The ‘Outlier’ States

How Alaska and Hawaii economies differ, and what they share

By **DAN ROBINSON**

The 49th and 50th states to enter the union — Alaska in January 1959 and Hawaii in August 1959 — are outliers as states in a number of ways. They are both remote and popular visitor destinations, and residents share some of the same challenges, such as dealing with high costs of living and “does not ship to Alaska or Hawaii.”

In other ways they couldn’t be more different, from the climates and terrain to voting patterns and demographics. Although Alaska’s land mass dwarfs the tiny Hawaiian islands, Hawaii has roughly twice as many residents — 1.4 million to Alaska’s roughly 740,000.

It’s a similar situation with the two states’ economies, which have a number of characteristics in common as well as some stark differences. Here’s a look at how

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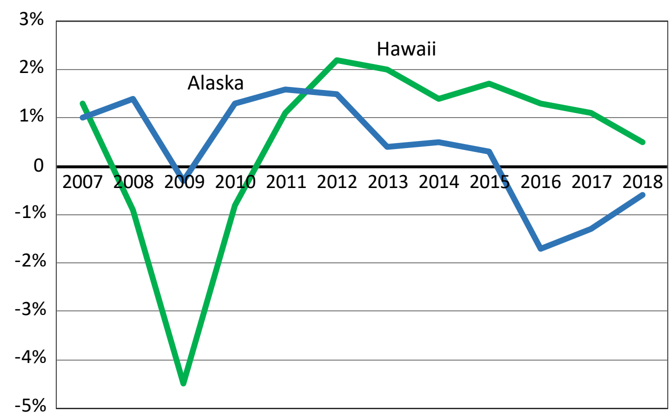
1 Job Growth Comparison

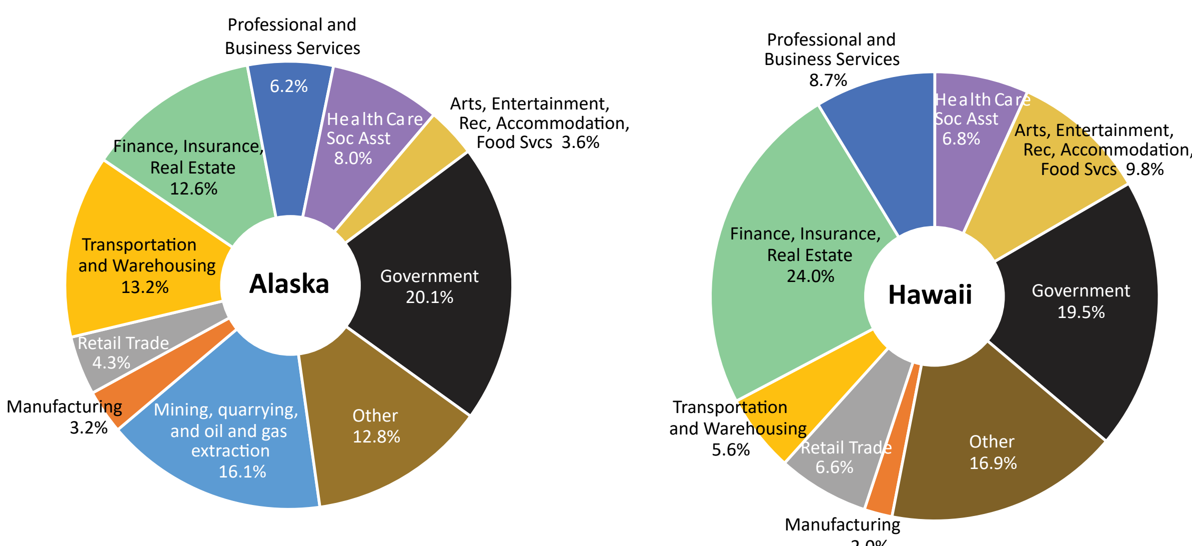
HAWAII AND ALASKA, 2007 TO 2018



Sources: U.S. Bureau of Labor Statistics and Alaska Department of Labor and Workforce Development, Research and Analysis Section

2 Some Similarities in Gross Domestic Product

GDP BY SECTOR IN HAWAII AND ALASKA, 2017



Source: U.S. Bureau of Economic Analysis

ALASKA AND HAWAII

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the two youngest states' economies match up.

Stronger job growth in Hawaii and lowest unemployment in the U.S.

Hawaii's employment growth has outpaced Alaska's since 2012. Before that, the Great Recession caused much bigger losses in Hawaii. (See Exhibit 1 on page 13.)

Hawaii's unemployment rate has been among the lowest in the country for several years and was just 2.1 percent in June. The comparable rates were 4.0 for the U.S. and 6.4 percent for Alaska, which was highest in the nation but not particularly high by Alaska's historical standards.

Oil and mining is the biggest contrast in total economic value

The value of the goods and services produced by the two economies, measured by gross domestic product by state data from the U.S. Bureau of Economic Analysis, shows Hawaii's economy is worth considerably more than Alaska's, with Hawaii's GDP at $92 billion and Alaska's at $54 billion.

The biggest difference in the makeup of the two states' gross domestic product is that Alaska gets substantial value from "mining, quarrying, and oil and gas extraction" at over 16 percent — a category that barely registers in Hawaii's economy at just 0.1 percent. (See Exhibit 2 on page 13.)

The value of Alaska's transportation and warehousing sector is also noticeably larger than Hawaii's, mainly because that sector includes the Trans-Alaska Pipeline System.

Hawaii has a notably larger finance, insurance, and real estate sector than Alaska. Hawaiian real estate is among the most highly valued in the world.

Tourism also makes up a much larger share of Hawaii's economy than it does Alaska's. As important as tourism is to both states, it has no single category in the data. The two that come the closest to capturing its value are retail trade and the catch-all "arts, entertainment, recreation, accommodation, and food services" sector. These categories combined are about twice as large as a share of Hawaii's economy.

Both states have relatively small manufacturing sectors, and both are almost all food manufacturing: seafood in Alaska and fruit and other miscellaneous food products, including seafood, in Hawaii.

Hawaii has a slightly larger share of economic value in its "professional and business services" sector, and Alaska's health care and social assistance sector makes up a slightly larger share of its economy.

Federal spending is high in both, but much higher in Hawaii

The relative value of federal, state, and local government is similar in the two states: 19.5 percent of total GDP for Hawaii and 20.1 percent for Alaska.

The federal government spends a large amount in both states for both civilian and military activities. Detailed data aren't available for 2018, but in 2017 the value of federal military spending was $5.2 billion in Hawaii and $2.2 billion in Alaska. Federal civilian spending as measured by the GDP data in that same year was $4.5 billion in Hawaii and $2.1 billion in Alaska.

Difference in how these two states fund their governments is stark

The two states could hardly differ more when it comes to funding their state governments.

Nearly all of Alaska's state government has been funded for years by oil-related taxes and savings accounts built up from oil-related revenue. The state has recently started supplementing that revenue stream with investment earnings from the roughly $65 billion Permanent Fund. Alaska has long been the only state in the nation without a statewide sales or income tax. In 2019, Alaska expects to receive about $2.3 billion from revenue categorized as "petroleum revenue" and another $2.9 billion from "investment revenue."

Hawaii pays for the biggest portion of its state government with a "general excise tax," which is somewhat like a sales tax but it's levied on businesses rather than consumers (although businesses can pass on much of the tax to consumers). That tax generated $3.4 billion in Hawaii in 2018 while an individual income tax generated $2.4 billion and miscellaneous other taxes produced about $2 billion.

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