



# Responsive Public Management

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## North Dakota, the abundance paradox

In these times of economic crisis, it seemed worthwhile to look at what is happening in a State in the midst of an economic boom: North Dakota. Full employment and capital inflows, which naturally have their benefits, also have paradoxical effects on public management.

With unemployment at barely 3%, which is the lowest rate in any of the fifty States, a doubling of per capita GDP in ten years, and an influx of workers from other States drawn by an abundant supply of well-paid jobs, North Dakota's flourishing economy is in stark contrast to the situation in the rest of the country. The State has eluded the economic crisis, even in 2008 when subprime mortgages<sup>1</sup> started to cause real-estate markets to plunge. Its financial reserves are large enough (\$800 million at the start of 2012) to face the coming year with confidence.

What explains this fluke, which is so striking in these days of economic gloom, and which is only found in two or three other States, such as Montana and Vermont? The most obvious explanation, which is also the one cited most often, is oil. By using "fracking" (hydraulic fracturing), North Dakota has increased its oil production exponentially in recent years, and apparently with fewer harmful effects for the environment, since the fracking takes place at greater depths. Just recently, in May 2012, North Dakota overtook Alaska as the second ranking oil-producing State in the Union (Texas still ranks first). The number of jobs in the gas and oil industry has risen from 5,000 in 2005 to 30,000 today and the pay is better, with average yearly income at \$90,000 for a work-week that is often as long as 80 hours<sup>2</sup>.

But, for many economists and experts, oil is not the only thing driving the boom. They point out that Alaska has high unemployment (approximately 7%) and a lacklustre economy, despite being another very big oil producer. Nor does Wyoming see any positive impact from its oil boom. Other factors are put forward to explain North Dakota's situation.

On the one hand, the State's culture meant that hardly anyone took out subprime mortgages: "Our State has traditionally been very conservative and cautious. People have not used this type of borrowing to buy their homes," explains Pam Sharp from the North Dakota Office of Management and Budget<sup>3</sup>.

On the other hand, elected officials are just as conservative and cautious as their fellow citizens, as is reflected in major planning and forecasting actions over the last ten years. North Dakota has undertaken to shift its primarily agricultural economy towards energy and manufacturing. It has made major investments in "Centers of Excellence", which are partnerships between universities and business aimed at boosting economic development<sup>4</sup>.

Finally, and most importantly, North Dakota has a central bank (Bank of North Dakota), which is owned by the State. Unlike other State-owned banks in America, it takes deposits from retail customers, as well as deposits of tax revenue, and uses these funds to make business loans, especially to small businesses in order to finance infrastructure.

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<sup>1</sup> Subprime mortgages are very risky loans granted to borrowers with vulnerable resources.

<sup>2</sup> There is no general statutory limit on working hours in the United States, except for civil servants. In the North Dakota oilfields, employees often work very long hours to pay off their subprime home loans. Eighty-hour working weeks are cited as common (<http://www.governing.com/topics/energy-env/north-dakotas-oil-boom-blessing-curse.html>)

<sup>3</sup> <http://www.csmonitor.com/USA/Politics/2010/0701/New-state-budget-plans-burdened-by-recession-pension-costs>

<sup>4</sup> <http://www.commerce.nd.gov/centers/>

Does this mean that everything is bright and rosy in this new Eldorado of the Great Plains? Not entirely, and the downsides can be quite dark.

*- severe pressure on local governments:*

Towns are straining to deal with an enormous influx of population. The housing shortage is acute, despite stepped-up construction of new homes. The gap between wages in the oil industry and in other sectors, even though the boom is lifting all incomes, leads to substantial inflation across the board and soaring rents. The oil boom creates an imbalance in the economy, which has traditionally been agricultural, by luring away workers. Crime rates are rising.

Most importantly, local governments do not benefit directly from the oil boom, far from it. When oil was first discovered in the State, back in 1951, municipalities taxed oil wells directly, but the North Dakota Legislature abolished their power to do so some years later. Now, all tax revenue from oil is paid directly to the State, which is stingy about redistributing it: a county only receives some 10% of the oil tax revenue collected within its borders.

*- The economic boom cannot last forever:*

After the initial drilling phase, which involves the construction of facilities that create plenty of jobs, the more routine pumping phase starting in a few years will rely primarily on machines. "Drilling a new well creates about 120 jobs, but keeping it running only requires a single person", says Gene Veeder, who leads economic development in McKenzie County<sup>5</sup>. This requires very long-term investment planning to avoid a bust after the boom. For example, this means not building housing for all of the current population influx, since dwellings will end up empty when the population shrinks again. In the meantime, oil workers are housed in camps that look like something out of the gold rush.

*- Environmental problems will come up*

Even though the fracking used in North Dakota seems to be less harmful than elsewhere, oil companies are strongly inclined to neglect critical safety measures. In 2011, the State levied some \$3 million in fines against 20 companies that spread waste in the environment. Towns need to plan new water treatment plants, waste recycling facilities, fire stations, etc. The road system has been destroyed by thousands of heavy lorries travelling over them, leading to many accidents. The cost of fixing the roads in the coming years has been put at \$900 million.

There was genuine suspense for several months when a pressure group close to the Tea Party proposed the outright abolishment of property and business taxes in North Dakota on the principle that the State was now "rolling in money". The proposition, known as "Measure 2" gathered enough support to be included on the ballot. There was a very lively debate for several months between the proponents and opponents of the measure. Opponents stressed that abolishing these taxes, which local governments levy to finance themselves, would make local governments much more dependent on the State government, which is rarely generous in sharing its revenue, including revenue from oil taxes. Andy Peterson, the Chamber of Commerce President, was strongly opposed to the proposal. He pointed out that, to replace the approximately \$800 million in abolished taxes, it would be necessary to raise personal and business taxes so much that the effect would be the opposite of that sought.<sup>6</sup>

The media highlighted what was no doubt a victory for the "traditional wisdom" that is the pride of North Dakotans, when more than three-quarters of the voters rejected the proposition on 12 June 2012. However, it will remain symbolically very important because of the debates that raged far beyond the borders of the State and sparked a nationwide controversy about the recurrent issue of funding public services, which is especially acute in the United States.

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<sup>5</sup> Quoted by the federal journal "Governing": <http://www.governing.com/topics/energy-env/north-dakotas-oil-boom-blessing-curse.html>

<sup>6</sup> <http://bismarcktribune.com/news/local/govt-and-politics/dd199270-4d3f-11e1-a866-0019bb2963f4.html>