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When legislators meet in Juneau next month, their main task will be to reverse Alaska's multibillion-dollar deficit [2].

It won't be easy. They have little choice but to adopt policies that dampen economic growth or risk a worse hit to the economy by allowing the state to continue burning through its savings. Whether it's cutting government spending, raising or introducing new taxes or reducing Permanent Fund dividends, nearly all the most viable options result in sacrificing some amount of jobs, income, spending and investment.

As of now, there's little clarity on which policy tools will cause the least economic damage. That task has fallen to Gunnar Knapp and his colleagues at the University of Alaska Anchorage's Institute of Social and Economic Research [3].

The institute has done similar studies during past fiscal emergencies [4] and its economists are sensitive to the quandary lawmakers face of having to make the least bad choice.

"People have the right to be concerned that fully solving this deficit problem would affect the economy. On the other hand, we have no choice," said Knapp, ISER's soon-to-retire [5] director.

The study compares the levels of job and income losses caused by different cuts, taxes and uses of Permanent Fund earnings; relative impacts on demographic groups and regions; and how various proposals would affect the economy and future state budgets when applied over longer or shorter periods of time.

Preliminary findings show, for example, that cutting $100 million by laying off state workers will cost the economy significantly more jobs and income than would an income tax to raise the same amount. Why? State spending is a major economic driver. The government employs about 25,000 people. They in turn spend portions of their salaries on goods and services such as auto repairs, coffee, hunting equipment and furniture. Layoffs would cost jobs and spending would taper off significantly.

An income tax would also weaken consumer spending power and remove jobs from the economy because there would be fewer dollars circulating to stores, restaurants and other businesses. But job and income losses would be lower because the tax would not involve direct layoffs. (Layoffs are also more likely than an income tax to cause people to sell their homes and leave the state in search of work elsewhere, a point that the economic model used in the study does not address, Knapp said.)

From a purely economic standpoint, the best of these two options would be the income tax. But what makes economic sense may not make political sense or may conflict with the

values espoused by some legislators and their constituents. In this case, legislators who believe in reducing the size of government and blocking the state from making any claims on individual earnings may find laying off state workers more palatable than introducing an income tax.

Other budget-saving measures might hurt some regions, industries or demographic groups more than others. A sales tax would capture more revenue from visitors to the state. It would also take away a greater percentage of spending power from lower-income people than from wealthier ones. Cuts to the Alaska Marine Highway System would affect people along southern coastlines. Cuts to Department of Natural Resources permitting would delay resource extraction projects.

The study found one policy that would do very little damage, if any, to the economy in the short term. That is, spending a portion of the Permanent Fund earnings reserve while leaving dividends alone. On the upside, the policy would not do away with jobs or income. The catch? The earnings would not be put back into the principal of the fund, where they could earn investment income over time, as is the practice today. That means the fund would grow more slowly.

"We're trying to stay out of the question of what you should do," Knapp said. "The goal is to help people have a way of understanding the nature of these things."

While Knapp's demeanor is one of a academic-minded diplomat, he does not shy away from emphasizing the need for lawmakers to act. Two major credit ratings agencies, Moody's [6] and Standard & Poor's [7], have put the state on notice that failure by the Legislature to put significant budget measures in place will lead to downgrades that could increase the cost of borrowing for the state, deter investment or both.

Delaying hard choices in the short term may lead to even larger deficits or a total dissipation of state savings in the future, both of which appear to be realistic scenarios given lackluster oil price forecasts.

"People are really concerned about hurting the economy and there are multiple ways you can do that," he said. "You don't want to go too fast because you'll hurt the economy, but you don't want to go too slow because you'll also hurt the economy. That gets pretty complicated pretty quick."

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