

THE ROLE OF UNEMPLOYMENT INSURANCE IN ALASKA'S ECONOMY

By Scott Hannigan
Assistant Actuary, U. I. Research

One of the often overlooked aspects of the Unemployment Insurance (U.I.) program is the high degree of impact that it may have on a state's economy. The major objective of the U.I. program, of course, is to provide financial assistance to the temporarily unemployed.

The U.I. program, however, can also play a substantial role in providing economic stability on the state or local level. This is accomplished in several different ways. First, the U.I. payments help the unemployed maintain their purchasing power. The unemployed worker is able to continue making necessary expenditures for food, housing, clothing, transportation, etc., and thus keeps money circulating through the local economy. Every dollar spent helps counter the recessionary effects of unemployment. If this money was not available, it is possible that some businesses in areas of high unemployment would suffer a significant loss of revenues and may force layoffs or closures and further add to the ranks of the unemployed.

Secondly, the U.I. program helps prevent the loss of skilled workers. In cases where a company had to temporarily lay off its work force, a lack of financial assistance could force the employees to leave the area in search of other employment. The number of skilled workers available would then be limited and employers would have to institute expensive training programs, recruit outside, or reduce their output.

Finally, an adequate U.I. program allows the unemployed sufficient time to search for suitable work comparable to his or her level of training, education, and previous compensation.

Let us look at the impact of U.I. on Alaska's economy. During calendar year 1977, the indirect dollar flow for U.I. Benefits into various Alaska cities and their surrounding rural areas was as follows:

City	U.I. Benefits Paid (Million)
Anchorage--Palmer.....	\$22.6
Fairbanks	12.8
Healy	2.2
Denali/Kodiak/Seward.....	4.8
Ketchikan/Petersburg.....	3.0
Nome.....	0.7
Sitka.....	0.8

In some of the smaller areas, these benefits may represent a substantial percent of the available cash flow.

The Alaska economy is unique in many ways. There is a high degree of seasonal employment in the State. The construction, fishing and lumber industries are among the most prominent. This seasonality is the result of the extreme weather conditions that prevail during the winter, which limits these types of activities to the spring and summer months. The State's economy throughout its history has been one of "boom" development periods followed by periods of high unemployment. These boom periods have run the gauntlet from fur trading to fishing, from gold rush to major military building, and now the era of the oil and gas pipelines. Most of these economic spurts were followed by periods of high unemployment.

Unemployment Insurance has helped to cushion some of the disastrous after effects of the latter boom periods. Another feature of the Alaska economy, is that all of the above-mentioned booms have attracted large numbers of out-of-state workers. There are various factors contributing to this situation — the high wages paid, economic declines in other areas of the country, and the small population base in Alaska which may tend to limit the availability of highly skilled workers. Most of these workers departed from the State when a resource was exhausted or a project completed.

An uncommon situation arises with this relatively substantial "in and out" migration of workers. When these workers return to their respective states, they file U.I. claims against Alaska (as is their right) in great numbers. In the last couple of years, Alaska has seen a high proportion of its U.I. dollars going outside the State. This amount has averaged around 40 percent (\$19.8 million in 1976).

Obviously, these dollars are not being spent in Alaska and therefore, not helping to stabilize this State's economy. The problem is a difficult one to solve. In the past, the State had put a dollar restriction (\$20.00 maximum) on the amount of weekly benefits an out-of-state claimant could receive. This over-restrictive action prompted Federal legislation which restrained states from reducing benefits solely on the basis of where a claimant resides.

To provide equal benefit to all claimants, regardless of where they reside, presents a two-sided problem. Benefits are not adequate for Alaskan residents. As a result, many are unable to meet minimum expenses to maintain their standard of living. Consequently, some decide to leave the State in search of employment in areas less expensive to live in. This leads to a loss of skilled labor for Alaskan employers and the loss of dollars for the local economy. However, to raise benefits to an adequate amount for Alaskans will in many cases over-compensate claimants living in other areas of the country. A benefit amount too high would erode the incentive for these claimants to return to work.

One solution to this dilemma is proposed in a bill (House Bill 550) currently before the legislature which was introduced at the request of the Governor. Under this bill, benefits would reflect the cost of living in the area where a claimant resides. Basically, this proposal would adjust benefit levels by a ratio

determined by comparing the average weekly wage of the state in which a claim is filed to the average weekly wage in Alaska.

To summarize, Alaska's economy is one that is built upon highly seasonal employment, resource development, and a very mobile work force. Unemployment Insurance seeks to exert a stabilizing effect on the economy through maintaining the collective purchasing power of a community and providing for the availability of a skilled labor pool.

In the future, Alaska should work toward stabilizing its labor force by: (1) strengthening and increasing its economic base to provide year-round jobs; (2) instituting appropriate training programs to raise the skill levels of its workers, and reduce the reliance on outside workers; and (3) providing an adequate U.I. benefit to keep workers in the State and money in the local economy.



ALASKA HISTORICAL LIBRARY