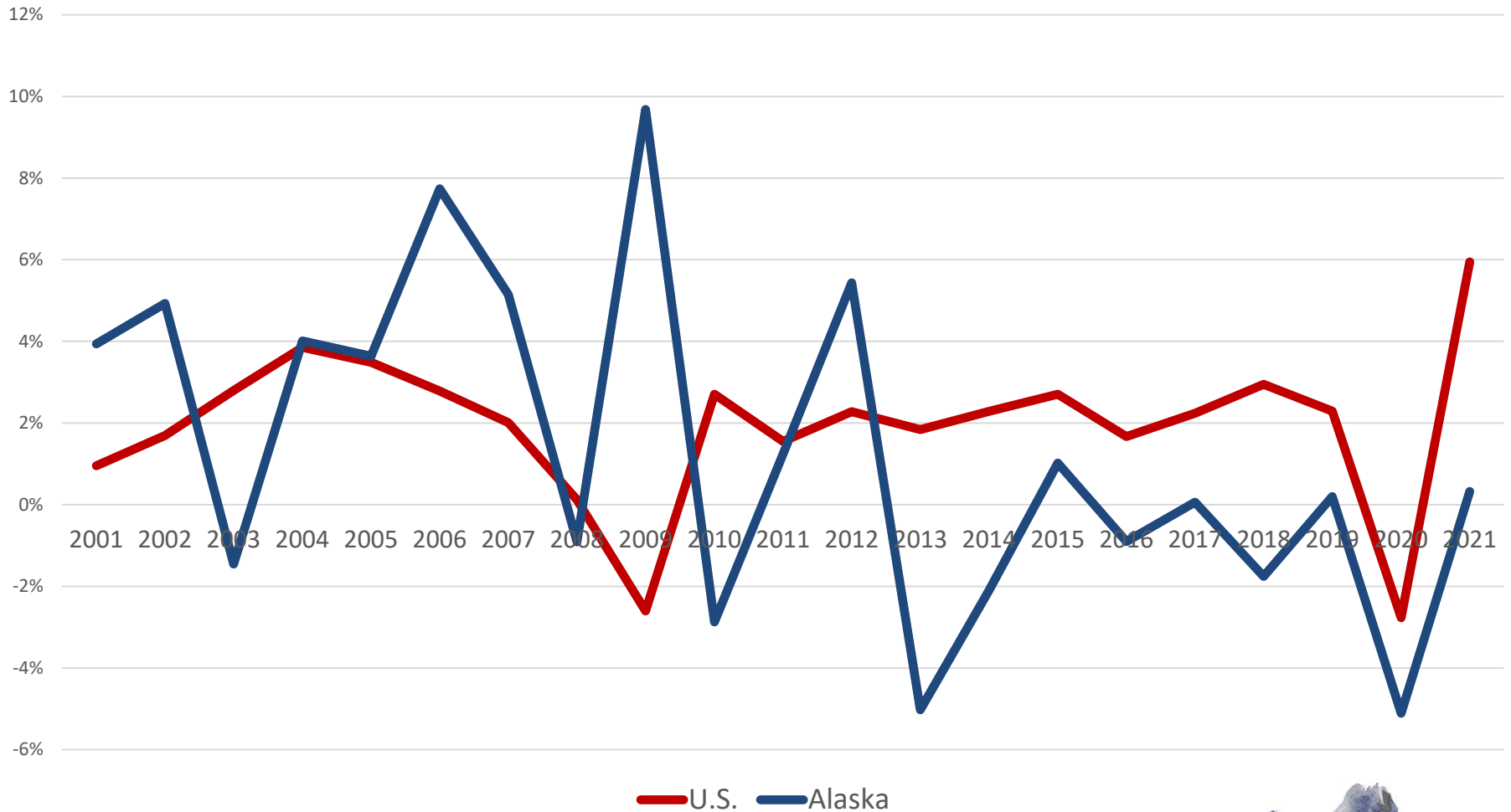
And How About Maine?

Alaska and Maine GDP, Percentages of Total, 2021



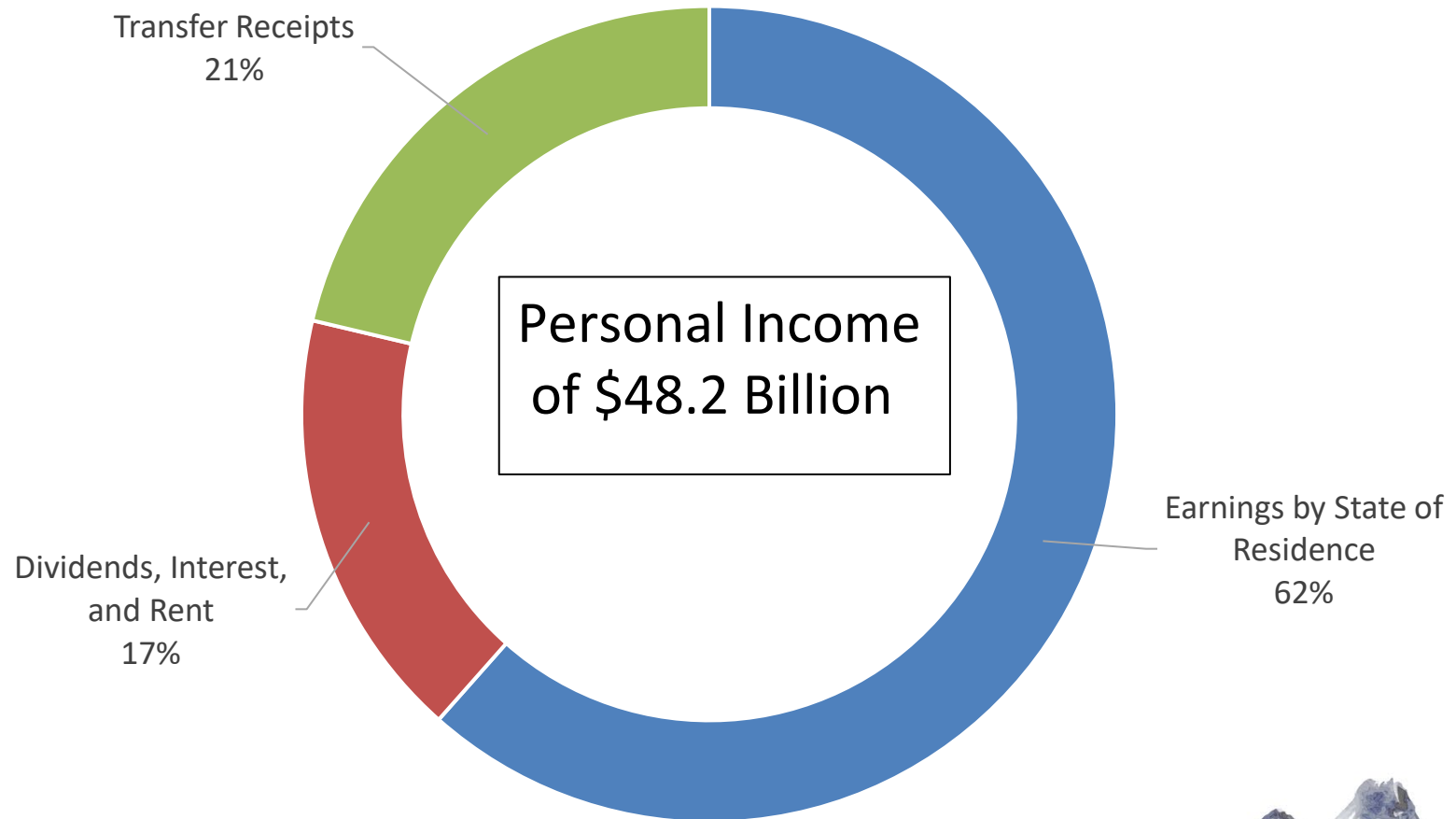
Alaska and U.S. GDP Trends

Percent Change in Real GDP (Chained 2012 Dollars) for U.S. and Alaska, 2001-2021



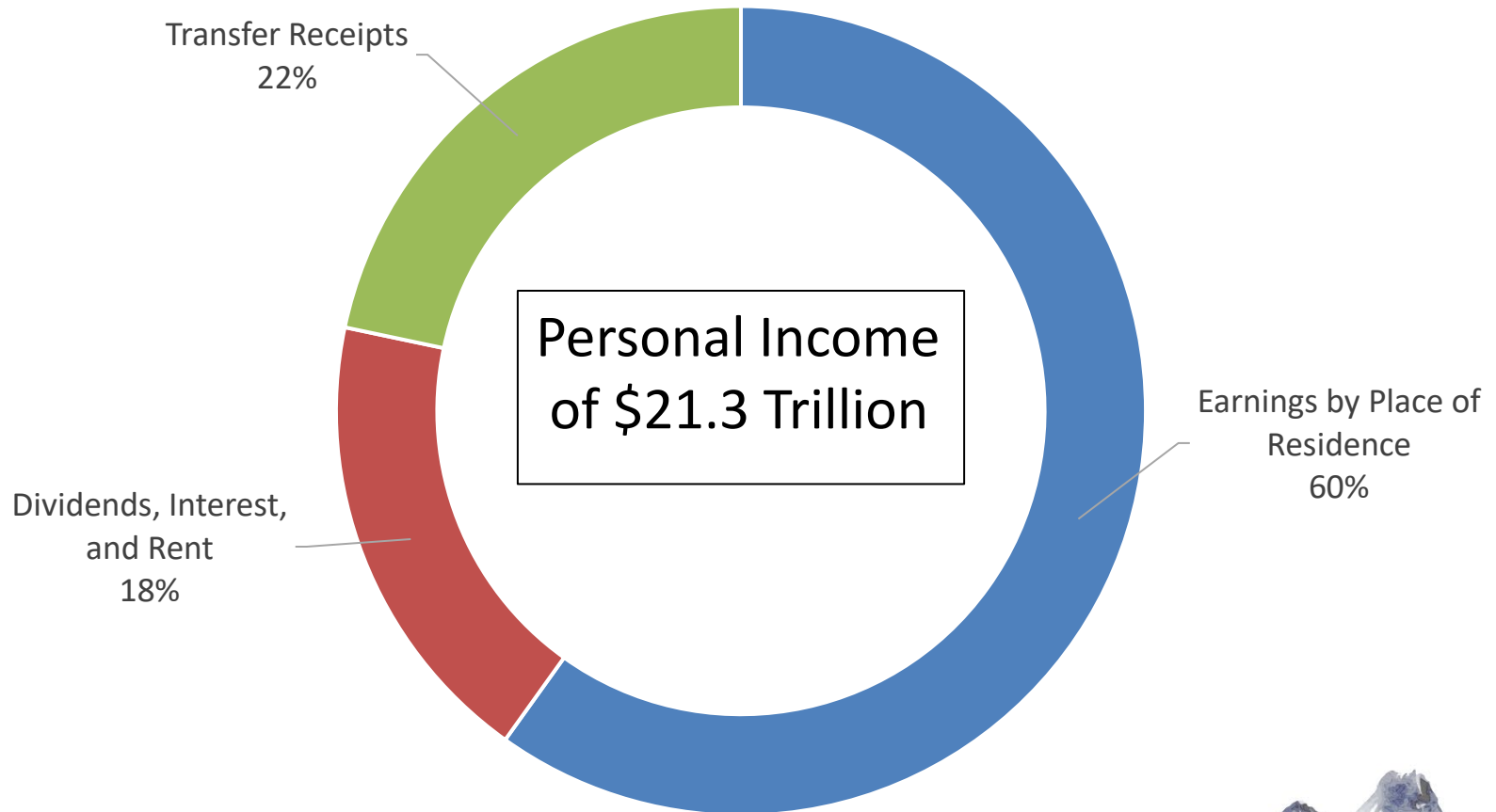
Economic Measure #2: Personal Income

Alaska Personal Income by Major Component, 2021



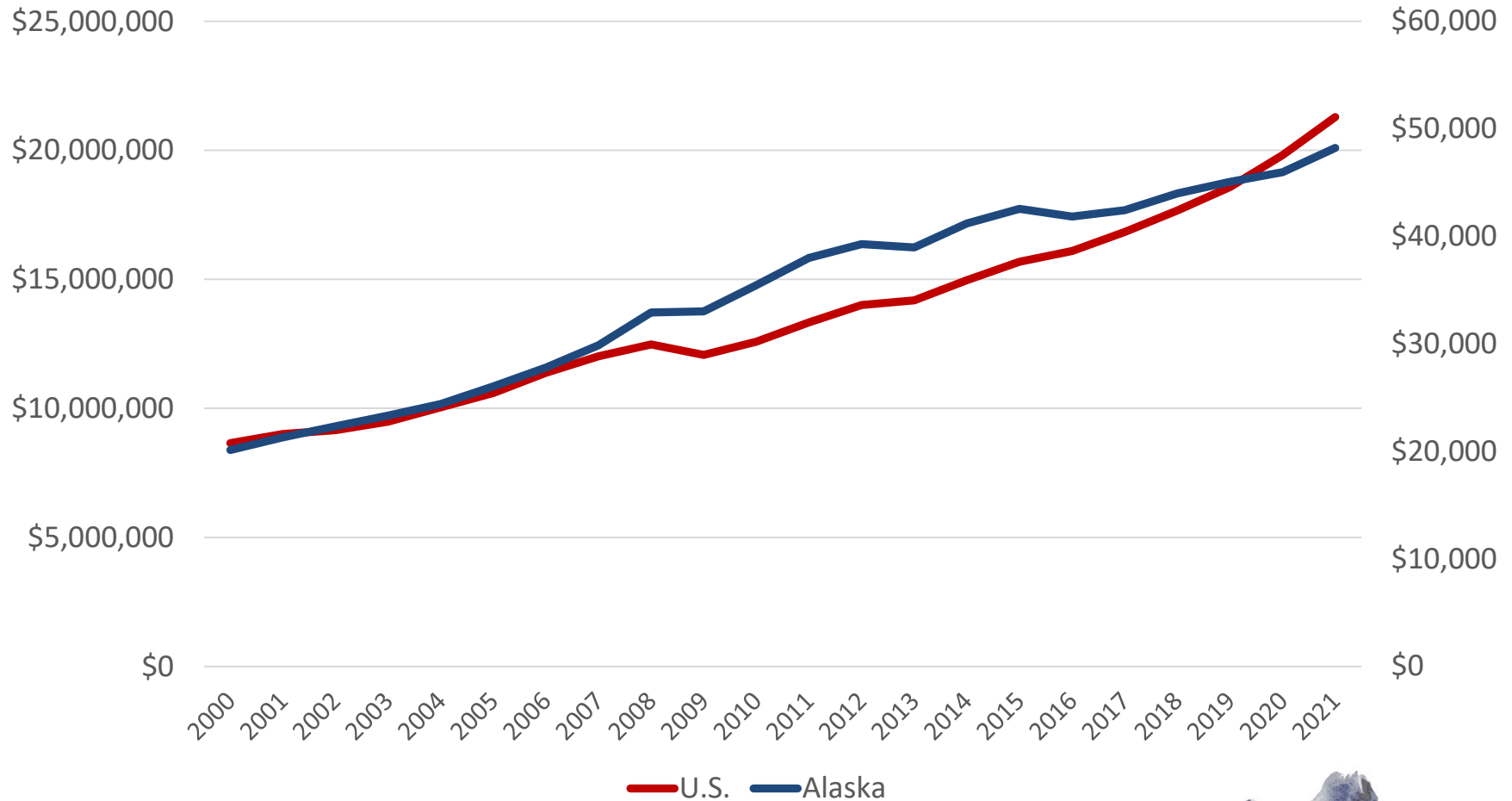
How Our Personal Income Compares

U.S. Personal Income by Major Component, 2021



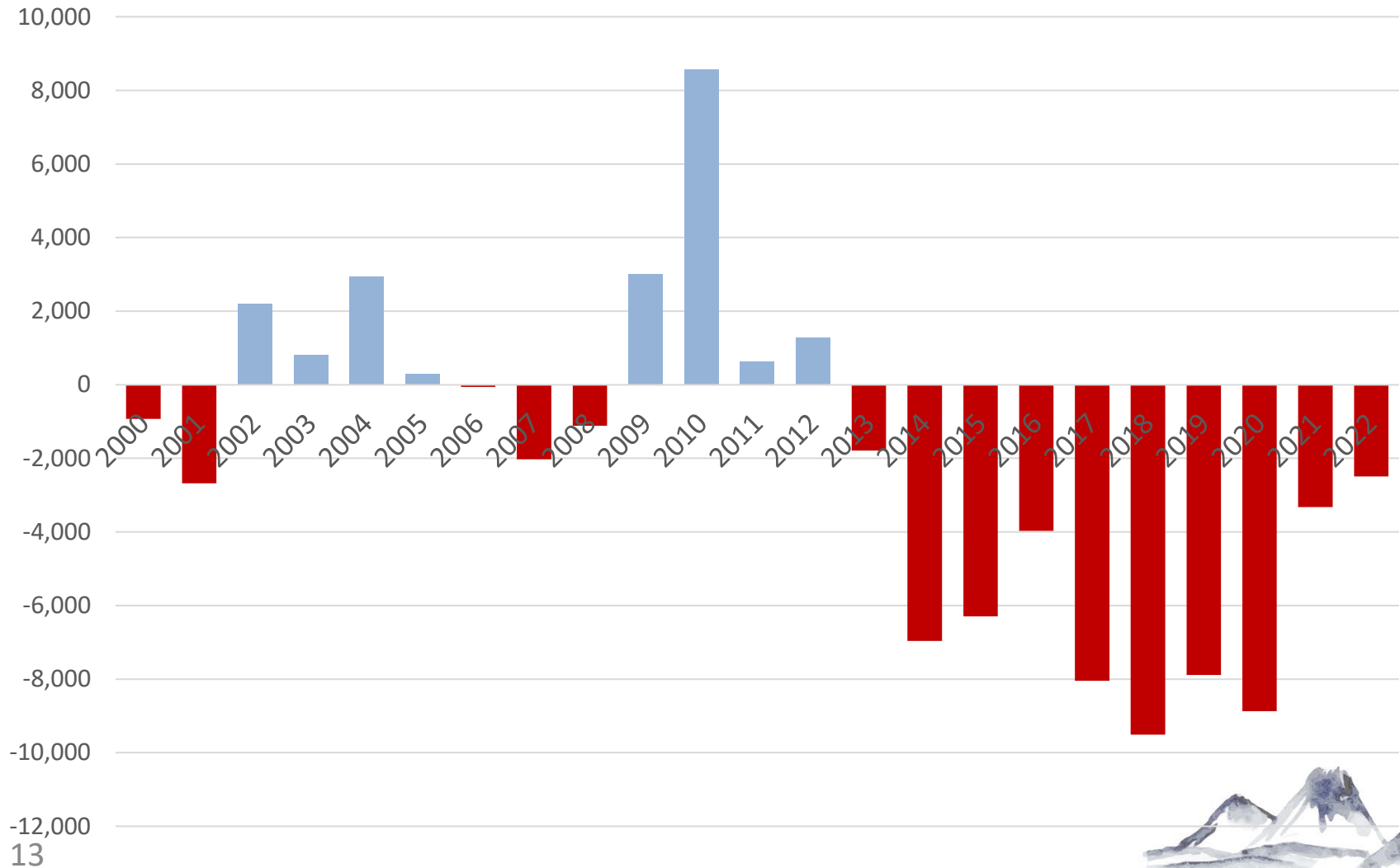
AK and U.S. Personal Income Trends

Alaska and U.S. Personal Income, 2000-2021



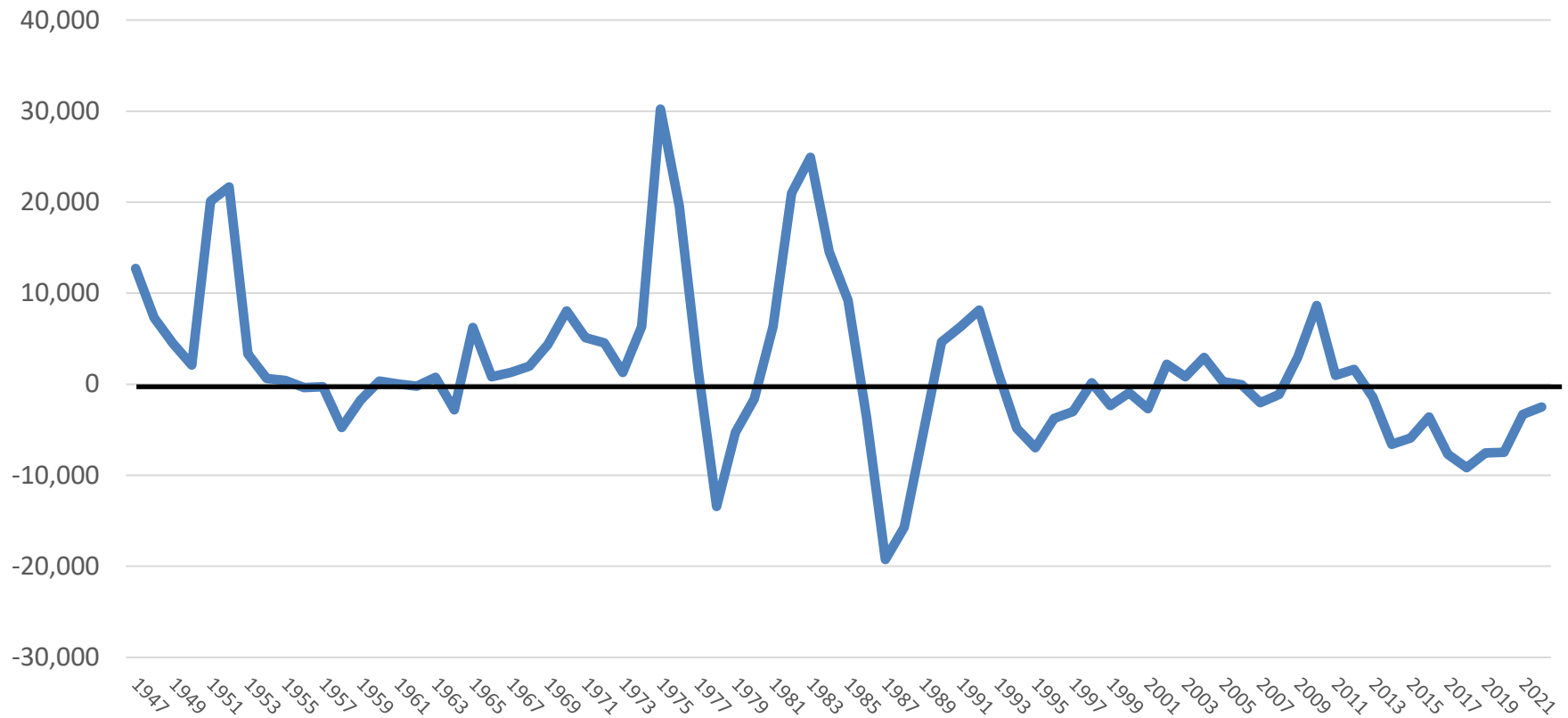
Economic Indicator #3: Net Migration

Alaska Net Migration, 2000-2022



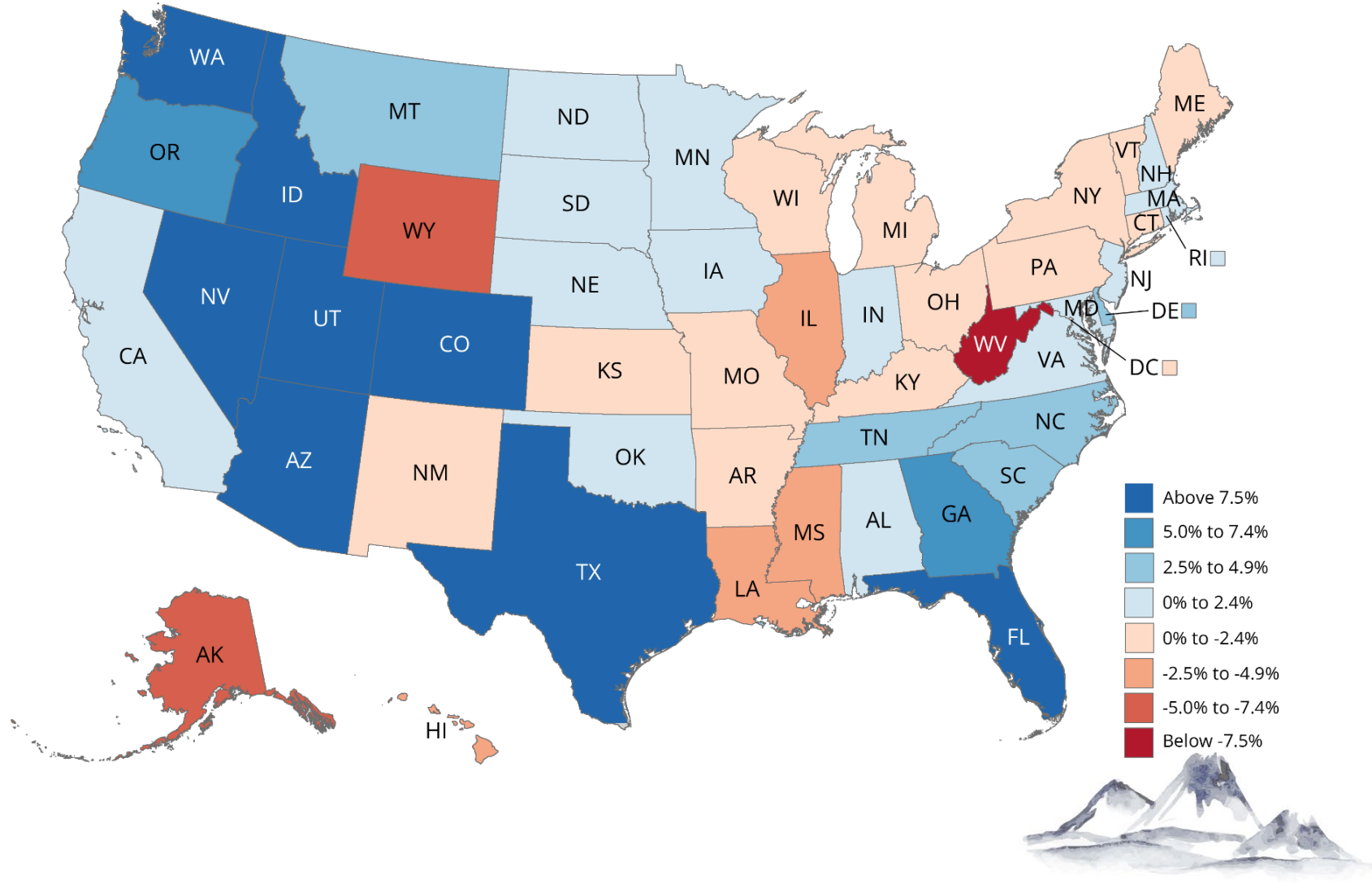
A Longer-Term Perspective ...

Alaska Net Migration, 1946-2022



One Consequence of Migration Trends

Percentage Change in Working Age (18-64) population 2013-2021



State Government's Role

Economically, state government can help the broader economy by:

- Providing stability to institutions, businesses, and citizens
- Competently administering core state government functions (public safety, public education, road construction and maintenance, public assistance, court system, etc.)
- Investing in the types of things that make people want to live in a state (this one's partly subjective)



Some of What We've Written on This



The importance of confidence and stability to an economy

Though hard to quantify, one characteristic of recessions is they shake the confidence of economic decision-makers and make them reluctant to invest and spend. People unsure about their job security are less likely to buy a house or make other large purchases, and businesses unsure about their state's economic future are less likely to expand and hire more workers, which can create a downward spiral.

Normally, confidence in an economy is restored as it becomes clear the economic shock from whatever source has been absorbed. For example, it will be encouraging in Alaska's current recession when oil and gas jobs stop falling and the related industries stabilize or resume growing.

But this recession is unusual in that the initial shock created the near-certainty of a secondary shock. Alaskans will have to absorb another economic deduction in the form of new taxes or more state government job and spending cuts, and until we know how that will play out, individuals and businesses may be more likely to put financial decisions on hold.



A Snip from a 2019 Article:



Harder choices lie ahead

Even with the influx of nearly \$3 billion from investment earnings, the state expects revenue to fall short by about \$1.6 billion of the preliminary budget for fiscal year 2020. That means major choices remain, and none of the options are painless or universally popular.

Until we act, however, the uncertainty will continue to dampen the state's economy. As just one example of the cost of uncertainty, Mouhcine Guettabi, an economist at the University of Alaska Anchorage's Institute of Social and Economic Research, estimates that the effects of "policy uncertainty" cost the state between \$200 million and \$600 million a year in private investment.

All of our possible choices have pros and cons, and from an economic perspective, none will be cost-free. But until we make those decisions, our economy will struggle.



Questions/Comments

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