

What are the economic impacts of the vetoes?

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Outline

Distribution of the cuts

Short term employment effects

How do the cuts interact with the overall economy?

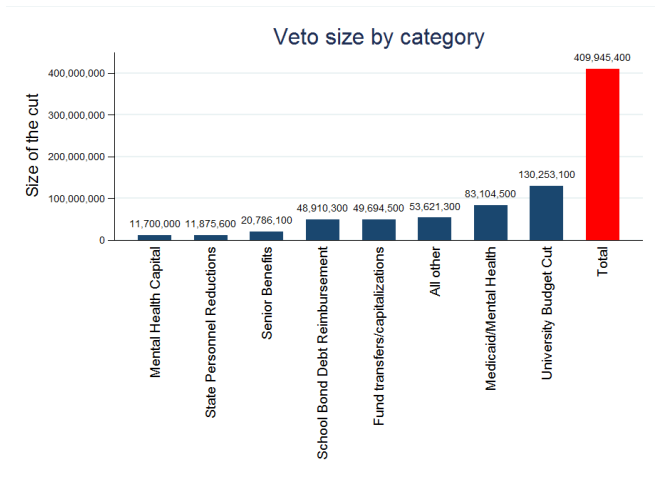
University enrollment, brain drain, and migration

Quick summary

- The impacts I will present are from a short brief prepared by Nolan Klouda (CED) and myself.
- We were able to identify 409 million dollars in vetoes. The University cuts represent 31.73% of the total vetoes. Medicaid/Mental Health come in second at 20.27% of the total, and school bond reimbursements account for another 12%. These three categories, therefore, represent 64% of the overall amount vetoed.
- We find the cuts will result in more than 4,000 jobs lost in the short run and will therefore return the Alaska economy into recession.
- While the short term losses represent a considerable negative shock to the economy, the consequences of these cuts on long term development could be even more pronounced.

Distribution of cuts across categories

Figure 1: Size of the cuts by category



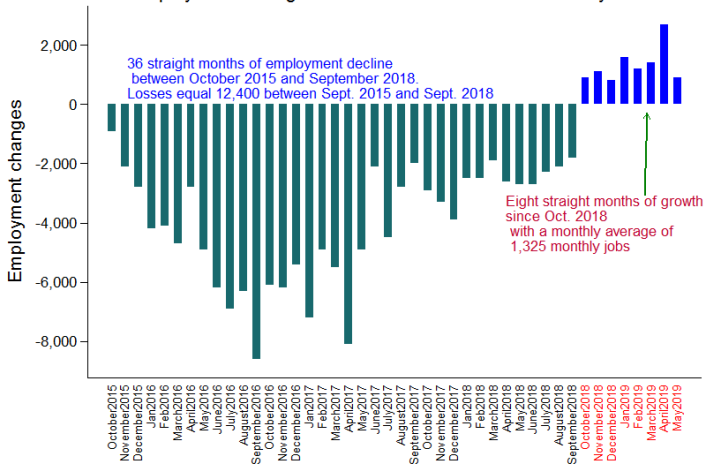
Employment effects of the cuts

Table 1: Direct and Total Employment Losses by Category

Category	Direct Employment Losses	Total Employment Losses
University Budget Cut	1,300	2,024
Medicaid/Mental Health	575	890
Senior Benefits	–	141
School Bond Reimbursement	–	313
State Personnel Reductions	68	124
Mental Health Capital	101	149
All Other	–	576
Fund Transfers/Capitalizations	–	–
Total	1,943	4,217

How strong is the economy?

Employment changes between October 2015 and May 2019

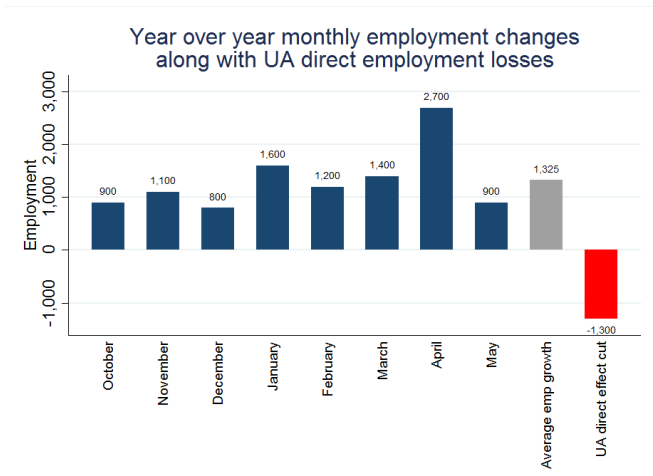


A few things worth noting

- Alaska experienced its longest recession -3 years- when it had employment losses every month between October 2015 and September 2018.
- The cumulative losses between September 2015 and September 2018 amounted to 12,400 jobs.
- Since October 2018, the Alaska economy seems to have turned the corner and employment has been positive for eight straight months. Relative to the same eight month span last year, employment is averaging about 1,325 more jobs.
- The level of employment as of May 2019 is still, however, 11,600 below what it was in May 2015.
- **Therefore, while the economy has come out of the recession it is still far from a full employment recovery.**

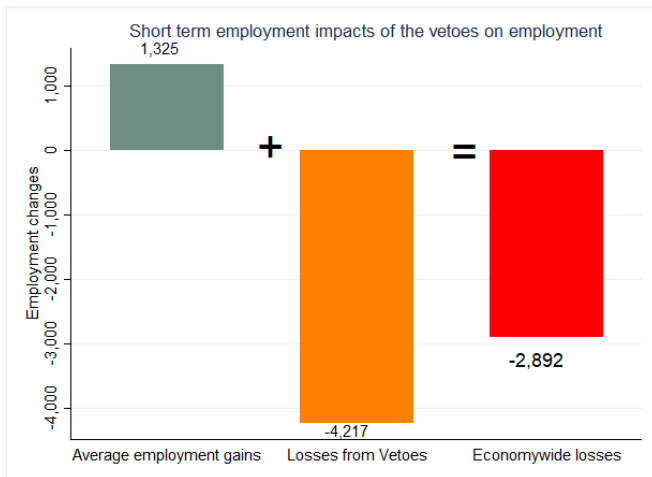
What do the cuts mean for the recovery?

UA direct losses -alone- cancel gains from other sectors in the economy



What if we include all the losses?

The economy clearly dips back into recession



How do the cuts interact with the current state of the economy?

- Since October 2018, the Alaska economy seems to have turned the corner and employment has been positive for eight straight months. Relative to the same eight month span last year, employment is averaging about 1,325 more jobs.
- UA direct losses **alone** offset any gains from other sectors.
- Accounting for all the cuts and their indirect effects makes it clear that economy will dip back into **recession**. For the economy to avoid this recession, it would have to grow at 4,000 jobs per month from non affected sectors. That level of job gain has not happened since May 2014 when the economy grew by 3,900 jobs relative to May 2013.

Migration

- The likely job losses resulting from state budget cuts will also differ in key respects from the employment declines of the oil driven recession. Many of the jobs lost since 2015 were held by non-locals (like North Slope oilfield workers) with a limited economic footprint in the state. Non-resident employment in the oil sector is around 30% according to the Alaska Department of Labor.
- Jobs in state government or the University of Alaska, on the other hand, are held by residents who often own homes and send their kids to local schools. Additionally, the majority of university employees compete in national markets making the likelihood of out-migration high which can in turn affect housing prices.

What do we know about budget cuts and university enrollment?

Deming and Walters (2017) find that a **10 percent** budget cut reduces enrollment by **3 percent**, BA degrees by **4.5 percent** and certs/AAs by **14 percent**. Using these estimates, we can conclude that the University of Alaska will lose a considerable number of students, and that the number of degrees and certificates will be affected for years to come.

What about brain drain?

- According to the Alaska Commission of Post Secondary Education, a majority of the students who attended postsecondary education chose to enroll in Alaska institutions (53%), while 29% chose to attend out-of-state institutions, and 18% had mixed in-state and out-of-state attendance after high school graduation.
- Importantly, those who attended Alaska institutions were considerably more likely to remain in state.

Takeaways and long run considerations

- One annual survey of corporate executives finds that the single most important factor when deciding to expand or relocate their firm to a given area is the “availability of skilled labor” cited by over 90% of respondents.
- The university cuts harm the ability of employers to hire skilled graduates which will in turn harm Alaska’s economic prospects. Should job losses result in out-migration (a near certainty) then the state’s already small labor market would shrink further, worsening conditions for businesses.
- In the Anchorage Economic Development Corporation’s Business Confidence Index, four of the top 10 barriers described by businesses relate to workforce cost and availability. Public safety and housing availability are also among the high-ranked barriers.

Thank You

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