With the will to act, Alaska need not repeat late 80s oil crash

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OPINION: Our economic situation echoes the dark days of the late 80s, but we have the means to pre-empt a crash.
"This city was dying!" That's what Rick Mystrom said about the time between 1986 and 1989 when the Anchorage Organizing Committee made a valiant effort to be chosen to host the Olympic Winter Games.

I lived in that dying city, and watched loss pile upon loss, during the spread of the self-reinforcing economic decline caused by the combination of oil industry reductions and cuts in state spending. Former Mayor Mystrom's comment accurately reflects the prevailing mood of the community during the late 1980s. It was easy to believe that the only thing that could save Anchorage was a huge infusion of funding from Outside sources.

In the end, economic rescue came from a disastrous accident, rather than joyous Olympic Games. On March 24, 1989, the Exxon Valdez oil spill caused environmental damage that resulted in a four-year infusion of new money into Alaska – $2.1 billion according to Exxon. As the headquarters of cleanup operations, Anchorage was yanked out of the economic doldrums.

The biggest difference between 1986 and today is that we have revenue options that, if quickly implemented, will prevent the same kind of downward economic cycle that builds on itself and gains momentum. Alaska has the natural and human resources, the location on a global crossroad, and, yes, even the climate, that can give our state a very bright future. Though still petroleum-dependent, our economy is more diversified. The Permanent Fund has grown from $6 billion in the 1980s to $52.3 billion today.

But this is still a precarious time for Anchorage and Alaska, a fact affirmed by the recent downgrading of the outlook for Alaska bonds from “stable” to “negative.” Most of us know about ripple effects that occur when a major source of new money spent in the community is cut off. When the prospective military (JBER) cuts were announced earlier this summer, government leaders immediately expressed concern about the effect on the service and supply sectors of the economy. Cuts in state spending work in the same way. Unlike individual or family budgets, changes in a public budget are not contained; instead, they spread a series of ripple effects throughout the community.

If the impact of major cutbacks in state spending and oil industry spending is large enough, the ripple effect can create an economic whirlpool that will affect the whole state, especially headquarters communities such as Anchorage.

That is what happened to Anchorage when the economy tanked between 1986 and 1989. Before the crash, when state income was buoyed by oil lease sales and increases in oil revenue, the Legislature spent lavishly, granting benefits to Alaska residents unheard of in other states. In 1980 the personal income tax was repealed, and the Permanent Fund dividend program was established. Legislators competed to include projects in the capital budget for their communities. Project 80s gave Anchorage the Sullivan Arena, the Egan Center, the Coastal Trail, the Loussac Library, the Alaska Center for the Performing Arts and more. The construction industry soared.

Then, in 1986, crude oil prices fell from an inflation-adjusted all-time high of $107 per barrel to $31 per barrel, a 71 percent decline. As a young state with few other options, the Legislature cut the state spending to balance the budget.

The effect on the economy was not immediate. Uncompleted "Project 80s" construction projects had a brief sustaining effect, but soon the Anchorage economy started to wither.

The sudden loss of jobs, from state spending cuts and oil industry cuts, forced many Anchorage residents to leave town or reduce their own spending. This loss of new money circulating in the economy impacted the service sector, and owners of restaurants, gas stations, saloons and beauty salons, automobile companies, retail stores, architectural firms, and construction and maintenance companies, to name a few, found they had less business. They, in turn, were forced to cut staff or close and more people lost their livelihoods, found ways to spend less, or left Alaska.

As the ripple effects spread and people left town or downsized, housing supply exceeded demand. Streets had rows of "for sale" signs, and property values collapsed. Many people found that their mortgage obligations exceeded the value of their property. Frequently they were unable to sell. If a work-out was possible, the forgiven debt became taxable income in the eyes of the IRS. Under these circumstances, some homeowners simply drove away. One bank employee told me he hated to open the drop box on Monday because it would be full of house keys.

Burdened by bad debt, banks were hard hit. The Federal Deposit Insurance Corporation stepped in and merged failing banks into Alliance Bank, but within a short time that bank failed also. In the end, FDIC was left holding $359 million in bad or shaky loans. Eight banks, or 40 percent of all banks in Alaska, failed during the late 1980s.

The downward ripples continued. Losses in local property values meant losses in municipal tax revenue. Street cleaning, snow removal, park maintenance and educational services were reduced and yet more jobs were lost. Thousands of people left Anchorage, and more from Fairbanks, Kenai-Soldotna and the Matanuska-Susitna Borough.

The crash had huge human costs in terms of broken dreams and broken relationships. Families split up and friends left forever. A favorite bumper sticker in those days referenced the famous 1969 oil lease sale to read, “Oh Lord, please give me another $900 million. I promise not to p— it away.”

In 1989 the Exxon Valdez oil spill “rescued” the economy of Anchorage, but it was not until 2004 that oil prices started to climb. This year, the circumstances are hauntingly similar to 1986. We have seen a drop in oil revenue of over 50 percent in one year, with little likelihood that the price of oil will increase. What’s worse, oil production has fallen steadily since the late 1980s, leaving Alaska producing less than a quarter of what the state produced a quarter-century ago.

Today however, unlike 1986, we have revenue options that can take us off the merry-go-round of dependence on oil prices. Timing is of the essence. The Legislature needs to act now — immediately — to put Alaska’s economy on a stable footing. The Rasmuson Foundation’s recent poll of Alaska’s registered voters provides statistically sound information that voters favor revenue sources over additional cuts. The poll offers a basis for bipartisan legislative action to adopt revenue options while they are still available.

To understand the choices and their importance to all Alaskans, you are encouraged to attend a free forum on Alaska’s Fiscal and Economic Future sponsored by Alaska Common Ground and the UAA Institute of Social and Economic Research from 9 a.m. to 4 p.m. on Saturday, Sept. 19, in the Wendy Williamson Auditorium at UAA.

Janet McCabe *and her family have lived in Anchorage since 1964. A community planner specializing in employment and population projections, she was actively involved in numerous forums dealing with the 1980s fiscal crisis. She is a member* *of Alaska Common Ground.*