THE '80s RECESSION

Are we in a similar position today?

Economic structure hasn't changed, but we're bigger, with deeper roots

By **CAROLINE SCHULTZ**

When crude oil prices slid precipitously in late 2014, many began to draw parallels between Alaska's current budget shortfall and the deep recession of the mid-1980s, questioning whether we're headed for another meltdown.

The fiscal similarity between the two eras is clear: state general fund revenue is just as dependent on the value of oil now as it was then, and Alaska still relies heavily on federal spending. The relative importance of these two economic drivers hasn't diminished even as the rest of the economy has grown.

There have been some industry shifts, such as the collapse of the timber industry, development of hard rock mines, and continued growth in tourism and fishing, but they remain on the margins compared to the giants of oil and federal dollars. In general, the foundation of Alaska's economy has not changed, except to get larger.

But other things have changed considerably since the '80s, which was a period of extreme and unprecedented growth. (See exhibits 1 and 2.) In some ways, today's Alaska is barely recognizable. We have a much bigger and older population, many with deeper roots in the state. We also have larger amounts saved in budget reserve accounts, but face declining oil production.

These differences complicate the question of whether current low oil prices could push Alaska into a similar recession. A larger, more mature economy makes a repeat of the massive 1980s bust less likely, but it doesn't

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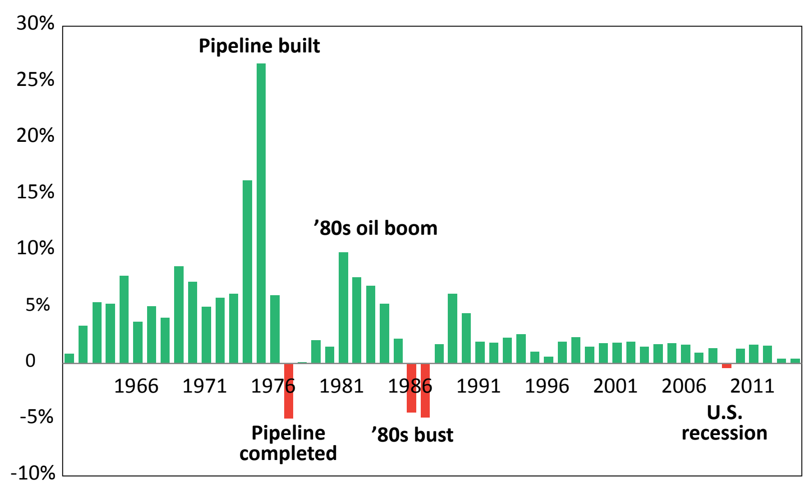
Since the '80s, Jobs Have Grown Slowly

PERCENT CHANGE FROM PRIOR YEAR, 1960 TO 2014



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

guarantee a soft landing. The future will largely depend on policy decisions and how resilient today's economy is compared to the 1980s.

The '70s swing was expected

The 1980s oil boom and bust was precipitated by construction of the Trans-Alaska Oil Pipeline. In 1968, geologists discovered the largest known oil field in North America beneath state-owned land near Prudhoe Bay. The lease sale the following year netted $900 million, about nine times the previous year's entire state budget. In today's dollars, that would be $5.9 billion.

Pipeline construction was delayed until 1974 by the settlement of Alaska Native land claims and environmental concerns. But when construction finally started, people flooded the state to capture some of the new circulating wealth. In 1975, Alaska's population grew more in one year than it had during the 10-year period that included the Klondike Gold Rush.

The construction boom was short-lived, as anticipated. As the pipeline work finished, the first round of layoffs hit in late 1976. More than 10,000 construction jobs disappeared between 1976 and 1977.

Losses of that magnitude may suggest an economic bust after the pipeline was completed, but it really wasn't a bust. It was well understood that pipeline construction jobs were temporary, and when the project was done, nearly all the job loss was in pipeline construction and support work while other parts of the economy continued to grow.

... but the '80s were so huge, the crash was catastrophic

High oil prices and the expanding volume of crude oil pumping through the pipeline brought rapid growth between 1980 and 1985 that seemed to usher in a new, unprecedented era of wealth for Alaska.

The state's budget doubled from $1.6 billion in 1980 to $3.4 billion in 1981, pumping money into the economy at a breakneck pace. Spending created demand for goods and services that was a catalyst for the most dynamic five-year expansion in Alaska's history.

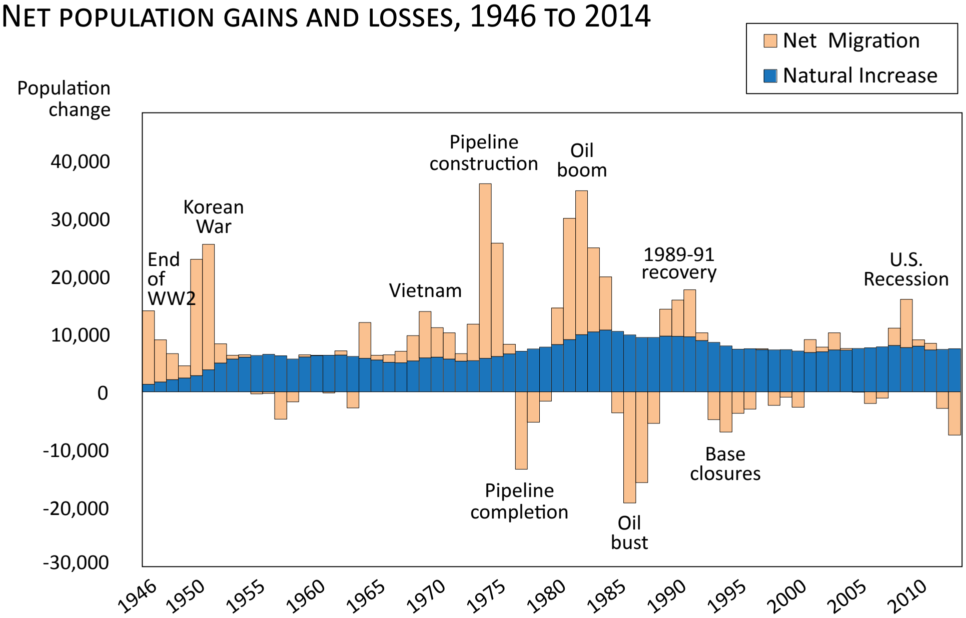
During the first half of the 1980s, Alaska's population exploded, growing by 36 percent. It was the largest five-year population increase in Alaska's history at 125,000 people, which is roughly the current population of the Matanuska-Susitna Borough and the Chugiak/Eagle River area combined.

About 60 percent of that growth was from migration. Alaska was no longer the least populous state, surpassing Wyoming in the early part of the decade.

In retrospect, it's easy to see that the helter-skelter growth was built on a shaky foundation. The crash that followed still haunts many Alaskans. Nearly everyone who was around for the bust has a story about the

2 Events That Transformed Alaska's Population

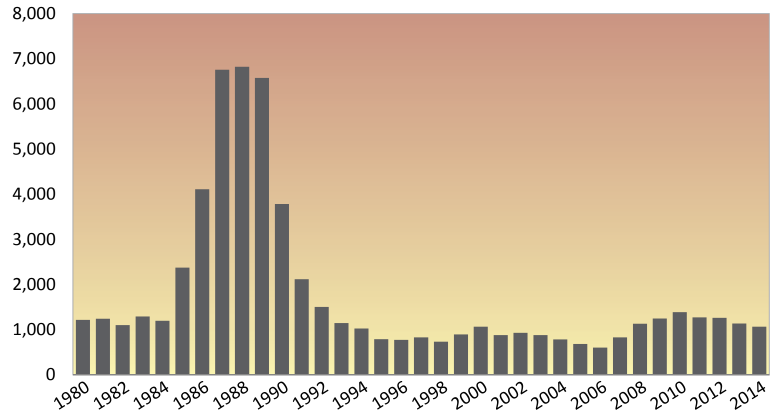
NET POPULATION GAINS AND LOSSES, 1946 TO 2014



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

3 Foreclosures Skyrocketed in the 1980s

Alaska, number filed per year, 1980 to 2014



Source: Alaska Department of Natural Resources, Recorder's Office

in the last half of the 1980s, 44,000 more people left Alaska than moved in.

neighbors who dropped their house keys at the bank before heading down the Alcan back to the Lower 48.

The aftermath of the crash was the deepest recession in Alaska's modern history. From 1985 through 1987, Alaska lost more than 20,000 jobs. Over 40 percent of Alaska banks failed, and Alaska led the nation in bank failure rates for the decade. The housing market collapsed, and

A closer look at the housing crash

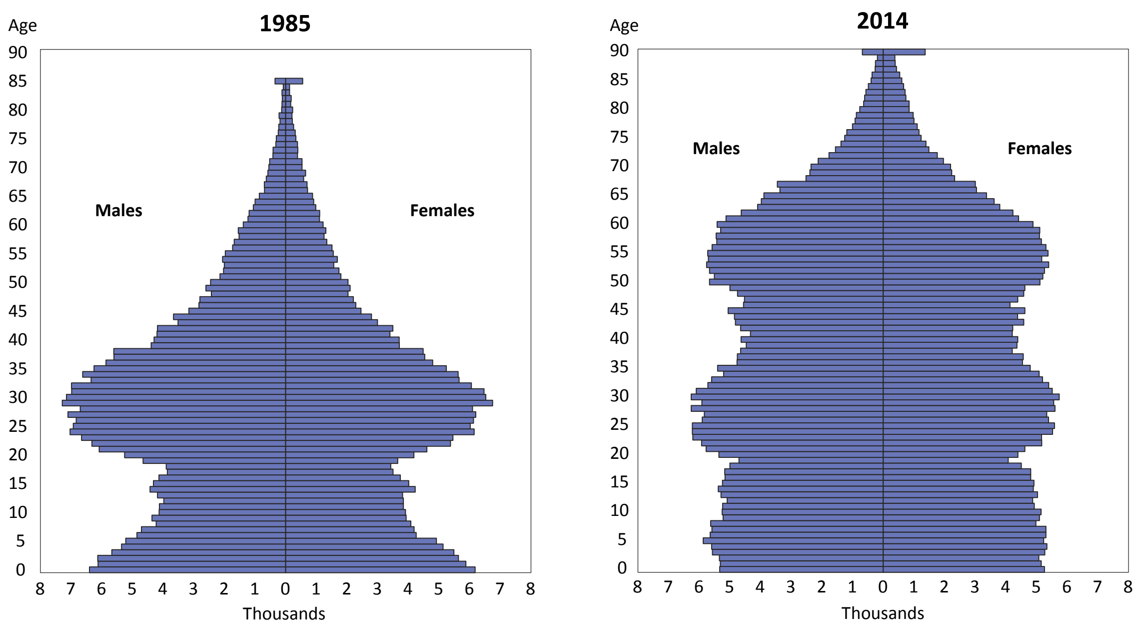
Alaska had the biggest real estate bubble of its short history in the 1980s. Demand skyrocketed as the population surged, which fueled speculation and risk. This was compounded by state programs that subsidized interest rates and eliminated income requirements for mortgages. These programs were designed to help Alaskans deal with cripplingly high interest rates, but they were also another way for the state to spend money as quickly as it was pulling it in.

More than 36,000 homes were built in urban Alaska alone between 1980 and 1985, yet prices still increased by more than 50 percent during that period.

Even if oil prices had stayed relatively high, the housing market would have likely suffered a correction. Con-

4 The Population Has Gotten Older

Alaska's age structure, 1985 and 2014



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

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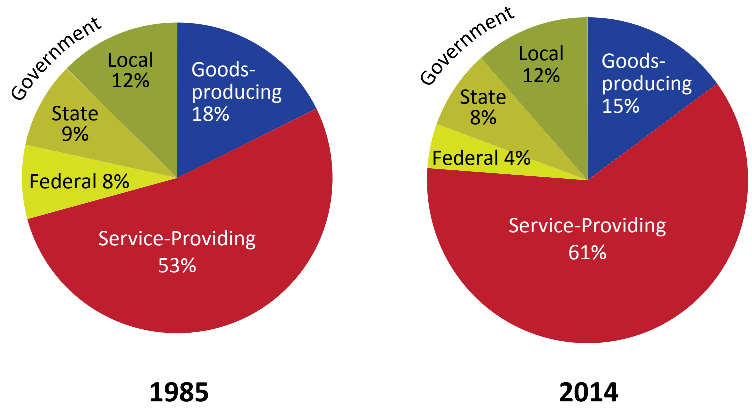
Bigger Service Sector, Smaller Federal

Alaska's private and public sectors in 1985 and 2014



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

struction employment started falling even before oil prices dropped, and foreclosures accelerated as early as 1985.

When prices crashed and state spending dipped sharply, the fever turned into a flu. By the end of 1987, Anchorage had 14,000 empty homes. Foreclosures peaked in 1988 at 6,821, and by the end of the decade, more than 30,000 foreclosures had been filed. (See Exhibit 3.)

What's different in 2015

Fast-forward to 2015 and Alaska has a much more staid housing market. Residential construction has been steady and modest since the large national recession of the late 2000s, which largely bypassed Alaska. Between 2010 and 2014, 11,000 housing units went up statewide, including multi-family units.

Prices have been level through the period, and even with record low interest rates, mortgage lending has been stable. There were just 6,300 foreclosures filed from 2010 to 2014, and 10,600 filed in the previous 10 years.

Population growth slowed

After the exodus in the late '80s, Alaska's population rebounded and has grown a modest 35 percent in the past 29 years. Recent growth has been much slower, though. Between 2009 and 2014, Alaska grew by 5 percent, almost entirely through natural increase. Migration to and from Alaska have essentially canceled each other out.

All regions have gained residents, although growth hasn't been even around the state. Anchorage is still the population center of Alaska, but its share shrank slightly, from 43 percent of the statewide population in 1985 to 41 percent in 2014. Nearly one-third of the growth was in Mat-Su, which added almost 60,000 residents and increased its share of the statewide population from 7 to 13 percent.

Alaskans are much older overall

Most of the migrants to Alaska during both the pipeline construction and early 1980s expansion were baby boomers, then in their 20s and early 30s. Many had no connection to Alaska other than following the money, making them more likely to pack up and leave as soon as the economy went south.

Alaskans are much older today overall, and people are less likely to move as they age. Alaska's median age has risen from 27.5 to 34.4, and a larger portion of today's working-age population is home-grown. Babies born in Alaska now are much more likely to have grandparents in the state.

Alaska had far fewer senior citizens in the 1980s, and until the baby boomers hit their prime child-bearing years, it also had fewer children. Then, the birth rate jumped from 1.94 children per woman in 1976 to 2.43 in 1983.

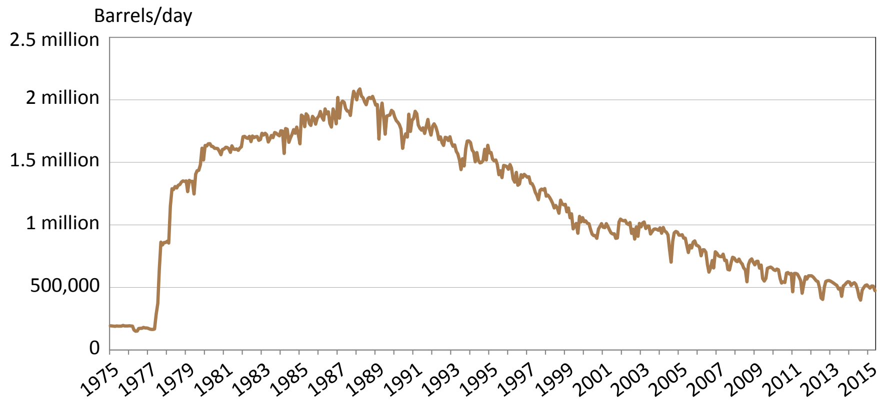
Exhibit 4 shows how significantly the age structure has changed. In addition to aging, the state's population is more evenly distributed today, with a large segment of baby boomers at or approaching retirement age. Relatively fewer Alaskans today are in their prime child-bearing years, and there are fewer children.

Job growth has been moderate

The blistering job growth that characterized the early

6 Oil Production On a Long Decline

ALASKA CRUDE OIL, 1975 TO 2015



Source: U.S. Energy Information Agency

1980s is also very different from the current situation. Between 1980 and 1985, employment grew by 36 percent, an average of 6 percent per year. Alaska's job growth rates haven't been that high since.

In the most recent six-year period, total employment increased at an annual rate of close to 1 percent. Growth has been consistent. Alaska added jobs in 26 out of the past 27 years, albeit slowly — a clear change from the heady times of the early 1980s.

More services in the industry mix

One of the most apparent differences between Alaska's industry mix now and in the 1980s is the increase in services, mostly in urban areas. Service-providing businesses have increased their share of total employment the most since 1985, from 53 percent to 61 percent. (See Exhibit 4.)

Although shopping and eating options have skyrocketed, growth has kept pace with the state's economy and population, so the percentage of jobs in bars and restaurants has remained about the same. The majority of the growth in services jobs as a percentage of the total job count has been in private health care and social services.

The goods-producing sector shrank from 18 percent in 1985 to 15 percent in 2014, mainly due to declines in construction, which has never regained its early 1980s peak.

Others in the goods-producing category stayed about the same size. The mining industry, which includes oil and gas, is at record high employment but its share of total jobs increased only slightly, from around 4 percent to 5 percent.

The manufacturing industry's share of total employment fell slightly, from 5 percent to 4 percent. However, this relatively small change masks some large shifts in the types of manufacturing. The timber industry was in full swing in the '80s, and two large pulp mills employed thousands in Southeast Alaska. By 2014, the timber industry was a shadow of its former self. These losses were offset by big changes in the management of commercial fishing after the 1980s, which led to growth in seafood processing.

The total share of government jobs dropped between 1985 and 2014, but only because the percentage of federal jobs declined. The shares of local and state government employment have remained steady, as they provide basic services and are mainly driven by the size of the economy and population.

The future oil picture has changed

When the bottom fell out of the economy in 1986, there was a light at the end of the tunnel: the volume of oil produced in Alaska was still rising. It peaked shortly thereafter, in 1988, but the slope of production decline was much less steep than the run-up to full operation. (See Exhibit 6.) At the time, there was still plenty of economically feasible oil left to drill.

Even if oil prices hadn't collapsed in 2014, Alaska would have eventually lacked enough oil revenue to fund its government. The state made some hard choices about cuts in the 1980s, but not about how to fund a state budget with nonoil revenue sources.

Still, nearly 30 years after the big bust, Alaska has accrued large budget reserves. Based on varying estimates of future spending and oil prices, state government (including the university system and a hefty slice of local governments' budgets) can fund itself on savings for a couple of years.

The state didn't have that kind of breathing room in the 1980s, and it slashed budgets almost immediately. Drastic cuts over short periods have a much larger impact on an economy than small cuts, and policymakers have more time now to address the problem.

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