

## STATEWIDE IN ALASKA

This issue of the "Trends" will survey several aspects of the economic effect of the federal government in Alaska; specifically the possible effects of the federal government impact on the cost of living. Central topics in this discussion will be:

1. Historical involvement of the federal government in Alaska
2. Potential effects of Federal Civilian Employment
3. Military Population and the Cost Of Living
4. Impact of the 25% Cost of Living Allowance (COLA)

**Historic Federal Involvement:** Throughout the post-World War II era and into the early sixties, federal spending, particularly defense spending, was the major "industry" in Alaska. Due to the high proportion of construction outlays during this period, this defense spending is regarded to have been highly inflationary to the Alaska economy. High wages and massive employment that typified this construction boom tended to drive prices and the cost of living higher than would otherwise have occurred, and seldom did prices drop to their previous levels when these projects were completed. More recently, defense spending, military involvement, and total federal spending in Alaska have been declining both in real terms and relative to the size of the Alaskan economy, but there does still exist significant federal employment and substantial levels of federal spending which weigh heavily, both positively and negatively on the trend of the Alaskan economy. Federal involvement has undoubtedly had a downward influence on prices by virtue of the large market size it has created, but there has also been substantial inflationary influence, which will be discussed below.

**Federal Civilian Employment:** During 1971 the federal government employed approximately 17,000 persons in Alaska, or 18% of the total statewide employment figure. Moreover, more than 80% of this federal employment is concentrated in three urban areas: Anchorage, Fairbanks, and Juneau, with Anchorage accounting for 55% of the total statewide federal employment figure. Because of these

concentrations, federal employment has its greatest implications on the cost of living in these three cities.

Because of recent federal wage increases there has existed a strong potential for an inflationary effect on the three major urban economies of Alaska: In the period from 1967 to 1971, wage increases of 34.3% were granted to federal workers. Compare this increase to an average wage increase of only 17% in the Anchorage area in the same period. The disparity between federal wage increases and the average wage increase to all non-federal workers in the Fairbanks and Juneau areas is similar to that of Anchorage. In local economies such as these, wage increases have the potential to seriously affect prices and the cost of living. The wage increases granted to federal civilian employees in the past three years may have had this effect.

**Military Populations and the Cost of Living:** During 1971 there were slightly more than 30,000 members of the Armed Forces stationed in Alaska, and an approximately similar number of dependents. Again, as in the case of federal civilian employees, military personnel are highly concentrated in the areas of Anchorage and Fairbanks, and to a lesser extent, Juneau. Because military personnel utilize post exchanges and commissaries frequently, they do not participate in the local economy to the extent that a civilian employee does, hence their economic impact is limited to that portion of the economy that they fully affect. The portion of the economy which military personnel most seriously affect is the housing market. Military personnel participate heavily in the market for housing in the urban areas close to their assigned duty station, and by virtue of the generous housing allowances these people receive, they have a potential for seriously affecting the cost of housing in these areas. An enlisted man in grade E-7 Sergeant First Class (Army), or Master Sergeant (Air Force) or Chief Petty Officer (Coast Guard) with dependents (one or more) receives a housing allowance of \$268 a month in Anchorage and Fairbanks, and \$297 a month in Juneau, or as much as \$350 in "remote" locations of the State. A commissioned officer in grade O-3 Captain (Army and Air Force), or Lieutenant (Coast Guard) is allowed \$304.10 a month in Anchorage and Fairbanks, and \$330.45 in Juneau, and up to \$398

in "remote" locations. It may be that housing and rental fees are necessarily high in Alaska, but these housing allowances exceed average rents in the areas where military populations are the highest, and can significantly affect the cost of housing in these areas.

**The Federal Cost of Living Allowance (COLA):** Federal employees in Alaska receive a cost of living adjustment in the form of a federal non-taxable 25% addition to their annual salary. Because the savings on income tax on these allowances can be substantial, the federal employee is in a more competitive market position than his non-federal fellow worker: A single federal employee earning \$15,000 annually pays income tax on only \$11,250 of that income, which at 1971 tax rates, would save him \$1,093 annually, the equivalent to an additional \$91.00 of income per month that other workers do not enjoy. The savings are proportionately higher for larger salaries. Alaska's Congressional delegation has recognized this inequity and introduced two bills which would allow all Alaskans, not just federal employees, to deduct 25% of their income as a cost of living adjustment. But until this change is made, federal employees will have more money to spend than persons in comparable industries, and by virtue of their concentration in urban areas, can effect an upward push in the prices of consumer goods and services.

**Summary:** Despite a slightly decreasing number of federal employees in Alaska and a decline in defense spending in the State, the federal government continues to play a major role in the economy of Alaska. In 1969, the Federal Field Committee For Development Planning estimated that "Federal expenditures directly or indirectly account for something in the order of three-fourths of value added in Alaska."<sup>1/</sup> Much has been made of the inflationary aspects of the federal involvement of the fiftys and early sixties, because of huge construction expenditures, but the new type of federal involvement in the economy does not have a dissimilar effect. Because of the heavily concentrated populations of both civilian and military personnel, and the competitive advantage that housing and cost of living allowances foster, it is suspected that the effect on the economy is now more subtle, but just as strong as in the years of the construction boom.

<sup>1/</sup> Studies On Alaska Regional Inflation. pp. i.

## ALASKA'S ECONOMY IN MARCH

**EMPLOYMENT HIGHLIGHTS:** Alaska's economy showed marked improvement in March as total estimated employment rose by approximately 1,200 positions in a wide variety of industries. It is interesting to note that the traditional industries to show spring increases, construction and logging, maintained constant employment levels, indicating that further improvement in the spring economy will occur when these two industries expand. All factors considered, Alaska's economy looks very good, and with normal improvement in the next few months, 1972 may establish itself as one of the best in recent years, employment-wise. Some 3,600 more persons were employed this March compared to 1971, on the strength of large gains in State and local government, trade, and services industries.

**Mining:** The month of March saw no improvement in employment, as weather conditions prohibited much activity in this sector. Warmer weather in May should stimulate the industry, particularly in the exploration for hardrock minerals.

**Construction:** Construction industry employment remained static in March as unfavorable weather hindered the start of many projects. The "thaw" in industry activity is well underway now and should be reflected in April estimates.

**Manufacturing:** A slight increase in food processing employment was responsible for the gain in the manufacturing industry as the sector begins to recover from winter's depressed levels of employment. A heavy snow pack in the forests of Southeast has delayed seasonal increases in logging employment by approximately one month or more, which will temper any employment increases that may come from other sectors of the manufacturing industry.

**Transportation, Communications & Public Utilities:** The settlement of the west coast longshoreman's strike was the only stimulus to this industry group in the month of March, as approximately 200 persons went back to work. There was an employment gain of 100 in the air transportation sector, but this increase was countered by an equivalent loss in the communications group.

**Trade:** There was only minor change in employment levels in this industry as general merchandise and apparel employment rose by 100 and other retail sectors declined by about the same amount. Total