

HCR

21

# Alaska State Legislature



REPRESENTATIVE  
PAT POURCHOT

HOUSE FINANCE COMMITTEE,  
VICE CHAIR

HOUSE ETHICS COMMITTEE, CHAIR

LEGISLATIVE BUDGET & AUDIT  
COMMITTEE

House of Representatives

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## MEMORANDUM

DATE: May 4, 1987

TO: Members of the Senate Labor and Commerce Committee  
Senator Tim Kelly, Chairman  
Senator Dick Eliason, Vice-Chairman  
Senator Rick Uehling  
Senator Bettye Fahrenkamp  
Senator Mike Szymanski

FROM: Representative Pat Pourchot

SUBJECT: HCR 21 - Relating to the use of Alaska products and services

House Concurrent Resolution 21 is a modest resolution encouraging Alaska residents, businesses and government to buy and utilize Alaska goods and services. The purpose of the resolution will be to increase public awareness of the economic benefits derived from the support of Alaska businesses.

All too frequently our government and the private sector use foreign or "Outside" goods and services. Often the reason is simply because of habit. Years ago Alaskans had to rely on "Outside" products because they simply were not available in Alaska. In many instances, this is no longer the case. The Alaska Department of Commerce and Economic Development statistics show that the availability of local goods and services has increased significantly in recent years. If government and the private sector would support local production it would mean increased local employment which means more money into the local economy.

It is a well known fact that the economic multiplier in Alaska has an approximate value of 1.5. This means that, on average, if employment in a basic industry grows by 100, then in the same year 50 jobs will be created in those industries supplying the basic industry and in those industries providing consumer goods and services to the new employees. This can only be beneficial for Alaskans.

This resolution would encourage all Alaskans to play a vital role in supporting the economy of the state through the purchase and utilization of Alaska goods and services. Thank you for your consideration.

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

No. 1

329

REQUEST: \_\_\_\_\_

Bill Version : HCR 21  
Publish Date : HOUSE 4/27/87

Revision Date: \_\_\_\_\_  
Title: Relating to use of Alaska  
products and Services

Agency Affected : \_\_\_\_\_  
BRU: \_\_\_\_\_

Sponsor: Pourchot et al

Components : \_\_\_\_\_

Requestor : \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

*Dave Donley*

Prepared by: Dave Donley, Chairman Phone: 465-3892  
Division: House Labor & Commerce Committee Date: 4/23/87

Approved by Commissioner: \_\_\_\_\_ Date: \_\_\_\_\_  
Agency: \_\_\_\_\_

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)  
Senate Secretary

M.A.C.



MADE IN ALASKA  
COMMITTEE

# MADE IN ALASKA COMMITTEE

## POLICY

The general thrust of the Made in Alaska Committee (M.A.C.) will be to identify institutional and attitudinal barriers toward the purchase and utilization of Alaska goods and services, and to identify the opportunities to remove those barriers. M.A.C. will focus its attention in the following areas:

- A. Government procurement policy
- B. Private sector procurement policy
- C. Government regulatory policy

To effect improvement in the above areas, M.A.C. will utilize:

- A. Research and information
- B. Publicity and education

M.A.C. encourages all Alaskans to play a vital role in supporting the economy of the state through the purchase and utilization of Alaska goods and services, and declares that the combined efforts of all will develop and maintain a strong, stable and prosperous economy for Alaska and Alaskans.

## BOARD OF DIRECTORS

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Greg Strong, Eklutna, Inc.

Frank Turpin, Alaska Railroad Corp.

Jerry Weaver, Ranier Bank Alaska

Doug Wise, Standard Alaska

Connie Yoshimura, Fortune Properties

# Small business facts

The following are facts about businesses in Alaska from the state Department of Commerce & Economic Development:

- The female labor force participation rate in 1984 was the highest in the nation - 64.5 percent with a national rate of 53.6 percent.
- In 1984, one out of every six fish caught commercially in the U.S. was caught in Alaskan waters for one out of every

five dollars of value.

- There were over \$10,000 worth of assets in Alaskan banks for each resident in 1985.
- There were 1.4 visitors to the state for each resident in 1985.
- From Anchorage it is almost the same distance to New York (3,375 miles) as it is to Tokyo (3,436 miles). It is almost the same distance to Moscow (4,375 miles) as it is to London (4,489 miles).
- Retail sales average more than \$100,000 per employee.
- For each person employed in the tourist industry, almost \$66,000 worth of sales were made last year.
- Alaska eggs are five days fresher.
- Alaska milk is five days fresher.

- Alaska dairy products are five days fresher.
- Some 78 percent of Alaska businesses have less than 10 employees.
- Almost one-third of small businesses in Alaska are in the service sector. These return more dollars to the local economy than purchase of goods (which are generally produced out of state).
- There are 3.7 retail businesses for each wholesale business.
- One out of every three employed persons works in a business with less than 50 employees.
- The average private business employees 11 persons.
- Almost 30 percent of retail employers are eating establishments.

Sorry -  
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## The number of small businesses continues to grow, Labor says

The statistics presented on the following fact sheet on small businesses in Alaska as of September 1985 are from the state Department of Labor. They do not include the self-employed such as sole proprietors and many persons in farming, fishing and logging, nor do they include people working on commission only.

The numbers represent active businesses currently employing

people and operating within Alaska. Data is presented for the third quarter of 1984 and 1985.

Third quarter 1985 is the most current series available. Only private business and employment is considered.

- There has been a 3.02 percent increase in the number of privately owned businesses operating in Alaska since the

same time, 1984.

In the years 1981 to 1984 there had been an annual average increase of almost nine percent.

The mix of small and large sized businesses has remained relatively constant over the past four years, with better than 50 percent of private businesses in the smallest size class, i.e., employing less than four persons.

The increase of 501 more businesses over 1984 represents a net increase. There were 44 fewer firms employing 10-49 persons and three less in the 250-499 class.

An increase in the number of establishments was seen in the service sector and in the trade sector.

In 1985 there were 132 more service businesses than there were in 1984 and 194 more in the 0-3 employment class. There were 132 more retail establishments and 132 more wholesale establishments. The construction industry showed the largest net loss between 1984 and 1985. There were 47 fewer construction businesses in 1985 than in 1984.

The overall figure in the construction industry. Actual losses for the construction sector between 1984 and 1985 were a gain of 99 in the 0-3 employment class, a loss of 19 in the 4-9 employment class, and 19 in the 10-19 and 20-49 employment classes.





November 13, 1986

Mr. J.B. Young  
DIRECTOR OF PURCHASING  
University of Alaska, Anchorage  
3211 Providence Dr.  
Anchorage AK 99508

Dear Mr. Young:

This letter is in protest of your department's decision to declare STELLAR DESIGNS bid for Invitation # B87-013 invalid. I would like to make a formal, written appeal of this decision.

It was a careless oversight on my part for not signing the bid form. If it is non-performance that you are worried about, let me sign the bid now, so you can hold me to it.

I am clearly the low bidder and feel that STELLAR DESIGNS should be awarded the bid. In these troubled times of state budget cutbacks and economic turmoil, I, as an Alaskan Manufacturer, would sure hope that the University of Alaska, Anchorage would choose to let STELLAR DESIGNS perform this work rather than awarding the bid to the second lowest bidder, Span Alaska Sales, and spending the additional \$736.00 in funds. Most importantly, I would hope that the University of Alaska, Anchorage would rather keep state money in Anchorage rather than supporting a Washington based company doing business in Alaska.

Very Truly Yours,

Timothy J. Ellis  
President  
STELLAR DESIGNS  
522-1905



## ISER RESEARCH SUMMARY

Institute of Social and Economic Research, University of Alaska

June 1984, R.S. No. 19

# Import Substitution in Alaska

A recent report and a paper by staff members of the University's Institute of Social and Economic Research state that one of the most important sectors of economic growth in Alaska during the last decade was that of goods and services produced locally for local consumption. The importance of this growth, however, was overshadowed by resource sector expansion (primarily Prudhoe Bay) and was largely ignored by economic policymakers. Yet, the expansion of goods and services produced for local consumption—such as telephone communications, health services, and retail food sales—accounted for a significant share of total employment growth in the 1970s.

The report, originally written for the office of the Governor, and the paper, given at the 1984 Western Regional Science Conference, further suggest that the local goods and services area has not yet realized its full potential growth and, for that reason, may actually be more responsive to state government policy than the resource sector.

Economists refer to growth in this local goods and services sector as "import substitution," or the replacement by local production of previously imported goods and services. A broader definition of this process might include the expansion of the support sector of the economy (the sector which serves local residents) to include local production of goods and services which had not previously been consumed in the region because of their high import costs.

As a region grows, the goods and services sector supporting the local population also grows, not simply in depth, but also in variety. Nor is the increase proportionate to the increase in export activity; instead, it expands at a faster rate than the export sector.

Import substitution has provided an important source of growth in Alaska. Between 1970 and 1979, Alaska nonagricultural civilian employment grew by almost 74,000, an expansion of approximately 80 percent. Import substitution, as broadly defined in this paper, accounted for almost 20 percent of the

growth in employment and it occurred in sectors accounting for 38 percent of total employment. The extent of import substitution was measured by comparing the growth in employment in an industry to the growth in the market. Market growth was assumed to equal the growth in real Alaska income adjusted for a change in the structure of demand at the national level.

Those sectors exhibiting import substitution in Alaska are primarily producers of services rather than goods. The industries where import substitution accounted for the greatest growth during the period examined were telephone communications (1,752 employees), health services (1,614), miscellaneous retail (1,073), retail food (683), business services (569), banking (566), insurance carriers (523), and legal services (484). Producers of goods for the local market have experienced only limited expansion in Alaska.

Although import substitution has been important in Alaska's past growth, there are reasons to believe that it has not occurred at the rate made possible by market expansion. This hypothesis holds that Alaska is underserved in certain support sectors and supports less market activity than it might. This is important since it suggests that this sector may be responsive to economic development policy.

If the size of a region's market were the only determinant of support sector activity, we would expect similar sized markets to have similar support sectors. However, when we compare Alaska to twelve market areas with similar populations and per capita incomes, we find large differences in the level of support sector activity. Employment per thousand population was used as the indicator of support sector activity. The average number of employees per thousand population in the areas similar in size to Alaska's market exceeded the Alaska level by more than 50 percent in personal services, amusement and recreation services, medical and health services, wholesale trade, autodealers and service, apparel and accessories, and furniture and home furnishings.

While employment is not a perfect indicator of local production (since cost conditions may differ between regions), the great difference between Alaska and other areas suggests that Alaska's support sector may be underserved in some areas.

This comparison suggests that import substitution does not necessarily take place automatically. It suggests further that the Alaska goods and services sector may have failed to respond to opportunities and grow to its full potential. Three likely reasons for the less-than-optimum growth are:

**Relatively Limited Supply of Entrepreneurs.** Entrepreneurs may be relatively limited in regions like Alaska. The small population and the opportunities to earn large incomes in other occupations may result in there being more opportunities than entrepreneurs.

**The Immobility of Outside Entrepreneurs.** The existence of opportunities in frontier regions may not necessarily attract enough entrepreneurs from outside the region. Entrepreneurs are not perfectly mobile; strong preferences for familiar areas limit their flow to frontier regions. Entrepreneurs generally depend on their knowledge of an area; frontier areas are unknown.

**Lack of Information.** Research has shown that information on entrepreneurial activities does not flow freely. Knowledge about opportunities in Alaska may not necessarily reach outside entrepreneurs, just as information on product and technology innovations may not flow immediately to Alaska.

In conclusion, import substitution continues to be an important component of Alaska economic growth, and some evidence suggests that it may not

automatically respond to growth opportunities, as is usually assumed. This raises the question: should the government intervene to encourage the process of import substitution? One argument supporting such intervention holds that expansion in the support sector reduces the cost of living and doing business in Alaska. In addition, government intervention to encourage growth in the support sector could be relatively inexpensive. For example, policy aimed at increasing growth through the improved flow of information both to and from Alaska would cost little compared with programs directly aimed at increasing resource exploitation.

This research does not suggest that resource development is unimportant or should be ignored, or that the local support sector can exist without it. However, expansion of the local support sector, while not as dramatic as resource development, offers a potentially profitable area for policy intervention.

*This Research Summary is based on the paper "Import Substitution in Frontier Regions," presented by Lee Huskey at the Western Regional Science Conference, Monterey, California, February 1984; and the report The Place of Support Sector Growth, Import Substitution and Structural Change in Alaska's Economic Development (1983, 22 pp.), prepared by Arlon R. Tussing, Lee Huskey, and Thomas Singer through the Institute of Social and Economic Research for the Office of the Governor, State of Alaska. Copies of both the paper and report are available for the cost of reproduction through the Institute of Social and Economic Research, 707 A Street, Suite 206, Anchorage, Alaska 99501. Telephone 278-4621.*

**RESEARCH SUMMARY (No. 19)**

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