How Petroleum Has Transformed the Alaska Economy

by
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ANCHORAGE SOUTH ROTARY CLUB

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Anchorage, Alaska
How Oil Has Transformed the Alaska Economy

Primary Financial Support from

Northrim Bank
Customer First Service

University of Alaska Foundation
State of Alaska

Oil and the Alaska Economy
A Look Back:
The Alaska Economy in 1960

- SMALL: 90 thousand jobs
- PUBLIC: ½ jobs are fed
- SEASONAL: summer private job 2 times winter
- THIN: limited support businesses
- POOR: HH income 10-20% below US avg
- UNDERDEVELOPED INFRASTRUCTURE
- LIMITED REVENUE CAPACITY
The Alaska State Seal
Alaska Indicators: Then and Now

- **People (000)**:
  - 0%: 230
  - 25%: 660

- **Income (Billion $)**:
  - 0%: 3
  - 25%: 24

- **Jobs (000)**:
  - 0%: 90
  - 25%: 361

Oil and the Alaska Economy
Growth of Seal Industries:
Not Enough to Account for Today’s Economy

- Tourism
- Seafood
- Mining
- Agriculture
- Timber
- Air Cargo

Job Growth, 1961-2006 (Thousand)
The “Updated“ Alaska State Seal
The Alaska Economy Stands on 3 Legs
## Indicators of Petroleum’s Importance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Fund Revenues</td>
<td>85%</td>
</tr>
<tr>
<td>Industrial Property Tax Base</td>
<td>80%</td>
</tr>
<tr>
<td>Value of Resources Produced 1867-2009</td>
<td>74%</td>
</tr>
<tr>
<td>Private investment spending (Direct)</td>
<td>60%</td>
</tr>
<tr>
<td>Gross State Product (Direct)</td>
<td>33%</td>
</tr>
<tr>
<td>Oil Sector Jobs</td>
<td>3%</td>
</tr>
</tbody>
</table>
What Would Alaska Look Like Today Without Petroleum?

Gedankenexperiment

*ANCHORAGE DAILY NEWS*

Vol. 10 No. 4  
Member United Press  
Anchorage, Alaska  
April 1, 1968

ANOTHER DRY HOLE AT PRUDHOE BAY
Companies Say “We Give Up”
No Production--Part 1
The Oil Patch

The Role of
the Oil and Gas Industry
in Alaska’s Economy

Anchorage Chamber of Commerce
June 30, 2008

Job creation

- 41,744 jobs – direct, indirect, induced
  - 4,497 Direct – primary companies
  - 8,410 Indirect – support industry companies providing goods and services
  - 28,837 Induced – jobs created when direct and indirect employees spend their income locally

Oil and the Alaska Economy
No Production--Part 2

Government Spending

Assumption: All Spent Petroleum Revenues Pay for Operations.

TOTAL JOBS = 49 THOUSAND.
No Production—Part 3
The PF Dividend

2008 DIVIDEND BASICS
$3,269 Dividend
611 Thousand Recipients
$2 Billion Distribution

COMPARE 2007 EARNINGS (Billion $)
$1.4 Retail Trade
$1.6 Federal Civilian
$1.7 Construction
$1.8 Oil + Mining
$2.0 Health
$2.2 Military
3 Petroleum Characteristic

Providing Support to the Other Legs

- VALUE ADDED
- STABILITY
- SIZE
Value Added: State Share

- Lighter Tax Burden
  - $54 Billion

- Greater Public Spending
  - SPEND $106 Billion
  - SAVE $35 Billion
  - $52 Billion

$141 Billion

59-08 in 2008 $
Impact on Resource Industries from Lighter Tax Burden

State & Local Revenues from Seafood, Tourism, Mining, Timber

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual (avg 05-07)</td>
<td>$200 mill</td>
</tr>
<tr>
<td>If Oil $ Disappeared</td>
<td>$900</td>
</tr>
<tr>
<td>Incremental Burden, no Oil $</td>
<td>$700</td>
</tr>
<tr>
<td>Increase in Tax Rate</td>
<td>4 X</td>
</tr>
</tbody>
</table>
Impact on Resource Industries from Greater Public Spending

- CAPITAL SPENDING
  - Targeted Development
  - General Infrastructure
  - Household Infrastructure

- OPERATIONS SPENDING

- CAPITALIZING SPECIAL FUNDS
Impact on Households from Lighter Tax Burden

34%*

$13,150 Per Capita in 2006

* Average State Income Tax Rate to Replace Oil Revenues—1970 to 2006.
Impact on Stability: Seasonal Economies

Bristol Bay

Denali Borough

Oil and the Alaska Economy
Impact on Stability: Year Round Economies

North Slope Borough

Matsu Borough

Bethel

Oil and the Alaska Economy
Size Drives Economic Maturation

Oil and the Alaska Economy
Alaska Growth Since Statehood

<table>
<thead>
<tr>
<th></th>
<th>PEOPLE (000)</th>
<th>INCOME (BILLION $)</th>
<th>JOBS (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>230</td>
<td>$3</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>136</td>
<td>$9</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>294</td>
<td>$12</td>
<td>172</td>
</tr>
</tbody>
</table>

0% 25% 50% 75% 100%
Without Petroleum: Today’s Alaska Economic Base

<table>
<thead>
<tr>
<th>Sector</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military</td>
<td>35%</td>
</tr>
<tr>
<td>Federal Civilian</td>
<td>23%</td>
</tr>
<tr>
<td>Tourism</td>
<td>20%</td>
</tr>
<tr>
<td>Fishing</td>
<td>16%</td>
</tr>
<tr>
<td>Mining</td>
<td>3%</td>
</tr>
<tr>
<td>Air Cargo</td>
<td>3%</td>
</tr>
<tr>
<td>Timber</td>
<td>0%</td>
</tr>
</tbody>
</table>
The Alaska Economy Without Petroleum?
Petroleum Resources for a Sustainable Economic Future
(Billion Barrels of Oil)

Production History:

<table>
<thead>
<tr>
<th>Location</th>
<th>Reserves (Billion Barrels)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Slope</td>
<td>15.4</td>
</tr>
<tr>
<td>Cook Inlet</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Reserves Today:

<table>
<thead>
<tr>
<th>Location</th>
<th>Reserves (Billion Barrels)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central North Slope</td>
<td>5.9</td>
</tr>
<tr>
<td>Cook Inlet</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Potential Additional Reserves
(Technically Recoverable—USGS, MMS):

<table>
<thead>
<tr>
<th>Location</th>
<th>Reserves (Billion Barrels)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANWR</td>
<td>10.4</td>
</tr>
<tr>
<td>NPRA</td>
<td>10.6</td>
</tr>
<tr>
<td>OCS</td>
<td>23</td>
</tr>
<tr>
<td>Central North Slope</td>
<td>4</td>
</tr>
</tbody>
</table>
Candidates for Comparison?

- Oklahoma
- New Mexico
- South Dakota
- Wyoming
- Montana
- Idaho
- Florida
- Nevada
- Hawaii
Maine Is Not Like Alaska

- Physically attached to Lower 48
- Federal land ownership 1%
- Native American population 1%
- Lobsters instead of crabs
- Unusual accent
- Presidential hangout
Maine is Like Alaska

- Many moose
- Few humans
- Cold
- Remote
- Independent streak
Maine and Alaska

- Fish / Tourism / Timber / Mining / Agriculture
- Limits on sustainable harvests
- Challenged by globalization
- Small and declining manufacturing
- Dependence on federal $$$s
- Conflicting visions about use of resources
- “Zero Sum Game” development mentality
Maine Economic History in a Nutshell

“Throughout the second half of the twentieth century, Maine has STRUGGLED to find a proper balance between resource-based industrial development and environmental protection.

The state has come to rely heavily on tourism, small manufacturing enterprises and defense-related activities and installations for much of its economic base.”
Maine Economic Performance: Some Evidence

- Gross State Product per capita: 43rd (Ak 7th)
- Job Growth: 66% (Ak 144%)
- Population Growth: 46th (Ak 5th)
- Median Age: 1st (Ak 49th)
- Housing Built Before 1939: 31% (Ak 2%)

- Median Paycheck: 77% as high as Alaska

- Projected Population Growth = 1/3 US average (Ak 30% above)
## Typical Family Comparison

<table>
<thead>
<tr>
<th>Wages</th>
<th>$72,750</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Taxes</td>
<td>$0</td>
</tr>
<tr>
<td>Dividend</td>
<td>$6,800</td>
</tr>
<tr>
<td>Public Spending</td>
<td>$49,064</td>
</tr>
<tr>
<td>Total</td>
<td>$128,614</td>
</tr>
<tr>
<td>ALASKA “BONUS”</td>
<td>+$50,054</td>
</tr>
</tbody>
</table>

* Adjusted for lower cost of living in Maine.

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