Fostering Alaska Business Development
A Commonwealth North Report

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3 Principles

• A Rising Tide Lifts All Boats
• Growth Doesn’t Equal Development
• Growth Is a Double Edged Sword
Principle #1: Rising Tide
Growth Increases Output (Gross Product)
Principle #1: Rising Tide
Growth Puts Alaskans to Work

ALASKA EMPLOYMENT
THOUSANDS

STATE / LOCAL GOVT  SUPPORT  INFRASTRUCTURE  BASIC

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Principle #1: Rising Tide
Growth Increases the Market (Personal Income)
Principle #1: Rising Tide
Growth Drives Down the Cost of Living

ANCHORAGE COST OF LIVING
Ratio to US Average

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Principle #2: Growth Not Development
Permanent Fund Dividend Payout (mill 99$)
Principle #2: Growth Not Development

Federal Aid Per Capita: #1 in Nation

1990 to 1999 Growth

- Alaska
- Wyoming
- New York
- North Dakota
- Montana
- US Average

1990

98 $
Principle #2: Growth Not Development

Job Growth Slowing

Alaska Annual Job Growth

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Principle #2: Growth Not Development
Real Income Growth Since 1990

- LABOR INCOME
- INVESTMENT INCOME
- GOVT TRANSFERS (INC PFD)

Millions of 1998 $
Principle #2: Growth Not Development
Per Capita Income is Falling Behind
Principle #2: Growth Not Development

Out-Migration During Growth

Alaska Net Migration

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Principle #2: Growth Not Development
Population Aging Since 1990 (000)
Principle #3: Economic Growth is a Double Edged Sword

• Competition from Outside firms
  – Economies of Scale
  – Market Dominance
  – Expatriating Jobs and Profits

• Consumer Benefits
  – Lower Cost of Living
  – Recycled Savings
Principle #3: Economic Growth is a Double Edged Sword

- **Growth Brings Outsiders**
  - Walmart
  - Safeway
  - Wells Fargo

- **National Trends Toward Consolidation**
  - BP/Amoco
  - Phillips/ARCO/Marathon

- **National Trends Toward Devolution**
  - DELL
  - Auto Manufacturing
4 Strategies

- Increase Exports
- Add Value to Exports
- Substitute Local Production for Imports
- Manage Fiscal Policy
Strategy #1: Exports

- Definition - Expand Goods and Services Sold Outside Alaska
- Payoff
- Potential—Big
Strategy #1: Exports

VALUE OF NATURAL RESOURCE PRODUCTION
BILLION 1998 $


$0 $5 $10 $15 $20 $25

AGRICULTURE SEAFOOD OIL MINERALS
TIMBER GAS

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Strategy #1: Exports

• **Examples**
  – Oil and Gas
  – Mining
  – Tourism
  – Education
  – Seafood

• **Challenges**
  – World Markets for Traditional Resources
  – Supply Constraints
Strategy #2: Value Added

- Definition - Process What We Produce
- Payoff
- Potential—Modest
Strategy #2: Value Added

ALASKA PROCESSING EMPLOYMENT

Oil and Gas  Timber  Seafood

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Strategy #2: Value Added

• **Examples**
  – Seafood Processing
  – Refining
  – Timber
  – B&B’s
  – GTL’s
  – Veneer

• **Challenges**
  – Distance to Market
  – Cost
  – Scale
Strategy #3: Import Substitution

- Definition: Do for ourselves what we currently pay others to do
- Payoff
- Potential--Modest
Strategy #3: Import Substitution: Progress in Recent Years

Ratio to US Average

- Wholesale trade
- Retail trade
- Services

Year Comparison:
- 1987
- 1997
Strategy #3: Import Substitution:
Wholesale Trade Deficit

Durable Goods

Non-Durable Goods

Jobs
Strategy #3: Import Substitution: Services Deficit

Jobs

Professional
Administrative
Entertainment
Education
Health
Other
Strategy #3: Import Substitution

- **Examples**
  - Jet Fuel
  - Oil Field Modules
  - Health
  - Education
  - Engineering and Related Services

- **Challenges**
Strategy #4: Managing Fiscal Policy

- Fair
- Sustainable
- Realistic
- Gradual
- Complete
- Strategic
- Flexible
- Efficient
- Stable
- Transparent
Strategy #4: Managing Fiscal Policy

The Alaska Disconnect:
Best Case Scenario Assumptions

• New Basic Sector Jobs in Anchorage
• New Workers have Families
• Families Use Local Services and State Transport Services
• Families Pay Their Share of State & Local Taxes
• New Development Pays it Pro Rata Share of State and Local Taxes
Strategy #4: Managing Fiscal Policy
The Alaska Disconnect:
Best Case Scenario Fiscal Results
[Excludes PFD]

• Each New Basic Job creates a $1,100 Annual Burden on Public Finances
  – Revenues = $5,200
  – Expenditures = $6,300
• Local Government Net Benefit = $300
• State Government Net Burden = $1,400
4 Promising Opportunities

- Traditional Resources
- New Resources
- Import Substitution / Services
- Quality of Life
Promising Opportunity #1: Traditional Resources

- Oil
  - North Slope Exploration Support
- Gas
  - North Slope Gasline Support
  - Cook Inlet Gas Exploration
  - GTL Technology, Finance, and Design
- Mining
  - Tidewater Smelter
Promising Opportunity #2: New Resources

• **Tourism**
  – New High End Attractions
  – Music, Theatre, Eco-Tourism
  – New Destinations

• **Air Cargo**
  – Warehousing
  – Assembly
  – Manufacturing

• **Technology**
  – Engineering
  – Finance
  – Telecommunications
Promising Opportunity #3: Import Substitution / Services

- Health Care
- Professional Services
- Prisons
- Higher Education
- Federal Research and Development
Promising Opportunity #4:
Quality of Life

• Telecommuting
• Footloose Industry
• Retirees
6 Roles for Public Policy

- Target Opportunities and Compete
- Create Investment Attractive Environment
- Secure Federal Regulatory Relief
- Invest in Human Capital and Infrastructure
- Expand Mechanism for “Buy Alaska”
- Support a Policy Research Agenda