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Alaska's Permanent Fund Dividend: Examining its Suitability as a Model

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Edited by Karl Widerquist and Michael W. Howard

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Abstract

Contributors to this book discuss the Alaska Permanent Fund (APF) and Permanent Fund Dividend (PFD) as a model both for resource policy and for social policy. This book explores whether other states, nations, or regions would benefit from an Alaskan-style dividend. The book also looks at possible ways that the model might be altered and improved.

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Introduction

Chapter 1

Introduction: A Model Ready For Adaptation

Karl Widerquist and Michael W. Howard

Every year, every Alaskan gets paid. Every man, woman, and child receives a dividend as a joint owner of Alaska's oil reserves. In 1956, Alaska ratified a constitution recognizing joint ownership of unoccupied land and natural resources. In 1967, North America's largest oil reserve was discovered in publicly owned areas on Alaska's North Slope. In 1976, the state government voted to dedicate a small part of its yearly oil revenues to a state investment fund, called the Alaska Permanent Fund (APF). In 1982, the state government voted to distribute part of the returns from that fund as a yearly dividend, called the Permanent Fund Dividend (PFD), sometimes called "the Alaska Dividend." In 2008, the dividend (plus a one-time supplement of $1200 from that year's state government budget surplus) reached a high of $3269, which comes to $16,345 for a family of five. More often in recent years, the PFD has been between $1000 and $1500 per person, which comes to between $5000 and $7500 for a family of five.

The Alaska Dividend is one of the most popular government programs in the United States. It has helped Alaska attain the highest economic equality of any state in the United States. It has coexisted with, and possibly contributed to, the state's growing and prosperous economy. And, seemingly unnoticed, it has provided unconditional cash assistance to needy Alaskans at a time when most states have scaled back aid and increased conditionality.

The Alaska fund and accompanying dividend constitute a model worthy of study and perhaps of imitation and adaptation. This book examines whether and how the Alaska Dividend is a model that can and should be adapted for circumstances elsewhere. It is an "edited volume" with authors who differ in their level of enthusiasm for (or skepticism of) the Alaska model. But we believe that the evidence provided by this book shows that the combination of policies we call the Alaska model is worthy of examination by other states, nations, and regions.

1. What is the Alaska model?

The "Alaska model," as we use the term here, does not refer to the whole of Alaskan state government policy (most of which we do not study), nor to even to the whole of its oil revenue policy. It refers only to elements in the combination of APF and PFD. Although the APF is the source of revenue for the PFD, the two are different programs created at different times by different kinds of legislation. The APF is a Sovereign Wealth Fund (SWF)—a pool of assets collectively owned by the members of a political community usually invested into interest-generating assets. It was established by a constitutional amendment that did not specify what was to be done with the returns to the fund. The PFD is the policy of devoting the APF's returns to a dividend for all Alaskan citizen residents. It was created by a simple act of the state legislature. Many nations and regions have SWFs, but only Alaska's SWF pays a regular dividend to citizens. Many nations and regions provide some form of cash benefits, but so far, only

Alaska pays a regular cash dividend to all of its residents.[1] The APF and the accompanying PFD link a resource-revenue-management policy with a progressive social policy. As an SWF, the APF helps to ensure that the state will continue to benefit from its oil after its reserves are depleted. As a dividend, the PFD helps every single Alaskan make ends meet each year without a bureaucracy to judge them.

We call this unique combination the Alaska model. It consists of three elements: (1) resource-based revenue (2) put into an SWF or some other permanent endowment, (3) the returns of which are distributed as a cash payment to all citizens or all residents. The extent to which a policy has to contain all three of these elements to qualify as following the Alaska model is not so important. But we will discuss the importance of each of these elements separately.

A. Resource revenue.

The argument for the Alaska Dividend is simple and powerful: the oil, by right, belongs to all Alaskans (if not to all people in the world). The PFD is an efficient and effective way to ensure that every single Alaskan benefits from it. If that argument works for Alaska's oil, why not Maine's fisheries, South Africa's diamonds, Hong Kong's real estate, Oregon's forests, America's broadcast spectrum, or the world's atmosphere? Governments have allowed private, for-profit exploitation of these and many more resources, claiming that we will all benefit from the jobs and economic activity they create. But do we? Do we all? Does a homeless person in Denver benefit from the gold

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1 Iran is currently in the process of phasing in a regular dividend.

being mined in Colorado? Does a shanty dweller in Johannesburg benefit from the diamonds being exported from South Africa?

The PFD has made sure that *every single Alaskan* has benefited from the state's oil industry. Whatever benefit they might or might not get from more jobs or increased economic activity, or from infrastructure built by oil tax revenue, every Alaskan can point to the dividends they've received since 1982 and say, I got this benefit from the state's decision to exploit its oil reserves. Not many other programs do that, but many more could.

The case for taxing natural resources is at least as good, and probably far better than the case for taxing any other source of wealth. Resource taxes have the benefit of discouraging overuse of scarce resources. If properly employed, they can be an important part of a green environmental management strategy, giving people the incentive to reduce their consumption of scarce resources to sustainable levels. Yet, few if any countries in the world employ resource taxes in this way. Resources are often given away by governments to individuals and corporations who sell them back to the public. Sellers usually add value, of course, but the sellers capture not only the value they add but also the natural resource value along with it. They get something for nothing. They sell something for something.

A resource tax is literally a user fee. Anyone who takes possession of a resource makes it unavailable for others. The tax represents a payment for the burden imposed on others. This justification for resource taxation is more closely associated with "left-libertarianism," discussed in chapters of this volume by Ian Carter (see also in this volume Alanna Hartzok and Gary Flomenhoft). But, as we will argue in a later chapter,

resource taxes are also consistent with liberal-egalitarian, utilitarian, and other theories of justice.

Of course, not every country has as much oil as Alaska, but one of the key lessons of this book is that a country does not have to be "resource rich" to have a resource dividend based on the Alaska model. We make this argument fully in the final chapter of this book. Here we preview only a small part of that argument.

One reason we know that a country does not have to be resource rich to have a resource dividend is that every country and every region has valuable resources. Later chapters of this book will show that the total value of natural resources (including not only mining, fishing, and forestry but also land value, the broadcast spectrum, the atmosphere, etc.) is surprisingly high even in areas not thought of as being resource rich. Gary Flomenhoft (this volume) shows that even "resource poor" states, such as Vermont, can create a substantial resource dividend.

Another reason we know that a country does not have to be resource rich to have a resource dividend can be seen from what a small part of Alaska's resource wealth actually goes to supporting the fund. Alaska has many valuable natural resources, but the APF is supported almost entirely by taxes on oil. These taxes are extremely low by international standards, and only about one-eighth of the state's total oil revenue goes to supporting the APF. We discuss the potential for a much lager dividend in the concluding chapter of this book.

B. A permanent endowment

Alaska introduced the APF largely because Alaskans knew that oil drilling would provide a very large but *temporary* windfall. They wanted to extend the period in which

that windfall would benefit Alaskans by putting some of it away into a *permanent* fund. The APF was one of the first SWFs. Today many resource-exporting nations and regions have them. Some nations have funds more than 10 times the size of the APF.

We see the essence of the Alaska model as a strategy to make sure that the system functions as a permanent endowment, but an SWF is not the only mechanism that can do so. To some extent treating resource taxes as user frees does so on its own. Some resources are capable of producing a permanent stream of revenue from user fees. These include land, the broadcast spectrum, and renewable resources. Revenue from such resources does *not* need to be put into a fund to function as a permanent endowment, and the Alaska model can be employed with only the first and second elements. Other resources produce only temporary resource streams. No nation can produce oil forever. Pollution taxes will hopefully discourage pollution. For revenue from sources like these to produce a permanent endowment, a mechanism such as an SWF is necessary.

C. A cash payment to all citizens

To some extent the dividend was a way to sell ordinary Alaskans on the idea of a permanent fund. But to some extent the motivation for the fund was to support the dividend. Some of the lawmakers who created these programs, particularly Governor Jay Hammond, were influenced by the movement for what is now known as a "basic income"—a small unconditional income for every citizen to help them meet their basic needs. At the time, the policy was best known as the "guaranteed income" or the "negative income tax." It was widely discussed by policymakers in the United States in the 1960s and 1970s. Hammond had unsuccessfully proposed a similar policy on a local

level when he was a mayor of Bristol Bay Borough, and he very much saw the APF as an opportunity to create a basic income.

Basic income is a widely discussed topic in the academic literature in social science and philosophy. Researchers have examined the political and economic feasibility of the idea, its likely effects, and the ethical arguments for and against it. The United States and Canadian governments have conducted five social science experiments to see how a very similar policy would work. The Indian government will soon begin its own experiment. Basic income comes and goes in political popularity. It has recently appeared on the political agenda in Germany. It has considerable grassroots support in southern Africa today, and the Brazilian government is officially committed to phasing it in, although no timetable for moving beyond the first stage of the phase-in has been set. It is currently popular with Green and left-leaning parties in Europe, but its support (much like the support of the Alaska Dividend) often cuts across party and left-right divides.

As we will see in later chapters, not everyone agrees about the extent to which the Alaska Dividend fits the definition of a basic income. Usually, a full basic income is defined as an unconditional income, large and regular enough to meet a person's basic needs. The Alaska Dividend is neither regular in size nor large enough to meet a person's basic needs. But it is regular in timing and unconditional. So, it constitutes only a partial, irregular basic income. But it is the only version of basic income currently in practice in the Western industrialized world.

2. Importance of the Alaska model

We (the editors of this book and the authors of this chapter) became interested in the Alaska model because of our interest in basic income. We're excited to see an idea—

so controversial in theory—has proven to be effective and extremely popular in the one place it has been tried. The Alaska model shows not only how basic income works, but also how attributes of the Alaska model can be designed to work well elsewhere. The Alaska model is not perfect, but it is a successful strategy on which to build something better.

By endorsing the Alaska model, we do not mean that governments should replace everything they do with the combination of a resource tax, fund and dividend. We mean only that they should examine it as a possible addition to their toolkit. This combination of policies—so far unique to Alaska—has proven to be immensely popular while insuring that every Alaskan benefits from natural resource wealth, keeping that wealth in common, interesting citizens in management of public resources, saving for future generations and for the day when the resource is gone, and, not least from our point of view, mitigating poverty and inequality. Authors in this collection will elaborate on these and other aspects of the Alaska model, as well as scrutinize problems with the model or with the Alaska case. We find that the Alaska model is something that other governments should study and consider adapting to their own resources and circumstances. In the final chapter we draw six lessons from the Alaska model.

3. A preview of the book

The three parts of this book evaluate the Alaska model and discuss whether and how it can be adapted for other areas.

Chapters in Part One provides the background necessary to evaluate the Alaska model. Cliff Groh and Greg Erickson examine the unlikely history of the APF and the

PFD and explain how the two programs work in practice. Scott Goldsmith discusses the impact of the dividend on Alaska's society and economy.

Chapters in Part Two examine the ethical and political case for using the Alaska model as a tool for social justice. Jim Bryan and Sarah Lamarche discuss the political consequences of linking natural resource wealth and basic income, and how this policy combination can serve justice for future generations. Ian Carter presents the resource dividend as a left-libertarian economic policy. Christopher Griffin discusses the PFD as a practical application of the theoretical idea of Stakeholding. Stakeholding is a variation of the universal, unconditional grant idea. It differs from basic income in being delivered as a large lump sum grant rather than as a steady flow of smaller payments. Almaz Zelleke criticizes the extent to which the Alaska model, structured as a resource dividend, can be thought of as the practical implementation of basic income or even a step toward it. Jurgen De Wispelaere and David Casassas argue that the Alaska model, as it stands, is of limited value in promoting Civic Republican objectives. Steve Winter criticizes the Alaska Dividend for making recipients complicit with the oil industry. In the final chapter of Part One, we (Widerquist and Howard) respond with a chapter addressing the concerns of the authors in this section, and a discussion of why the link between resource taxation and basic income is important for different theories of social justice.

Chapters in Part Three discuss empirical questions about how the Alaska model can be adapted to be used most effectively in other states, nations, and regions. Gary Flomenhoft provides a detailed empirical investigation of the resource tax revenue available in the state of Vermont. He finds that even the resource-poor state of Vermont can raise $2000 (and possibly much more) for each resident each year. Michael Howard

looks at the cap-and-dividend approach to global warming as a version of the Alaska model applied to pollution control. Karl Widerquist proposes personalizing the Alaska model into what he calls "Citizens' Capital Accounts." Alanna Hartzok argues that any dividend program based on an SWF has a strong responsibility for socially responsible investing, and presents evidence the APF currently fails to live up to that goal. Michael A. Lewis addresses the issues of fund and risk management, which will be important if the Alaska model is to further economic security of recipients. Angela Cummine discusses whether other existing Sovereign Wealth Funds (particularly in the Middle East) should move toward an Alaska-style dividend. Greg Erickson and Cliff Groh discuss the challenges to the APF and PFD in Alaska today and the extent to which the model can be expanded and improved within Alaska.

In the concluding chapter, we respond to the concerns of authors in Part Three and bring together what we have learned from our study of Alaska's experience with this model.

Part One
Nut, Bolts, and Politics of the Alaska Model

Chapter 2

The Improbable but True Story of How the Alaska Permanent Fund and the Alaska Permanent Fund Dividend Came to Be

Cliff Groh and Gregg Erickson[2]

The Alaska Permanent Fund (APF) and the Alaska Permanent Fund Dividend (PFD) resulted from the conjunction of unusual circumstances in the years following announcement of the Prudhoe Bay oil field discovery in 1968, and extending through the implementation of the PFD program in 1982.

Those circumstances included:

- a cascade of money from a source unimagined a short time before;
- concerns about that money being wasted or diverted for the benefit of a few; and
- a willingness to create the APF and PFD without first reconciling widely differing perceptions of the purposes the two institutions were supposed to serve.

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2 Cliff Groh, the corresponding author, can be contacted at cliff.groh@gmail.com. Groh served as the principal legislative assistant on the legislation in 1982 that created the per capita Permanent Fund Dividend in Alaska. The authors thank Theresa Philbrick and the many others who read and offered valuable comments.

1. Pre-Prudhoe Alaska: thin and unbalanced

In the mid-1960s Alaska was a young state that felt poor. Successful achievement of statehood, in 1959, was supposed to break down the barriers to prosperity. In 1960, the first year after statehood, that hope seemed to be coming true. Federal statehood transition grants funded new jobs in state government, and a mini-oil boom in Cook Inlet south of Anchorage caused private sector employment to surge, more than offsetting that year's declines in military spending.[3]

The surge was short-lived. Per capita personal income in Alaska in 1960 was 135 percent of the U.S. average, but soon fell back to levels short of offsetting Alaska's higher cost of living. The Bureau of Labor Statistics estimated Anchorage's costs as 27 percent higher than those in Seattle, and Fairbanks' costs as 36 percent higher.[4] Costs in smaller communities were even higher.[5] As shown in Figure 1, Alaska per capita personal income did not again reach its 1960 level until 1974, at the outset of the trans-Alaska pipeline construction boom.[6]

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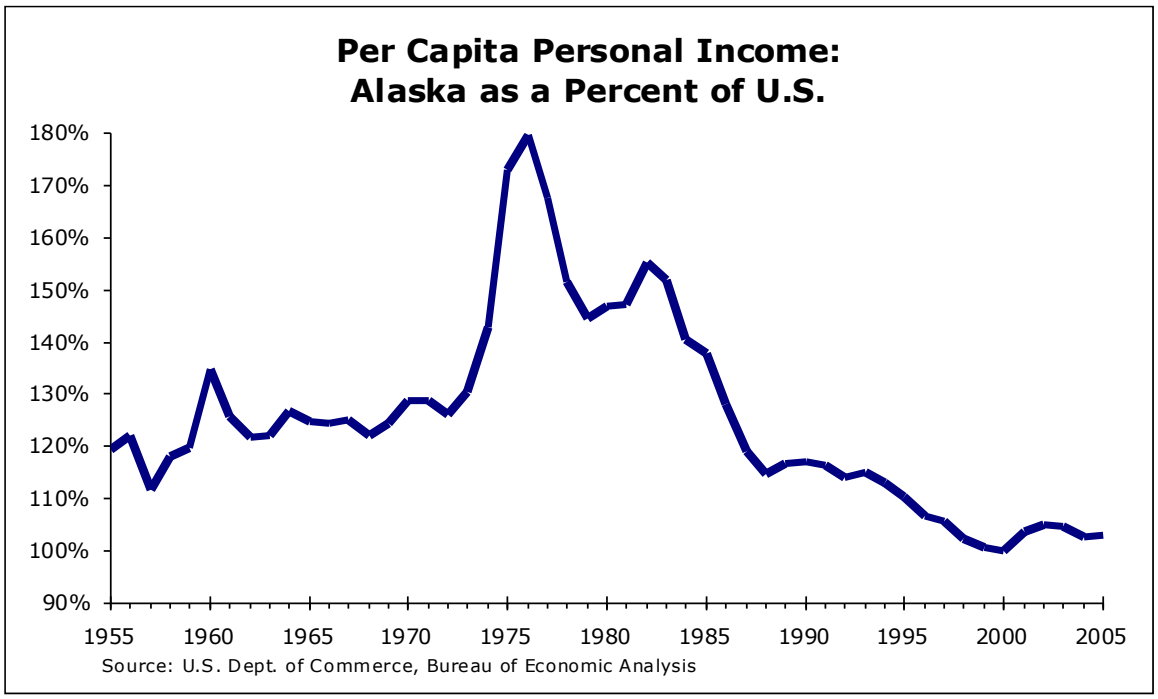
3 Rogers and Cooley, 1962a, pp. 101, 235-37, 279.

4 Rogers and Cooley, 1962b, p. 188.

5 Loll 1967, p. 6.

6 U.S. Department of Commerce, Bureau of Economic Analysis 2010. The data from this source was accessed from http://www.economagic.com/ with ratio calculated of Alaska to U.S. from the Alaska series found at http://www.economagic.com/em-cgi/data.exe/fedstl/akpcpi and the U.S. series found at http://www.economagic.com/em-

Figure 1



Notwithstanding the 1960 boomlet, many in the newly minted 49th state did not see that wealth had arrived, and by 1962[7] and 1963[8] state finances were teetering close to insolvency. Economic data through the 1960s confirmed that view. The personal income trough between 1960 and 1974 would have been even greater had not natural disasters – a 1964 earthquake and a 1967 flood affecting Fairbanks – resulted in a massive inflow of

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cgi/data.exe/nipa/a701-a792rc. Other data accessed from http://www.economagic.com/em-cgi/data.exe/fedstl/akotot.

7 G. Rogers 1962, pp. 181-82.

8 Erickson, 1989, p. 11.

federal reconstruction money and low-cost loans, the earthquake alone generating over $600 million.[9] Gross state product data for Alaska are not available for the 1960s, but the scale of the resulting economic impact can be judged by comparison with the $790 million Alaska personal income in the year before the quake.[10]

A New York journalist visiting Alaska for a national magazine wrote with some hyperbole that "For years the state has been poorer than Appalachia, dependent on federal grants to rescue it from bankruptcy."[11]

The economy in the early years of Alaska's statehood was extraordinarily unbalanced.[12] According to the 1960 U.S. Census, the government and the military accounted for 57 percent of all employment. Construction employment, almost all of which was under government contracts, accounted for a further 6 percent, bringing governments' total weight in the Alaska economy to 63 percent.

The dependence on government spending – particularly federal spending – insulated Alaska's economy from the vicissitudes of the American business cycle, but made it vulnerable to the decisions of far-away officials. In the late 1950s, for example, policymakers in Washington, D.C. responded to changing views of military requirements

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9 Erickson, 1989, p. 12.

10 U.S. Department of Commerce, Bureau of Economic Analysis. A joke circulating among Alaskans in the fall of 1967 has an economist asking "What are Alaska's three biggest industries?" The Alaskan answers: "Fish, timber and disasters." Groh, Sr.

11 Lapham 1970, p. 85.

12 G. Rogers 1962, p. 17.

by reducing military and civilian defense employment in the then-territory from 48,000 in mid-1957 to 34,000 in mid-1959, a loss equal to 13 percent of all 1957 Alaska jobs.[13]

In the 1950s and the early post-statehood years, wholesale and retail trade accounted for a much smaller share of the Alaska economy than in any other U.S. state. This was significant, economist George Rogers noted, because it meant that a much larger share of the wages and salaries paid by government and Alaska's tiny export industries, like fishing and mining, were spent "Outside," the term used even today in Alaska to refer to the rest of the nation. This weakness in the state's support sector did not diminish significantly until the late 1970s.[14]

2. $900 million: euphoria, then regrets

In February of 1968, the Atlantic Richfield Company announced an historic oil discovery made the previous December on Alaska's North Slope, near a small indentation on Alaska's northeast Arctic Coast known as Prudhoe Bay.[15] That discovery proved to be a world-class accumulation that is still the largest oil field ever found in North America.[16]

Immediately after statehood, the new state was allowed to select its entitlement lands from the federal government's vast holdings. Due to the skill of state geologists,

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13 G. Rogers 1962, p. 95.

14 Erickson and Tussing 1984, pp. 7-10.

15 J. Miller 2010, pp. 36-37.

16 Yergin 1993, p. 571.

foresight, and a large measure of luck, virtually all the oil fields on the North Slope were later found on land selected by the state.[17] This ownership meant that the state, in its role as landowner, could collect royalties on oil production – royalties that were fixed by the lease contract and not subject to unilateral increases by the state. In its role as sovereign, however, the state could tax development on the big oil fields, and alter those taxes largely at will, subject only to political constraints.

The first taste of big oil money came the year after the giant strike at Prudhoe Bay, when a sale of state oil leases around the discovery netted $900 million, five times the state's budget for the fiscal year that began three months earlier. [18] Calculated in 2010 purchasing power, it was as if the state government today received $15,052 per resident.[19]

The state used the money from the 1969 lease sale to build schools, finance a generous loan program for college students, and – in a policy move that some see as prefiguring creation of the PFD program a decade later – enacted a "longevity bonus"

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17 The North Slope has accounted for 92 percent of all Alaska petroleum liquids produced since statehood. McMains 2011. The story of how the State of Alaska got ownership of Prudhoe Bay and the lands over other North Slope oilfields is well told in Roderick 1997.

18 Kasson 1997, p. 13.

19 Calculated by author (Erickson) using the Anchorage consumer price index and 1969 U.S. Census population estimates.

program providing monthly cash payments to Alaskans over 65 who had lived in the state since statehood.[20]

A. Roots of disillusion

Despite the benefits Alaskans received from the $900 million, polls showed that a substantial majority of Alaskans believed the money was wasted, and many had no understanding of what the money had brought.[21]

Elected in 1974, Gov. Jay Hammond both reflected and reinforced this view. In 1976 he asserted that the state's $900 million "nest egg" had been "scrambled" to meet day-to-day expenses.[22]

In much the same way that expectations for growth generated by statehood were frustrated by Alaska's thin economy, Alaskans' expectations about what the iconic $900 million could do for the new state contributed to a widespread view that the money had been squandered. This concern was a key factor in the origin of both the Permanent Fund and the Permanent Fund Dividend.[23]

This concern about "not blowing" a second windfall dovetailed with residual anger over a long history of outside interests exploiting Alaska's fur, fisheries and mineral resources in ways that left the territory and its permanent residents few lasting benefits.

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20 Alaska Permanent Fund Corporation, "Landmarks" 2011.

21 Greely 1977, p. 4.

22 Andersen 1976, p. A-2.

23 Kasson 1997, p. 14; Rasmuson 1997, p. 3.

Many in Alaska were determined to do what they could to avoid that kind of resource development in the future.

Alaska's sixth appointed territorial governor – later to be elected one of the new state's two U.S. senators – emphasized this notion in his 1941 message to the people of Alaska:[24]

> The session of the 15th Territorial Legislature just concluded brings out more clearly than ever the basic issue that confronts the people of Alaska. That issue is whether Alaska shall be built up for Alaskans in conformity with American principles and standards, or whether it shall continue to be governed for and by outside interests whose sole concern is to take out of Alaska as much as they can, as fast as they can, and leave as little as possible.

The territory's long-time delegate to Congress – later elected the new state's other U.S. senator – addressed the delegates convened to write the Alaska Constitution in even stronger terms:[25]

> Alaska has experienced exploitation in the past, exploitation on a grand scale. But the possibilities of future exploitation in the field of natural resources are infinitely greater than in times gone....
>
> The taking of Alaska's mineral resources without leaving some reasonable return for the support of Alaska governmental services and

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24 Gruening 1941, p. 3.

25 Bartlett 1955.

the use of all the people of Alaska will mean a betrayal in the administration of the people's wealth.

This idea was enshrined in the constitution of the new state, which provides that "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters, *for the maximum benefit of its people*."[26]

3. Creating the Alaska Permanent Fund

It was against this backdrop – a state with a thin, unbalanced and vulnerable economy; an invidious history of exploitation for the benefit of outsiders; and nagging doubts over how the $900 million was spent – that Alaskans considered what to do with the stream of North Slope oil money. The great bulk of those revenues would start coming into the state treasury when the oil from Prudhoe Bay and other fields on the North Slope started flowing through the trans-Alaska pipeline.

In October of 1969, a month after the $900 million lease sale, a New York investment banker suggested creation of a "perpetual fund" from which the legislature would appropriate the earnings.[27] The concept of a permanent fund was also discussed

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26 Alaska Constitution, Article VIII, Section 2 (emphasis added).

27 Kasson 1997, p. 14.

briefly later that month at a seminar on Alaska's new wealth.[28] In a January, 1970 address to the legislature, Gov. Keith Miller proposed to put $500 million of the $900 million in a "permanent fund" that would be created by constitutional amendment and serve as "a revenue-producing fund in perpetuity for future generations of Alaskans."[29] Although it did not pass, Miller's bill was the first permanent fund legislation. Debate on the measure raised key questions of how fund investments were to be managed and what institutions and rules would control disposition of the earnings.[30]

Oil was expected to enter the pipeline in 1973, thereby starting the big flow of oil money into the state treasury. Intertwined disputes over environmental safeguards and Native land claims combined with unanticipated design requirements to delay the pipeline start-up until 1977. The four-year delay was a source of political and economic

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28 Legislative Council of the State of Alaska in association with the Brookings Institution 1970, "Statement of Alpha Group," p. 3, and "Policy Statements of Gamma," p. 2.

29 K. Miller 1970, p. 3. A key advisor to Gov. Miller regarding this proposal for a permanent fund was Roger Cremo, an Anchorage attorney who later became a prominent advocate of increasing the size of the Permanent Fund and having the budget endowed by the Permanent Fund's earnings. Hammond 2004, "Creating Alaska Oral History Interview[:] Jay Hammond," "Tape 10 and 11 Jay Hammond[,] Page 23"; and *Cremoplan.org*. Although described as "permanent," the fund proposed by Gov. Miller would have been available for appropriation.

30 Kasson 1997, p. 14.

angst in Alaska, but the interval gave Alaskans time to talk, plan, argue, and ultimately vote about what they wanted to do with the expected bounty.

During that years-long process a consensus developed for saving some of the oil money in a separate fund. That consensus resulted in the creation of a permanent fund, but it took more than one try: in 1975 the governor vetoed legislation attempting to establish the fund by statute; in 1976 the legislature and voters created the fund in a constitutional amendment.

It took a constitutional amendment – as opposed to a regular law – to establish that fund because the framers of the state's constitution, writing in 1955-56, had barred dedication of "[t]he proceeds of any state tax or license."[31] This prohibition on dedicated funds was intended to make sure that Alaska avoided the experience of other states where earmarks and dedications left lawmakers with spending authority over as little as 25 percent of the state's revenue.[32] The Constitutional Convention committee responsible for drafting the prohibition on dedicated funds stated:[33]

> Even those persons or interests who seek the dedication of revenues for their own projects will admit that the earmarking of taxes or fees for other interests is a fiscal evil. But if allocation is permitted for one

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31 Alaska Constitution, Article IX, Section 7. This constitutional provision included exceptions for funds existing at the time of statehood, or required for participation in federal programs.

32 Harrison 2002, p. 143.

33 Harrison 2002, pp. 149-50.

> interest the denial of it to another is difficult, and the more special funds are set up the more difficult it becomes to deny other requests until the point is reached where neither the governor nor the legislature has any real control over the finances of the state.

Legal opinions issued in 1969 by the state attorney general concluded that oil royalties, being neither a license nor tax, were exempt from the prohibition.[34] Relying on this interpretation, legislators sent the governor the 1975 bill creating a statutory "permanent" fund.[35]

Gov. Jay Hammond, a bearded bush pilot first elected in 1974 who was known for the doggerel he wrote mocking his opponents, vetoed this legislation, citing new legal advice from his attorney general reaching the opposite conclusion from the previous opinion. After giving the records of the Constitutional Convention more detailed study, Hammond's attorney general decided the framers intended to prohibit dedication of *all* state revenues.[36] Accordingly, as Hammond wrote in his veto message, a constitutional amendment was required to create a truly "permanent" Alaska Permanent Fund.[37]

In April of 1976, supermajorities in both chambers of the Alaska Legislature voted to put a constitutional amendment creating an Alaska Permanent Fund on the November

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34 Alaska Department of Law 1969a, pp. 2-3; Alaska Department of Law 1969b, pp. 1-5.

35 Alaska State Legislature, Committee Substitute for House Bill 324, 1975.

36 Alaska Department of Law 1975, p. 24.

37 Hammond, Letter to the Honorable Mike Bradner 1975.

ballot.[38] Unlike earlier proposals for "permanent" funds, the 1976 legislation proposed a *dedicated* fund that would be off-limits to legislative appropriation.

While there was consensus on putting the permanent fund in the Constitution, there was no consensus on the public purpose(s) the fund was to serve. Politicians dangled everything from dams to day care centers to cash payments to residents as possible benefits that could flow from creating an APF.[39]

Gov. Hammond said he supported putting some of the oil money in a permanent fund to keep the government spending from growing so large that future Alaskans would face wrenching dislocations when the boom ended.[40]

The Alaska State Chamber of Commerce backed the constitutional amendment in part because the pro-development organization anticipated the fund would be a source of capital for renewable resource industries such as fishing or timber.[41] Another argument

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38 Alaska State Legislature, Senate Committee Substitute for Committee Substitute for Sponsor Substitute for House Joint Resolution 1976. Only two of the legislature's 60 members, one each in the House and Senate, voted against putting the amendment on the ballot. Alaska Division of Elections 1976a.

39 Andrews 1976.

40 Hammond 1996, p. 248.

41 Alaska Division of Elections 1976a, p. 49; Andrews 1976.

put forward in favor of establishing a permanent fund was that it could serve as a "rainy day fund" that would endow the budget in the future when oil revenues fell.[42]

The state's official election pamphlet carried a statement against the proposal written by former Speaker of the House Tom Fink. This argument for a "No" vote contended, among other things, that lawmakers would raise taxes to make up for shortfalls created by putting state money off-limits to legislative appropriation. If there was a surplus of revenue, Fink recommended that the state spend it on capital projects such as schools, pay off state bond debt, share the surplus with local governments, and share the benefits with taxpayers by cutting taxes.[43]

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42 Alaska Division of Elections 1976a, p. 49; and Hammond 1976, "The Governor's Point of View." Hammond's statements on the purpose of the APF were not always consistent. Before the vote on the 1976 constitutional amendment, he wrote that "Leaving all our resource dollars in the politicians' purview to spend as they see fit for bigger government, instead of socking some away in savings for the future, would be like assuming there is no need to put some cash away for rainy days." Hammond, "The Governor's Point of View." In 2004 Hammond described the notion that the Alaska Permanent Fund was to be a "rainy day account" as "[b]ull feathers," adding, "That word was never even mentioned back then to my knowledge." Hammond 2004, "Creating Alaska Oral History Interview[:] Jay Hammond," "Tape 10 and 11 Jay Hammond[,] Page 27."

43 Alaska Division of Elections 1976a, p. 49.

Voters approved the constitutional amendment creating the APF by a margin of almost 2 to 1.[44] The amendment reads:[45]

> At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund [Alaska's general budget fund] unless otherwise provided by law.

The overwhelming support for the amendment was best explained by Elmer Rasmuson, an Alaska banker who served as the first chairman of the trustees of the Alaska Permanent Fund Corporation (APFC). "The Permanent Fund began, chiefly, with a 'negative' goal, to place part of the one-time oil wealth beyond the reach of day-to-day spending."[46] Ultimately, the Permanent Fund was the political product of a coalition that wanted to take money off the table and save it for the future, without specifying how those savings would be used.

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44 Alaska Division of Elections 1976b.

45 Alaska Constitution, Article IX, Section 15.

46 Rasmuson 1997, p. 3.

A. Defining the fund: savings or loans

While it was a question on the ballot, the APF could be all things to all people. Once the fund became the law, the Alaska legislature confronted the task of deciding how the fund would be managed and what use would be made of the earnings, which – absent legislative action – would be deposited in the general fund. It took them longer than expected, engaging legislators for much of the next four years.

Powerful figures in the state Senate, led by Sen. George Hohman (D.-Bethel), pushed hard for managing the APF as a development bank focused on making easy credit available for a long list of worthy purposes.[47] The notion of using the fund as a development bank appealed to a common Alaska belief that the state suffered a "capital gap" or "capital shortage" under which conventional bankers' unfair or irrational prejudice against the Last Frontier's businesses required the state government to step in.[48] Under the development bank proposal the loans – even risky ones – would qualify as "income-producing investments" as required by the 1976 amendment.

Standing against the Senate's development bank proposal was the determination of legislators in the House to manage the fund like a savings account, investing more conservatively to preserve the principal. Under this plan, use of the income could be left for Alaskans to decide in the future.[49]

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47 Kasson 1997, pp. 19-23; and Rose 2008, pp. 137-38 and 141-42.

48 Rose 2008, pp. 145-146.

49 Kasson 1997, p. 20; and Rose 2008, pp. 137, 141.

Those arguing for a trust-like approach emphasized the need for *prudent* investment. Allowing the fund to be invested in shaky loans, social investments, or public projects would, they feared, invite a feeding frenzy among powerful political interests intent on getting their share. A key concern was that the fund's principal would be dissipated for the benefit of a favored few rather than all Alaskans.[50]

Initially standing in between the two legislative bodies was Governor Hammond, who proposed an allocation of some principal to in-state loans and some to safer investments.[51] Hammond's approach appeared at one point to reflect a strong tension within his administration between the Department of Revenue's orientation toward a development bank and the more risk-averse advice the governor was getting from the Division of Policy Development and Planning, the policy advisors in the governor's office.[52]

The forces supporting a saving account prevailed. Legislation adopted in 1980 restricted managers to "a cautious list of authorized investments – principally government bonds."[53]

Several factors contributed to this outcome. First, the governor moved toward the House's approach, leaving a political line-up of two against one.[54] During the 1977-1980

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50 Kasson 1997, pp. 20-22.

51 Rose 2008, pp. 141-142.

52 Ulmer 1979, pp. 1-2.

53 Rasmuson 1997, p. 3.

54 Rose 2008, p. 150.

period, the state also expanded loan programs and development agencies outside the APF, thereby creating escape valves that reduced the pressure to use the Permanent Fund as a source of in-state loans to address the perceived capital shortage.[55] Finally, the dramatic increase in expected revenues to the state caused by the fall of the Shah of Iran in 1979 and manipulation by the OPEC cartel had produced a sense that there was money enough to satisfy all interests without using the Alaska Permanent Fund to get it.[56]

Four years earlier the economist Arlon Tussing, after reviewing Alaska's revenue prospects, suggested, "Everybody has a price, and there is enough money to buy off almost anybody."[57] By 1980, the truth of that assertion was hard to dispute.

4. Birth of the PFD: "serendipity's triumph"

The decision made in 1980 that the APF principal would be invested conservatively left open the issue of the earnings. Was the fund's income to flow to the general fund, as it would if no action was taken, or was it to be used for something else?

Here the preferences of a certain barrel-chested governor became critical. Without Jay Hammond, it's impossible to imagine that there would have been a Permanent Fund Dividend.[58] A resident of rural Alaska since 1946 who had worked as a trapper, hunting guide, and commercial fisherman, Hammond called himself the "bush rat governor" in a

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55 Kasson 1997, pp. 18-19; and Rose 2008, pp. 148-149.

56 Rose 2008, p. 154.

57 Brown 1976.

58 Groh, *The Permanent Fund Dividend Story*, p. 5.

book he wrote after leaving office.[59] Some would see him as a collection of contradictions – a state governor who had publicly opposed the statehood that created his future job;[60] a skeptic of high-speed economic development who railed against greedy "fat cats," [61] yet a member of the Republican party, a party that generally supported freeing Alaska industries from the restraining hand of government and promoted policies favoring the well-to-do.

Hammond wanted to save some of the petrodollars coming into Alaska, partly to slow what he feared would be too rapid economic development.[62] He knew that exploding state revenue meant exploding state budgets, and he was worried about the painful fiscal readjustment when the oil revenue dried up, as he assumed it would. [63] In his view, removing part of that money from the legislature's reach would lessen that risk.[64]

The question of what to do with a flood of "excess" revenue had been considered in 1969, following that year's $900 million windfall. In 1970, University of Alaska

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59 Hammond 1996.

60 Whitehead 1976, pp. 368-71.

61 Hammond 2004, "Creating Alaska Oral History Interview[:] Jay Hammond," "Tape 10 and 11 Jay Hammond[,] Page 30."

62 Hammond, "State of the State [Address]" 1976, pp. 16-17; and Hammond, "Budget Message," 1976, pp. 2-6.

63 Hammond, "State of the State [Address]" 1982, pp. 5-6.

64 Hammond 1996, p. 247-48.

economist Arlon Tussing put forward a novel idea that surfaced in a *Time* magazine cover story:[65]

> "The only way to guarantee that the money does any good to most of us is to hand it out to the people. The state should form an investment company, something like a mutual fund, and distribute the stock to Alaskans on the basis of one share for every year of residence in the past 15 years," [said Tussing]. In this way, a family of five could expect an annual income of about $2,500 from the first $900 million lease sale alone.

Tussing's was a rare voice. Not until after the APF was established in 1976 was there substantial discussion of direct distribution of Alaska's oil wealth. At a Brookings Institution seminar on what to do with the $900 million, a rapporteur wrote: "No one opted for outright divvying of the money. 'If we do that do we give anything more than a chance to spend it?'"[66]

Hammond's thinking on direct distribution grew out of his experience in the 1960s and 1970s living in an area of Southwest Alaska blessed with world-class salmon runs.

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65 Time Magazine 1970, pp. 8-9 of 10. The magazine said Tussing was "only half serious" in his suggestion.

66 Legislative Council of the State of Alaska in association with the Brookings Institution 1970, "Statement of Gamma Group," p. 4.

While serving as manager of the Bristol Bay Borough in the mid-1960s, Hammond had proposed a raw fish tax.[67] Under his plan, the revenue from the tax would go to "Bristol Bay, Inc.," a yet-to-be-created investment corporation to be owned by local residents. Borough residents (1970 population 1147[68]) would receive one share of stock for each year they had resided in the borough.[69]

Based on what he later described as a "cursory study," Hammond argued 97 percent of the "payday" from fish caught in the borough "left in the pockets of folks who lived elsewhere."[70] As Hammond observed in 1972, "One can starve to death eating T-bones – if five other guys first gnaw of[f] the meat."[71] Hammond saw it as a "blown bonanza," because the non-residents' heavy take off the top left the fish-rich area "little more than a rural slum."[72] Taxing that harvest would be a way to keep part of that money in the local economy. The plan also kept the new revenue away from the nascent borough bureaucracy. As he later explained, Hammond expected borough voters would balance the prospect of cash dividends from the new corporation against their wariness of new taxes, and choose the dividends. [73]

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67 Hammond 1996, pp. 152-53.

68 Babb 1972, p. 3.

69 Hammond 1996, pp. 152-53.

70 Hammond 1996, p. 152.

71 Hammond 1972, "Bristol Bay's Blown Bonanza," p. 1.

72 Hammond 1972, "Bristol Bay's Blown Bonanza," p. 1.

73 Hammond 1996, p. 153.

Borough voters rejected the tax twice, after which the ever-practical Hammond dropped the investment corporation idea, substituting a plan that used the new revenue to cut property taxes.[74] Voters finally agreed in 1973, after Hammond had become the borough's mayor.[75]

Hammond, playing down his pragmatism, later claimed, "[W]hat emerged was but a caricature of what I'd intended."[76] Whatever his intention, Hammond supported and took credit for establishing the borough fish tax. The experience firmly established in the mind of the 50-year-old future governor the notion of investing revenues from a rich resource to produce dividends for citizens residing in the resource-rich region. Writing in 1972 just before he got the tax approved, Hammond said, "Hopefully the rest of the state will heed the squandered potential of Bristol Bay."[77]

During his tenure in the Alaska Senate, after he became governor in 1974, and especially after he attempted to cope with the flood of oil wealth that hit the state in 1979, he continued to develop intellectual infrastructure to support his concept of a resource-based investment dividend paid to residents. Hammond incorporated into his thinking the notion that the Alaska constitutional provision mandating the state use and develop its

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74 Hammond 1996, p. 152-53.

75 Hammond 1996, p. 153; and Alaska Supreme Court, *Liberati v. Bristol Bay Borough*, 584 P.2d 1115, 1117 and 1117 n.2 (Alaska 1978).

76 Hammond 1996, p. 152.

77 Hammond 1972, "Bristol Bay's Blown Bonanza," p. 3.

natural resources "for the maximum benefit of its people" [78] meant that Alaskans were in some sense *owners* of the state's oil wealth in the same way as they would be if they were stockholders of a resource-owning corporation.[79]

Hammond, a Republican, had no interest in taking money from higher-income people and transferring it to those with lower incomes, or anything else that smacked of socialism. But he saw, as did many other Alaskans, that the benefits of the oil wealth were already being distributed in ways that were far from equitable.

> When wealth began flooding state coffers, Alaskans responded no differently than have individuals, businesses and governments elsewhere when facing similar circumstances; special interests appeal for special things and politicians provide many services not normally performed by government. In Alaska, this included massively subsidized low-interest housing and business loans, subsidies that provided hundreds of millions of dollars in 'hidden dividends,' benefiting a few at the expense of all.[80]

For Hammond and the small group of Alaska legislators, aides and ordinary citizens who worked with him when he was governor to achieve a resource-based investment dividend, the shared core idea was neither charity nor leveling nor an attempt to build an

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78 Alaska Constitution, Article VIII, Section 2.

79 Hammond 1996, p. 247-50.

80 Hammond 1996, pp. 254-55.

income floor. Their shared commitment was to the notion of collective ownership and the fundamental fairness of sharing the returns in equal proportion to their equal ownership.[81]

Hammond's views as governor were more important than they would have been elsewhere, because under Alaska's Constitution the governor is more powerful than chief executives of other states. An element of that extra power, the right to exercise line-item vetoes in appropriation bills, would prove crucial in passage of the PFD legislation. [82]

A. Staying below the radar

Until the voters approved the constitutional amendment creating the Alaska Permanent Fund, supporters of a resource-based dividend found it expedient to broach the idea of a dividend as an aside, an afterthought, or a remote possibility.

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81 Some supporters of direct distribution also mentioned how the dividend would serve as a safety net for low-income Alaskans. White 1982; and Groh, "The Permanent Fund Dividend Story," pp. 73-75. Arguments for Permanent Fund Dividends were set out in Groh 1982a, pp. 5-9; and Groh 1997, pp. 10-18.

82 One commentator has observed that governors of Hawaii and New Jersey have executive powers comparable to those of Alaska's governor, but Alaska's governor has greater legislative power. Harrison 2002, p. 73. All three states give their governor line-item appropriation veto power, but only Alaska requires a three-fourths majority to override. Alaska Constitution, Article II, Sections 15 and 16. In New Jersey and Hawaii a two-thirds majority is sufficient. New Jersey State Constitution, Article V, Section I, Paragraph 14; Hawaii Constitution, Article III, Section 17.

As the constitutional amendment to create the APF moved through the Legislature in 1976, a single narrative report appeared in the official legislative journals. That document, signed by dividend supporters Rep. Hugh Malone, a Democrat chairing the House Finance Committee, and Rep. Terry Gardiner, another Democrat and chair of House Judiciary, included the statement that "The purpose of the language in the last sentence of the resolution is to give future legislatures the maximum flexibility in using the Fund's earnings – ranging from adding to Fund principal to paying out cash dividends to resident Alaskans."[83] As far as we have been able to determine, that was the first and only mention in an official legislative document of the possibility of paying dividends from APF earnings before the public vote on the fund's creation.

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83 Malone and Gardiner 1976, p. 685. One of the authors (Erickson) recalls that the drafter of this report was Jim Rhode, a House Finance Committee aide who worked closely with Malone and was involved in permanent fund legislation during this period. Erickson directed the Legislature's non-partisan research arm from 1975 to 1979. Jim Rhode, a staff member for the House Finance Committee, stated at a committee hearing on permanent fund legislation on February 21, 1976 that legal counsel had advised him that language ultimately included in the constitutional amendment could "permit the legislature to make a dividend payment to citizens of Alaska from the income of the fund." Barnhill 2009, p. 10, quoting tape of Hearing on HJR 39 before House Finance Committee, Ninth Alaska Legislature, 21 Feb. 1976 (Tape in State Archives Box 18461).

Hammond discreetly put his support for direct distribution on the record. Two weeks before the 1976 election, a news article appeared reporting that Hammond supported creating an Alaska Permanent Fund because it would open up

> a whole new avenue of alternatives for making fundamental changes in Alaska as well as limiting the growth of the bureaucracy. …The use of proceeds from the fund, Hammond says, could range the spectrum from direct payments to Alaska residents to a state-funded social security program.[84]

A week later, another news story examined issues legislators would face if the amendment were approved, such as how the fund was to be invested and what use would be made of its earnings. The article noted "cash dividends to state residents" as a potential use of fund income, but only in the twenty-ninth paragraph, well after references to spending income on dams, home mortgages, and day care centers.[85]

Public opinion surveys taken the year after voters approved the constitutional amendment creating the APF showed a diversity of views on how the principal should be invested and how the income should be used. A company summarizing polling performed

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84 Associated Press 1976.

85 Andrews 1976.

in 1977 commissioned by Governor Hammond concluded that "*The public has not yet made up its mind about what the permanent fund is*; only that it should exist."[86]

Nor did polling in the first year of the APF's existence show much public support for using the fund's income to pay cash dividends to citizens. A survey conducted in 1977 commissioned by the Alaska State Senate Permanent Fund Committee asked how the APF should be used. The option of "[c]ash distribution in the form of dividends and revenue-sharing for Alaskan residents" ranked 19th out of 22 priorities.[87]

B. Alaska, Inc.

Several months after voters approved the constitutional amendment in the November 1976 election, the governor offered his first legislative proposal for direct distribution.[88] This plan was called "Alaska, Inc.," and it involved having half of the earnings of the Permanent Fund go out as dividends[89] to Alaska residents.[90] That proposal

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86 Barnhill 2009, pp. 19-20, citing Rowan Group, *Citizen Feedback No. 2 – A Survey of Alaskan Citizens on the Major Policy Questions of the Day*, July 1977, p. 15 (emphasis in original).

87 Dittman Research Associates 1977, p. 8.

88 Alaska State Legislature, House Bill 525, 1977; and Hammond, Letter to the Honorable Hugh Malone 1977.

89 The long-time chief of staff for Gov. Hammond said in 2011 that Roger Lang, a leader at the Alaska Federation of Natives, came up with the name "Permanent Fund Dividend." Reinwand 2011.

included another feature dear to Hammond's heart: a grant of greater benefits to long-time residents than those who had been in Alaska for shorter periods. Hammond believed that long-term residents ("sourdoughs") deserved a larger share of Alaska's oil wealth than newcomers ("cheechakos") because they had: (1) "owned" the wealth longer; (2) borne the burdens of Alaska's high cost of living and unusually high unemployment longer; and (3) made more contributions – both tangible and intangible – to the state's development.[91]

Hammond also thought linking the size of benefits to length of residency would encourage a long-term perspective that would work against "the 'rip-off and run' syndrome which has so plagued Alaska."[92] Additionally, Hammond favored the cumulative residency feature because it benefited Native villagers and rural residents of all races, whom he saw as particularly needy. These residents tended to have low incomes, yet most had lived in Alaska all their lives and thus would qualify for maximum

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90 As for the other half of the fund's earnings – the half that under his plan would not be paid out as Permanent Fund Dividends – Hammond proposed that it go to pay for the regular budget "to supplant nonsustainable revenues now being imprudently used for funding ongoing programs." Hammond, "Budget Address," 1980, p. 9. See also Hammond, "Permanent Fund Legislation," 1979, p. 1.

91 Singer 1982; Hammond 1996, pp. 251-52; and Groh 1982, p. 13.

92 Hammond, "Advance Text" 1982, pp. 2-3.

payments under any distribution tying the size of the payments to the length of residency.[93]

Although the "Alaska, Inc." proposal died at the conclusion of the 1977-78 Legislature, Hammond and his allies did not give up. In 1980, as revenues reached hitherto undreamed of heights, the Legislature approved a Permanent Fund Dividend bill with some but not all of the features of the "Alaska, Inc." legislation. An Alaska resident 18 or older could claim an annual Permanent Fund Dividend for each year of residency since statehood in 1959. The Legislature made a special appropriation from the general fund to boost the value of each year of residency to $50 for the program's first year. Thus an adult resident who lived in Alaska for 21 or more years would get $1,050 in 1980, while a one-year resident would receive $50.[94]

Passage of this first Permanent Fund Dividend bill relied on a fact and a tactic. The Alaska Legislature had repealed the individual income tax,[95] so it was now a fact that

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93 Hammond 1996, p. 252; Gardiner; and Singer.

94 Alaska State Legislature, Chapter 21, Session Laws of Alaska, 1980.

95 In 1980 the legislature repealed the individual income tax. The legislature initially eliminated the tax on anyone who had reported gross income in the state for the previous three years and provided lesser tax relief for others. After the Alaska Supreme Court struck that down as unconstitutional, the legislature passed legislation that repealed the individual income tax for everybody. Alaska State Legislature, Chapter 22, Session Laws of Alaska, 1980; and Alaska State Legislature, Chapters 1 and 2, Session Laws of Alaska, 1980, Second Special Session. Gov. Hammond signed the total repeal bill, but later

corporations, mostly non-Alaskan, paid most of the state's taxes. Money for the dividends would come from APF earnings. As described earlier in this chapter, passage of the APF management legislation, also in 1980, meant those earnings were accumulating in the fund but outside the principal, in a reserve account. Indirectly PFDs would be coming from oil royalties and from pre-existing oil taxes. Following the Iranian hostage crisis, royalties and oil taxes were yielding revenues unimaginable even two years earlier.[96]

The tactic was simple: to employ with single-minded ruthlessness the governor's constitutional power to veto individual appropriations, a power made much more effective by the three-fourths supermajority required to override them.[97]

As the 1980 session drew to a close, there were unmistakable indications that chairmen of key Senate committees planned to keep the governor's direct distribution legislation from reaching the Senate floor. To counter this, Hammond passed the word that he would veto the capital projects favored by lawmakers who voted to keep the bill off the floor, regardless of how meritorious those projects might be. Moreover, if the PFD

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lamented his failure to veto the legislation. Hammond 1996, pp. 264-66. On the origins of Alaska's general net tax on income, see Cole 2004, pp. 52-63.

96 Alaska petroleum revenue jumped from $442 million in fiscal 1978 to $2.3 billion in fiscal 1980. Alaska Department of Revenue 2010b.

97 Alaska Constitution, Article II, Sections 15 and 16. The three-fourths requirement applies to "Bills to raise revenue and appropriation bills and items." Other vetoes may be overridden with the more usual two-thirds majority.

bill didn't come to a vote, he'd call the Legislature back to consider the bill in special session.[98]

Absent Hammond's willingness to play political hardball it is hard to imagine any set of circumstances that would have allowed the 1980 dividend legislation to come to a vote. With the governor's strong support, the dividend bill passed in 1980 with only three dissenting votes among the 60 members of the Legislature.[99]

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98 Hammond 1996, pp. 250-51. Long-time Hammond friend and ally Sen. Clem Tillion was the Senate president. The president had no power to force a vote on the PFD legislation, but he could ensure a recorded vote of the full Senate on any motion to remove a bill from committee and move it to the floor.

99 Alaska State Legislature, *House Journal*, April 15, 1980, pp. 965-966 (vote on FCCSSB 122); and Alaska State Legislature, *Senate Journal*, April 15, 1980, p. 754 (vote on FCCSSB 122). The legislature stated the purposes of the 1980 PFD statute (Alaska State Legislature, Chapter 21, 1980) in subsection 1(b):

"1) to provide a mechanism for equitable distribution to the people of Alaska of at least a portion of the state's energy wealth derived from the development and production of the natural resources belonging to them as Alaskans;

"(2) to encourage persons to maintain their residence in Alaska and to reduce population turnover in the state; and

"(3) to encourage increased awareness and involvement by the residents of the state in the management and expenditure of the Alaska permanent fund (art. IX, sec. 15, state constitution)."

C. Cumulative residency rejected

No Alaskan ever received a dividend under the "the longer you're here, the more you get" scheme passed in 1980, however, because one of the law's aspects so attractive to Hammond and many other Alaskans – the cumulative residency feature – made that statute vulnerable in court. The 1980 law was soon ensnarled in litigation brought by Ron and Patricia "Penny" Zobel, attorneys who had been in Alaska for less than three years. The couple challenged the cumulative residency provisions as unconstitutional, and this litigation would take two years before finally being resolved.

In a close vote, the Alaska Supreme Court upheld the cumulative residency-based dividend.[100] The Zobels appealed to the United States Supreme Court, which heard the case in the fall of 1981.

Hammond, who attended oral arguments at the Supreme Court, placed so much importance on the cumulative residency feature of his 1980 PFD scheme that he flirted with dropping his support for direct distribution if the high court declared his "longer you're here, the more you get" plan unconstitutional.[101] At one point in the fall of 1981, the governor told his staff that if the state lost the *Zobel* case, "at this time I would favor" using Permanent Fund earnings to make an ongoing distribution to municipalities after

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100 The vote in the Alaska court was 3-2. Alaska Supreme Court, *Williams v. Zobel*, 619 P.2d 448 (Alaska 1980), *reversed*, *Zobel v. Williams*, 457 U.S. 55 (1982).

101 Hammond, "Address before the Alaska Municipal League," 1981, pp. 9-10; Hammond, "Permanent Fund Dividend Alternatives" 1981; Matthews 1981.

making a one-shot cash payment to those who had previously applied for Permanent Fund Dividends under the original plan.[102]

After reviewing his staff's observations that municipalities had used the state oil money they had received to buy sports arenas and convention centers–the kind of items he considered frills–Hammond backed off his plans for sending Permanent Fund income to local governments.[103] Instead, he decided to push for "backstop" legislation that would provide for equal payments for all Alaskans if the Supreme Court invalidated the original program for dividends based on cumulative residency.[104]

Stripped of the political appeal of rewarding "sourdoughs" inherent in the original legislation, getting a PFD bill passed in 1982 was more difficult than it had been two years earlier. With the benefits of a per capita payment plan spread so widely, no Alaskan had a particular incentive to push for the bill based on special benefits they would receive compared to other residents.

In January of 1982, the highest estimate was that 10 legislators among the 60 in the state House and Senate supported a PFD bill lacking the politically attractive cumulative residency feature.[105]

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102 Groh, 1982b, pp. 38-39, quoting Hammond, "Permanent Fund Dividend Alternatives."

103 Williams 1982; Lehr 1982; and Lehr and Emerman 1981, pp. 8-9.

104 Alaska State Legislature, Senate Bill 842, 1982; and Hammond, Letter to the Honorable Jalmar Kerttula, 1982, pp. 496-99.

105 B. Rogers 1983; Groh, 1982b, p. 53.

The initial legislative coalition of PFD supporters was small, but it had the advantage of being diverse, including a handful of Democrats, two Libertarians, and two libertarian-leaning Republicans. The Democrats pushing for a PFD bill were young, energetic and unusually capable; two had recently served as House Speakers.[106]

But the most important asset for the PFD was the continued support of Hammond. In early 1982, he introduced his "backstop" bill, providing that every six-month resident would get an annual dividend if the U.S. Supreme Court invalidated the original plan.[107]

Hammond showed himself ready to make deals and apply targeted pressure to move the bill.[108] The governor again threatened to veto funding for lawmakers' pet projects and call a special session should the Legislature not pass the backstop dividend legislation.[109] Hammond underscored his commitment by personally testifying before a legislative subcommittee in favor of the backstop bill; this event – televised statewide – was

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106 Rep. Hugh Malone (D. -Kenai) turned 38 during the 1982 legislative session; Rep. Terry Gardiner (D.-Ketchikan) was 31. Another key supporter, Rep. Brian Rogers (D.-Fairbanks), was also 31.

107 Alaska State Legislature, Senate Bill 842, 1982. Unlike the PFD law passed in 1980, this legislation included children in the direct distribution; also see Groh and Erickson 1997, p. 31.

108 Groh 1997, pp. 27-28 and 33.

109 *Ketchikan Daily News* 1982; and Groh 1997, p. 28.

apparently the first time an Alaska governor had ever appeared before a legislative panel.[110]

Hammond's bill provided that dividend recipients would receive $1,000 in 1982. Because in its early years the APF was small, most of the funding for the first year's payment would come from the general fund – what is usually called "the budget." After 1982, the legislation provided that annual payments would come out of a portion of the Permanent Fund's earnings.[111]

D. The 1982 PFD debate

By 1982, supporters of direct distribution of APF earnings to citizens had developed the political and economic arguments supporting the PFD well beyond where they stood three years earlier. On the other side of the debate, opponents recognized that oil revenue was no longer growing at exponential rates.[112] Those opponents argued that the PFD program could impose real constraints on their ability to direct state resources in the more traditional directions they favored.

Supporters of continuing a PFD program even if the courts ruled against the cumulative residency plan made six arguments.[113]

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110 White 1982; and Groh 1997, p. 28.

111 Alaska State Legislature, Senate Bill 842, 1982.

112 Alaska's oil revenue grew 8 percent from fiscal 1981 to fiscal 1982, but dropped 15 percent in fiscal 1983. Alaska Department of Revenue, 2010b.

113 Groh 1982a.

- Permanent Fund Dividends would build a political constituency for the Alaska Permanent Fund. Dividends would motivate the public to protect the APF against raids by special interests.114 A variant of this argument was that the PFD would strengthen political opposition to pork barrel spending and budgetary hypergrowth.
- Economic analysis showed that PFDs would provide greater economic "bang for the buck" than the alternatives of spending the same amount of money on the operating budget, capital projects, or loans to residents.115
- Individuals have a right to decide how to use a portion of their oil wealth. Legislators recognized this individual entitlement to state-owned natural resources in its findings to the 1980 PFD bill by stating that the legislation "fairly compensates each state resident for his equitable ownership of the state's natural resources…."116

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114 Greely 1997, p. 4. This article described this argument as "Start with government buy the people, and maybe later you can have government by the people."

115 Erickson 1982; Goldsmith 1982; and White 1982.

116 Alaska State Legislature, Chapter 21, Session Laws of Alaska 1980, Section 1(c). Although the 1982 bill originally contained a statement of policy, purposes, and findings, the section proved too controversial and was removed when the bill moved through the Senate. Groh 1982b, pp. 84 and 102-03; Chapter 102, Session Laws of Alaska 1982. The only document officially adopted during the legislative process in 1982 suggesting the

- PFDs deliver benefits more equitably. Hammond had long contended that the powerful and well connected were already benefiting from the state's wealth through special-interest appropriations, often arranged behind closed doors. The repeal of the state's individual income tax in 1980 further tilted benefits towards higher-income people, some of whom were non-residents. The state's heavily subsidized loan programs were also held up as examples of inequitable distribution: By 1981, some upper-income borrowers under the home-loan program were receiving monthly subsidies larger than the payments made under the best-known federal welfare program, Aid for Families with Dependent Children.117

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purposes of the bill ultimately passed is Alaska State Legislature, House Finance Committee letter of intent, spread on the *House Journal*, May 14, 1982 at pp. 1841-43:

"Economists appearing before the Legislature have predicted an economic slowdown in Alaska resulting from a decline in state spending and lending caused by recent drops in world oil prices. Economists appearing before the Legislature and other public forums in Alaska have argued that direct distribution of a portion of state revenues to all Alaskans – such as that embodied in the Permanent Fund Dividend program – is the most efficient method of increasing Alaskans' incomes.

"The Committee recognizes that virtually all the petroleum development in Alaska has occurred on publicly owned lands. This is in sharp contrast to other states, where vast accumulations of wealth have accrued to private landholders."

117 Groh 1982a, p. 8.

- Direct distribution of fund income would provide a safety net for low-income Alaskans. Hammond never thought much of this argument, and his 1980 legislation, by not addressing federal public assistance issues, meant that receipt of the PFD under that bill could have left some recipients of that aid worse off than before. Lawmakers concerned over what seemed to them a perverse effect inserted "hold harmless" provisions in the 1982 legislation authorizing use of state general funds to offset loss of federal needs-tested benefits caused by receipt of a dividend.118
- Dividends would deliver benefits more efficiently than other ways of using the oil wealth. Advocates pointed out that even after adjusting for inflation, the state of Alaska was spending seven times more per Alaskan in 1981 than it had before the oil lease sale in 1969. If the petrodollar-fueled increase in Alaska government spending and lending was aimed at getting benefits to Alaskans, the question then posed was: "Are you seven times better off than you were in 1969?" Economists Donald Gordon and Richard Coffman advised that private allocation of the oil money would result in more efficiency and utility than the government's use of it, just as economist Arlon Tussing had argued 12 years earlier.119

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118 Groh 1982b, pp. 78-80; and Groh 1997, pp. 31-32.

119 Gordon 1982, pp. 3-8; Coffman 1982, pp. 18-28; and Time Magazine 1970, pp. 8-9 of 10.

Even with the governor's willingness to use tough tactics, there was substantial theatre and hours of public convulsion when a backstop bill providing for a one-shot PFD distribution reached the floor of the traditionally fractious state House.[120] Conventional political alignments and relationships went haywire. Dramatizing her contention that dividend distribution wasted assets, conservative state Rep. Ramona Barnes (R.-Anchorage) tore up a $1,000 play-money bill.[121] State Rep. Dick Randolph (Libertarian-Fairbanks), who served with Barnes in the House majority caucus, accused her of having an "extremely elitist, paternalistic, arrogant attitude."[122] Expressing concerns that most dividends in rural areas would flow to merchants who held the debt of residents, liberal state Rep. Tony Vaska (D.-Bethel) asked that the bill be sent to a committee chaired by Barnes, a personal adversary of Vaska's.[123]

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120 Alaska State Legislature, Committee Substitute for Sponsor Substitute for House Bill 23, 1982; Alaska State Legislature, *House Journal*, April 12, 1982, pp. 1230-1251.

121 Groh 1982b, p. 85. Author Groh observed this during House floor action.

122 Groh 1982b, p. 85.

123 Groh 1982b, pp. 83 and 85; Alaska State Legislature, *House Journal*, April 12, 1982, p. 1243. Vaska voted against the backstop direct distribution legislation when it was on the House floor the first time, but he voted for it when the bill that became law came before the House on final passage. Alaska State Legislature, *House Journal*, April 12, 1982, p. 1244; and Alaska State Legislature, *House Journal*, June 2, 1982, pp. 2338-39.

Late in the session, several issues receiving relatively little attention at the time were worked out.[124] One of these issues that has had a long-lasting effect was the question of how to make payments to minors. After behind-the-scene philosophical arguments about the trustworthiness of parents, the provisions instructing the state to hold onto minors' dividends until they turned 18 were replaced by an "immediate disbursement" requirement that parents and guardians be allowed to collect dividends on behalf of minors each year the minor was eligible.[125]

Pressured heavily by Hammond, the House and Senate passed a final version of backstop legislation providing for continuing annual PFDs on a per capita basis if the U.S. Supreme Court decision made it impossible to make payments under the "longer you're here, the more you get" plan. Even with the governor's big push, direct distribution was still a tougher sell than it had been back in 1980 when it carried the cumulative residency provision. The final votes, coming in the last hours of a 143-day session, were 27-12 in the House and 16-3 in the Senate.[126]

Less than two weeks later, the U.S. Supreme Court issued its decision in the *Zobel* case, ruling 8-1 that the original cumulative residency plan violated the U.S.

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124 Groh 1982b, pp. 91-97.

125 Groh 1982b, pp. 41-45, 97.

126 Alaska State Legislature, *House Journal*, June 2, 1982, pp. 2338-39 (vote on HCS CSSB 842 (Fin) am H); and Alaska State Legislature, *Senate Journal*, June 3, 1982, pp. 1731-32 (vote on HCS CSSB 842 (Fin) am H).

Constitution's equal protection guarantee.[127] Although deeply disappointed that his original plan had been struck down – and even "very briefly" contemplating vetoing the backstop bill that he had worked so hard for[128] – Hammond reluctantly signed the backstop bill.[129] Hours later, the big computer in the State Office Building down the street from the capitol started up, and the first oversized blue-and-gold $1,000 checks rolled off the high-speed printer and into the mailbox.[130]

That the PFD became a reality in Alaska was, as Hammond later described his own career, a triumph of serendipity.[131]

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127 U.S. Supreme Court 1982.

128 Hammond 2004, "Creating Alaska Oral History Interview[:] Jay Hammond," "Tape 10 and 11 Jay Hammond[,] Page 24."

129 Alaska State Legislature, Chapter 102, Session Laws of Alaska 1982. Governor Hammond was so unhappy about the death of his "the longer you're here, the more you get" plan that he signed the backstop bill in private, eschewing the signing ceremony expected for his top legislative priority. Contrary to the practice of subsequent governors, Hammond also declined to have his signature on the PFD checks (called "warrants"). Hammond 2004, "Creating Alaska Oral History Interview[:] Jay Hammond," "Tape 10 and 11 Jay Hammond[,] Page 24."

130 Groh and Erickson 1997, p. 31.

131 Hammond 1996, p. 2.

Chapter 3

How the APF and the PFD operate: the peculiar mechanics of Alaska's state finances

Cliff Groh and Gregg Erickson[132]

The establishment of the APF and the PFD created the most unusual features of the Last Frontier's peculiar fiscal landscape. We conclude with a description of how Alaska's fiscal system works.

From the time the APF was established in 1976 through fiscal year 2010, the State of Alaska received $103.5 billion in petroleum revenue, almost all from oil development on Alaska's North Slope. The state only collected $15.0 billion over this period in non-oil revenue from the kinds of taxes and fees on which other states rely. Since the creation of the APF, Alaska's state government has been reliant on revenue collected from North Slope oil development for 85 percent of its unrestricted general fund revenues.

Alaska collects its oil revenue from: (1) severance and property taxes paid by oil producers and (2) royalties and other payments received from oil leases. The

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132 Cliff Groh, the corresponding author, can be contacted at cliff.groh@gmail.com. Groh served as the principal legislative assistant on the legislation in 1982 that created the per capita Permanent Fund Dividend in Alaska. The authors thank Theresa Philbrick and the many others who read and offered valuable comments.

overwhelming majority of producing oil leases are on state-owned land. The distinction between taxes and royalties is important because when the state's voters created the Permanent Fund by constitutional amendment in 1976, they specified that at least 25 percent of mineral *royalties* would go into the APF, mentioning nothing about the flow of revenue from oil taxes or other taxes.[133]

Here's a diagram of these key financial flows.

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133 All mineral royalties and mineral rental proceeds are included in the base from which 25 percent goes into the APF, but the revenue from other minerals – including natural gas – are dwarfed by those from oil.

FIGURE 2

Since its inception the APF's share of mineral royalties as dedicated by the constitutional amendment has amounted to $11.9 billion.[134] The Legislature, however,

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134 A law passed in 1980 increased the APF's share to 50 percent of royalties from leases issued after June 30, 1979. That law was temporarily repealed in 2003, returning the APF's share during the following five years to 25 percent. Alaska State Legislature, Chapter 22, Session Laws of Alaska, 2003. The sponsor of the 2003 legislation, State Rep. Norm Rokeberg (R.-Anchorage), said increasing deposits was a good idea in 1980,

appropriated an additional $7.0 billion to the APF principal. Inflation-proofing deposits from the fund's own earnings – more about this below – added a further $12.7 billion. The table below summarizes these financial flows.[135]

Alaska State Revenue and Contributions to APF Principal, FY 1977 through FY 2010

	millions	
Alaska unrestricted oil revenue [1]	$84,472	
Alaska restricted oil revenue to APF principal [2]	$11,866	
Alaska restricted oil revenue to Constitutional Budget Reserve [3]	$7,150	
Alaska oil revenue (restricted & unrestricted)	$103,488	
Unrestricted non-oil own-source general fund revenue [1]	$14,997	
Alaska oil revenue and own-source unrestricted general fund revenue	$118,485	
Alaska oil revenue as a percent of own-source oil and unrestricted general fund revenue		**87.3%**
Contributions to APF principal from royalties and special appropriations [2]	$18,905	
Contributions to APF principal from royalties and special appropriations as a percent of Alaska oil revenue		**18.3%**
Inflation-proofing contributions to principal from fund earnings [2]	$12,717	
Contributions to APFC principal	$31,622	

1. *Fall 2010 Revenue Source Book* , Alaska Dept. of Revenue, December 2010
2. *Nov. 30, 2010 Monthly Fund History & Projections* , Alaska Permanent Fund Corp.
3. *Fall 2010 Revenue Source Book,* Alaska Dept. of Revenue, December 2010; *Fall 2008 Revenue Source Book,* Alaska Dept. of Revenue, December 2008; personal communication, J. Burnett (deputy commissioner, Alaska Dept. of Revenue) to G. Erickson, Jan. 14, 2011.

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but contended that Alaska in 2003 was in a financial crisis. Now the money was needed to bridge the gap until revenue from new resource development arrived. He warned that the state could "save" its way into poverty. *Alaska Budget Repor*t 2003, p. 15. The Department of Revenue, assuming oil prices of $23 per barrel, predicted repeal would cost the APF $40 to $55 million per year. Persily 2003.

135 The sum of these flows equals the APF principal as of the end of fiscal year 2010: $11.9 billion + $7.0 billion + $12.7 billion = $31.6 billion. The principal is a stock, not a flow, and is thus not shown in Figure 2.

All earnings of the APF are accounted for in an earnings reserve account managed and invested along with the principal, but unlike the principal, money in this account is available for legislative appropriation. Money for the PFD, calculated as 10.5 percent of the APF's realized net income for the last five fiscal years, comes from this account. [136] The formula was designed as a smoothing mechanism and insures that dividends are not interrupted in the occasional years when the fund loses money on its investments. Despite the widespread sense in Alaska that the PFD is an automatic entitlement (and perhaps even guaranteed by the Alaska Constitution), the transfer of money to pay the PFD each year requires an annual legislative appropriation. Dividends have accounted for 53 percent of total earnings since the APF's inception, a total of $18.3 billion.

The remainder of the APF's earnings reserve account after the annual distribution of Permanent Fund Dividends is used as needed "to offset the effect of inflation" on the APF's principal.[137] State law provides a consumer price index-linked formula for calculating the inflation-proofing amount; this transfer also requires an annual appropriation. At the end of fiscal 2010, after transfers to the state treasury for PFDs and to the principal for inflation-proofing, the earnings reserve held $1.6 billion.[138]

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136 Alaska Permanent Fund Corporation 2009, p. 25. State law sets additional limits on the amount the fund makes available for the dividend, but these other limits have never had any practical effect.

137 Alaska State Legislature, Alaska Statutes 37.13.145(c).

138 The Alaska Permanent Fund Corporation now accounts for the unrealized portion of this reserve in the principal.

If there isn't enough money available in the earnings reserve, dividends are by law supposed to have priority.[139] Alaska legislatures have never refused to make the required appropriations.

Since the first distribution in 1982, the total amount of Permanent Fund Dividends paid out has exceeded $18.38 billion. An Alaskan who received the 29 annual PFDs paid through 2010 would have received a total of $32,191.[140] Dividends have been as high as $2,069.00 (in 2008) and as low as $331.29 (in 1984). The PFD is paid in October of each year.

As Figure 2 indicates, in addition to its general fund and the APF, the state has a "rainy day fund," called the constitutional budget reserve (CBR), which receives money from settlements of disputes over the payment of oil taxes or oil royalties, and other money the Legislature decides to put there.[141] Appropriations from the constitutional

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139 Alaska State Legislature, Alaska Statutes 37.13.145(c). So far, reserves have always been sufficient to meet the annual inflation-proofing requirement.

140 This figure does not include the one-time special resource rebate of $1,200 paid in 2008 in addition to that year's PFD of $2,069.00. Alaska State Legislature, Fourth Special Session Laws of Alaska 2008, chapter 1, section 1(b). That one-time additional payment was distributed to offset the effects of the unusually high fuel oil and gasoline costs Alaska residents experienced that year. Loy 2008.

141 Alaska Constitution, Article IX, Section 17. The official name is the "budget reserve fund," but the word "constitutional" is almost always added to distinguish it from a separate "budget reserve fund" established by statute.

budget reserve generally require approval by three-quarters supermajority in each house of the Legislature.[142] As of this writing, the CBR and various other available reserves outside the APF hold enough money to fully fund the state government for almost three years.[143]

Alaska has no general tax on individuals, and has not had one since the state's individual income tax was abolished in 1980. Alaska is the only state in the country that has neither an individual income tax nor a state sales tax.

A. Mechanics of the PFD

Once a government decides to adopt a program like the Alaska PFD, one might assume implementation would be simple: if you live here, you get it; if not, you don't. Alaska's experience suggests otherwise. The administrative overhead of the Alaska program is not large, but the task of formulating fair and workable eligibility rules has been a continuing headache for Alaska lawmakers. At the outset, they had to resolve the thorny issue of dividends for children: should the state hold the money in trust until the child reaches majority, or should the parents collect dividends on their children's behalf? Alaska chose the latter policy.[144]

In 1982, when the first applications were filed, the residency requirement was six months. Many legislators wanted a longer residency requirement, but were persuaded that

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142 Alaska Constitution, Article IX, Section 17.

143 Hampton and Raimes 2010.

144 Alaska Statutes 43.23.005(c).

six months was the longest that would be sure to withstand legal challenges.[145] Later, when the risk of constitutional challenges to the program seemed to have receded and its popular support was more assured, legislators lengthened the residency requirement, and made numerous other changes to close perceived loopholes or open exemptions to correct perceived inequities. Almost every year sees further changes proposed. Children born during the year have always been eligible for next October's PFD, but in 2010, the Legislature approved a "dividends for the dead" bill allowing the estate of a resident who died during the year to receive the deceased's PFD.

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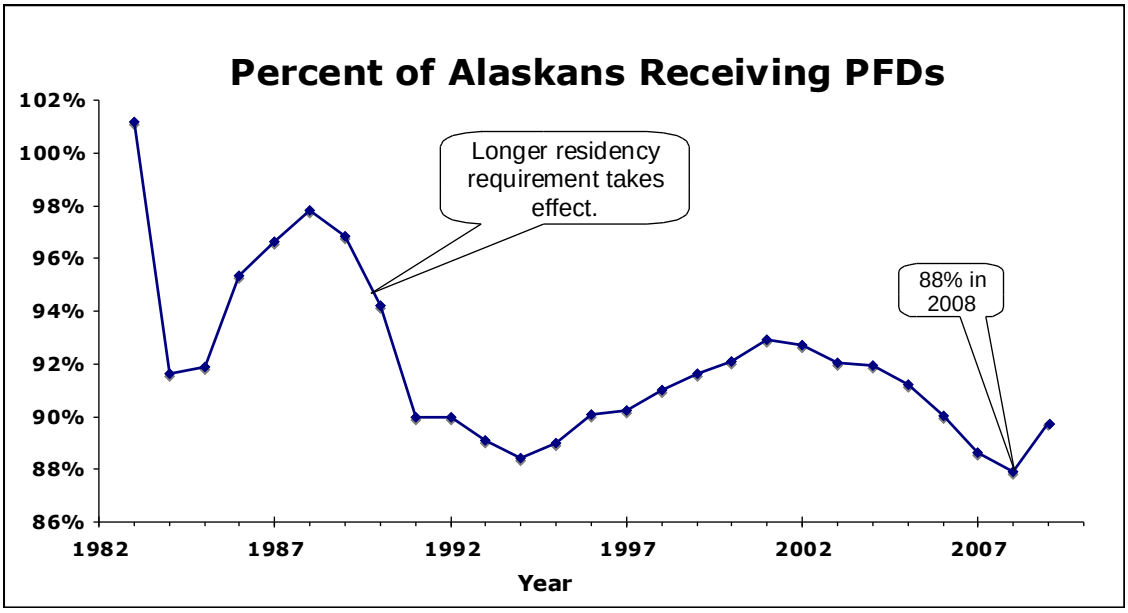
145 Groh 1982b, p. 88, 91-92.

FIGURE 3



The declining percentage of residents receiving PFDs suggests that aggregate effect of eligibility changes may have made the program less universal (see Figure 3). Better enforcement of program rules may have also played a role in the decline.

To be eligible for the 2010 dividend an Alaskan had to have been a resident from January 1 through December 31 of 2009. Since PFDs are paid in October, newcomers must have been in Alaska for 22 months before receiving their first PFD.

Alaskans may be out of the state for 180 days with no fear of losing their PFD, provided they didn't do anything while gone, such as registering to vote or buying a house, that signifies their intent to become a resident somewhere else. Absences totaling more than 180 days in any year are disqualifying in the absence of an exemption, but there are a host of exemptions for:

- Full time college, vocational and professional school students;
- Active duty members of the armed forces and their dependents;

- U.S. merchant mariners aboard oceangoing vessels;
- Medical treatment or convalescence recommended by a physician for reasons other than "a need for climatic change";
- Caring for a close relation with terminal illness or a "life-threatening" disease requiring treatment at an "out-of-state medical specialty complex";
- Settling the estate of a close relative, "provided the absence does not exceed 220 cumulative days"; and
- Serving as a member of Congress, the staff of a member of Congress from Alaska, a peace corps volunteer, or a member of the United States Olympic Team.

Spouses and minor dependents of those entitled to the above exemptions are generally also exempted. In 1988, responding to claims that members of some transferred military families had been receiving PFDs for years without ever having returned to the state, Alaska lawmakers added a requirement that applicants must be physically present in the state for at least 72 hours during the past two years.

B. Program "costs" grow

Every July accountants at the Alaska Permanent Fund Corporation, the organization that manages APF investments, take the first step in determining the annual October PFD payment when they calculate the amount of fund earnings to be set aside for PFDs. That amount – 10.5 percent of the fund's total realized earnings over the last five fiscal years – is transferred to the Department of Revenue's dividend fund.

At the Alaska Department of Revenue, 87 employees of the Permanent Fund Dividend Division have been busy processing applications since January, when the

application period opened. The application period closes on March 31. Administrative costs of the PFD program in 2009, measured by the cost per paid PFD, were about $12.[146]

Early in the history of the PFD, the amount early applicants received was – with minor variations – the amount transferred to the Department of Revenue divided by the number of applicants. That changed in 1985 when the legislature decided to revisit a policy decision made at the outset of the program to use state general funds to insure that recipients of Medicaid and Food Stamp benefits did not become ineligible when their PFD pushed them over the income limits established for those needs-tested programs. State and federal officials agreed that the state could ignore the PFD income received by beneficiaries of these state-federal programs provided the state offset the additional federal costs resulting from lifting the income limits for PFD recipients.

In 1985 the Legislature switched the source of this "hold-harmless" appropriation from the general fund to the dividend fund. In 1988 the budget of the Permanent Fund Dividend Division was appropriated for the first time from the dividend fund. By 2009 there were six programs on the list of those lined up to receive money from the $857 million transferred to the dividend fund by the Alaska Permanent Fund Corporation. Appropriations to those programs reduced the dividend fund by $43 million, and thereby shaved $69 off the PFD (from $1374 to the $1305 actually paid). Programs supported from dividend money in 2009 were:

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146 Costs per paid PFD have been stable over the last five years in real terms, notwithstanding officials' hopes that major investments in automated systems would bring about reductions.

- Hold-harmless for Medicaid and Food stamps;
- Department of Revenue's Permanent Fund Dividend Division;
- Health care of state prison inmates;
- Department of Public Safety's Council on Domestic Violence;
- Department of Administration's Violent Crimes Compensation Board and Crime Victim Compensation Fund; and
- The Legislature's Office of Victims' Rights.

Appropriations for prison health care, victims' compensation and the Council on Domestic Violence are said to have been notionally made from the PFDs that would have been paid to inmates whose incarceration for a felony or a third misdemeanor has made them ineligible. [147]

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147 Alaska State Legislature. Alaska Statutes. 37.13.145(b); and Alaska State Legislature. Alaska Statutes. 43.23.005.

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Chapter 4

The Economic and Social Impacts of the Permanent Fund Dividend on Alaska

Scott Goldsmith

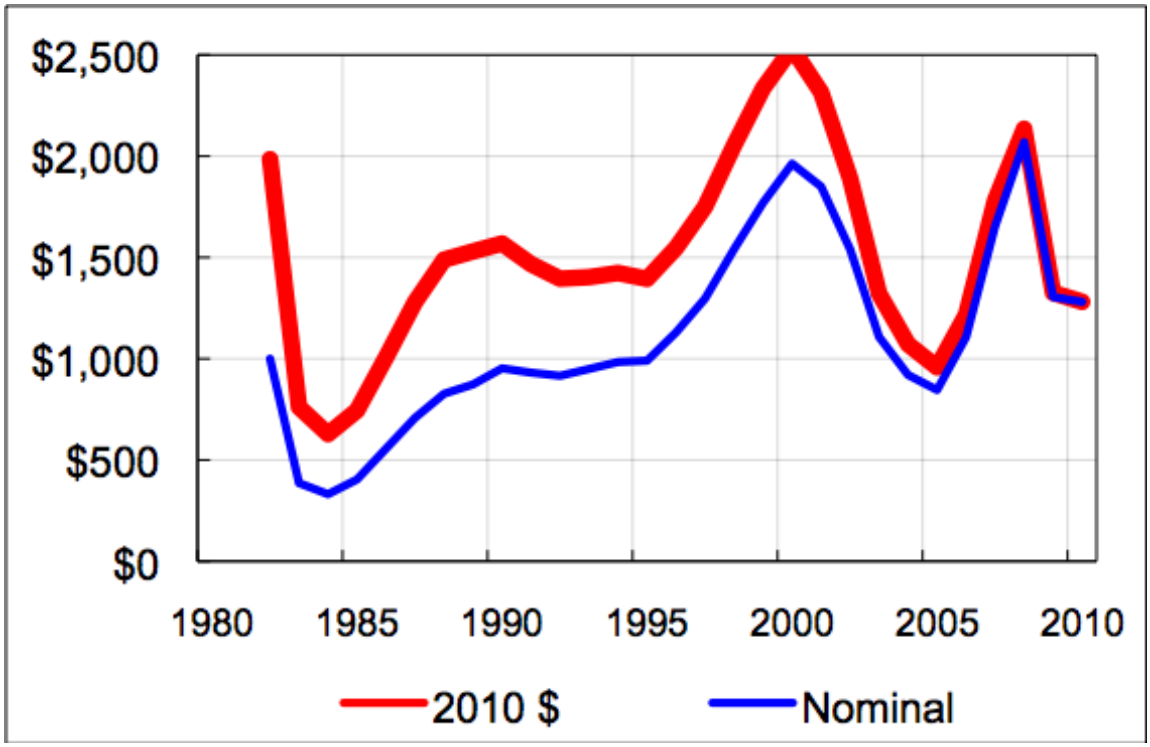
The Permanent Fund Dividend has been paid annually to every Alaska resident for 29 years and has become firmly established as an institution, but its impacts on the economic, social, and political landscape have not been systematically examined since shortly after the program was created. Consequently the discussion of impacts in this chapter is based on the observations of the author, interpretation of anecdotal information, and a limited number of surveys and other analyses of specific effects.

The absence of systematic analyses in spite of the program's size and importance is due to several factors. First, since most Alaskans view the dividend as a distribution of their wealth, they see no reason to study it as a phenomenon, and actually look on any attempt to study the dividend as a potential threat to its existence. Second, to the extent the dividend is viewed as a publicly funded program, there is little tradition in Alaska state government to analyze the effects of spending. Third, the quality of data that might be used to do such analysis is totally inadequate. And finally, disentangling the effects of the dividend from other programs and economic trends is a challenge because all residents share equally in the program.

The individual annual dividend is small in relation to total personal income and because it is based on the earnings of the Alaska Permanent Fund, it fluctuates

considerably from year to year. It has varied from a low of 1.7 percent of income in 1984 when it was $628 (in 2010 dollars) to 6.4 percent of income in 2000 when it was $2,533. Excluding its first year when it was paid not from fund earnings but rather from a special legislative appropriation, the size of the dividend has displayed a positive annual trend of 1.9 percent (inflation adjusted). It has also trended upward as a share of per capita income at a rate of 1.4 percent. In 2010 the dividend was $1,281, which represents about 3 percent of per capita personal income.

Figure 1 Permanent Fund Dividend



Since initially there was considerable legislative opposition to the program and consequently uncertainty regarding its continued existence, Alaskans responded to the first cash distribution as though it were a temporary program. A detailed study of the dividend done after its first year found that a large share of individual dividends was saved, used to pay down debt, or spent on durable goods--behavior consistent with

spending of a one-time windfall like an unanticipated tax refund.148 Furthermore there was little evidence that the dividend influenced labor force behavior or migration rates in and out of the state.

Quickly however the program became firmly established and with it confidence among Alaskans that they would be getting an annual dividend in the fall of each year. Furthermore its size could be anticipated based on estimates made after fund earnings had been announced during the summer. As the dividend became a regular and anticipated part of the income of Alaskans, it has become a part of "permanent income". Recipients now are likely to combine the dividend with their other sources of income and spend it in ways indistinguishable from other income. And they also should be more likely to exhibit changes in labor force, migration, or other behavior based on the perception that their income has permanently increased.

This interpretation has been supported by one study of dividend recipient behavior that found no increase in consumer spending at the time of the dividend distribution and no change in the composition of spending.149 This suggests that Alaskans, knowing they will get a dividend, adjust their spending over the entire year. And because the composition of spending does not change, they do not consider the dividend income differently from other sources of income.

On the other hand there is considerable anecdotal evidence to suggest several characteristics of consumption are influenced by the dividend. First, some recipients are

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148 Knapp et al. 1984.

149 Hsieh 2003.

unable to smooth out expenditures over time because they are "liquidity constrained"—unable to borrow against future income. The cash distribution of the dividend allows these individuals to make purchases of consumer durables.150 Thus we do see an increase in the purchase of household appliances, snow machines, boat motors, and related goods around the time of the dividend distribution.151

For others who are not liquidity constrained, the lump sum nature of the dividend payment can still influence how it is spent. Because it is a substantial one-month increase in income, some recipients may find it easy to put it aside into savings or to pay down debt. For families with children, this one-month increase in income is substantial.

Second, retailers actively compete to capture a share of dividend income.152 This occurs in the form of increased advertising, sales, and special offers. To the extent consumers are able to anticipate such offers, we should also see an increase in the purchase of big-ticket items around the time of the dividend distribution. In addition, the

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150 An increase in spending on consumer durables at the time of the dividend distribution is not evidence against the permanent income hypothesis since durable goods provide long lasting consumption services.

151 The general manager of the Best Buy electronics store in Anchorage described the effect of the dividend distribution as ""astronomical", with television sets and computers flying off of store shelves". See Manget 2010.

152 It could be argued that consumers are more likely to purchase goods and services that businesses have available. In small communities where options are limited, consumer purchases might be constrained compared to the mix of purchases in larger markets.

distribution comes shortly before the Christmas shopping season, so there is some connection between its receipt and the general mood of consumers to purchase gifts for family and friends.

Since the majority of checks are now distributed by direct deposit on a single day, the concentration of attention on the dividend is heightened and the media magnifies this interest through reporting about how people spend their checks. This adds to an environment of consumerism already created by retailers. And although this makes for good press, news accounts of interviews with shoppers are not very useful for determining the effect of the dividend on consumption patterns. What consumers do with their checks does not reveal how their spending behavior in the aggregate is impacted over time as a result of the additional dividend income.153

A clear example of this is the parent who reports that she spends her dividend check on winter clothes for her children. It is unlikely that most parents would not outfit their children with winter clothes for the harsh Alaska climate. Without the dividend they are likely to have spent less on some other part of their budget.

It was only after the program had been in existence for many years that special interests began to coax people to direct their dividends away from current consumption. Since 1991 applicants have been able to direct a share of their dividend to a University of

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153 An informal survey conducted by the Permanent Fund Corporation in 1994 reported that ¾ of respondents planned to save half or more of their dividend (including reducing their level of debt). If resurveyed after several months their savings might have returned to the level before the distribution. See Harrison 1999.

Alaska College Saving Plan established for the benefit of a child. More recently starting in 2009 the "pick-click-give" program allows applicants to direct a portion of their dividend to a charitable organization. Though small, these programs provide some balance to the environment of consumption that has grown up around the dividend.154

About 27 percent of dividend recipients are children aged 18 or less. Because the federal tax rate on these dividends is based on the total income of the child rather than the family, the dividends of children represent a larger share of the total after-tax dividend distribution.155 Yet little is known except anecdotally about how these dividends are spent and who makes the choice about how the dividends will be spent—the parent or the child.156 It is not known to what extent the dividend, if spent by the parent, goes to the

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154 In 2010, 9 thousand dividends had $5.8 million directed towards the college savings plan and another 9 thousand dividends had $900 thousand directed towards charitable giving. See, Permanent Fund Dividend 2010 Annual Report, 2010.

155 The federal tax rate on the dividends of children with no other income is about 3 percent compared to about 20 percent for dividends of adults.

156 In the survey of recipients in the Knapp study about half of the households that included children reported that the decision about how the children's dividend would be spent was shared between the child and the parent. In the other half of household the parents alone made the decision.

benefit of the child. Nor has anyone investigated the extent to which dividends spent by children have in fact been beneficial by some definition.157

Whether spent on non-durable or durable goods, services, or saved for later purchases, the dividend increases aggregate consumption after a portion is siphoned off to the federal government as income tax payments. This federal share is modest because the marginal income tax rate across the entire population, including children, is relatively small.158 The increase in consumer expenditures creates new jobs in the economy, primarily in the trade and personal service sectors, which in turn increases the demand for labor. Although the unemployment rate in Alaska is typically above the national average, it is mostly the result of the seasonality of jobs and an imbalance between the location of jobs and potential workers. Consequently when the demand for labor increases, it does not reduce the unemployment rate, but rather it results in an increase of in-migration relative to out-migration which in turn leads to an increase in the population.

After taking into account the indirect and induced employment generated by the increased consumer spending, the dividend generates about 7,000 jobs, $1.1 billion in personal income (2010$), and 12,000 in additional population.159 The open border between Alaska and the rest of the US offsets any inflationary pressure within the local economy created by the increase in consumer spending. Additional goods come in with

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157 Some children's dividends are deposited in the University of Alaska College Savings Plan.

158 Estimated to be about 15 percent of the total amount distributed.

159 Goldsmith and Wanamaker 1989.

the additional population and keep prices constant. The importance of the dividend varies across households and economic regions of the state.

The dividend is not designed to provide a "basic income" to all Alaskans.160 Rather it is an equitable distribution of the earnings from the natural resources owned by the citizens of the state collectively. There are a number of federal programs, none of which provide an unconditional cash payment, that together provide a social "safety net" for most Alaskans. These include unemployment insurance and the earned income tax credit for workers, food stamps and Medicaid for low-income individuals and families, Temporary Assistance for Needy Families (TANF), and Medicare for seniors.

Many other federal and state programs, some targeting Alaska Natives, provide a variety of assistance like free lunches, child care, subsidized housing, etc. And the Alaska Native corporations make cash payments to their shareholders as well as targeted payments to special groups, like seniors. But the "safety net" does not protect everyone nor does it provide enough cash income to put everyone above the poverty level. Those most likely to "fall through the cracks" are single men without a work history who are ineligible for unemployment insurance or the Earned Income Tax Credit, women who

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160 The federal poverty guidelines of the US Department of Health and Human Services, used for determining program eligibility, defined the poverty level for a two-person household in Alaska in 2009 to be $18,210.

have exhausted their TANF eligibility,161 and some seniors. The dividend is likely to be the most important source of cash income for many of these individuals.

The share of households with incomes under $10,000 was less in Alaska than any other state, partly because of the dividend.162 And because the dividend provides a greater percentage increase to low-income households, it reduces inequality in the income distribution. By one measure Alaska has the most equally distributed income among the states.163 Although that cannot entirely be attributed to the dividend, one study calculated that Alaska had the most unequal income distribution of any state in 1980, but by 2000 it ranked with the most equal. During this interval Alaska was the only state where the income of the bottom population quintile grew faster than that of the top quintile.164

Incomes vary considerably between the higher-income urban and the lower-income rural parts of the state where the dividend is much more important as a source of cash and as a potential buffer against fluctuations in other income sources. Wade Hampton is the poorest census area in Alaska, and one of the poorest in the nation. In 2008 its per capita income was $20.2 thousand compared to the major urban area of

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161 In many parts of rural Alaska the 5-year limit on eligibility has been waived because of the high structural unemployment rates in small communities.

162 US Bureau of the Census, American Community Survey, Table 705, 2008.

163 This is based on the gini coefficient. US Bureau of the Census, American Community Survey, Table B19083, 2008.

164 Bernstein et al. 2005.

Anchorage with a per capita income of $49.8 thousand. More importantly, the per capita net earnings from work, a good proxy for cash income, in Wade Hampton was $8.8 thousand compared to $34.4 thousand for Anchorage.165 And the cost of living in rural parts of the state is higher than in urban areas due to the cost of delivering consumer goods to small communities accessible only by air or water. A dividend check of $1,281 would constitute about a 13 percent increase in cash income per capita in Wade Hampton.

Furthermore many residents of rural Alaska depend upon subsistence activities—hunting and fishing—to meet their dietary requirements, and also on commercial fishing to supplement cash income from wage employment. Since harvest levels can vary dramatically from year to year with no apparent pattern, a dividend, even one that fluctuates in value from year to year, can provide some stability as well as diversification of cash income sources.

The 15 percent of Alaskans who have collected each of the 29 annual dividends would have received a total of $43,590 (in 2010 dollars, adjusted for inflation) which is almost equal to per capita income in 2010. From this perspective it is clear that the dividend can influence behavior over the lifetime of an individual. One of the original concerns of opponents of the dividend was that it would result in people dropping out of

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165 Much of the reported non-earned income is in the form of payments in kind such as medical assistance, so earned income is a reasonable proxy for cash income.

the labor force, but there was no evidence of this in the early years of the program.166 One reason is that many Alaskans face limited employment opportunities and would prefer to work more if they had the chance.

However from a lifetime perspective it is possible that the cumulative income from many dividends could lead some recipients to retire at an earlier age, thus reducing the labor supply and the labor force participation rate. However that rate has continued to trend upward in Alaska in spite of rapid growth in the share of the adult population over the age of 65.

Another often-discussed behavioral change associated with the dividend is the fertility rate. Since children of all ages receive the annual dividend and parents largely determine how their children's dividends will be spent, a child's dividend can be viewed as a subsidy that reduces the cost of having children. For example a child turning 18 in 2010 would have received $29,850 (in 2010 dollars) in dividend payments since birth in 1992. According to the US Department of Agriculture, the estimated cost of a single child is high, but the cost of additional children is considerably less because of economies of scale in housing and other components of cost.167 No credible study has investigated whether the birth rate has been impacted by the dividend. But studies of direct subsidies

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166 Knapp et al. 1984. This could have also driven up the wage rate, but this was not a concern at the time and consequently not studied.

167 Lino 2009.

for children in other countries, specifically designed to stimulate the birth rate, fail to report large effects.168

These potential behavioral changes become more difficult to predict when we take into account the fact that Alaska is a state with borders that are open to the rest of the nation. This means that migration into and out of the state can occur in response to the economic incentives associated with the dividend. The most important of these incentives is created by the fact one only needs to move to the state and establish residence for a year in order to become a dividend recipient.

The "population magnet" effect of the dividend is clear, although not its magnitude.169 It occurs when migrants are drawn to the state not by employment opportunities, but rather by the attraction of freely available amenities. These could be public benefits like the dividend, or environmental amenities like opportunities for

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168 Although the dividend reduces the price of children it also increases the income of the parents. This "income effect" could amplify or reduce the subsidy effect depending on whether the demand for additional children increases or decreases with higher family income.

169 The case of "Papa Pilgrim" garnered considerable media attention 10 years ago after it was reported that he had moved to Alaska and settled in a remote rural location with his wife and 15 children. It seemed clear to most Alaskans that his primary motivation was to collect the dividend checks and live off the land and state government services, since the family lived essentially cut off from society in the wilderness.

hunting or fishing.170 These migrants impose costs on residents not only because they dilute the size of the dividend, but also because they increase the demand on scarce resources like prime hunting and fishing locations, and because they increase the demand for public services like Medicaid without contributing to their cost through taxes paid.171

The dividend could also increase the number of migrants coming to the state looking for work and this could put downward pressure on the wage. Since the average wage in 2009 was $46,632, it would take a reduction of only 2-3 percent in that wage to offset the income gain from a dividend of $1,281. If that were to happen, the "apparent" increase in worker income from the dividend would be illusory because it would be offset by the lower wage. The benefit of the dividend would go to businesses in the form of reduced labor costs.

There is no evidence that this has occurred. However the fund is approaching $40 billion, which could start to generate dividends of $2 thousand or more. The larger the dividend becomes, the stronger the "population magnet" and the more likely it would begin to attract potential workers and influence the wage rate.

The open border also means that the composition of the resident population is constantly changing. Many current residents will leave the state in future years, and many future residents have not yet arrived. Those current residents who intend to leave have no

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170 Hawaii is an example of another state with obvious environmental amenities that all can share without cost.

171 The increase in population increases the price of all resources in fixed supply, like real estate.

interest in wealth distribution after they have gone, and future residents who have not yet arrived have no voice in the current distribution policy. This should bias wealth distribution towards the present generation, but it does not seem to have been the case as there is no pressure to increase the size of current dividends relative to those in the future. In fact the payment structure leads to exactly the opposite result which is that the dividend will increase in size over time with growth in the fund.

The Alaska open border illustrates the potential for unintended consequences complicating the analysis of dividend effects. In a general equilibrium setting the dividend could influence behavior and change relative prices which could cause the benefits and costs to be distributed in unanticipated ways. It also illustrates the difficulty in isolating the effect of the dividend from other influencing variables when attempting to measure the effects on behaviors like fertility and migration. For example Alaska is attractive to migrants because it is the only state with neither a state income nor a state sales tax. Since this tax liability for the average state amounts to about $2,300 per capita, the absence of these taxes provides an Alaska subsidy similar in size to the dividend, and for higher-income people a considerably higher incentive. Also for many years the state paid a monthly stipend of $250 to every person over the age of 65. For seniors this was also an incentive stronger than the dividend while the program was in place. Determining how much of any population magnet effect may be due to low taxes or the payments to seniors rather than the dividend is difficult.

Discussions of the economic effects of the dividend usually implicitly assume that absent the dividend, the cash represented by the dividend would not find its way into the regional economy. For example it alternatively could be paid out as dividends to the

shareholders in the firms that produce the petroleum resources and be spent where those shareholders live.

But it is more likely that in the absence of the dividend the cash would have found its way into the economy through some other form of public spending that would have a different pattern of benefits across households and regions and would have a different macroeconomic effect. This of course was exactly the scenario that the creators of the dividend were trying to avoid—the concentration of the benefits of the expenditure of petroleum wealth in the hands of the politically powerful and well-connected groups of Alaskans. These most readily identifiable groups included government employees if the money were spent to expand the operating budget, the construction industry if the money were spent to expand the capital budget, and particular industries like fishing or particular groups of private citizens like homeowners and students if the money were spent to establish and expand loan programs (also through the capital budget).172

There has always been pressure to maintain fiscal discipline by keeping the operating budget as small as possible and using the capital budget as a tool to drive economic development through the building of infrastructure and the capitalization of loan programs. One reasonable assumption is that if the dividend had not been created, the earnings of the fund would have been used to expand the state government capital budget.

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172 The state personal income tax was eliminated prior to creation of the dividend program.

The dividend program has distributed $24 billion (in 2010 dollars) since its inception (excluding the initial distribution in 1982). If that amount had been spent on infrastructure to stimulate the economy and reduce the cost of living—primarily through energy and transportation projects—the distribution of benefits and macroeconomic effects would have been very different.

The construction industry would have been the primary direct beneficiary if the spending had been allocated towards infrastructure development and the nearly $1 billion of additional annual spending would have increased the size of that industry by perhaps one third. The income from the jobs created by this spending would have been concentrated in a few economic sectors and regions of the state. The average resident would have benefited from the infusion of purchasing power into the economy only indirectly through the "trickle down" process whereby income earned in the construction industry was spent elsewhere in the economy.

However there would also have been more permanent benefits from infrastructure investment to the economy and to households. The high cost of energy and transportation is viewed as one of the most important impediments to development of Alaska's abundant natural resources, including petroleum, minerals, timber, and seafood. Targeted investments that reduced these costs could make economic development projects more attractive resulting in expansion of the economic base that would generate jobs and income for residents in many parts of the state. These same investments could directly increase the economic wellbeing of households by reducing the cost of living, particularly in rural parts of the state.

However there is no guarantee that infrastructure investments, or investments to stimulate economic development in other ways, would have been successful. Past experience in Alaska suggests that promoters of infrastructure projects targeting economic development tend to underestimate their costs and overestimate their benefits. Many other factors determine the economic viability of resource development projects and even in those few Alaska examples where energy and transportation costs have been low, potential resource development projects have often not been economically viable.173

With the dividend, most of the $24 billion has gone to consumption whereas with infrastructure spending most would have gone into investments with a longer and more permanent flow of benefits (for future generations of Alaskans). But if those investments were not carefully chosen their benefits might have been limited only to the immediate income paid to the promoters and construction workers. If that were the case the income distribution would be much less equitable than it is today.

A more dramatic alternative outcome in the absence of the dividend program would have been the cashing out of the entire Alaska Permanent Fund. The dividend has created a strong and vocal constituency for the protection of the fund, perhaps even more important than the protection afforded to it by the constitution. If the dividend had never been implemented or were eliminated, the loss of this protection would have increased political pressure to use not only fund earnings, but also the entire fund balance, to pay for an expansion of public spending. The argument would be that the money sitting in the

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173 Fay 2003.

balance of the fund and invested largely outside the local economy would not be producing any benefits for Alaska. If invested or spent locally the money in the fund would produce jobs and income that would create economic growth for the benefit of all residents of the state.

As with spending of fund earnings on infrastructure investments, there is no guarantee that spending the entire fund balance, or borrowing against the fund balance, would have been done wisely by the government. However if the entire fund were spent within the regional economy it would have created more rapid growth in jobs and income, resulting in a non-sustainable economic boom. By setting aside a portion of the current revenues from petroleum in a savings account, the state has reduced the likelihood of overheating the economy and created a buffer against the future day when current petroleum revenues are no longer sufficient to pay for public services. This buffer allows future generations of Alaskans to share in the wealth created by the non-sustainable production of petroleum.174

The dividend, as a distribution of petroleum wealth, could be structured in many different ways that would change its economic impacts. The basis for the payment is the

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174 In establishing the Alaska Permanent Fund one of the most important questions was the appropriate share of current revenues to set aside for future generations to prevent a boom and bust situation and to equitably share the petroleum wealth across generations. Initially about 10 percent of current revenues was saved—a share that was politically achievable, but not grounded in any systematic analysis of the likely magnitude of future revenues.

royalties collected from petroleum production on state owned lands. Those royalties are deposited in the Alaska Permanent Fund and invested to earn a financial return. It is a share of those financial earnings that is the basis for the dividend rather than the royalties themselves. As an alternative, the distribution could come directly out of current royalties paid into the fund or directly from royalties even if the fund did not exist.

Such a distribution method would have several features different from the current dividend. First, the royalty payment depends directly on current production and price. Production has trended downward over time and is ultimately non-sustainable. The price of oil can fluctuate dramatically over time. A distribution based on current royalties would benefit the current generation of Alaskans and the share given to future generations would be small. Furthermore the year-to-year fluctuation in the size of the dividend would be much greater and this would make it more difficult for recipients to treat it as permanent income.

Connecting the dividend directly to the size of current royalty payments would also eliminate the buffer that exists between the dividend and resource development policy. Currently public interest in the pace and timing of resource development is not heavily influenced by the desire to increase the size of the current dividend. But if the current year dividend depended on the size of the current year royalty collections, there would be an incentive to distort the timing of development towards the present.

On the other hand, the dividend does strengthen the idea that the natural resource wealth is owned by the citizens of the state. The result is a continuous heated debate about the appropriate distribution of the return on that wealth between the companies producing the wealth and the state as the owner.

The distribution method also has some influence on how recipients spend their dividends. If it were a monthly rather than annual payment it would be more difficult for liquidity constrained consumers to make a purchase of an expensive consumer durable like an appliance or vehicle. In recent years most dividends have been distributed electronically by direct deposit into recipient bank accounts with only a minimum of background information in written notices sent by mail. Thus "framing" of the distribution, or the environment within which the distribution occurs, has largely been left to retailers and the media, both of whom are primarily interested in consumption spending. This is consistent with the notion that the dividend is a distribution of the wealth of the publicly owned resource. On the other hand, the distribution could be viewed as a means for providing a guaranteed basic income with a number of identifiable public policy objectives such as providing opportunities for capital accumulation or enhancing the quality of family life. In that case "framing" the distribution to remind recipients of those objectives or providing accompanying means to support those objectives, like easy access to savings accounts, could influence the effects of the distribution, both economically and socially.

Finally, the dividend could be replaced with a community dividend. Because most Alaska communities have little tax base, and the state government controls petroleum revenues, most budget allocation decisions are made at the state level. A community dividend would give local communities more control over how petroleum revenues were

spent and foster a greater sense of community.175 The community could decide to have a dividend program, to reduce taxes, or to spend it on mutually agreed upon public programs or infrastructure development.

Because the dividend is viewed as a distribution of wealth rather than a basic income with public policy objectives, as well as because it is relatively small both as a share of a basic income and of actual personal income, there have been no analyses of its long term social effects.176 We cannot say what impact the dividend may have had on physical or mental health, the crime rate, domestic violence, sense of empowerment, or other indicators of social well-being. The fact that residents do not connect these indicators to the dividend does not mean there is no relationship, but it does suggest that social scientists interested in these issues generally look elsewhere for explanations of the levels of these phenomena. Of course any benefits that can be attributed to leveling of the income distribution or providing a floor beneath its lower end can also be attributed to the dividend because it has these effects on the income distribution.177

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175 Also unlike the individual dividend, it would not be subject to the federal income tax so the entire dividend amount could be spent in Alaska for the benefit of Alaskans.

176 There has been one study that used the distribution in the first two years to estimate the impact of an income shock on the health outcome of newborns, specifically birth weight. The study found a significant, but very small, positive effect. See Chung 2011.

177 One study attempted to show a short-term positive impact on the death rate coincident with the cash distribution (and a subsequent reduction). The results were not statistically significant. See Evans and Moore 2009. Some commentators have also been

There is some concern that the dividend influences the political landscape. There is an argument that it distorts the relationship between the individual and the government because it fosters the notion that the purpose of government is to hand out checks to residents with no "strings attached" in the form of responsibilities of residents to contribute to the provision of public needs. Of course this is exacerbated in Alaska because the large revenues from petroleum have resulted in the elimination of all individual taxes. Consequently residents do not engage in the process of providing for public needs through the normal process of weighing their benefits against the taxes they would need to pay to support those needs.

The dividend does serve that function, but only to a limited extent because the link between the level of public spending and the current dividend size is not direct. However, the dividend clearly affects the balance of power in favor of the individual as opposed to the state regarding the control of financial resources.

A final political consideration is the potential negative reaction in the rest of the nation to the dividend program in Alaska. This becomes a concern when Alaska is competing with other states for federal funds. Occasionally an argument is put forward that because the state of Alaska distributes cash to its residents, it does not have as great a need for a share of federal funds as do other states lacking in natural resource wealth.

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concerned that some recipients go on alcoholic binges when they get their dividend and that child neglect increases during that time of the year. See Lillie 2010. This possible effect has not been quantified.

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Chapter 5

Politics, the Preservation of Natural Resource Wealth, and the Funding of a Basic Income Guarantee

James B. Bryan and Sarah Lamarche Castillo

The political requirements of preserving the wealth from a mineral discovery coincide exceptionally well with the funding of the politically popular basic income guarantee. Further, among the options for financing a basic income guarantee, revenues from a resource discovery are among the most palatable with the electorate. Marrying the processes and goals of basic income policies and the goal of natural wealth preservation advances each of these relative to pursuing them separately. These are claims that we will seek to justify in this chapter.

On the back of an envelope we could quickly translate the potential net revenues from a resource discovery into a fund that would generate annual basic income grants to each person in the population. It would be an interesting and relatively brief exercise, and it would be naïve. Naïve in that the real-world translation of potential net revenues into basic income grants requires the cooperation of numerous actors who have competing interests. It happens not as the simple product of a market process but as the outcome of a political process. Rather than a problem that is amenable to a narrow focus on just a few of its parts, it is instead better conceived as an elaborate dance among competing interests—among individuals, firms, private organizations, and elements of the collective

decision-making process of government (and sometimes government at several levels). Further, it is often an improvised dance rather than one whose choreography can be known in advance. We cannot simply assume certain rules of the game and then predict the behavior of the players; we must recognize that the players themselves vie to change the rules of the game in their favor. The Alaska Permanent Fund and Dividend were created without a model: the process was more about time, luck, hard work and the contributions of uniquely dedicated players. Later the fund became an institution, finding its footing in a few good ideas and its preservation in the political incentives it created. It is a lesson about a money machine for preserving resource wealth and the politics that surrounded it.

This chapter will outline the major issues and players in the dynamic dance that occurs in a country or state that has the prospect of very valuable natural resources. It is a story many times repeated across the globe. Regrettably, it is a story that often ends badly, so much so that it has come to be known as "the resource curse." Alaska is among the few exceptions. The attempt here is to see whether some of the lessons from Alaska might be applied elsewhere to influence the outcomes of valuable resource finds. Can these lessons be exported from Alaska?

1. Natural resources and a nation's wealth

A valuable natural resource discovery is often likened to winning the lottery. Time to pop the cork on the champagne bottle and celebrate. Time to buy all the gadgets, trinkets, and items of conspicuous consumption that had been deferred before the lottery. The problem, however, is that this approach has the potential to make a country poorer.

The lottery analogy has value but also has shortcomings. Once the wealth from a resource discovery is known, the extraction and sale of the natural resources does not make the country wealthier, it only changes the composition of its asset base. A new resource discovery produces a surprise increase in the known wealth of a nation. But for whom, specifically? The current generation only? A portion of the current generation only? If an individual were to play the lottery and get lucky, it would be easy to argue that the proceeds are hers to spend as she wishes. If, though, mineral rights are separate from surface land rights and essentially owned collectively, it would seem that a discovery should be conceived as an increase in the known wealth of the entire population of a country or region in perpetuity, i.e., for the current and all future generations, combined. If the current generation were to convert the country's new found wealth to consumption goods, it would diminish the country's wealth by like amount, appropriating for itself what otherwise would (and many would say should) constitute wealth for succeeding generations also. Any consumption of revenues from the sale of non-renewable resources is viewed as the consumption of capital. Here the lottery analogy fails, and the natural human inclination of the current generation to consume the wealth itself needs to be curbed.

The first question posed by this chapter, then, is: what mechanisms increase the likelihood that natural resource wealth will be preserved in other forms for use into the indefinite future? The second question is: is the establishment of something like Alaska's Permanent Fund, with its funding of the Permanent Fund Dividend, one of those mechanisms that improve the odds of wealth preservation? The third question is: what are

the political issues surrounding the establishment and ongoing defense of a basic income program funded by a sizable natural resource discovery?

A natural resource discovery in a nation is the discovery of the possession of a finite (even if uncertain) increase in the country's known wealth. Further, the physical flow of the resources over the duration of their extraction follows a very common profile. Over a period of years this flow tends to rise, then peaks, and then diminishes eventually to negligible amounts. Assuming resource prices neither plummet nor skyrocket, the flow of the market value of the extraction follows the same general profile. Barring a new discovery, it can be said: When it's over, it's over! The country has a window of opportunity to capture the liquidation of this form of wealth and convert it to other forms of wealth.

A portion of the market value of the natural resource discovery will have to be spent on the capital equipment and infrastructure needed for discovery and, more notably, for extraction. Another portion will have to be spent in simply giving the market participants incentives to conduct the needed exploration and to extract the resources in the most efficient manner. A final portion will need to be used to remedy the environmental damages associated with the exploration for, extraction, and use of these natural resources. As a result, it would be completely unrealistic to assume that the full market value of the resource discovery can be converted to other kinds of wealth. However, the difference between the value of the resources and the costs of these processes is defined as "rent." And, the rent is essentially up for grabs.

Naturally, a country governed by a corrupt autocrat or corrupt ruling class is at great risk for having much of the rent evaporate into foreign bank accounts, largely to

finance the lavish consumption of a very small portion of the current generation of the country of discovery. Even in democracies with far less corruption, significant risks exist that the resource wealth will convert to little more than increased consumption for members of the generation of discovery.

2. The players: the competing interests & their relative power to influence the rules of the game

Politics is about the dynamic interaction among players who have competing interests. Markets, also a setting for the resolution of competing interests, operate within the framework defined by law and, therefore, by politics. Among many other things, politics is the extra-market competition to establish rights (rules of the game) within which markets function. Will the specification and enforcement of property rights allow resources to be obtained by those who can discover the natural resources with the greatest likelihood and efficiency and extract them at the lowest cost? Will the property rights entail constraints such that the environmental damage (from discovery and extraction) is repaired? Will the interests of future generations be represented in determining how the proceeds of the resources will be used and be preserved for the future?

The players in Alaska and in most countries or regions in which there is a prospect of substantial natural resource discoveries are the following somewhat overlapping categories of actors:

- The Current Generation
- Future Generations
- Government – sometimes at two or more levels (eg., state and federal)

- Large corporations, often multinationals
- Environmentalists/conservationists

For reasons cited in the last section, it is plausible to characterize "future generations" as the largest but perhaps relatively least powerful of the competing players among the claimants for a new resource discovery. However, that is not to say they have no power. Though unborn, they have their representatives in the current generation. First, there are members of the current generation whose own preferences lead them to champion the preservation of natural resources under one or more labels that fall under the "environmentalist" or "conservationist" umbrella. Second, there are the pro-growth advocates whose goals lead them to espouse policies that would bequeath greater amounts of capital good to their children than they inherited from their parents' generation. Third, the "current generation" is really more than one generation. With an average human lifespan of roughly eighty years, there exist several generations at any moment in time. The demands of the younger generation combined with the natural empathy of the older generation for their immediate progeny lead those with more power to consider the interests of those with less or no power.

The exploration for and extraction of valuable natural resources from beneath the earth's surface usually comes at a cost to other natural resources, resources that have limited or no property rights assigned or enforced. For example, drilling for oil, extracting it, transporting it to refineries, refining it, and transporting it to end users have the potential to produce harm in the environment. The case of coal is a more extreme example. And, of course, the end use of these extracted resources, very notably those that are carbon based, can imply further environmental damage. As a result, environmentalists

have arisen and formed organizations to counter the negative externalities involved. By definition, the marketplace does not weigh these interests appropriately. However, political entities such as the Green Party, governmental agencies charged with environmental protection, and social activism are means by which some members of the current generation influence other members of the current generation to preserve the environment for future generations.

Large multinational corporations (MNCs) are another big and inevitable player in this scene. Very important in the exploration for and extraction of natural resources are the technology, know-how, and scale economies that large companies with developed expertise can provide. They are the entities that many love to vilify; but without them little would happen in finding and bringing to the surface these valuable resources. It is only prudent to expect that MNCs, like other actors, will behave in self-interested ways. The relevant questions are: 1) Will other actors, such as those within government, constrain the self-interest of the MNCs by putting them in competition with each other, as might occur with requirements for competitive bidding? 2) Will the actors within government require relative transparency and efficiently structured contracts on the part of the MNCs? and 3) Will the MNCs "buy off" governmental actors so that the latter will not sufficiently pursue the ends mentioned in (1) and (2)?

In Alaska, all of these players have been present since the first large discoveries of oil. Their interaction truly has been dynamic, as government has attempted to ensure the interests of the environment and future generations on the one hand, as the oil companies

have sought to influence elections and legislation on the other hand, and as the federal government has influenced what the state government can do.178

3. Important determinants of the preservation of natural resource wealth

The likelihood that a country will preserve the wealth from a mineral discovery is greatly improved by a number of conditions:

1. that the subsurface mineral rights are commonly owned, i.e., by government, rather than privately owned;
2. that the subsurface mineral rights can be leased privately and that those leases are transferable;
3. that the value of the discovery is large relative to the size of the population;
4. that specific political institutions (such as a public fund) are developed to receive the funds and that the longevity of these institutions is ensured through a political process that lowers information costs (provides transparency) to the electorate;
5. that the interests in the political institution are widespread among the electorate;
6. that incentives are provided for the successful exploration for and efficient extraction of the mineral wealth; and
7. that sufficient provisions are made for the repair of the environmental damage done during the exploration and extraction processes.

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178 This story of the interaction of the major players is recounted well throughout Roderick 1997.

In the sections that follow, the role and importance of most of these determinants are examined. However, the final influence on the preservation of wealth, the repair of environmental damage, is not addressed; a vast literature exists in which this set of critical issues surrounding mineral extraction and use is dealt with in great detail.179

4. The most important property right: subsurface mineral ownership

An important ingredient in converting a large natural resource discovery to other assets that benefit a people in common is the original ownership of those natural resources. The convention in most of the world, except for the United States, is that rights to subsurface resources are held by the government. This does not make all problems simple in exploring for, extracting, selling, and converting the sales revenue to revenue for the public coffers. For typically the government does not possess the specialized knowledge to perform these tasks. Further, companies in the marketplace usually possess a greater capacity to realize the substantial scale economies that attend mineral exploration and extraction.

Negotiation outcomes, whether between two parties or among many, are influenced significantly by the starting points of the parties, i.e., the relative endowments of the parties prior to the negotiation. If the state initially had no ownership rights to

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179 An example of an excellent survey of this literature is to be found in Cropper and Oates 1992.

subsurface resources, it would face a much more difficult time in laying claim to a large portion of their value than if it owned these resources at the outset.

The very fact that subsurface resource ownership rights across the globe conventionally reside with the state could make these resources, when discovered, a very attractive source of funding for a basic income guarantee. A resource discovery constitutes a windfall to the full population of a nation. A fund established with the proceeds, a fund that finances annual income distributions to each member of the population, is politically very compatible with the long established notion of the collective ownership of mineral rights.

It should be recognized, however, that the rights to any good need to be transferable at minimal transaction costs and with as few constraints as possible. Only under these conditions can rights get transferred to those who can derive the most value from them. Mineral rights are no exception. The exploration for and extraction of minerals require substantial expertise and frequently scale economies. Governments may possess neither of these. Further, these attributes are possessed in very differing degrees among firms in the marketplace. As a result, it is important that there exist a well functioning market in leases to these mineral rights.

5. The value of the discovery relative to the size of the population

Put simply, size matters when we examine the politics of funding a basic income grant from a mineral discovery and when it comes to preserving a nation's mineral wealth in non-mineral form. In a representative democracy, the per capita wealth from a

discovery needs to be large enough to capture the attention of the public and the public's representatives in the executive and legislative branches of their government. This is a necessary but hardly sufficient condition for the political process to shepherd a nation's mineral wealth from the point of discovery into other forms of wealth that benefit the population broadly and across the generations.

The cases of Alaska and Norway illustrate this point well. The value of the Alaska Permanent Fund currently stands at about $39 billion, with a state population of 686,000. This yields wealth per person in the APF of roughly $57,000, and an annual dividend per person of approximately $1,300 in 2010. If the same fund were used to finance a basic income for the entire population of the United States instead of the country's northern most state, the wealth per person would be a mere $127, and the annual dividend per person would be just $2.90. These trivial amounts would never be enough to summon the political will to preserve the wealth nor to establish a basic income fund.

Indeed, a state or nation that establishes a fund to finance basic income grants faces the possibility that it will attract new population through immigration. When Alaska became a state in 1959, just two years after its first significant oil strike, its population was just 225,000. From that time until now, its population has grown by 200 percent. By contrast, the population of the entire United States over the same period has grown by 73 percent. How much of the difference in these growth rates is attributable to the Alaska Permanent Fund is unclear; certainly there exist many other influences of population growth, such as superior work opportunities in a state and higher birth rates. What is clear is that population growth has diminished the wealth and dividend per person in Alaska.

Norway's North Sea oil windfall has also been substantial relative to the size of its population. As such, it has possessed a necessary ingredient in converting its mineral wealth to other assets and in using those assets to generate an income that will benefit the entire population for generations to come. The population of this country is roughly eight times that of Alaska, about 4.8 million people; however, the value of the fund that has been financed by oil recently reached the $570 billion mark, becoming the largest sovereign wealth fund in the world.180 This implies a wealth per person from the fund of $106,000 (though individual rights to the wealth do not exist). If the fund were used to finance an annual basic income grant, the grant size would be roughly $3,000 per person ($12,000 per year for a family of four), assuming a three percent return for distribution after inflation; and there is prospect for significant further growth of this fund. In Norway's case, the income from the fund is not used for basic income grants but is being used to fund retirement income, through the Norway Pension Fund, for those of eligible age.

Finally, consider the example of one of the poorest nations on the planet: Afghanistan. It was announced in 2010 that mineral discoveries in this country have a market value of roughly $1 trillion.181 If a wealth fund were formed from just half this market value, $500 billion, it could generate an annual income per person of roughly $500. While that number would not seem significant in the context of highly developed countries, it is quite sizable in a country in which the per capita GDP is only $800. For

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180 Fisher 2011.

181 Toronto Sun 2010.

people living below levels of extreme poverty, a small dividend makes a huge difference. There would be the potential for the dramatic transformation of a problem-laden country, if only the political obstacles were not so substantial.

6. Preserving mineral rents by democratizing them

Alaska illustrates a case in which a fund formed by oil royalties and fees, financing an annual dividend/basic income payment, has served to preserve Alaskan wealth as it is converted from mineral to non-mineral forms. The task is always formidable, since decision-makers in the current generation (the electorate and their representatives) always have a strong interest to favor themselves. Alaska was no exception in this respect, but the outcome has been very successful, relative to the experience of other states and nations in which there have been major resource discoveries.

The success in Alaska was not assured from the outset. Among its lessons are both that political institutions count and that the path to those institutions is precarious, idiosyncratic, and not always traversed successfully. Claims of substantial oil reserves in the state date to points early in the twentieth century, though the first significant oil strike did not occur until 1957.182 The very process of inducing exploration was protracted and was hindered by upper limits on the number of oil and gas leases that could be obtained by any individual or entity, something other countries should be careful not to repeat.183

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182 Roderick 1997, pp. 78-79.

183 Roderick 1997, p. 42.

The constitutional amendment that ultimately proved to be very important to the Permanent Fund Dividend (PFD) was not ratified until 1976, seventeen years after statehood, nineteen years after this first major oil strike and with language that did not explicitly require that dividend payments would be made to the population. Further, the Alaska Permanent Fund and the Permanent Fund Dividend owe their existence primarily to the vision and tenacity of one person, Jay Hammond, governor of the state from 1974 until 1982. Without Jay Hammond's election as governor and his fierce dedication to the ideas of a fund and a dividend, these very successful institutions would not exist. He had conceived of these ideas long before becoming the state's chief executive and worked to implement them through the entirety of his two terms in office.184 Indeed, only the APF itself (and not the annual payment of dividends) is provided for by the state's constitution. The use of the fund's income for dividend payments is subject to legislative vote. The fact that this has occurred annually attests to the political power of a basic income policy.

Despite the fact that every generation of legislators since the mid-1970s could have found ways to use the oil revenues to make their re-election more likely, absent the existence of the Permanent Fund Dividend, none dared to do that after the PFD was instituted and checks began arriving in the mail for every member of the population. This political reality points to a seeming and very interesting "irrationality" in collective life. Something that is only mildly attractive in prospect (because its value is so abstract) becomes extremely popular once instituted. A lesson to be learned is that the case for a

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184 See especially Rose 2008, pp. 126-31 and McBeath et al 2008, pp 178, 192.

resource-funded basic income policy may not be compelling prior to its enactment, but it becomes very popular very quickly once instituted. The dividend serves as a link between citizens and expenditures, creating citizens' interest and participation in the management of the Fund. Forces will not inevitably drive legislators in this direction; however, legislative sponsors of a basic income policy, funded by mineral wealth extraction, can expect that it will be met with strong and widespread approval in short order, as was the case in Alaska. Consequently, the period of years between a resource discovery and the significant flow of tax revenues from the discovery are the ones in which the preservation of wealth should be ensured, and a basic income program financed by the income from the wealth fund is a very good way in which to do that. This is the period in which there is little actual revenue over which to debate the allocation, and the abstract debate of prospective revenue is probably an easier one to win. Further, once the revenue begins to flow and the assets begin to build and throw off income, a basic income program can win strong political allegiance very quickly. In fact, six months after the first dividend was paid by Alaska's Permanent Fund Dividend Division, a two legislators (with the support of the new governor) proposed its discontinuation and the diversion of the fund's income to other purposes. Initially, he found support among their fellow legislators; however, that support evaporated as soon as the electorate became aware of the proposal and expressed its outrage.185 Even at that early point in the life of the Permanent Fund Dividend, legislators were on notice that they would pay a high price if they eliminated or even reduced the dividend payments. Widely spread and well understood benefits are

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185 Rose 2008, p. 179.

among the strongest determinants of a program's longevity. When married to the process by which natural resource wealth is preserved, both the ends of wealth sustainability and basic income are advanced substantially.

As mentioned earlier in this chapter, the huge North Sea oil discovery has provided us another very instructive example of a country that has shepherded its mineral wealth into non-mineral wealth very successfully. It is the case of Norway. And again, this has occurred through the creation of a fund that generates income and through a program to use the income from the fund to benefit virtually the entire population, one generation at a time.

When it was established originally as the Norway Petroleum Fund, the Norwegian government was unclear just how it intended the income from the fund to be used. In time, the legislature decided that it would use it to finance its public pension program. This program had been financed through taxes on wage income. As with most pay-as-you-go public pension systems, in which the current generation of workers finances payments to the current generation of retirees, trouble was looming. Such systems encounter difficulties when the demographic structure is uneven over different age cohorts and there is increasing life expectancy. By renaming it the Norway Pension Fund, this sovereign wealth fund obtained a political foothold that should endure for a very long time. By focusing on what is now just one-sixth of the population, this fund can channel very significant payments to each member of the eligible group each year. Further, every non-eligible member of the population expects to become eligible one day, making the entire population stakeholders, just as basic income programs do. Because all current

generations have an incentive to preserve this program, the interests of future generations become represented simultaneously, as an unintended effect.

Norway is in the unusual and enviable position of having to decide just how to preserve and allocate the benefits from uncommon levels of public wealth. Even apart from its unexhausted North Sea discovery, that has generated one of the world's largest sovereign wealth funds, Norway has the prospect of another very large discovery in the Arctic. The legislature of a country with a small population will face the task of preserving even more mineral wealth and of determining how to spread the income from these riches. And, the inevitable tension between the interests of oil and the interests of preserving the environment will temper each other.

The cases of Alaska and Norway, however, set our sites too narrowly. Not all discoveries of mineral wealth occur in advanced economies. While poor countries can benefit greatly from using the income from wealth funds to finance basic income programs, they can also benefit greatly from using that income to finance infrastructure and other public goods. Investments in infrastructure in poor countries, when well chosen, can yield a very high rate of return for the economy. Further, expenditures such as these, in roads, education, health, and the like, also preserve wealth and benefit future generations. In cases such as these, a difficult tradeoff must be assessed. That is, while infrastructure investments can yield high returns, they might not serve the end of sustaining the political commitment to wealth preservation as well as a basic income program. The legislators who invest wisely in infrastructure this year might choose far less wisely next year, reaping political benefits for themselves.

Finally, a different question arises frequently when a country or state has a large resource discovery: Should the tax revenues earned from the mineral extraction and sale be used to reduce other taxes, such as the income tax? This substitution of taxes has an immediate appeal to economists because, typically, it is correctly perceived to replace less efficient taxes with more efficient ones. However, at least three serious problems arise from such a plan.

When non-mineral taxes are replaced by the simple inflow of tax revenue from the extraction and sale of the minerals (rather than by the income from a wealth fund generated from the taxation of the minerals), public revenues are made contingent on a very volatile source. Revenues from oil or other minerals can fluctuate for several reasons. First, oil and other commodity prices fluctuate much more than do the prices of most goods, largely because of fluctuating supplies and a very price inelastic demand for them. Second, there is a natural cycle to the natural resources extracted from a discovery, one that increases, peaks, and then diminishes over time. Third, subsequent discoveries within the country occur in discrete and somewhat unpredictable increments rather than continuously. For all these reasons, this approach creates a great deal of uncertainty about public revenues; and it leads to the inevitable day in which this source of revenue ends, as the wells become exhausted and new discoveries are not forthcoming. Even when a country's non-mineral taxes are replaced by the income flow from a wealth fund, a significant but lesser volatility in revenue remains, and the rate of growth in this revenue source inevitably will fall short of the needed growth rate of public revenues. This is the

situation emerging in Alaska now, a state in which most of its non-mineral tax revenues were replaced years ago by oil and gas revenues.186

Another problem surrounding this kind of tax substitution is less recognized but is very important. Government works best to decide what should be done on behalf of the electorate when the stakes are clear to the electorate. The stakes are clearest, meaning the tradeoffs are best perceived, when the government must obtain its revenues directly from the electorate and must justify its expenditures to them. Research shows that when government revenues derive from a collectively owned resource, the opportunity costs of its expenditures are less well perceived, creating a disjunction between government and its accountability to the electorate.187 This conveys much greater license to government actors than would occur otherwise.

Finally and very importantly, it should be underscored that when revenues from mineral extraction are used directly to substitute for other taxes (rather than to form a sovereign wealth fund), the country's wealth is not preserved. Mineral wealth converts to tax reductions. Only a small portion of the tax reductions are channeled to savings and wealth formation, and only a small portion of the public expenditures are devoted to infrastructure and other capital goods that constitute public wealth. In short, in this case a mineral wealth windfall translates significantly into greater consumption for the current

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186 The State of Alaska projects that 87% of its unrestricted public revenues will come from oil and gas between 2010 and 2020. See State of Alaska, Department of Revenue, 2010.

187 Humphreys et al 2007, p. 13. See also Roderick 1997, p. 422.

generation but not sufficiently into higher levels of consumption for legitimate claimants in future generations.

Democratizing mineral rents through the formation and preservation of a sovereign wealth fund can preserve the wealth, as we see with the Permanent Fund Dividend financed by the Alaska Permanent Fund and with the Norway Pension Fund. However, democratizing mineral rents by substituting them directly for other, more conventional taxes will fall far short of preserving the windfall wealth. The problem is that these democratizing approaches have very different implications for future generations but each has the trait of quick popularity. Once instituted, each of these approaches is hard to reverse. That is good in one case and regrettable in the other. This kind of path dependence in policy means that getting things right early on (after the mineral discovery) is very important.

7. The principal-agent problem and the improvised dance among actors

In a democratic setting, a significant natural resource discovery and its attendant wealth windfall sets off a scramble for the new riches. Elected members of government have it in their interest to use these to improve their prospects in subsequent elections. Involved corporations have an interest in influencing the terms of deals in their favor and can do this, in part, by making substantial campaign contributions and by lobbying legislators. Decision-makers in government need the corporations; for the corporations possess the expertise and technology for exploration and extraction. Indeed, this

asymmetry in expertise creates the problems that result from a principal-agent relationship, in the nomenclature of economics.

The principal (government in this case) knows less about locating minerals and maximizing the potential net revenues from their extraction than does the agent (large, multinational corporations in this case). Individuals are faced with these asymmetries constantly in their lives. The challenge for the principal is to temper the advantage of the agent's greater expertise while still gaining many of the benefits of that expertise. One type of solution, when possible, is for the principal to bring together multiple agents and place them in competition with each other. In the context of oil, this might include the use of competitive bidding for oil leases. In this way, the relatively ignorant government actors with regard to oil do not need to acquire the expertise; they need only to have experts compete with each other to expose the relevant information in the process of winning the deal and striking contracts that benefit the electorate.

The dynamic problem that arises, however, is that the experts (the agents) have the incentive to try to get government actors (the principals) not to place them (the agents) in competition with each other. If the actors within government had personal incentives identical with those of the electorate they represent, the agents would not have a chance to influence them. However, costly information allows government actors to act in narrowly self-interested ways without the electorate's knowing that they are not being well represented. In short, multinational oil companies can buy off enough legislators or actors in government agencies to improve the terms of their deals relative to what would be possible in a highly competitive setting. Over several decades, "big oil" has been

characterized as having become a dominant influence over what is done by Alaska's legislators and other governmental decision-makers.188

8. From the resource curse to simple mismanagement

As noted early in this chapter, the history of resource discoveries across the globe has more often been a curse than a blessing. Where it has occurred, the curse has taken a variety of forms.189 In some instances it has been sufficiently large to constitute a macroeconomic disruption; it has led to input price inflation in affected sectors and has changed the volume of exports to the extent that exchange rates are affected. More often, it has increased the level of corruption in already corrupt states. It has increased the benefits to corrupt behavior in many countries in which institutions were sufficiently weak to allow substantial corruption in the first place. Countries such as Iraq, Nigeria, Sierra Leone, the former Zaire, and Zambia have been the sites of substantial mineral discoveries without having those discoveries translate into improved livelihood for most of their populations. An interesting piece of empirical research by Geoffrey Heal shows that, after adjusting for measurement problems, rich resource discoveries are frequently associated with modest or even declining genuine wealth per capita as well as other economic and social problems.190 If a fund is established with the main purpose of

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188 This point is made throughout Roderick 1997.

189 A good summary of the problems that attend large resource discoveries is provided by Humphreys et al. 2007, pp. 1-18.

190 Heal 2007, pp. 155-71.

investing in infrastructure and financing development, political pressures and long-term negative consequences can arise when the natural resource is depleted.

It is not difficult to understand the ways in which countries ruled by autocrats might turn more corrupt in the wake of a major resource discovery. However, countries can bungle their opportunities to make the most of resource discoveries even in the absence of notable corruption or autocracy. An interesting illustration is the province of Alberta in Canada. With the highest per capita GDP of any province in the country, Alberta is the site of significant oil, gas, and tar sands discoveries dating to the 1970s. Further, it is a province of sparse population, making its natural resource wealth per capita substantial; and the provincial government established the Alberta Heritage Fund in 1976, a seeming twin to the Alaska Permanent Fund. Many of the makings of success would seem to have been in place. However, slight differences from Alaska appear to have propelled it along a very different path.191 No constitutional standing was accorded this fund. Its goals were diffuse, and the preservation of wealth was far from primary. Nothing comparable to the Permanent Fund Dividend was established to ensure broad political stakes among the electorate. Driven by multiple forces, including an increasing public debt at the provincial level and falling oil prices, and given an institutional framework that provided government decision-makers significant discretion, this fund turned into a means of bailing out the provincial government in hard times. Its assets constitute a small portion of the value of the mineral revenues that have been realized

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191 See Hannesson 2001, pp. 69-78, McBeath et al 2008, pp 185-86 and Rose 2008, p. 139.

over the last four decades. It has not preserved wealth nor is it likely that it has even benefited the current generation as much as it might have. While Alberta has not befallen a resource curse, it has failed to accomplish nearly what it could have. Future generations in Alberta will possess far less wealth than they might have, all because the current generation did not find the means to shepherd the wealth from its natural resource form to non-mineral forms. The absence of "political will" is attributable in part to their not having democratized some of the flow from that wealth and for not having placed a moat around their resource fund. No dictatorship and no substantial corruption—but relative failure nonetheless.

9. Conclusions

The preservation of the wealth from a natural resource discovery is an uphill battle. Democracies with low levels of corruption provide the best prospects. However, even they provide a record that is dotted with many failures and only a small number of notable successes. Alaska represents one such success.

The odds of success are greatest when: governments create a well identified fund into which the revenues flow from the leases and taxes related to the resource discovery, extraction, and sale; the longevity of the fund is ensured, if possible, through a constitutional provision; the fund is invested in financial markets, representing the ownership of capital goods; the assets held in the fund are large relative to the population; substantial portions of the annual income from these funds benefit a large percentage of the population (immediately and/or prospectively); and a portion of the annual income from the fund is reinvested to offset general inflation, ensuring that the fund's real value will not erode.

These attributes greatly help curb the strong incentives that exist for the generation of discovery to convert wealth to its own consumption, leaving little to benefit future generations. These are not the only reasonable attributes from the perspective of the efficient and equitable use of resources. However, these attributes probably maximize the likelihood that substantial wealth actually will be preserved. Investment of mineral revenues in infrastructure might be an even more efficient use of resources, especially in less developed economies. However, this approach also risks the diversion of such revenues away from infrastructure and toward consumption in the out-years, after the most critical infrastructure investments have been made and as pressures arise to address other, consumption-oriented needs. A middle ground alternative for less developed economies could be to establish a constitutionally defended fund, using a portion of the annual income from the fund for basic income payments and a separate portion to make infrastructure investments so long as they are deemed important. Stipulations could be made to require that when such infrastructure investments are no longer considered a priority that this income flow would go to basic income payments.

It is clear that Alaska has possessed many of the attributes that make for success. At a reasonably early stage it established the Alaska Permanent Fund, made its existence a constitutional mandate, established the Permanent Fund Dividend that gained an immediate and enduring popular allegiance (but was not required constitutionally), and reinvests a portion of the fund's annual income to counter the effects of inflation, preserving its real value.192 Alaska's experience, however, also contains several

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192 McBeath et al. 2008, p. 179 and Rose 2008, pp 163-64.

cautionary tales. Its success was influenced in essential ways by Governor Jay Hammond.193 Absent his influence, it is likely that a very different story would be available to us. This fact emphasizes the lesson that the early days, from the days of discovery to the days of significant resource extraction, represent a finite window of opportunity in which a nation or state can take steps to ensure that a sizable portion of mineral wealth will be converted to other forms of wealth rather than to consumption for the discovery generation. Unfortunately, in this stage of the process, much will depend on the wisdom of a small number of personalities who occupy positions of influence, especially in government.

An additional lesson from Alaska is that the forces for current generation consumption include the seemingly unrelated inclination to replace traditional income and consumption taxes with resource revenues. As noted already, the vast majority of public finance in Alaska now derives from oil and gas revenues. This has two largely unintended consequences. Not only did it convert current wealth to current consumption when instituted, it pits future consumption and future wealth in direct competition. That is, as the public revenues from oil and gas diminish naturally and inevitably, pressure mounts to divert the funds from the annual dividend to continued tax relief. In Alaska, that future day is fast approaching. It will be interesting to witness the competition of the forces to preserve the annual dividend and the forces to preserve lower taxes. If put to a referendum, it is likely that the preservation of the annual dividend would prevail largely undiminished. However, in a representative democratic process, the smaller number of

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193 See especially Rose 2008, pp. 126-31 and McBeath et al. 2008, p. 178, 192.

net winners from the preservation of lower taxes might be able to influence legislators sufficiently to produce a different outcome. Because the state constitution protects the Alaska Permanent Fund but not the Permanent Fund Dividend, a highly political process will settle this question.

What Alaska does make clear is that a resource funded basic income guarantee can be a superb means by which to provide political protections of the wealth that is generated from a natural resource discovery. Its protection is not absolute, but it constitutes one of the best defenses of a natural wealth discovery. Further, from the perspective of forwarding the cause of a basic income guarantee, a commonly owned natural resource discovery provides one of the most promising sources of finance. Not only is it an attractive partner in the preservation of the new wealth, because the wealth is new, its use for a basic income dividend means that its perceived opportunity cost is not nearly so palpable as the perceived opportunity cost of increased income taxation would be. It avoids the loss aversive reaction involved in giving up something previously held. The newly discovered and commonly owned resources to fund the basic income do not have to be wrested from existing valuable uses (as with taxes) – only from abstractly understood, hypothetical alternative uses. Though neoclassical microeconomics makes no distinction between the two, behavioral economics suggests that the difference in people's perceptions of these two can be substantial.194 And because the revenue

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194 Tversky and Kahneman 1991 provide a good explanation of loss aversion, the phenomenon referenced here.

requirements of any significant basic income program are always very large, a funding source that is perceived as having a relatively lower opportunity cost constitutes a large advantage.

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Chapter 6

Risk and the Alaska Permanent Fund Dividend

Michael A. Lewis

If people expect to receive resource rents on a periodic basis, they may come to regard this as, in part, a kind of income insurance, given the many threats to people's incomes posed by the capitalist marketplace. Whether or not people actually do regard resource rents as income insurance, in this paper I will regard them as such. This is simply because resource rents do function to help meet people's economic wants and needs and, therefore, can help them weather the threats to economic security that come with living within a capitalist system.

The Alaska Permanent Fund (APF), the details of which are discussed in the first four chapters of this book, is a variant of the resource rent version of basic income. About 30 years ago, the Alaska Permanent Fund Corporation (APFC) was created to manage the assets of the APF. The APFC invest the fund's holdings in a diversified portfolio of assets that include stocks, bonds, real estate, and others. And according to current law, the APFC has the authority to disburse a Permanent Fund Dividend (PFD) to every Alaskan resident. The way the PFD is calculated is as follows:[195]

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195 Alaska Permanent fund Corporation 2010.

1) the fund's net income (returns) from the current and previous four years are added together
2) this total is multiplied by 21 percent
3) this product is divided by 2
4) prior year obligations, expenses, and PFD operations are subtracted
5) this result is divided by the number of eligible recipients

This type of financing is quite different from income tax financing.

They way an income insurance program is financed is extremely important for a host of reasons. But in this paper, I will focus on only one of those reasons: namely that the way an income insurance program is financed affects the stability of the stream of benefits provided. That is, whether the income stream provided is stable over time or highly volatile depends on the method of financing. If we take volatility as a measure of risk, then another way to make this point is to say that the riskiness of the benefits provided by an income insurance program is greatly affected by how that program is financed.

Consider current policies in the U.S. such as social security (our public retirement pension), Temporary Assistance for Needy Families (a policy that provides income support to single parents who are not in the formal labor force), and Supplemental Security Income (income support for the disabled and aged with low incomes). None of these benefits are basic incomes but together they, combined with similar programs, function as income insurance similar to the way a basic income would. All of these

benefits are financed largely by income taxes or taxes that function like income taxes (such as the payroll tax).

Thus, considering the PFD and the more conventional U.S. social welfare system, we have two current approaches to financing income insurance: investment returns financing and more conventional income (and other) tax financing. As other chapters in this book will attest, currently there are a number of nations that are considering reforming or in some cases, "building" their welfare states. Some have offered the Alaska PFD as a model that these nations might emulate. Thus, the following question arises: which form of financing has generated the better form of income insurance and which can be expected to do so in the future? In other words, has the investment-returns-financed PFD or the, largely, income tax financed U.S. welfare state done a better job of protecting the relevant parties from the risk to income loss inherent in a capitalist economy? The answer to this question is important to the basic income debate because it may inform how best to finance such a program should it come on the agenda in the U.S. or some other nation.

1. Data and Methods

In order to answer the question posed near the end of the previous paragraph, I did the following. Time series of the U.S. Gross Domestic Product (GDP), the U.S. unemployment rate (UR), the U.S. Consumer Price Index (CPI), and U.S. wages (wages) were obtained from the 2011 Economic Report of the President.[196] Time series data on

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196 Economic Report of the President 2011.

the Alaskan unemployment rate (AUR) were obtained from the 2011 Economagic.com[197] Economic Time Series website. Using the SPSS statistical computing package, I obtained the coefficient of variations (CVs) of these time series. The CV is a measure that is based on the mean and standard deviation of a given set of values. Readers are, no doubt, familiar with the mean of a set of values but may know it better as the "average." The standard deviation, however, may be less familiar.

The standard deviation is a measure of how much the values in a given set of values differ from one another. The greater the extent to which the values differ, the higher the standard deviation. According to financial economists,[198] the higher the standard deviation of a set of values, the higher the risk or uncertainty associated with those values. The intuition is that the more the values in a set differ from one another, the higher the chance of obtaining a very high or very low value. That is, with values that differ more from one another, comes greater uncertainty regarding whether any given value will be very high or very low, and this greater uncertainty is deemed as indicating more risk.

The CV is simply the standard deviation of a set of values divided by the mean of those values. For present purposes, it simply provides a way of comparing the risks of different sets of values, the components of which are measured in different units. For example, if one time series is made up of a quantity measured in dollars and another a quantity measured in proportions and we want to compare the risks of these two series,

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197 Economagic.com 2011.

198 Estrada 2005, p. 30.

the CV provides a "pure" or "unit free" way of doing so.[199] In short, it provides a way of comparing "apples to apples." The higher the CV of a set of values, the more risky or uncertain that set of values.

As many readers, no doubt, know, GDP is a measure of an economy's output or production, the unemployment rate a measure of the overall demand for labor in an economy, the CPI a measure of the general price level in an economy, and wages measures of people's earnings in an economy. Thus, time series of these variables are, arguably, time series of how well the economy has been doing over time.[200] Measures of the risks associated with these series (such as CVs) are, therefore, measures of the risks posed by the economy over these periods (which I'll call economic risk). In the case of the U.S. (and much of the rest of the world), this amounts to risks posed by capitalism.

Time series of inflation adjusted PFD[201] and the sum of inflation adjusted federal spending on social security and income security[202] were two other series that I focused on. I adjusted these series for inflation by dividing nominal values by the CPI. In the graphs and tables below the Permanent Fund Dividend will be denoted by RealPFD and

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199 Lipschutz and Schiller 1998, p. 13.

200 All of these have been criticized as invalid measures of the state of the economy. Assuming these measures are invalid, the conclusions of this chapter may be wrong. But since no one has come up with widely accepted alternatives, I'll continue to use these and the dependence of my conclusions on these measures should be kept in mind.

201 Alaska Permanent Fund Corporation 2010.

202 Congressional Budget Office 2011.

inflation adjusted federal Spending on social security and income security will be denoted by IncomeSupport. I obtained the CVs of these two series to measure the uncertainty or risk associated with them.

Using the time series referred to above, I did several comparisons. The CVs of GDP, UR, CPI and wages were each compared to the CV of the inflation adjusted PFD. This was intended to compare economic risk to the uncertainty of inflation adjusted PFD, which to some degree protects against that risk. I also compared the CVs of GDP, UR, CPI, and wages to the uncertainty of inflation adjusted federal spending on social and income security. This was done in order to compare economic risk to the uncertainty of federal income support. Having obtained measures of how the PFD and federal income support compared to economic risk, I was able to get a sense of which stream of income did better at protecting against such risk.

A problem with the method discussed so far is that the overall U.S. unemployment rate may not be the best measure of the labor market risk faced by Alaskans; a better measure might be the Alaskan unemployment rate (AUR). Thus, I conducted another comparison between the CVs of the AUR and inflation adjusted PFD in order to see if this changed my results in any way.

Another problem with the method discussed so far is that the measure of risk used is based on the standard deviation. Although, this is common practice in financial economics, economists do recognize one shortcoming of it. The standard deviation considers upside and downside variation about the mean symmetrically. Upside variation is when values fall above the mean and downside variation is when they fall below it. But

as Estrada[203] tells us, there seems to be something wrong with a measure of risk that treats values above the mean the same as values below it. Depending on the quantity in question, values above the mean may be desirable or undesirable, and the same is true of values below it. If we are considering wages then values above the mean may be desirable, at least from the perspective of those who sell labor for a living. But in the case of unemployment, values above the mean may be undesirable, again, at least from the perspective of those trying to find jobs.

The problem with the standard deviation that was just discussed led financial economists to develop a measure of "downside" risk called the semideviation.[204] The downside risk might be thought of as a version of the standard deviation that only focuses on "bad variation" around the mean. Bad variation can be values above or below the mean, depending on what's being measured. Just as was the case with the standard deviation, the semideviation can be used to calculate the CV, which in this context might be called the downside CV. It is still the case that higher downside CVs indicate higher risk, in this case higher downside risk.

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203 Estrada 2005, p. 98-99.

204 Estrada 2005, p. 100.

2. Results

Figures 1, 2, 3, 4, 5, and 6 are time series of GDP, UR, CPI, wages, AUR, IncomeSupport and RealPFD respectively. The periods covered by each series are 1983-2009.

Table 1 contains the CVs for these five series.

Table 1 Coefficients of Variation for Figure 1-5 Time Series

Variable	**CV**
GDP	.23
UR	.23
CPI	.24
Wages	.03
AUR	.11
IncomeSupport	.20
RealPFD	.31

Recall that the CV is the standard deviation divided by the mean and is a unit free measure of risk or uncertainty. Notice that the uncertainty of inflation adjusted spending on social and income security is less than the uncertainty associated with all the measures of economic risk. Assuming that the risk of unemployment in the Alaskan labor market is not relevant to the entire country, the appropriate comparison, as far as unemployment goes, is between the uncertainty of spending on social and income security and the overall unemployment rate. It is also clear from Table 1 that the uncertainty associated with inflation adjusted PFD exceeds the uncertainty of all the measures of economic risk, even when the Alaskan unemployment rate, instead of the overall rate, is considered. As stated earlier, another term used in financial economics to refer to risk or uncertainty is "volatility." Thus, it seems that the income stream provided by the federal income support system has been less volatile when protecting against the economic risks of

capitalism than the PFD has. Not only that, but, as was just stated, the volatility of inflation adjusted PFD was greater than the volatility of any of the measures of economic risk. In other words, the income stream that protects against economic risk was even more risky than the exposure it was protecting against. This is like the payout from a private insurance company being less certain than the risk the insurance is intended to protect against. Such a policy would obviously leave a lot to be desired. It should be noted, though, that, as can be seen in Table 1, both the PFD and income support streams were more volatile than wages were so neither stream seemed to do a good job protecting against wage volatility.

Recall, from the discussion above, that the CV is based on the standard deviation, which treats values above and below the mean symmetrically, a serious shortcoming. Thus, the values in Table 1 might be misleading. Table 2 contains the downside CVs for the same variables that appear in Table 1. The downside CVs for GDP, wages, PFD, and IncomeSupport were based on values lower than relevant means of each value of these variables, while the downsides for UR CPI, and AUR were based on values greater than the means. For example, to obtain the downside CV for GDP, I had the computer save all the GDP values less than the mean GDP value, which was about 9.8 trillion dollars. Then, using only the values less than 9.8 trillion dollars I had the computer calculate the mean and standard deviation of them. After doing this, the standard deviation was divided by the mean to give me the downside CV.

Table 2 Downside Coefficients of Variation

Variable	**DCV**
GDP	.12
UR	.16
CPI	.11
Wages	.02

AUR	.07
IncomeSupport	.08
RealPFD	.20

It is clear from Table 2 that neither form of income insurance did a particularly good job at protecting against low wages because the downside CV for each form exceeds that for downside wages. However, inflation adjusted income did better at protecting against overall downside economic risk than inflation adjusted PFD, since it has the smaller downside volatility. Thus, if one is worried about downside economic risk, as measured in this chapter, inflation adjusted income support still provided a relatively better deal than inflation adjusted PFD.

3. Volatility Forecasting

So far this chapter has been mainly backward looking. That is, I have focused on the risk of time series where the values of the series have already been observed, and I have calculated CVs or downside CVs that are based on standard deviations of these observed series. A question that might be asked, however, is what is the relevance of this type of analysis to the future volatilities of these series? This is the question of volatility forecasting.

There are a number of different approaches to volatility forecasting discussed in the financial econometrics literature[205] but the more sophisticated approaches require much higher frequency data than I had to work with. It's possible for time series data to be recorded so frequently that one can end up with hundreds of values per day, while my

205 Brooks 2008, p. 383-386.

yearly frequency data gave me just under 30 values for each series. The more sophisticated approaches simply cannot be applied to such short series. In order to address this dilemma, I adopted the historical approach to volatility forecasting.[206]

In this approach, the standard deviation for an observed time series becomes not only the measure of volatility for the observed values but also the volatility forecast for all further values as well. If one has used standard deviations to calculate CVs or downside CVs, as I have done, then these unit free measures of volatility for an observed series also become the measures for forecasts of volatility. There is an obvious problem with the historical approach to volatility forecasting, namely that the past may not be a good guide to the future. But with so little data to work with, given the short period that the PFD has been around, I didn't have much of a choice but to accept this shortcoming, if I wanted to go beyond a backward looking analysis.

So if we take history as our guide for the future and assume downside risk is what matters, we would predict that inflation adjusted federal spending on social and economic security will do a better job of protecting against economic risk than inflation adjusted PFD will. This finding may have implications for those contemplating "exporting" or "importing" the PFD or a similar resource dividend approach. If the purpose of such an approach is solely to provide people with access to natural resources that they have a legitimate claim to, then the findings here may not be relevant. But if the purpose of a resource dividend approach is to some extent to protect people against the vagaries of capitalism, as I assume it is among at least some basic income supporters, then the

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206 Brooks 2008, p. 383.

findings discussed above suggest that an approach to income insurance that relies on more traditional means of public finance may be the better one. Financing public income insurance from the returns on a portfolio of investments in stocks, bonds, etc. as Alaska does, apparently results in a more volatile form of such insurance. In fact, it appears to result in a form of income insurance that is more volatile than any of the measures of economic risk considered in this chapter.

Above I pointed out a shortcoming of historical volatility forecasts that ought to be kept in mind. I'll point out another shortcoming of my approach now. I've used federal spending on social and income security as my more traditionally financed measure of income insurance. Yet only some of this spending goes directly to beneficiaries while the rest is for administrative costs. If I ran the same analysis using only money actually received by beneficiaries, my conclusions might differ. I could find no source that contained federal spending on all of these programs separated into administrative versus spending on recipients. Thus, the current analysis will have to stand, and readers should just keep this shortcoming squarely in mind.

Given that inflation adjusted PFD appears to be more volatile than federal income support, the question arises is there any way to reform the PFD so that it will be less volatile. A simple method discussed in statistics could go a long way toward such volatility reduction.

4. Reducing the Volatility of the PFD

A lot of the techniques discussed in statistics require the data under investigation to be distributed in a certain way. When data are not so distributed, they are sometimes transformed in an effort to get them to "behave" more appropriately. One of the more

frequent cases where such transformations are used is when data are highly dispersed and, therefore, have a relatively large standard deviation or CV and researchers want to decrease such dispersion. An often used transformation to decrease dispersion is the square root transformation.[207] It involves simply taking the positive square root of the values being transformed. In the case where the values have units attached to them the square root of these units must be taken as well.

In order to transform inflation adjusted PFD values I did the following:

1) I took the positive square root of inflation adjusted PFD values. Since the PFD values have the unit of a dollar, the transformed values have the unit of $dollar^{1/2}$
2) I multiplied the transformed PFD values by $25dollar^{1/2}$. The value of $25dollar^{1/2}$ was used to obtain revised PFD values that were roughly of the same order of magnitude as the original values and to end up with quantities that had dollar as the unit of measurement.[208]

Step 2 probably deserves further explanation.

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207 Cobb 1998, p. 487.

208 "Order of magnitude" in the present context means power of 10. For example, 122 and 132 are of the same order of magnitude but 11 is not of the same order of magnitude as the previous two numbers. 122 and 132 are both on the order of 10^2, while 11 is on the order of 10^1.

After taking the positive square root of the original inflation adjusted PFDs, I ended up with relatively small quantities. Multiplying these quantities by 25 (ignoring units for the moment) I was able to get the quantities back up to about the same level as the original data (this is essentially what is meant by the phrase "same order of magnitude"). For example, the square root transformation may have transformed a value like 387.70 to about 19.69. Once 19.69 was multiplied by 25 the result was 492.25, which is of the same order of magnitude as 387.70.[209]

I obtained the CV and downside CV for the values that resulted from steps 1 and 2. These were .16 (CV) and .12 (downside CV). Thus, the square root transformation resulted in volatilities that were a bit lower than those of the previous PFD measures but still higher than those associated with federal spending on social and income security (see Tables 1 and 2 above).

A problem with the use of steps 1 and 2 to reduce the volatility of the original stream of benefits is that it reduced the average level of benefits. For example, the mean of inflation adjusted PFD before application of steps 1 and 2 is about $691. After application of steps 1 and 2 it is about $649. This does not seem like a huge difference, but it can be surprising how big small differences can become once politics gets involved.

The upshot of all of this is that relying on investments in asset markets to finance income insurance can result in a relatively volatile stream of benefits. The volatility of

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209 492.25 = $4.9225 * 10^2$ and 387.70 = $3.8770 * 10^2$. The fact that both of these numbers can be obtained by multiplying a factor times the same power of 10 is what makes them of the same order of magnitude.

such a stream can be decreased if officials and residents are willing to accept a volatility reducing transformation of the original stream of benefits that may also reduce the average benefit. In other words, officials and residents may face a trade off in this context that those involved in financial markets know only too well. With a higher average return typically comes higher risk too.

5. Lessons Learned

It seems to me that there are five lessons that can be taken from this chapter. The first is that there are at least two different ways to finance public income insurance: one that relies on private asset markets and another that relies on more traditional methods of public finance such as the various types of taxes that governments typically impose. The second lesson is that the nature of financing can affect the volatility of the stream of benefits provided by an income insurance scheme. The third is that the stream financed by private asset markets may be the more volatile stream. If "too much" volatility is something officials and residents want to avoid, this may be a cause for concern. The fourth lesson is that the volatility of an income insurance stream financed by private asset markets can be reduced by the kinds of transformations discussed in basic statistics, one of which was demonstrated earlier. And the fifth lesson is that accepting such transformations may require officials and residents to trade off a higher average benefit for lower volatility. Those considering adoption of an Alaska like PFD program may want to "take these lessons to heart."

Figures (1-7)

Figure 1 Inflation Adjusted GDP by Time

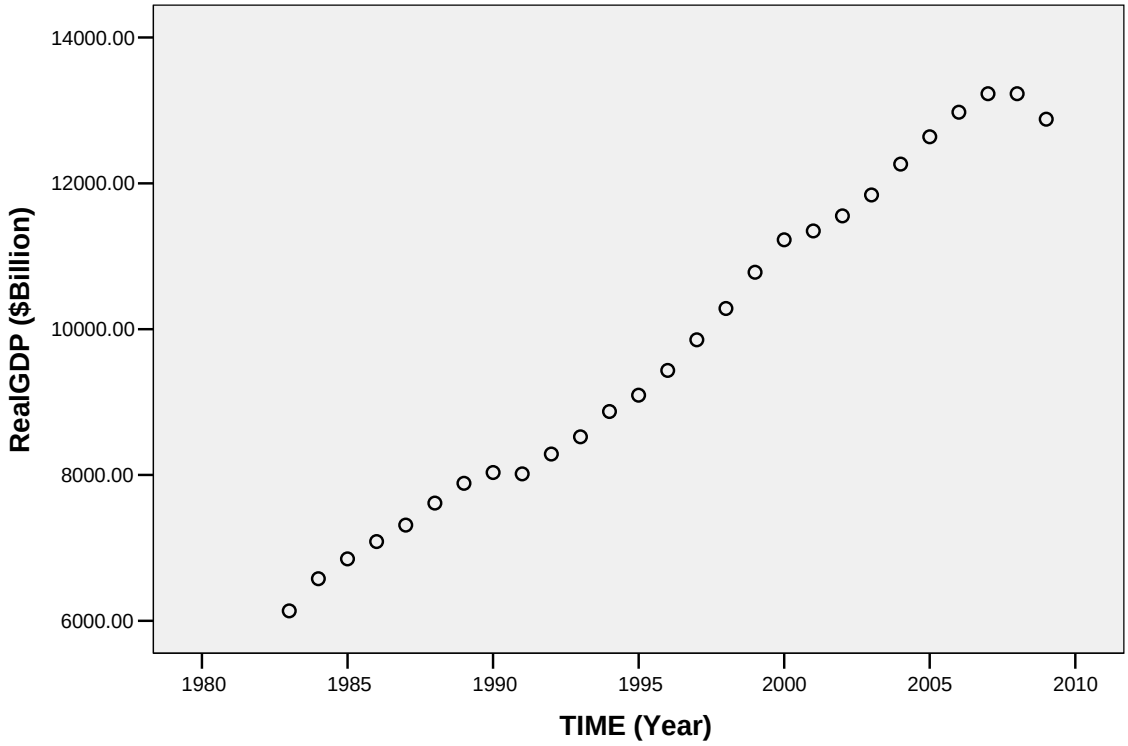


Figure 2 U.S. Unemployment Rate by Time

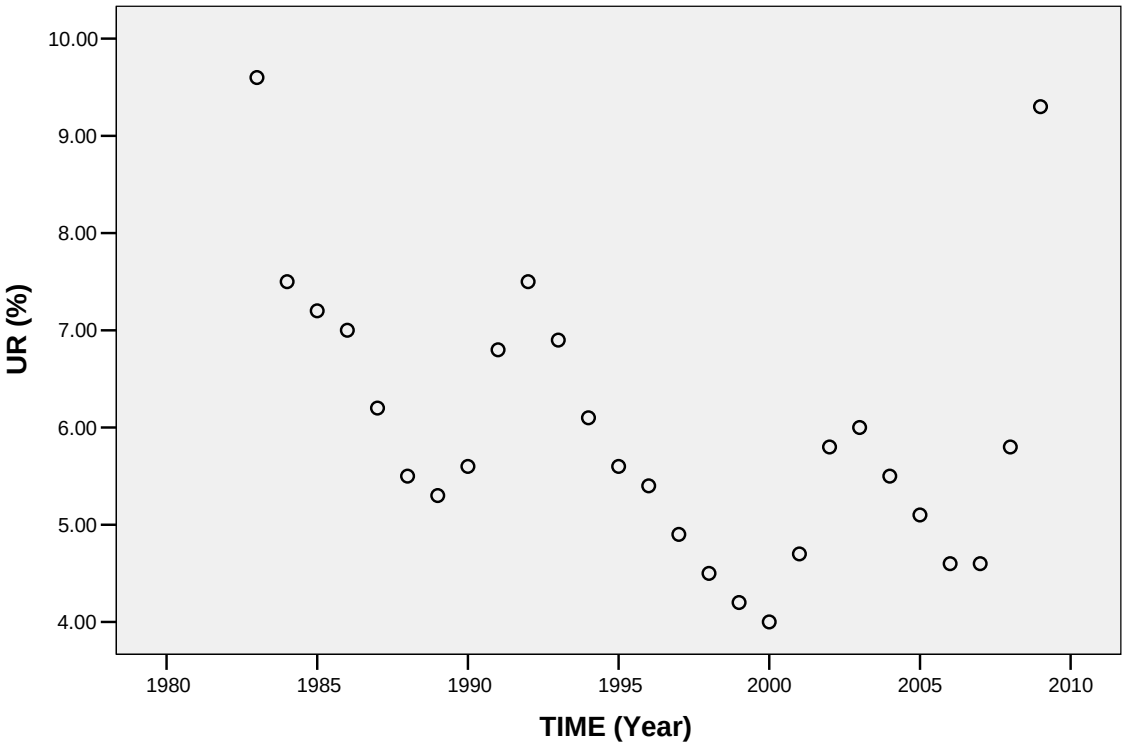


Figure 3 U.S. CPI by Time

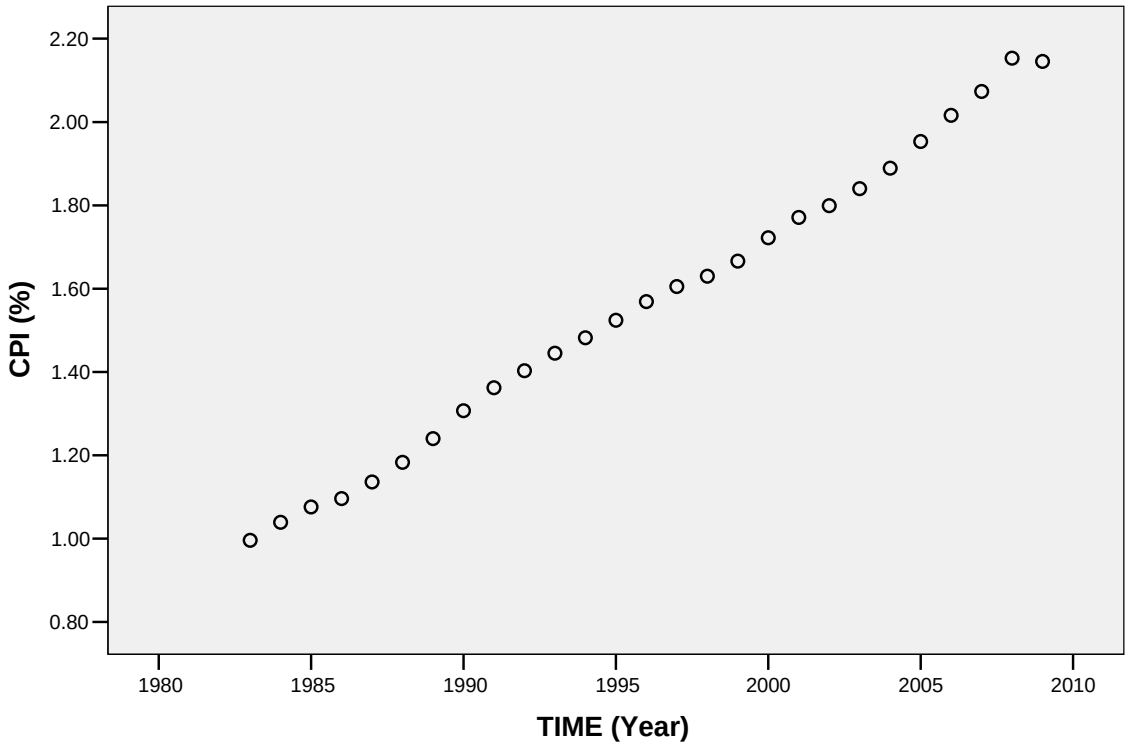


Figure 4 U.S. Average Weekly Wages by Time

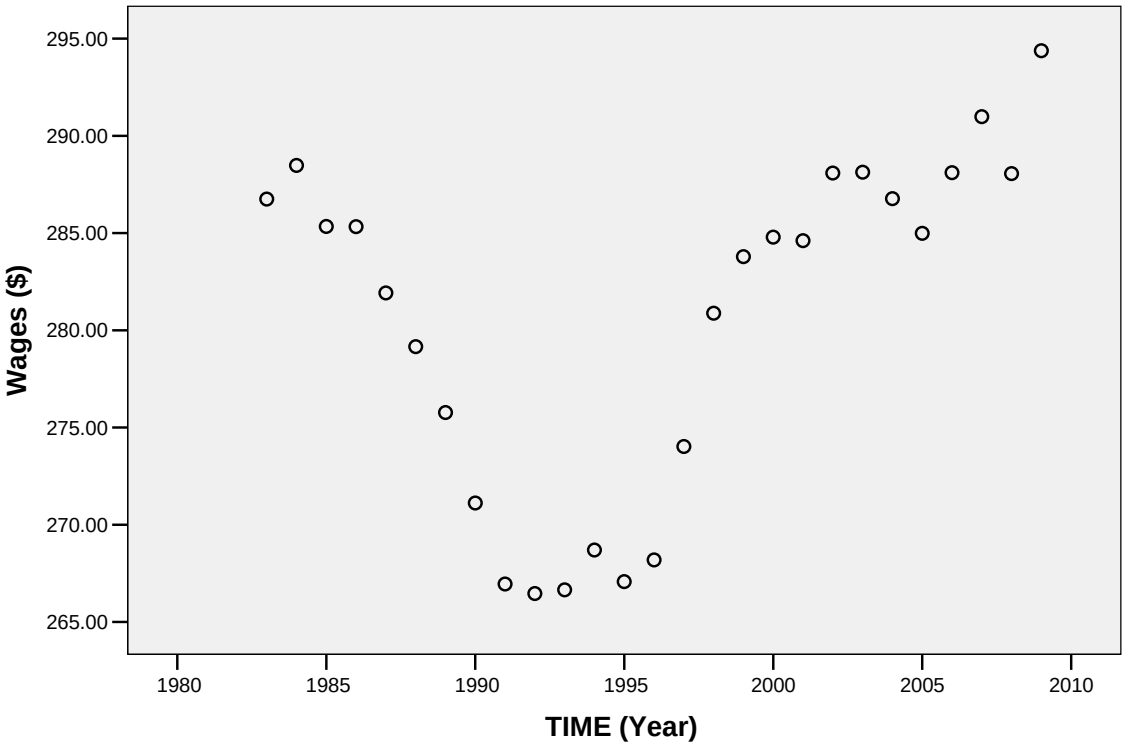


Figure 5 Alaska Unemployment Rate by Time

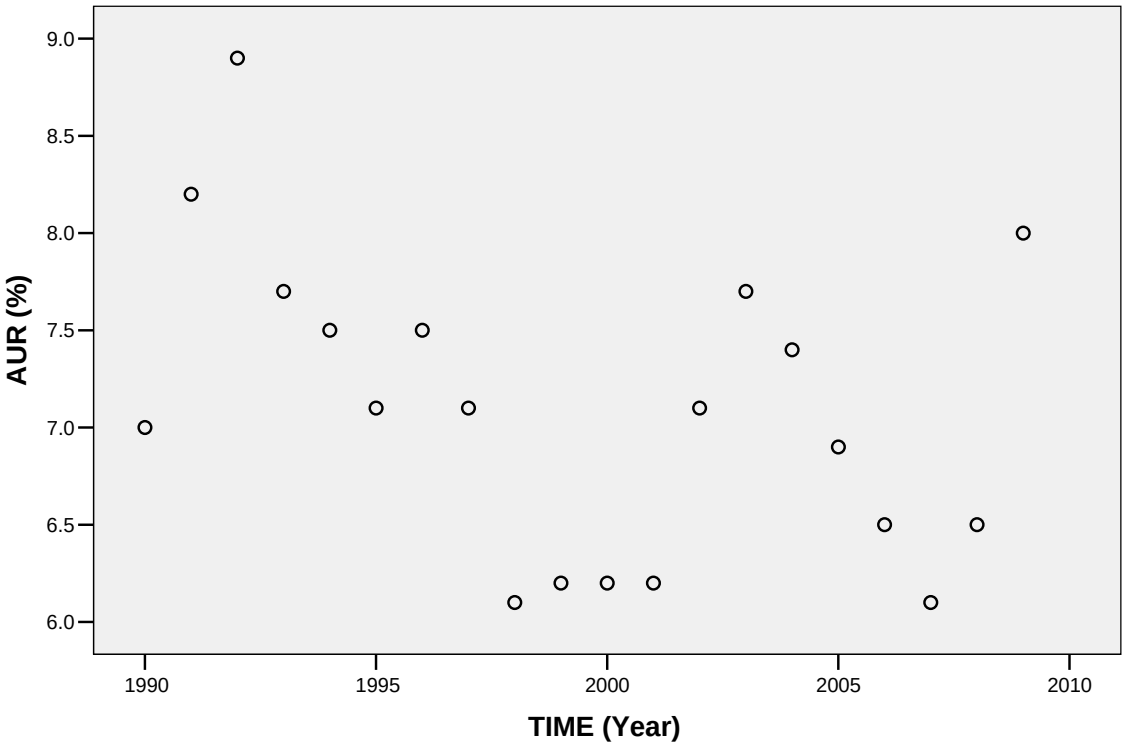
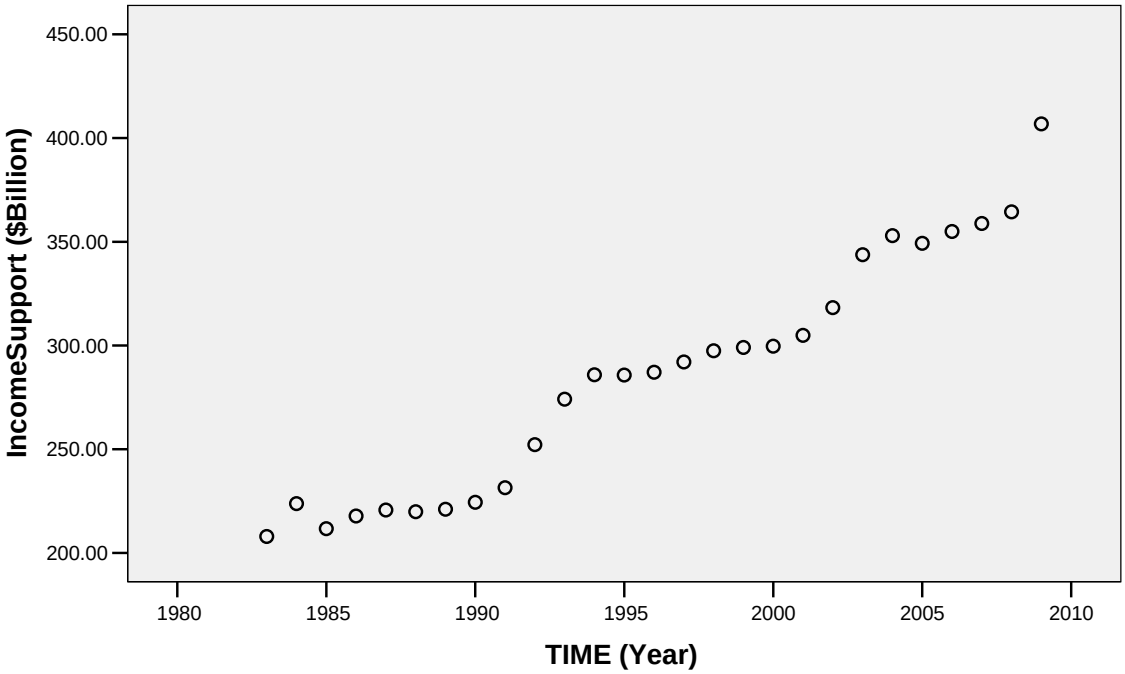
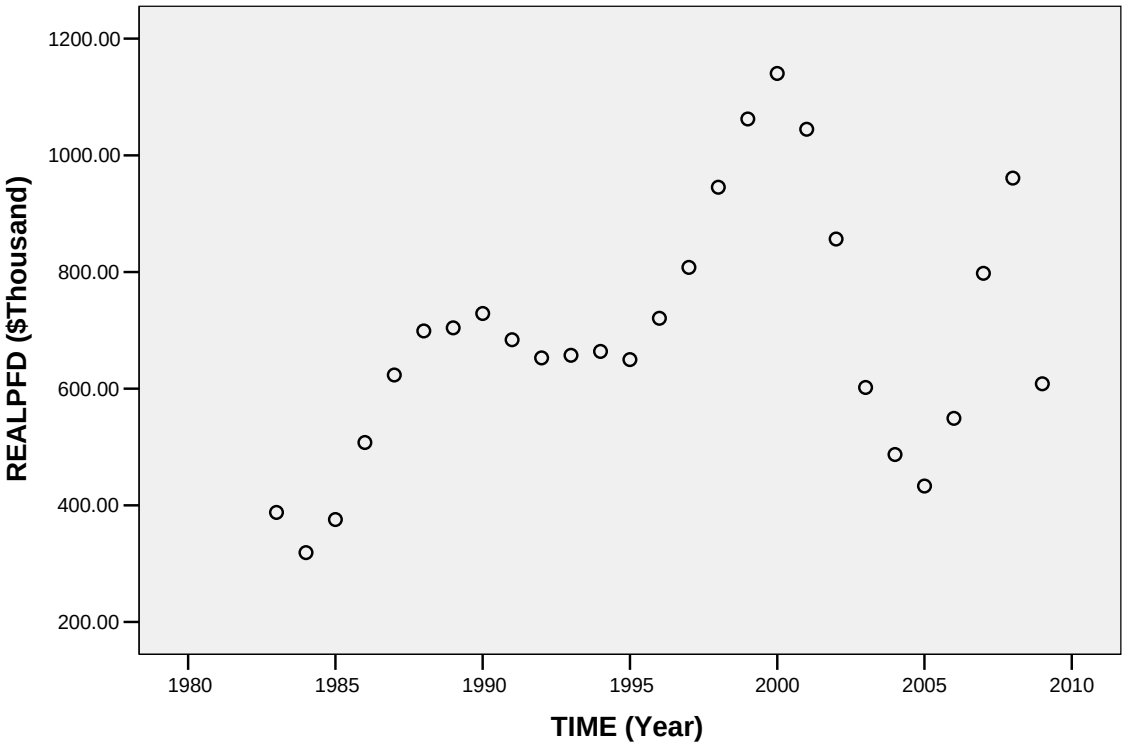


Figure 6 Inflation Adjusted Federal Spending on Social and Income Security by Time



Income security includes unemployment compensation, Supplemental Security Income, the refundable portion of the earned income and child tax credits, the Supplemental Nutrition Program, family Support, child nutrition, and foster care

Figure 7 Inflation Adjusted Alaska Permanent Fund Dividend by Time



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Chapter 7

To Come

Part Two
The Ethics of the Alaska Model

Chapter 8

Left-libertarianism and the Resource Dividend

Ian Carter [210]

Libertarians are often classified by contemporary political philosophers as "right" or "standard" libertarians, on the one hand, and "left-libertarians", on the other. Right-libertarians favor private property rights and market freedoms, and are opposed to any form of redistributive taxation. Left-libertarians similarly favor private property rights and market freedoms, but argue that these rights and freedoms are not incompatible with redistributive taxation.

Right-libertarians (who of course constitute the vast majority of libertarians) have sometimes contested this distinction between left- and right- libertarianism. They tend to think of "left-libertarianism" as an oxymoron and of the egalitarians who espouse it as merely attempting to hijack an attractive label.211 In contrast to this view I shall argue that, of the two theories, it is left-libertarianism that is truer to the most fundamental premise of libertarianism: that each person is entitled to the freedom to live her life as she pleases without interference from others.

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[210] I am grateful to Hillel Steiner for helpful comments on an earlier draft of this chapter.

211 See for example Tom Palmer's review of Michael Otsuka's book *Libertarianism Without Inequality* (Palmer 2009; Otsuka 2003).

One way in which egalitarians commonly argue that right-libertarians are not true to the ideal of freedom is by claiming that the latter adopt too narrow a conception of freedom – that they define it negatively, as the mere absence of constraints imposed by other agents – whereas "real" freedom instead consists in the effective power to act.212 I shall not adopt this argumentative strategy. Rather, I shall assume the "negative" conception of freedom, and shall argue that the basic right to negative freedom itself implies the right to a natural resource dividend.

One way in which left-libertarians have tried to justify a natural resource dividend is by claiming that the world's natural resources are originally owned equally by all213 – individually, jointly, or collectively – and those who appropriate a greater-than-equal share of natural resources therefore owe compensation to all others for having violated their equal ownership rights. I shall not argue on the basis of a universal pre-existing ownership right, for to do so would again be to introduce a premise that is not shared by right-libertarians. Right- and left-libertarians share a commitment to the historical entitlement theory of justice – the view that the justice of a distribution of property depends not on the validity of any pattern (such as equality, or possession of goods in proportion to desert), but on how that distribution came about, and in particular on

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212 See, for example, Van Parijs 1995.

213 "Left-libertarianism rests on two central claims: (1) full initial self-ownership for all agents, and (2) egalitarian ownership of natural resources." Vallentyne, Otsuka and Steiner 2005, p. 202.

whether it came about through just exercises of people's rights of property.214 But right-libertarians accuse left-libertarians of compromising their attachment to the historical entitlement conception of justice by endorsing a patterned principle of justice in the distribution of *original* rights over the world's natural resources. For right-libertarians, historical entitlement theory must be historical "all the way down": there is no original property right to an equal share of the world's resources that somehow directly implies the right to a natural resource dividend.215

My aim here is to argue in favor of the resource dividend on the basis of an entitlement theory that sees entitlements as historical all the way down. My argument will proceed by drawing out the implications of the fundamental right to freedom for the way in which we should interpret the standard libertarian "right of property", including the right to appropriate resources from a pool of unowned natural resources.

This defense of the resource dividend ought to be of interest to non-libertarians as well as to libertarians. Even if one believes in a right of egalitarian ownership of the world's resources on non-libertarian grounds, an examination of the relevant libertarian arguments can provide useful insights into the nature and justification of the relevant property rights. A non-libertarian advocate of the resource dividend might also take heart in the thought that a defense of her position can be constructed on the basis of premises normally appealed to by her libertarian opponents – namely, the ideal of negative

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214 Nozick 1974, ch. 7.

215 For this claim, see especially Mack 2009, pp. 107, 118.

freedom, the absence of original ownership rights, and an individual right to privatize extra-personal resources.

1. Freedom, Self-ownership and World-ownership

Left-libertarians have tended to characterize their difference with right-libertarians in terms of the way each side conceives of the relation between self-ownership (that is, one's ownership of one's own body and mind) and world-ownership (that is, one's ownership of extra-personal resources, or things that are not a part of oneself).216 They characterize libertarianism itself as the assertion of full self-ownership rights, and then categorize libertarians as being of the left or right depending on whether or not they think that self-ownership itself rules out the redistributive taxation of extra-personal resources.

While this characterization of the difference between the two sides is not incorrect, its treatment of their common ground remains superficial, for it gives the impression that self-ownership is the most *basic* ideal of libertarianism. Self-ownership cannot itself be basic, because self-ownership is a kind of property, and property is a bundle of rights. These rights include claims to non-interference and liberties to use certain resources. Rights are, among other things, normative distributions of freedom (to do certain things) and of unfreedom (to do things that would prevent others from doing certain things). Respect for self-ownership rights supervenes on respect for certain freedoms and (in the name of those freedoms) the enforcement of certain unfreedoms. The most basic premise

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216 The difference is so characterized in the influential anthologies of Vallentyne and Steiner 2000a, 2000b, in Otsuka 2003, and in Vallentyne et al. 2005.

of libertarianism, then, is *the right to freedom*.217 Left- and right-libertarians agree that there is a universal right of full self-ownership, but only because they also agree, more fundamentally, that there is a basic universal right to freedom.

Left-libertarian arguments that concentrate on the relation between self-ownership and world ownership are often purely *defensive* in nature: they defend the coherence of left-libertarianism by showing that the taxation of extra-personal resources does not violate self-ownership. Having provided this defense, left-libertarians then tend to point out that this taxation can be justified by an independently valid egalitarian principle for the distribution of extra-personal resources. For example, Otsuka's favored principle is that of equality of opportunity for welfare.218 The principle of equality of opportunity for welfare is, however, quite alien to libertarianism, and right-libertarians can reject it without being troubled by problems of coherence. A more *offensive* argument would instead aim to justify redistributive taxation by appeal to a necessary premise of the right-libertarian's own argument in favor of self-ownership (and of private property more generally). Such is the argument that I aim to construct here.

I shall assume throughout that "freedom", as the term is used in the expression "fundamental right to freedom", is defined in a non-moralized way. On a moralized

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217 Unlike Vallentyne and Otsuka, Steiner (1994) explicitly recognizes the right to freedom as the one basic right. Steiner is therefore not open to the criticism put forward in this paragraph and the next.

218 Otsuka 2003, ch. 1. "Equality of opportunity for welfare" is a luck-egalitarian principle, and has been defended by Arneson 1989, and Roemer 1994.

definition, freedom is the absence of constraints that violate one's rights. On a libertarian moralized definition, those rights are property rights. Thus, on a libertarian moralized definition of freedom, the state restricts my freedom if it expropriates or taxes my just holdings, but it does not restrict my freedom when it prevents me from committing theft or from using other people's just holdings without their permission. On a non-moralized definition, by contrast, there is such a thing as a just restriction of freedom: a justly imprisoned thief is unfree to leave prison, even though her guards act within their rights in preventing her from leaving. The enforcement of private property rights guarantees freedom to those who possess it, and unfreedom to those who possess the correlative duties of non-interference.

Although many right-libertarian arguments seem to have implicitly assumed a moralized definition of freedom,219 my assumption of a non-moralized definition is a weak premise, for a moralized definition of freedom is a non-starter if the aim is to justify the right of property by appeal to a fundamental right to freedom. If freedom serves to ground property rights – as it does, at least in the rhetoric of right-libertarians – then freedom cannot be defined in terms of rights.

One reason why right-libertarians often fall back on a moralized definition of freedom might lie in their surprisingly scant attention to the concept of freedom: they write a great deal *about* freedom, but rarely subject the concept itself to analysis. This

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219 The reliance on a moralized definition on the part of Nozick (1974, p. 262), among others, is exposed in Cohen 1991. See also Olsaretti 2004. Other examples of reliance on a moralized definition can be found in Leoni 1961, ch. 2, and Rothbard 1982, part IV.

practice can easily lead to a conflation of the nature of freedom itself with the social and legal conditions for its realization (which is to say, the conditions for its maximization, or its maximization compatible with an equal freedom for all). Nevertheless, there are textual grounds for thinking that most right-libertarians are at least implicitly aware of the sense in which the concept of a moral right must depend on that of freedom and not vice versa. According to the libertarian principle of non-aggression, "anyone should be free to do anything he or she wants, as long as he or she does not commit acts of force or fraud against any other peaceful person".220 This principle states that each person's freedom is justly limited by her duty not to commit acts of force or fraud. Yet on a moralized definition of freedom, that duty would not constitute a just limitation of their freedom, there being no such thing as a just limitation of freedom. The principle therefore assumes a non-moralized definition of freedom. To take another example, Douglas Rasmussen and Douglas Den Uyl speak of a "basic right to liberty",221 which, presumably, will not make sense if the liberty one enjoys simply *is* the respect one enjoys for one's rights. Finally, it is worth quoting Eric Mack's description of the basic moral right upon which the right of property rests, a right that again can only make sense if interpreted as a right to freedom in the non-moralized sense. According to Mack, the libertarian right of property rests on "a really basic claim – a moral ur-claim – on behalf of each individual against all other individuals (and groupings of individuals) to be allowed to live her own life in her own chosen way, to be free of interferences by those individuals (or groupings)

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220 Huebert 2010, p. 4.

221 Rasmussen and Den Uyl 2005.

which prevent her from exercising her capacities as she sees fit in the pursuit of her own ends".222

There might be some disagreement among libertarians, whether of the left or of the right, over what, exactly, counts as a humanly imposed constraint on a person's freedom. All will surely agree, however, that a person is rendered unfree to do something when that doing is rendered physically impossible by the deliberate action of some other person or group. This minimal criterion of negative unfreedom will be sufficient for my argument to go through.

Since the enforcement of private property rights is an enforcement of both freedoms and unfreedoms, it must be the case that the libertarian holds the enforcement of the unfreedoms to be necessary as a means of guaranteeing each person's fundamental right to freedom. What we now need to scrutinize, then, is the justification for enforcing certain unfreedoms.

2. Normative Liberties and Normative Powers

Before examining the libertarian freedom-based argument for the right of property, it is important to clarify the nature of private property rights. Libertarians commonly unpack the right of property into at least the following two rights: first, the right to use the resources in one's possession as one sees fit; second, the right to take possession of, and in this way to appropriate, resources that are as yet not owned by anyone. I shall

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222 Mack 2010 p. 55. See also Mack 1977.

examine the first of these two rights in section 3, and the second in section 4. Before doing so, it is important to notice that, if we follow Wesley Newcomb Hohfeld's classic analysis of rights, there are in fact four possible meanings of to the term "right", and that the two libertarian rights just mentioned will themselves need to be unpacked in terms of these four Hohfeldian categories. The four categories are: claims, liberties, powers and immunities.223

To have a *claim* is to stand in a normative relation with another person such that that other person has a duty. Private property includes the claim that others not interfere with certain resources in one's possession: to the extent that one has property rights over those resources, others have a duty not to use them without one's permission. To have a *liberty*, on the other hand, is to *lack* a duty to do (or not do) something. To the extent that one lacks duties, others are lacking in claims against one. Private property includes the liberty to make use of certain resources in one's possession. (Notice that liberty, in this context, is a normative relation, and is not to be confused with freedom as a physical fact, the fundamental right to which motivates the right of property.) In addition to claims and liberties, the right of property includes two kinds of second-order normative positions: powers and immunities. To have a *power* is to be normatively enabled to change other normative relations: for example, my power to sell my house is a power to cancel certain claims and liberties in myself, to create certain claims and liberties in the new owner, and

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223 See Hohfeld 1923, and, for a useful exposition of the Hohfeldian normative positions, Jones 1994, ch. 1. On the application to property, see Honoré 1961, and Steiner 1994.

to change the nature (more precisely, the directedness) of the duties of third parties. All legal acts involving the sale, hiring out, or giving away of private property, are exercises of powers in this sense. To have an *immunity*, on the other hand, is to stand in a normative relation with another person such that that other person lacks a power. If I have an immunity with respect to another person, then that person is "disabled" from exercising a certain power. Private property includes an immunity against expropriation by the state, for example, as well as an immunity against others selling or hiring out or giving away one's property. (One can of course waive that immunity by exercising a second-order power: the power to delegate the power to sell or hire out or give away one's property.) As we unpack the two libertarian rights mentioned above – the right to use one's own resources as one sees fit, and the right to appropriate unowned resources – the two normative positions from which we must begin are, respectively, liberties and powers.

An indisputable feature of libertarianism is that it grants each person *unlimited liberties* to use, and *unlimited powers* to dispose of, her just holdings, within the constraints set by the just holdings of others. Libertarians believe in full liberal ownership.224 If am a full liberal owner of a material resource, then no one has any *claims* against me concerning the (non-rights violating) uses I am to make of that resource (for example, concerning what I may do in the privacy of my own house, or what I may to do with my own body), even if those uses are self-destructive, as in the case of drug use or suicide. And similarly, no one has any *immunities* against me

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224 On the notion of full liberal ownership, see Honoré 1961.

disposing of my goods or body as I please (for example, against my selling my house to a member of a racial minority of whom my neighbors disapprove, or against my selling one of my kidneys to the highest bidder).

3. How the Right to Freedom Implies Vested Liberties to Use Resources

Consider now a Lockean state of nature, in which each person is a self-owner but all extra-personal resources are unowned. In such a state, people nevertheless possess certain liberties and powers with respect to extra-personal resources. First, each person has the liberty to use any extra-personal resources within the limits set by others' self-ownership rights, for no one else has any claims that she not so use them. Secondly, each person has the power to appropriate extra-personal resources, transforming them into private property.

The unlimited liberties of a Lockean state of nature are unattractive from a freedom-based libertarian point of view. This is the *reason why* libertarians believe that people in such a state must also have the power to appropriate resources. In performing an *act of appropriation*, I exercise the power to create *claims* on my part to non-interference on the part of others. In so doing, I limit the liberties of others.

Why is an unlimited normative liberty (to use extra-personal resources) unattractive from a freedom-based point of view? One might at first have thought the opposite to be the case: if each person is to have as much negative freedom as possible, why not give each person unlimited liberty-rights to use extra-personal resources? To answer to this question, it should be borne in mind that *universally* unlimited liberties are all necessarily

bare (or *naked*) liberties. The bare liberty to do *x* is a liberty to do *x* that is unprotected by claims that others not prevent one from doing *x*. In other words, my doing of *x* is *vulnerable* to being prevented by others. If two or more people have the liberty to do *x*, where *x* is a spatio-temporally specific action and where either person successfully doing *x* would prevent the other from doing *x*, then each has only a bare liberty to do *x*. Consider, for example, a situation in which you and I both see a banknote on the pavement in front of us, and we both have the liberty to pick up the banknote in the sense that neither of us has the duty not to do so.225 Because neither of us has the claim that the other *not* pick up the banknote, each of us lacks the guarantee that, should he try to pick up the banknote, he will not be prevented by the other from doing so. By adding claims to non-interference, the institution of private property turns bare liberties into *vested* (or *protected*, or *clothed*) liberties.226 When my liberties are protected by a perimeter of claims to the non-interference of others, and those claims are enforced, I can be sure that any attempt on my part to exercise one of those liberties will be a successful one, or at least that I will not be prevented by others from doing what I try to do.

Bare liberties have their place in a libertarian society: the sphere of competition is necessarily a sphere of bare liberties, in which a number of people attempt to achieve certain goals and only some of them can succeed. However, the bareness of all liberties to use extra-personal resources would undermine the fundamental universal right to negative freedom. Eric Mack provides a nice example that illustrates how the limits on

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225 Hart 1982, p. 166; Jones 1994, p. 19.

226 Hart 1982, p. 172; Steiner 1994, ch. 3; Mack 2010, p. 60.

our normative liberty – the limits that are constitutive of the institution of private property – are occasioned by the need to guarantee each person's fundamental right to freedom, or what, as we have seen, he calls the "ur-claim" of each person "to be allowed to live her own life in her own chosen way". Imagine a Lockean state of nature (with unlimited liberty to use extra-personal resources) in which a Trickster goes around spraying any objects people might attempt to make use of with a special chemical that renders them utterly impossible to use. If people's rights over extra-personal objects are only bare liberty-rights, then the Trickster does not violate anyone's rights by spraying the objects. Yet the Trickster completely prevents people from "living their lives in their own chosen ways". Therefore, the set of rights entailed by their fundamental moral claim to freedom must be stronger than a mere set of bare liberties. We need, in addition, the power to create vested liberties.

4. How the Right to Freedom Implies a Vested Power to Appropriate Resources

An important difference between right- and left- libertarians turns on the following question: Should the power to acquire previously unowned extra-personal resources be interpreted as an *un*limited power, as most right-libertarians think, or as a *limited* power, as left-libertarians would claim? The left-libertarian answer can be justified, I now suggest, by comparing the implications of the fundamental right to freedom in the case of liberties (to use extra-personal resources) with its implications in the case of powers (to acquire previously unowned extra-personal resources). In particular, *if* (as right-libertarians believe) the fundamental right to freedom motivates strengthening liberties to

use resources by vesting them with claims, it similarly motivates strengthening powers to appropriate unowned resources by vesting them with immunities. If we think about the conditions that will guarantee the fundamental moral claim to freedom, we shall see that Hohfeldian immunities stand to Hohfeldian powers in just the same way as Hohfeldian claims stand to Hohfeldian liberties.

Unlimited powers (if possessed universally) are *bare* powers, just as unlimited liberties (if possessed universally) are bare liberties. And a universal bare power to acquire property is not sufficient to guarantee each person's fundamental moral claim to negative freedom. To see this, consider an example analogous to that of the Trickster referred to by Mack in the case of liberties. Imagine a Lockean state of nature containing a group of people called the Pre-emptors, whose main purpose is to go around preventing specific individuals from acquiring property by making sure that someone else acquires it first. One can imagine a highly coordinated group of Pre-emptors that successfully victimizes a particular individual, called Smith. Whenever Smith attempts to acquire a particular extra-personal resource from the pool of unowned resources, the group of Pre-emptors (or perhaps its coordinator) sees to it that one of its members gets in there first, so preventing Smith from carrying out that particular act of appropriation. The group thus prevents Smith from living his life in his own chosen way, even though it is not violating any of Smith's rights.

Smith's bare power to appropriate unowned resources is insufficient to satisfy his fundamental moral claim to negative freedom, just as, in our previous reasoning, his bare liberty to use resources was insufficient to satisfy it. To honor his fundamental moral claim, then, we need to turn his bare power of acquisition into a vested one, by protecting

it with an *immunity* against others exercising certain powers of appropriation. Since the fundamental moral claim to freedom is possessed no more or less by Smith than by anyone else, the immunity in question must be an immunity against any other person appropriating unowned resources *in such a way as to deprive Smith of the opportunity to appropriate a certain amount of resources.* The natural way to interpret that amount is as an equal portion of the total amount of resources. Logically speaking, the immunity could be interpreted in other ways – for example, as an immunity against others depriving one of the opportunity to appropriate a sufficient share. However, the establishment of an appropriate level of sufficiency would be problematic for libertarianism, given that libertarians ought to eschew stipulations about what counts as an adequate standard of living, just as they eschew stipulations about what counts as a valuable way of life. The equal moral status of all persons (implied by the universality of the fundamental libertarian right to negative freedom) instead provides a non-arbitrary standard on the basis of which to limit the universal power of appropriation.227

One can think of such a limit as implying a "Lockean proviso" of the sort favored by Left-libertarians. However, the proviso is not understood here as an exogenous egalitarian requirement, but as *constitutive of the very right of property* – a right that is motivated by the fundamental right to negative freedom and that consists not merely in a *bare* power to appropriate but in a *vested* power to do so.

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227 Left- and right-libertarians agree on assigning each person equal moral status. The grounds of that equal moral status are in need of further clarification (see Carter 2011), and may provide criteria for adjudicating between the two theories of distributive justice.

5. How the Right to Freedom Implies the Right to a Share of Natural Resources

In contemporary market societies, a contingently valid practical implication of the universal immunity described above will be the allocation of a natural resource dividend. This practical implication is similar to the policy outcome of Hillel Steiner's theory of rights, even though Steiner himself arrives at that policy outcome on the basis of a universal claim to an equal portion of the world's initially unowned resources.

The resources currently in people's possession have a value that is contributed to by two factors: the labor of those people who have transformed them in various ways (including the labor of all previous owners), and the natural resources of which that labor made use. All libertarians hold that one has full liberal ownership rights over the fruits of one's labor and over anything that one possesses as a result of the voluntary exchange of fruits of people's labor. The natural-resource component of a resource's overall value, however, is not the fruit of anyone's labor, and is therefore subject to the limit on appropriation imposed by the universal immunity discussed above.

Following Steiner, we can use the term "over-appropriators" to refer to those who exceed the limit on the valid appropriation of natural resources.228 According to the argument set out above, however, the limit on appropriation is the result of an immunity rather than of a claim. In principle, then, the limit does not rule out the appropriation of a

228 Steiner 1994, p. 268.

quantity of natural resources that exceeds an equal portion of the total.229 Appropriating more than an equal portion does not (on the above account) necessarily make one an over-appropriator, for if enough resources remain unowned, those who appropriate more than an equal portion do not deprive any other individual of the freedom to take possession of an equal portion. The fact that the *set* of all other individuals cannot then *jointly* appropriate a *set* of such equal portions is irrelevant to the question of whether each individual's opportunity to appropriate an equal portion remains intact.230 (If enough other people do appropriate an equal portion, so rendering some unfree to take possession of an equal portion, it will *then* be the case that anyone in possession of more than an equal portion counts as an over-appropriator.)

How are over-appropriators to rectify their violation of the universal immunity that partly constitutes the right of property? In principle, what they are required to do is simply to return the relevant amount of resources to the pool of unowned natural resources. Given the above characterization of over-appropriation, however, we can

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229 Unlike Steiner, I have not defined over-appropriators as "persons who appropriate a greater than equal portion" of the world's natural resources (Steiner 1994, p. 268), but as persons who appropriate up to a level that deprives some other person of the opportunity to appropriate an equal portion. Steiner's characterization of the Lockean proviso is in terms of a *claim* to an equal portion of the world's resources.

230 I here assume a particular position on the relation between individual and collective freedom, which I defend in Carter 1999, ch. 9. This position contrasts with Steiner's "constant-sum" view of overall group freedom.

assume that where over-appropriation does occur, most (if not all) of the known natural resources of the world have already been appropriated, for it is only when most of the reserve of initially unowned resources has already been appropriated that certain individuals can qualify as having been deprived of the opportunity to appropriate an equal portion of it, and therefore as having suffered a violation of their vested power of appropriation. In such a scenario, the set of persons who have been deprived of the opportunity to appropriate an equal portion coincides more or less with the set of persons who actually possess less than an equal portion. Thus, the rectification of the injustice will effectively amount to putting the surplus resources of the over-appropriators under the control of these 'under-appropriators'. This is exactly the form of rectification proposed by Steiner on the basis of a universal claim-right to an equal portion of natural resources.231 As Steiner points out, moreover, two ineliminable facts about our world point to a universal resource dividend as the most appropriate institutionalization of this rectificatory justice: the fact that people arrive in the world at different times and in different numbers, and the fact that resource values change over time. Given these two facts, the institutionalization of rectificatory justice ought to consist in the creation of a fund into which all appropriators pay the market value of the natural-resource component of their holdings (for permanent, indestructible resources, such as geographical sites, this value will amount to their rental value), and from which each person receives an equal share over time.232

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231 See tables 8.1 and 8.2 in Steiner 1994, p. 269.

232 Steiner 1994, pp. 270-73.

It is notoriously difficult to establish with precision the natural resource component of people's holdings. Nevertheless, as Steiner points out, some kinds of resource are indisputably not the product of anyone's labor. Among these are land and the natural resources located above and below it, including building and agricultural potential, air space, and resources located underground such as oil, coal or precious metals.

Although the practical policy implication is similar, thinking of the resource dividend as the outcome of an immunity rather than of a claim – as a limit on others' powers of appropriation rather than as an original equal ownership right – allows the left-libertarian to rebut the charge that she has confused the libertarian right *of* property, which consists in the right (more precisely, the power) to appropriate extra-personal objects and thenceforth to enjoy full liberal ownership of them, with the egalitarian right *to* property, which assumes each person to have a fundamental right to a certain amount of property determined in accordance with a patterned principle of justice. Along these lines, Eric Mack has accused left-libertarians of stipulating, without grounds, that each person has a basic claim-right over a certain portion of the world's natural resources. Libertarians reject distributional patterns, and instead see property rights as "historical all the way down". It is not necessary, however, to interpret the left-libertarian "original right to a share of resources" as an original ownership right. To clarify this point, we need to separate the use of the expression "right to" from the use of the expression "to a share", in the expression "original right to a share of resources". The expression "right to" can be interpreted not as a *claim to* resources, but as the "right *to appropriate*" property in the standard Lockean-Mackian sense of original acquisition from a pool of unowned extra-personal resources (that is, as a power). What makes it a right "to a share", on the other

hand, is simply the *vested* nature of that "right to appropriate": in other words, the expression "to a share" refers to the possession of an immunity against others appropriating extra-personal resources in such a way as to deprive one of the basic negative freedom to live one's life as one pleases. The left-libertarian vested power is a right *of* property in Mack's sense, inasmuch as it is a power to create in oneself the claims, liberties, powers and immunities entailed by full liberal ownership rights. It is not a right *to* property in Mack's sense. It is a right *to a share* only inasmuch as it consists not in a bare power, but in a vested power.

Conceiving of the right to an equal share as an immunity rather than as a claim therefore allows the left-libertarian to embrace Mack's claim that property rights are historical all the way down.233 If the right to a share of resources is interpreted as a universal immunity against over-appropriation (deriving from each person's equal right to negative freedom), that "right to a share" neither rests on nor establishes a particular pattern of distribution. (I am assuming that a "patterned distribution" is a patterned distribution of *property*. One might also call the principle of equal freedom, or the principle of equal respect for persons that ultimately grounds it, a "patterned" principle. But in this case even the right-libertarian would count as advocating a "patterned" theory.234)

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233 Mack 2009.

234 Could the possession of a *vested* power of appropriation itself amount to a (weak) form of *ownership* over the resources that others are not permitted to appropriate, and therefore as a kind of property right? Although there are forms of ownership that include

6. Left-libertarianism and the Alaska model

The discovery of natural resources increases the total of the world's known natural resources, leading people other than the discoverer of those resources to stake claims in them. Whose claims are valid? When oil reserves are discovered under a certain piece of land (as occurred in Alaska prior to the institution of the Alaska Permanent Fund), to whom do those reserves belong? The right- or standard-libertarian answer to this question is that the oil belongs to the person who discovered it, unless it happens already to be a part of the property of another person (this will be the case if someone owns the land under which the oil is located and her land ownership rights cover all the mineral rights), in which case the discoverer of the oil has done the owner a favor (perhaps unwittingly, or perhaps in exchange for payment). If the oil and the land under which it is located are unowned, then the discoverer of the oil can take possession of them and exploit the oil reserves (or not exploit them) as she sees fit. Whether or not she takes possession of the oil, under no circumstances does she owe anything to anyone as a consequence of the discovery.

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only some of the instances of full liberal ownership listed by Honoré (1961), there seems to be no good reason for stretching the notion of ownership to cover the mere presence of disabilities in others (correlative to one's vested powers) without also stretching it to cover the mere presence of liabilities in others (correlative to one's bare powers), in which case right-libertarians would again count as "patterned" theorists.

On the left-libertarian theory outlined above, on the other hand, the answer to our question will depend on whether all or most of the rest of the world's natural resources have already been appropriated. If sufficient resources remain to be appropriated, then the position of the discoverer is the same as under right-libertarianism. If, however, all or most other natural resources have already been appropriated, then the discovery of the oil is likely to increase the overall set of natural resources in such a way as to imply that, were one person or group to take exclusive possession of the oil, they would be depriving others of the opportunity to appropriate an equal portion of that overall set. Thus, if the oil is unowned, and all or most other resources have already been appropriated, the discoverer of the oil may take possession of it only if she pays the relevant sum into the common fund. Similarly, if the oil is already owned by someone who owns the land and all the mineral rights (and all or most other resources have already been appropriated), the amount the land owner owes to the fund, in virtue of her land ownership, will increase by the value added to the land by the discovery. In either case, the discovery will increase the sum owed to the fund by the value of the newly discovered natural resource. Finally, if the oil is unowned, or if the owner decides to sell it, and all or most other resources have been appropriated, then the left-libertarian theory outlined above additionally permits the state to acquire the oil, provided the state then use all of the proceeds to contribute to the fund.

It is the state's task to manage the fund on behalf of all citizens within the constraints set by the universal immunity against over-appropriation. Given that individual agents

arrive in the world at different moments,235 these constraints provide the state with good practical reasons for investing the fund rather than immediately dividing it among the current populace, although it is likely that the state will be obliged to distribute a part of the fund at regular intervals equally among the citizens.

The actual history of the Alaska Permanent Fund, and of the equal dividend it serves to finance, conforms to the hypothetical scenario depicted above. The oil that finances the Alaska Permanent Fund was discovered under state-owned land that had been transferred from federal ownership to state ownership. As owner of the land and of the mineral rights, the state qualified as owner of the oil, and to the extent that the fund is managed prudently and is used to finance a citizens' dividend, it serves to guarantee intergenerational justice in the way outlined above. The substantial size of Alaska's Permanent Fund Dividend makes the Alaskan experience an important empirical case to which left-libertarians can appeal when discussing the economic and political feasibility of their radical ethical prescriptions, albeit with certain limitations, as we shall now see.

What does left-libertarianism have to say about the various possible ways in which Alaska's Permanent Fund Dividend might be increased? It has sometimes been suggested that the dividend could be increased by broadening its sources to include income tax. Philippe Van Parijs, who has famously endorsed the idea of a universal basic income pitched at the *highest economically sustainable level*,236 would presumably favor such an increase. Left-libertarianism, on the other hand, pays attention not only to the justice

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235 In addition to Steiner 1994, p. 272, see also Steiner 1994, ch. 7 (d).

236 Van Parijs 1995, chs 1 and 2.

of what people receive (in the form of a basic capital or basic income), but also to the justice of ways in which they are taxed. For left-libertarians, as for right-libertarians, including income tax as a part of the tax base used to finance the highest sustainable basic income would involve using workers as means to others' ends. It might be *economically feasible* to increase Alaska's Permanent Fund Dividend in this way, and the temptation to do so might arise as the oil starts to run out. Nevertheless, from the left-libertarian perspective it would be unjust to do so.

On the other hand, there are ways of increasing the current dividend that are permissible, and indeed required, under left-libertarianism. First, since the Permanent Fund Dividend provides the best guarantee of an *equal* distribution of the proceeds of Alaskan oil among Alaskan residents, and since cash benefits provide *greater freedom* than in-kind benefits, left-libertarianism would probably endorse increasing the dividend at the cost of reducing other kinds of state expenditure. In Alaska, only a part of the Permanent Fund is currently used to finance the resource dividend. From the left-libertarian point of view, once having discounted any expenditure necessary for the enforcement of property rights and (possibly) for the provision of certain public goods,237 the whole of the remainder of the Permanent Fund ought be directed to financing the Permanent Fund Dividend.

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237 Many right-libertarians are skeptical about public-goods arguments for state provision. The left-libertarian stance on public goods is currently underdeveloped, but there seems to be no reason, in principle, why it should differ from the right-libertarian stance.

Second, although left-libertarianism places strict limits on taxation, it does permit – indeed, it requires – that the Permanent Fund Dividend be increased by however much would be gained through a tax on the over-appropriation of *all* natural resources, and not merely of oil – in practice, a tax on the natural-resource component of all privately owned wealth. Only if we presuppose this broader tax base will left-libertarian justice really require an *equal* dividend. Such an extension of the tax base would no doubt be much less politically feasible than the current arrangement. While it is easy for rich and poor alike to perceive the current dividend as a windfall, once the hypothesized extension were in place, many over-appropriators of natural resources would find themselves paying more into the fund than they are receiving from it.

Even less feasible in political terms but, in purely ethical terms, perhaps the most important left-libertarian reform of the Alaska model, would be the spatial extension of the relevant set of natural resources and, correspondingly, of the set of recipients of the dividend, from Alaska to America and, ultimately, to Planet Earth. Whether this extension would improve or worsen the situation of the least well-off Alaskans is an intrinsically interesting question from the Alaskan point of view, but not from the left-libertarian point of view.

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Chapter 9

Basic Income and the Alaska model: Limits of the Resource Dividend Model for the Implementation of an Unconditional Basic Income

Almaz Zelleke

Alaska's Permanent Fund Dividend (PFD) is often hailed as the only existing basic income in the world. As such, it is held up as a model and inspiration for the implementation of basic income schemes in other U.S. states and other countries. In this essay, I question the characterization of the PFD as either a basic income or a robust model for one. I argue instead that the PFD is a *resource dividend*, a form of redistribution that is related to, but not synonymous with, a basic income. While the ideas of basic income and resource dividends share some philosophical justifications and some roots in intellectual history, they are different enough that they ought not to be confused. Beyond a philosophical desire for semantic clarity, the distinction matters because the justifications for different forms of redistribution, both those justifications that are part of the popular understanding and those that have a more limited academic currency, affect their chances for implementation, their sustainability, and their vulnerability to political processes. In particular, it is possible to design resource dividends in ways that are incompatible with the goal of a basic income and that lead to outcomes in tension with, if not in fact opposed to, its goals. The prominence of the Alaska model in the

contemporary basic income debate challenges basic income supporters to more clearly define the idea and specify criteria for the design of basic income schemes.

I begin this essay with a general clarification of terms, and follow with a brief summary of the common philosophical roots of basic income and resource dividends. Next, I survey the arguments for basic income and contemporary definitions from basic income advocates. I then briefly summarize salient aspects of the history, implementation, and current state of the Alaska Permanent Fund (APF) and the PFD. I discuss how the PFD differs from a basic income, and discuss why those differences matter. I conclude by drawing lessons from the PFD for basic income advocates.

1. What is a basic income?

Basic income is the guaranteed provision of a minimum income on an individual basis to all eligible members of society. Advocates of basic income differ as to whether this income should be unconditional, or conditional on a requirement to participate in an approved voluntary, care giving, or learning activity for those not in paid employment; whether the same or different amounts should go to children, adults, and senior citizens; and how high the basic income could or should be. Basic income is often identified with a *negative income tax* (NIT), an income grant in the form of a refundable tax credit, which can be conditional or unconditional; but the NIT is a *variable* income grant designed to supplement low incomes, while a basic income is a *uniform income floor* that

can be supplemented with earned income.238 In the literature on basic income, the term *participation income* is used to refer to an income grant conditional on a participation requirement.239 The term *workfare* has common currency in U.S. welfare debates, referring to income grants conditional on work in paid employment.240 In the U.S., the Earned Income Tax Credit (EITC), established during the Ford administration and subsequently expanded, is a modest NIT that is conditional on having earned income, and therefore on work in paid employment.

Other forms of redistribution that share philosophical roots with basic income include the *stakeholder grant*, a one-time grant paid to citizens either at birth or maturity;241 *resource dividends*, periodic payments to citizens or residents reflecting imputed shares in the value of natural resources like oil or land, like the PFD; and the *caregiver income*, a stipend paid to unpaid providers of care to children, the elderly, and adults unable to care for themselves.242

Basic income is distinct from another proposal for a universal guarantee: *guaranteed jobs*. Advocates of guaranteed jobs share with advocates of basic income a conviction that the uncorrected market cannot adequately meet the economic needs of all

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238 In the 1960s, conservative economist Milton Friedman advocated replacing all social insurance and welfare programs with an NIT. See Friedman 1962.

239 See Atkinson 1996.

240 See Mead 1986 for the justification of work requirements for income grants.

241 See Ackerman and Alstott 1999 for a contemporary proposal for a stakeholder grant.

242 See Kittay 1999 for a proposal for a caregiver income.

members of society, but differ on the preferred correction. Advocates for guaranteed jobs are convinced of the intrinsic value of paid employment beyond the income it provides to the well-being and status of citizens; they reject the idea of a guaranteed income unconditional on work, as well as the idea of a participation income, in favor of a universal work requirement and a public works program that serves as employer of last resort.243

2. Philosophical roots of basic income, stakeholder grants, and resource dividends

The related ideas of a basic income, stakeholder grants, and resource dividends have philosophical roots in the age of revolutions.244 Arguments for the redistribution of wealth emerged when the industrial revolution began to transform the agricultural economy and to democratize the aristocratic political structure, and when the rhetoric of the French and American revolutions adopted the ideal of equality. Condorcet and Thomas Paine, both participants in the French Revolution, proposed early forms of social insurance for the elderly and widows, and universal stakeholder grants at maturity to

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243 See, e.g., Harvey 1989.

244 See Van Parijs undated, Cunliffe and Erreygers 2004, and King and Marangos 2006, for comprehensive histories of these ideas. Van Parijs has uncovered earlier references to redistribution to the poor in the work of Thomas More and the 16th century Belgian humanist Johannes Ludovicus Vives, but they proposed guaranteed employment rather than guaranteed income or universal grants.

compensate for the loss of natural rights in the free use of land and natural resources.245 Nineteenth-century socialists, including Charles Fourier and Joseph Charlier, extended the idea of compensation for the loss of these natural rights by proposing modest universal dividends that would prevent destitution without eliminating incentives to work.246 John Stuart Mill also endorsed an unconditional guaranteed minimum, with no attempt to distinguish between the "deserving" and "undeserving" poor (as had long been the foundation of British poor relief), as long as it preserved incentives to work.247 Nineteenth-century economist Henry George argued that the value of land belonged to all, and that government should tax its value alone and abolish all taxes on productive activity.248 Followers of the Georgist view have extended the idea of common ownership to other natural resources beyond land, and some have argued for the distribution of the rents on these natural resources in the form of resource dividends.249

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245 De Condorcet 1988 [1795], pp. 273-74; Paine 1995 [1791 and 1797].

246 Fourier 1967 [1836], sec. 491-92, and 1803; and Charlier 1848. See also Cunliffe and Erreygers 2001; and Cunliffe, Erreygers, and Van Trier 2003.

247 Mill 1987 [1849], Book V, chap 11, para 47. See also Morley-Fletcher 1980-81, pp. 310-11; and Van Parijs 1985.

248 George 1992.

249 See, e.g., Hartzok 2008.

3. Contemporary arguments for basic income

While the term *basic income* can encompass many forms of redistribution in its "big tent" context, and while its advocates see many of these related forms as steps toward a basic income, the term itself is generally agreed to refer to ongoing unconditional income guarantees, rather than one-time stakeholder grants, at a "substantial," or "generous" level; basic incomes below this level are *partial* basic incomes.250

Both the unconditionality and the substantial nature of a basic income require justification. In contemporary capitalist economies, the legal framework of property rights constrains individual access to the means of subsistence. For those without inherited land or capital, the resources necessary for life must be earned through wage labor. Welfare regimes in capitalist economies provide a safety net of *social insurance* and *social assistance* programs to protect individuals from deprivation caused by economic downturns. Conditional social insurance benefits go to those willing but unable to work and thus generally considered "deserving," such as the elderly, the disabled, parents of infants, or workers suffering temporary unemployment due to economic downturns, and their dependents; means-tested social assistance benefits go to those who do not meet the work-related eligibility requirements for social insurance and are generally considered "undeserving." The eligibility criteria for both are meant to preserve the incentive to seek employment for working-age men and women, rather than to remain

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250 See Parker 1989 and 1995 for models of a partial basic income.

on benefits. Most developed nations also provide unconditional benefits such as universal health care, free public education, and child allowances. These benefits are broader and more generous in European welfare states than in the U.S., an outlier even among the less generous "liberal" welfare regimes, in Esping-Andersen's typology.251

Even in the more generous European welfare regimes, the idea of a substantial income grant unconditional on willingness to work faces strong opposition from those who see it as enabling recipients to live without contributing to society's productive efforts. Many contemporary advocates of basic income promote it as a more efficient economic safety net in a capitalist economy, but also challenge the premise of employment status as a basis for the rights of full citizenship, and base their arguments variously on conceptions of justice, freedom, and equality.252

The instrumental justification for a basic income assumes the superiority of capitalist economic systems over socialist systems in bringing about economic growth and a higher standard of living for society overall, but recognizes the distributive inequities to which capitalism leads. Basic income, because of its universality and unconditionally, is seen by policy theorists and economists as the solution to the perverse disincentives of social assistance programs, which have the unintended effect of penalizing work effort at low incomes; to gaps in social insurance programs; and to the

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251 Esping-Andersen 1990.

252 See Van Parijs 1992 for a useful overview of arguments for basic income.

problem of diminishing returns to labor from technological advances.253 Many who take this approach implicitly dismiss the distinction between the "deserving" and "undeserving poor" without addressing it directly.254

Arguments for basic income based on theories of justice, liberty, and equality focus on the rights of individuals in society, and claim that a basic income is required to compensate for the inegalitarian effects of the institution of private property; to maximize individual liberty in choosing how to live one's life; to promote gender equality in a male-dominated world; and to create a form of economic citizenship analogous to universal suffrage.255 These arguments suggest high ambitions for a basic income, ambitions that are impossible to achieve without a substantial basic income.

4. Contemporary definitions of basic income

Theoretical arguments for a basic income leave the details of implementation largely unspecified. Philippe Van Parijs, who argues for basic income on grounds of justice and liberty, rejects the idea of setting the basic income at a particular level, and argues instead for the highest sustainable basic income as a requirement of a society

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253 See, e.g., Atkinson 1995; Parker 1989 and 1995; and Meade 1993. See also Friedman 1962.

254 See, e.g., Brittan and Webb, 1990.

255 See, e.g., Zelleke 2002, 2004, 2011; Van Parijs 1995; Fraser 1997; McKay 2005; and Pateman 2005.

committed to the ideal of "real freedom for all."256 Nevertheless, he believes that rich societies such as the U.S. and Western Europe can afford a basic income above subsistence level.257 Few other theorists provide even that degree of specificity about the amount of money a basic income would provide. Charles M.A. Clark has argued for a "full" basic income, one that provides subsistence-level income, with variable grant rates depending on age.258 I have argued elsewhere that a basic income should meet basic needs, and for a uniform, universal basic income—one that goes to all adults and children—targeted to meet the subsistence needs of the most vulnerable families, single parents with more than one child.259

National and international basic income networks are more explicit about the elements required for an income grant to be considered a basic income. The Basic Income Earth Network (BIEN; formerly the Basic Income European Network), the international network of scholars and advocates of a basic income, defines basic income as follows: "A basic income is an income unconditionally granted to all on an individual basis, without means test or work requirement. It is a form of minimum income guarantee that differs from those that now exist in various European countries in three important

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256 Van Parijs 1995 and 2001.

257 Van Parijs 2001, pp. 5-6.

258 Clark 2003. His proposed basic income ranges from about $3,500 for minors to about $8,000 for senior citizens in 2009 dollars.

259 Zelleke 2007. This amounted to a minimum basic income of $6,000 in 2004 dollars, using 2004 U.S. poverty thresholds.

ways: it is paid to individuals rather than households; it is paid irrespective of any income from other sources; it is paid without requiring the performance of any work or the willingness to accept a job if offered." Thus, according to BIEN, basic income is unconditional, it is individual, and it is a *minimum* income guarantee, implying a floor beneath which the basic income cannot fall; left open is whether the basic income goes to all members of a community, or to adults only, and whether the amount can vary by the recipient's age.

The U.S. Basic Income Network (USBIG) defines basic income more explicitly as tied to basic needs. "The Basic Income Guarantee (BIG) is a government ensured guarantee that no one's income will fall below the level necessary to meet their most basic needs for any reason." The definition includes a quote from Bertrand Russell, which reads "A certain small income, sufficient for necessaries, should be secured to all, whether they work or not, and…a larger income…should be given to those who are willing to engage in some work which the community recognises as useful. On this basis we may build further."260 "Thus," continues the definition, "with BIG no one is destitute but everyone has the positive incentive to work. BIG is an efficient, effective, and equitable solution to poverty that promotes individual freedom and leaves the beneficial aspects of a market economy in place." By this definition, the basic income must meet basic needs and is seen as a solution to poverty that works in tandem with a capitalist economy. Virtually every other national affiliate of BIEN (there are now 17, including

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260 Russell 1996 [1918], p. 93.

the U.S.) includes a reference to subsistence, basic needs, or the minimum necessary to lead a dignified life.261

Two basic income initiatives are also worth considering. In Brazil, former President Lula signed the goal of a basic income into law in 2004, contingent on the nation's economy and its budgetary resources. The law reads in part as follows:

> A citizen's basic income is created from 2005 onwards, constituting the right of all country nationals and foreigners who have been residing in the country for more than five years, regardless of their social and economic status, to receive, annually, a monetary benefit….The benefit shall be extended to all citizens by stages, upon criteria established by the Executive, and priority shall be given to the poorest segment of the population. The amount of the benefit shall be the same to every citizen and be enough to attend the minimum expenses of each individual with food, education and health, with due regard to the stage of development of the country and its budgetary capabilities.

The BIG Coalition of Namibia, which sponsored one of the few basic income pilots to date, defines basic income as follows:

> A Basic Income Grant is a monthly cash grant that would be paid by the state to every Namibian citizen regardless of age or income. The money, which is paid to people not in need, is recuperated through the tax system. The main benefit of the

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261 Links to national affiliates of BIEN are available at Basic Income Earth Network website, BIEN 2011.

grant is its ability to improve everyone's life by eradicating destitution and reducing poverty and inequality.

If a survey of theoretical arguments, platforms of basic income networks, and basic income initiatives does not yield a uniform definition, it nevertheless suggests the following essential criteria for a basic income: basic income is unconditional in a way that differentiates it from social insurance programs; it is paid on an individual basis, not a household basis; unlike social assistance programs, basic income is not means-tested; and it is a minimum income guarantee on which other income sources can build, maintaining the incentive to work in paid employment. This survey also suggests the larger ends to which the basic income is a means: the alleviation, if not eradication, of poverty, and the reduction of inequality.

What remains inconclusive is the relationship between a basic income and the rest of the fiscal apparatus of the state: whether the basic income is taxable; whether it is recuperated from the rich through other taxes; whether other social insurance policies remain in place; etc. What also remains unclear is whether the basic income is fixed or variable, and if so, under what circumstances. These questions are difficult to answer in the abstract, but their answers become clearer in the context of an actual policy of redistribution that has had to confront these choices in its implementation. I turn now to an examination of Alaska's PFD.

5. The Alaska Permanent Fund Dividend

Chapter two [Erickson and Groh] of this volume provides a history of the APF and the PFD, which I will not repeat at length here, but a brief summary illuminates the nature of the PFD as compared to a basic income. The 1958 Alaska Statehood Act

granted the new state hundreds of thousands of acres of land previously owned by the federal government, and the Alaska Constitution mandated that the state's natural resources be used and developed for the maximum benefit of its people. The lands chosen by the state included vast oil reserves, and oil leases soon began flooding the new state with revenue. The first $900 million windfall from Prudhoe Bay oil exploration leases was quickly spent, prompting the idea that some part of the current windfall ought to be saved for future needs. 262 Two entertaining memoirs by men involved in the creation of the APF and the PFD—Jay Hammond, then Governor of Alaska, and Dave Rose, the first Director of the Alaska Permanent Fund Corporation (APFC)—tell the story of the political struggles over how to protect the oil revenue windfalls and what to do with them. Their reports of the discussions in the early 1970s reveal competing political philosophies about the role and size of government, the nature of popular sovereignty, and the appropriate use of tax revenues. It's not surprising that what resulted was a compromise that pleased no one completely.

The APF was created in 1976 by a voter-approved state constitutional amendment, mandating the creation of a permanent fund whose principal was protected from spending, funded by "at least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses." This amounted to an eighth of all revenues generated by oil, according to Hammond, who

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262 Whether this money was squandered or properly spent on building up the infrastructure of a poor, undeveloped state is the subject of some debate. See Hammond 1994, p. 247, and Rose 2008, pp.117-25.

had argued that half of all oil revenues should go to the APF.263 At first, the income earned by the APF could be spent at the discretion of the legislature. In 1980, the Alaska legislature created the APFC to manage the fund, which is invested in a diversified investment portfolio designed to maximize returns (rather than to invest in Alaskan development, as some had hoped), and appropriated an additional $900 million into the fund. That year the legislature also approved the Permanent Fund Dividend Law. The first dividend check, $1,000 to each Alaskan resident in the state for one year, regardless of age, was paid in 1982, funded by an appropriation of oil revenues above the constitutionally-mandated deposit. The dividend remains a statutory, rather than constitutional, mandate.

In the 28 years since the dividend law was enacted, the dividend has ranged from a low of $331 to a high of $2,069.264 Allowable spending from the APF is based on the average of the past five years' realized income; by law, the principal cannot be spent (although the APFC has argued, so far unsuccessfully, that the permanent value of the fund will be best maintained by annual spending of 5 percent of total fund value, rather than tying spending to realized earnings). This means that it is possible, in a severe investment downfall, for no realized earnings to be available to pay a dividend, but this has not yet occurred.

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263 Hammond 1994, pp. 247-48.

264 The 2010 PFD amount was $1,281. For more information about the PFD, the Permanent Fund Dividend Division website: State of Alaska 2011

6. Is the Permanent Fund Dividend a basic income?

While Governor Hammond and others involved in its creation clearly wanted the PFD to play a redistributive and poverty eradication role similar to a basic income, they were unable to win others to their side. On the web pages of the APFC and of the PFD Division of the Department of Revenue, the descriptions of the dividend are quite bureaucratic and instrumental. There is no language about why residents of Alaska are entitled to this dividend, other than references to the constitutional amendment. There are no references to minimum income, basic needs, or even unconditionally, though the latter is implicit in the minimal conditions spelled out for eligibility.265 On the APFC website, the answer to the statement titled "Why is the Fund successful?" reads as follows: "

> It keeps a diversified asset allocation. It was created by a Constitutional amendment. The APFC, which manages the Fund, receives legislative oversight. The dividend program keeps the Fund in the public eye. The Fund has sound management practices, including performance oversight of managers. The Fund is not used as an economic development bank.266

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265 The statement on PFD eligibility reads as follows: "To be eligible for a PFD, you must have been an Alaska resident for the entire calendar year preceding the date you apply for a dividend and intend to remain an Alaska resident indefinitely at the time you apply for a dividend."

266 From the Alaska Permanent Fund Corporation 2011.

It is striking that there is no mention of the ability to fund a PFD as a measure of the APF's success; rather, the PFD is referred to only instrumentally, as a mechanism for keeping the public eye on the APF.

Returning to the criteria for a basic income I identified above, the PFD certainly meets the first three: it is unconditional in a way that differentiates it from social insurance programs; it is paid on an individual, not a household, basis; and unlike social assistance programs it is not means-tested. It is particularly significant that the PFD goes to individuals, including children, as there is no child allowance in the U.S., and it is easy to imagine a different choice on the part of the designers of the PFD to have limited it to adults only. Welfare policies in the U.S. are routinely scrutinized for any incentives for increased childbearing. Did the PFD escape this scrutiny because Alaskans reject the dominant ideological distinction between the deserving and undeserving poor?267 Or do the citizens of this rugged and sparsely populated state accept the need to incentivize population increases?

The PFD only minimally meets the fourth criterion, that it be a minimum income guarantee on which other income sources can build, because the dividend fluctuates on an annual basis depending on the investment returns realized by the APF. Since its inception, the PFD has had a significant degree of variability. Putting aside for the moment the actual level, if recipients are unable to forecast the level of the dividend in advance of its distribution in October of each year, it's usefulness as a minimum income guarantee on which other income sources can build is limited. This problem could

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267 See Steensland 2008, pp. 238-39.

conceivably be addressed by using economic forecasting to inform recipients of the anticipated level to facilitate their planning, but it is not currently a feature of the PFD. Finally, the PFD does maintain incentives to work in paid employment.

Regarding the ends of a basic income, however, the PFD does not meet the goals of either poverty eradication or reductions in inequality, and contributes only modestly to poverty alleviation. The dividend is only a small percentage of the U.S. poverty threshold, which is itself an imperfect proxy for the social minimum. In 2008, when the PFD reached its highest level at $2,069, the individual poverty threshold in the U.S. was approximately $11,000; for a family of four it was approximately $22,000. Thus, at its highest level, the PFD would have provided less than 20 percent of the income necessary for an individual to reach the poverty threshold, but almost 40 percent of the income necessary for a family of four to reach the poverty threshold—not a bad start toward a minimum income guarantee. However, at its lowest level in 1984, the percentages of the poverty threshold were only 6 percent for an individual and 12 percent for a family of four. (In 2010 the percentages were 12 percent and 23 percent respectively.) Furthermore, APF earnings are likely to track overall economic conditions, meaning that dividends will be lower during economic downturns, precisely when recipients need them most. Thus, on the basis of its level alone, the PFD is at best a *partial basic income*, and in some years, a trivially low partial basic income.

Given its fluctuating nature, it is difficult to see the PFD as an effective anti-poverty measure. Governor Hammond wanted oil revenues to address rural and elderly poverty, but this was not a dominant strain in the discussions around the creation of the APF or the PFD. Hammond also wanted the PFD to be distributed according to length of

residence in the state, rewarding the pioneers who had invested the most of their own time and energy into building Alaska.268 In fact, many of those involved in the creation of the permanent fund explicitly rejected the "socialist" and redistributive aspects of the proposed PFD.269 The PFD was conceived, rather, as a mechanism to distribute some of the profits of the windfall created by the unusual oil resources owned by the state to all Alaskans—a worthy intention in line with the rationale for resource dividends, but not an anti-poverty measure.

Finally, because of its flat and universal nature, the PFD on its own makes a very modest contribution to the reduction of inequality. But the PFD together with the elimination of the state individual income tax that was part of its founding has an overall regressive effect on income distribution. To have a significant redistributive effect, the PFD would have to be recouped from wealthy individuals; in the absence of a progressive state income, consumption, or wealth tax, the PFD would have to be distributed on a sliding scale with larger dividends given to those with less income from other sources, and smaller dividends given to those with more income from other sources, rather than as a uniform flat payment.

There is evidence, however, to support the claim that the PFD is intended to serve other goals more directly. First, as noted on the APF's website, the PFD "keeps the Fund in the public eye" and thus constrains the legislature's ability to drain the fund for other

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268 Hammond 1994, pp. 251-53. This provision was ruled unconstitutional by the U.S. Supreme Court.

269 Rose 2008, chap. 8; and Hammond 1994, pp. 253-56

purposes; this goal is pre-eminent in accounts by participants in its creation. Second, as indicated by the residency requirement for recipients, the PFD is designed to entice residents to come to Alaska, the most sparsely populated state in the U.S., and to stay there. Most importantly, the PFD achieves the goal of sharing a portion of the state's wealth with all its residents.270

Rather than fulfilling the goals of even a partial basic income, the APF embodies a measure of intergenerational justice by saving a portion of current revenues from non-renewable natural resources for future generations, a worthy goal, and one highlighted in the APFC's annual report. Under the current fiscal regime, the contemporary generation benefits from the state's oil wealth collectively through oil revenue contributions to the annual state budget, and individually through the elimination of the income tax and through the receipt of the dividend; future generations will benefit from the preservation of the APF's principal, which may continue to fund a PFD or be repurposed to fund other expenditures. Thus the dividend is both a current individual benefit and a means of protecting the principal from current use. The PFD should be considered a *resource dividend*, and is a good model for resource dividends elsewhere, but it is not a *basic income*.

7. Could the PFD become a basic income?

Because the PFD is universal, individual, and unconditional, the dividend itself has the structural potential to evolve smoothly into a resource-financed basic income. All

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270 Kasson 1997, p. 11.

that would be required would be to increase the amount of the APF earnings directed to dividend payments to an agreed-upon social minimum. Using the federal poverty threshold for a family of four as a proxy for the social minimum, this would mean increasing the annual dividend to almost $5,600 per person; using the individual poverty threshold would require a dividend of over $11,000 per person. At the current APF level (approximately $40 billion in 2011) and current population (approximately 700,000 residents in Alaska), this would require a four- to nine-fold increase in the $858 million in APF earnings directed to the dividend, 10 to 20 percent of the APF's value on an annual basis for a full basic income.

It is impossible for the APF to devote this level of funding to the dividend on a regular basis and maintain the value of the principal for future generations, but a partial basic income could be funded on a stable basis as long as the legislature is willing to appropriate additional funds to supplement APF earnings in years with poor investment returns, or to recoup the dividend from high earners through an income tax. Alternatively, other state revenues, including oil revenues beyond those subject to the constitutionally-mandated contribution, could be added to the APF to increase its size and earnings, and the state operating budget could be supplemented with revenues from income or wealth taxes. Given the decision to repeal the income tax and not to devote a greater proportion of oil revenues to the APF when revenues were considerably higher than they are now, and with no evidence of interest in a basic income among Alaskans, this seems unlikely. This is not to suggest that "path dependency"271 has made alternative fiscal regimes

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271 Pierson 2000.

impossible in Alaska, only that this particular fiscal regime—one that does not guarantee a minimum income—seems to suit the residents of this particular state.272

8. Conclusion: lessons of the Permanent Fund Dividend for basic income advocates

If we agree that basic income is to have a robust relation to basic needs and that it is meant to reduce inequality, the Alaska PFD, as important a benefit as it may be for poor Alaskans in particular, does not meet the criteria for a basic income. Therefore, it has limited value as a model for basic income schemes in other parts of the world. It is notable that there has been no movement in Alaska to move from the variable dividend to a stable basic income, either partial or full—something which its large oil revenues and small population would make possible. In addition, an important part of the social contract underlying the PFD appears to be the APF's role in eliminating income taxes, thereby limiting the progressive aspects of the PFD.

Also notable is the fact that the Alaska PFD has not in its 30-year history inspired the creation of other resource dividends in the U.S. Despite the claim that oil resources are only one form of common resources that can be taxed to provide a dividend for citizens, the Alaska case so far seems an exceptional one based on the rare situation of an

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272 Alaska's dependence on oil revenues for the state operating budget may yet force a change in its fiscal regime, but to date, unsuccessful attempts to diversify the government's revenue base have included proposals to repurpose the AFP and limit the PFD as well as to institute income or sales taxes. See McBeath et al. 2008, chap. 5.

oil-rich region, and may serve as a model only for other oil-rich regions. In some ways, the modest U.S. EITC, a negative income tax deliberately designed to supplement the income of low-wage workers, provides a more promising model for a minimum income guarantee than the PFD.273

One need not criticize resource dividends to distinguish them from a basic income. It is certainly preferable to have oil profits distributed broadly rather than to end up in the pockets of only a few corporate executives, wealthy shareholders, and political cronies. But a basic income, partial or full, is such a radical departure from contemporary practice and ideology that it will likely only be achieved if it is designed with the twin goals of unconditionality and poverty alleviation from the start.

The PFD does serve as an excellent model for the conceptualization of natural resources as commonly owned—an important step along the path to acceptance of the idea of a basic income. It provides a model of cash transfers to individuals without any stigma of dependence, fraud, waste, or failure—attributes often attached to recipients of other government cash transfers. The PFD's funding source in natural resources rather than in taxes on individual income or wealth seems to exempt its recipients from any need to justify their use of the dividend, and to exempt the transfer as a whole from the "socialist" label. This suggests that basic income schemes tied to a Georgist system of taxation are likelier to win wide acceptance than those funded by progressive income taxes or employment rents—funding sources more directly linked in the public mind to

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273 Steensland 2008, p. 228. Eligibility for the EITC has already been expanded once, from only workers with dependent children to childless workers as well.

individual effort and achievement. But a resource dividend's merits cannot be considered in isolation from the overall fiscal regime of a region or nation; while redistribution may be more acceptable to the electorate if funded by resource wealth rather than income taxes, inequality cannot be fully addressed without a progressive tax structure on individual earnings or wealth.

For those who want to use the Alaska model in other regions, the questions that remain are whether natural resources in non oil-rich communities are valuable enough to fund full or partial basic incomes; the extent to which other state or national constitutions include explicit references to communal ownership of natural resources; and whether resource dividends can be successfully linked to progressive income tax schemes in order to reduce inequality while providing a more substantial income floor than the PFD has provided to date.

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Chapter 10

Stakeholding Through the Permanent Fund Dividend: Fitting Practice to Theory

Christopher L. Griffin, Jr.[274]

Alaska's Permanent Fund Dividend (PFD) is the United States' most significant, if not its only attempted, experiment with universal asset policies. The PFD's political successes are well-documented275 as are its financial returns; residents have received $1400 per year on average over the last decade from state oil revenues.276 Other contributors to this volume, particularly those in Part III, query whether the "Alaska model" is fit for export and adaptation in other U.S. jurisdictions and countries. But before approaching that question, theorists and policymakers must be precise about the reasons for implementing a natural resource-based dividend. That is, we must clarify where potential program outcomes fit in the larger portfolio of economic rights and obligations guaranteed by the state. In the case of the PFD, applying the right label among the standard list of liberal economic programs remains an important and

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275 See, e.g., Anderson 2002; O'Brien and Olson 1990.

276 See Permanent Fund Dividend Division, 2010. This calculation excludes the $1200 distributed as part of the Alaska Resource Rebate in 2008.

unfinished task, one that should help other institutions apply its principles better and understand its promise and limitations. Is the PFD a realization of "real-freedom-for-all" basic income? Might it have foreshadowed the Stakeholder Society decades before the proposal emerged in public discourse? Or does it belong in some entirely separate category, perhaps a hybrid of the first two?

Categorizing the PFD has proved elusive because these two dominant paradigms for liberal economic policy share much in common yet remain separated by differences in underlying motivation. Whether basic income or stakeholding theory, particularly each idea's assumptions about which economic commitments maximize individual freedom, best fits the PFD model should matter as much as its mere operational design. For, the guaranteed income mechanism chosen may be ill-equipped to satisfy the government's articulated political economy goals. Unsurprisingly, adherents to the basic income and stakeholding camps have understood the PFD to embody their preferred vision of a resuscitated, twenty-first century political liberalism. Philippe Van Parijs has claimed, "the only political unit that has ever introduced a genuine basic income . . . is the state of Alaska."277 Bruce Ackerman and Anne Alstott, architects of the Stakeholder Society, likewise interpreted the Alaska model through the lens of stakeholding.278 Neither claim is entirely correct or entirely mistaken.

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277 Van Parijs 2004, p. 9; see also Van Parijs 1995.

278 Ackerman and Alstott 1999, p. 13 ("[T]he citizens of Alaska have made stakeholding a regular part of their political economy. . . . Rather than using [oil revenues] for public

This chapter examines how the Permanent Fund Dividend, although facially more aligned with a basic income design, nevertheless reflects some of the values championed by stakeholding proponents. The PFD still could be repurposed for experimentation with stakeholding principles, albeit at the sub-national level. Section 1 briefly distinguishes basic income from stakeholding as mechanisms for promoting individual freedom through a bundle of economic birthrights. I also discuss how core features of the PFD demonstrate Alaska's implicit belief in stakeholding but currently fall short of the sweeping citizenship agenda identified by stakeholding theorists. Like a true stakeholder initiative, the PFD distributes shared resources on a means-independent basis, does not require recipients to work or otherwise participate in the economy, and commits the government to monetary distributions rather than in-kind transfers. Nevertheless, the PFD does not—and in its current format cannot—enable Alaskans to pursue their individual life plans independently of other income sources. The small dividend payments alone are simply insufficient. The program also does not require beneficiaries to pay back into the system and ensure its long-term solvency, an element of reciprocity that stakeholding theory deems fundamental. Section 2 moves beyond definitions and addresses the PFD's special characteristic, its funding through existing resources rather than the public coffers. This feature, what I call the "endogeneity condition," in a sense extracts the PFD from the basic income versus stakeholding debate. My point is not the same as the familiar argument demonstrating how a stakeholding endowment, or "stock," is

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expenditures, the Republican leadership designed a stakeholding scheme that is now distributing about one thousand dollars a year to every Alaskan citizen.").

comparable to a periodic payment, or "flow," under a basic income system. Rather, I focus on how the PFD's internal funding allows us to abstract away from the particulars of financing basic income or stakeholding and analyze the consumption side of the system. Section 3 then considers how the State of Alaska might reorient the PFD toward a more comprehensive stakeholding structure. Section 4 concludes by calling for more research into the use of resource-based asset systems to begin understanding local patterns in dividend consumption behavior so that governments can more aptly choose among basic income, stakeholding, and other funding schemes.

1. The Permanent Dividend Fund and the elements of a Stakeholder Society

A. Overview

The original proposal for realizing a Stakeholder Society in the United States appeared in Bruce Ackerman and Anne Alstott's 1999 book of the same name. Rejecting previous arguments for laissez-faire civic freedom espoused by libertarians and the cost-benefit approach of utilitarians, they advanced a universal notion of economic independence. Each American citizen in a stakeholding regime who resides in the country for at least eleven years would receive $80,000 upon reaching age twenty-one. The lump sum would accrue over four years in equal installments, and an individual could elect to receive the funds at age eighteen if used to finance higher education. No other eligibility criteria would accompany the payment except for the requirements that the recipient earn a high school diploma and maintain a clean criminal record.

Setting aside the obvious differences in required capital to fund such an ambitious plan rather than a more modest basic income design, which I discuss later, the Stakeholder Society envisions repayment of the original $80,000 plus interest at the end of one's life. For the earliest cohorts receiving stakeholding funds, a wealth tax of 2 percent would be levied on the most affluent households. Over time, stakeholding beneficiaries assume intergenerational obligations. Avoiding the same wealth transfers within families that have generated enormous economic disparities, Ackerman and Alstott would allow stakeholders to hold their $80,000 "in trust";279 a stakeholder would be allowed to use her resources with complete freedom and control during her lifetime. She must, however, repay her stake with interest before bequeathing to her heirs.

Recasting stakeholders as trustees, who receive a considerable share of the political community's resources but ensure that a comparable share exists for the next generation and beyond, stands out as the hallmark of the original Stakeholder Society proposal. Relative to basic income proposals, stakeholding contemplates a liberal political order in which overlapping generations invest in future cohorts' prosperity rather than just their own. A repayment mandate not only ensures the long-term solvency of the stakeholding system, it also reinforces the shared commitments that bind members of a political community without consideration to when they enter that community.

Basic income systems are the most frequently cited alternatives to the stakeholder ideal. Alternatively, stakeholding could be thought of as a subset of basic income

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279 Ackerman and Alstott 1999, p. 82.

conceived more broadly.280 Most commentators, though, assume that the periodic basic income streams would add up to far less than the generous stakeholding sum. Regardless of the total amounts in question, basic income diverges from stakeholding with respect to the sum that may be capitalized at any point in time. The loudest critics of stakeholding fear "stakeblowing," wasteful abandonment of one's endowment for frivolous or nonproductive uses. Some commentators have called for restrictions on the use of large capital grants to prevent stakeblowing in its many forms.281 Concerns over irresponsible spending reach their peak when abandoning the grant undermines the stakeholding plain's repayment mandate. Without some control over acceptable use, a stakeholder simply could give away her grant to any recipient (other than an heir) and elude her responsibility to future generations. Ackerman and Alstott understand basic income as a form of liberal economic trusteeship but with the restrictions that normally attend spendthrift trusts.282 If a citizen's access to the full stream of financial benefits depends

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280 One definition of basic income holds that it is a receipt "unconditional not only relative to people's willingness to work, but also relative to their income from other sources …, their place of residence, and their household situation." Van Parijs 1995, p. 30.

281 See, e.g., White 2004, p. 71 ("Some paternalistic restrictions can surely be defended as restrictions that citizens would impose on themselves as an insurance policy against the stakeblowing potential of periods of irrationality and/or weakness of will.").

282 Ackerman and Alstott 2004, p. 46.

on how long she survives, basic income in practice may satisfy only short-term consumer needs rather than broader life agendas.

B. Comparison with the Permanent Fund Dividend

Framing the PFD as more consistent with the basic income or stakeholding paradigm for asset-based welfare in part requires one to fit the square-peg Alaska model within round-hole categories. Although the PFD's legislative origins sound in the universalism advocated by both schools of thought, it would be spurious to conclude that its sponsors considered either model. Nevertheless, Ackerman and Alstott specifically mentioned the PFD as a form of stakeholding at the state level, citing its broad political and popular support.283 Others have singled out the PFD for its exemplary use of the commons to enhance social welfare.284 Consider also that the Stakeholder Society and the PFD place a premium on distributing cash, the most liquid of assets, to qualified citizens. Both programs, however, emphasize how cash payments are tied to other assets held by the political community. In the Stakeholder Society, the $80,000 payment reflects an underlying right to "a fair share of the patrimony left by preceding generations";285 in the PFD, Alaskans understand more directly that their dividends would not exist but for the natural bounty of the North Slope. Such connections between the Alaska model and the content of asset-based welfare theory are real but not particularly helpful for

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283 See Ackerman and Alstott 1999, p. 13.

284 See, e.g., Bollier 2006, pp. 62–63.

285 Ackerman and Alstott 1999, p. 9.

exporting the PFD's principles. Focusing instead on the equally real and salient differences between the PFD and the basic income/stakeholding paradigms highlights the ways in which the theory might be amended to align with practice or practice redesigned to approach the optimal theory.

First, the liberal political argument animating the stakeholding movement clashes in principle with the PFD's structure. Equality of opportunity at the cusp of adulthood motivates the Stakeholder Society. Equal access to the monetary fruits of a nonrenewable natural resource prompted Alaska's constitutional amendment and ensuing legislation. But equal payments to citizens within the respective schemes—even if they were not separated by orders of magnitude—do not reflect the same inherent commitments. Stakeholding asks more from the participants in and the outcomes from the asset program. Recipients would be expected to use their large sums to realize their own life plans, although no formal strings would be attached. Stakeholding also attempts to erase large gaps in wealth that persist at birth solely because of chance. The PFD, on the other hand, has no documented purpose other than to distribute wealth the State currently generates from oil. It does not consider at all how residents will use their dividends and whether the State should exercise any paternalistic control over that use.

Second, the basic income model also incorporates a set of political commitments that extend beyond the PFD's scope. In a recent article,286 Van Parijs conjectured that basic income require only some "modest" cash transfer, not a sum that could meet a citizen's basic housing, food, and other subsistence means. On this account, one could

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286 See Van Parijs 2004.

summarily label the PFD a "basic income" program. The PFD endows Alaskans with annual income at much more modest levels than the idealized stakeholder program. No state resident could survive on the average $1400 disbursed since the dividend's inception. Yet Van Parijs conceptualizes basic income initiatives as powerful antidotes to the problems of poverty and unemployment. It activates "not only the freedom to purchase or consume" but also "the freedom to live as one might like to live."287 Just as with stakeholding, basic income concepts impose obligations on the state to maximize economic, and eventually political, liberty for dividend recipients.

However, the PFD takes one important policy cue from the basic income camp. Ackerman and Alstott view their capital stock proposal as superior to the flow structure supported by Van Parijs and others. In their words: "Even if payments began on the eagerly awaited twenty-first birthday, the stream of small checks would not create a proud culture of free citizenship."288 They argue further that basic income betrays a commitment to universality. Providing payments so long as the individual *could* use the resources neglects her status as one who *should* receive some share of society's wealth. Stakeholder sums recast a familiar maxim as: "From each according to his ability, to each according to his citizenship." Making the most of PFD payments for one's individual agenda also depends on having the fortune to live long enough to realize that agenda. Stakeholding attempts to reduce the importance of longevity through a sizeable, upfront

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287 Van Parijs, 1995 p. 30; see also Jurgen De Wispelaere and David Casassas's chapter in this volume for further discussion.

288 Ackerman and Alstott 2004, p. 48.

capital endowment. As a matter of politics and practicality, Alaskans certainly cannot obtain an advance on their dividends nor borrow against their expected receipts. Thus, the letter of the PFD's enacting law echoes the mechanics of a basic income program but not its spirit.

Similarly, the original Ackerman and Alstott proposal suggested that "a citizen should be required to live for at least eleven of his twenty-one years in [the United States] before qualifying for his eighty thousand dollars."289 Alaska statute likewise mandates that PFD recipients reside in the state during the entire qualifying year and be physically present in the state for at least three consecutive days during the prior two years before the year of potential payment.290 It also carries the prohibition on criminal activity included in stakeholding proposals.291 As with the apparent connection to basic income designs, the PFD's relationship with stakeholding as a universal asset model is superficial at best.

Looking across the Atlantic to another well-known universal asset program, the United Kingdom's Child Trust Fund (CTF) more closely reflects the PFD in scope.

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289 Ackerman and Alstott 1999, p. 48.

290 See Alaska Statute § 43.23.005(a)(3), (4) (2010).

291 Alaska Statute § 43.23.005(d) (2010). ("[A]n individual is not eligible for a permanent fund dividend for a dividend year when (1) during the qualifying year, the individual was sentenced as a result of conviction in this state of a felony; (2) during all or part of the qualifying year, the individual was incarcerated as a result of the conviction in this state of a (A) felony; or (B) [qualifying misdemeanor].")

Beginning with the cohort born in 2002, each British child received in trust an initial endowment of £250 or £500 (depending on his family's economic circumstances), which accrues interest and to which friends and family may supply additional funds each year. One estimate implies that, if a child's family contributed the average £24 per month into his savings account, he would receive almost £10,000 at age eighteen.292 Thus, many children eligible for CTF contributions would receive almost as much as their Alaskan counterparts through an admittedly more complex and bureaucratically administered program. Comparing the CTF and the PFD is instructive because the sums received at maturity are much more than any one likely stream of basic income but less than the grand blueprint for a Stakeholder Society. Even the U.K.'s stated objectives confirm that the CTF combines important elements of both basic income and stakeholding but does not presume any prioritization.293 As we know, however, precisely those families struggling to maintain income levels above the poverty line are *least* likely to have the capacity or desire to set aside the funds necessary for a modest account balance at

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292 The Children's Mutual 2010.

293 An explanatory memorandum accompanying the CTF's implementation act identified four primary aims for the new program: "[h]elp[ing] people to understand the benefits of saving and investing . . . encourag[ing] parents and children to develop the savings habit and to engage with financial institutions . . . ensur[ing] that in future all children have a financial asset at the start of adult life and build[ing] on financial education." The Child Trust Funds Regulations 2004.

maturity. More affluent parents would be *most* expected to treat the CTF as a tax shelter of sorts, transferring small amounts of money each year to their children while avoiding levies on inheritances. Consequently, the CTF is even more likely to approach the PFD in size and purpose: a modest government grant that can be used to meet short-term consumption needs.

In short, the semblance between the PFD and the two universal asset paradigms appears only skin deep. Advocates of both theories have tried to include the Alaska model under their respective umbrellas. Aside from some common policy attributes, the PFD does not—or at least did not in the 1970s—fulfill the loftier ambitions of either a basic income or stakeholding initiative. Nevertheless, with strong political will, the PFD could be restructured to eclipse the restrictions of a basic income grant and approximate the stakeholding standard for children born and raised in Alaska.

2. The PFD's "endogeneity condition"

If neither basic income nor stakeholding, taken as presented by its foremost thinkers, finds sufficient purchase in the structure of and motivation for the PFD, can we nevertheless approximate either paradigm? In this Section, I argue that the auspicious funding source for the PFD—revenue from the sale of natural resources—permits not only a reformed PFD consistent with the theories discussed above but also a template for other governments trying to start basic income or stakeholding experiments in their jurisdictions. The relevant feature is what I term the "endogeneity condition," namely that the Alaska model is sui generis. The PFD would not exist without the discovery of North Slope oil. The program does not rely on taxation, borrowing, or other fiscal measures, only the fortune of the State's natural resources. Labeling the Alaska model as sui

generis, however, does not preclude its application elsewhere. To the contrary, any government that can delink its proposed endowment structure from the public treasury is best situated to embrace the PFD's pioneering design. In this Section, I focus on how the endogeneity condition can facilitate the emergence of a Stakeholder Society at the local or national level.294

Perhaps the most common rejoinder to universal asset programs highlights the size of the bill and who pays it. In a global economy nearly beset by financial collapse, critics might question how governments can afford to divert scarce fiscal resources into "charity" or "welfare" programs. Surely, ushering in the Stakeholder Society through a 2 percent wealth tax would barely have a chance of reaching the Senate floor ten years after it was outlined. Even a more modest basic income would run up against pressures to reduce deficits and would face strong opposition to its broad, means- and work-independent conditions. Moreover, the complex maneuvering that would be necessary to maintain "the highest average basic income" and tailoring income levels to a jurisdiction's demographic composition might be too complex for a program like the PFD.295

Focusing on the pure stakeholding vision of funding, consider Ackerman and Alstott's dialogue with Van Parijs over fiscal policy. For Ackerman and Alstott, using

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294 For an analysis of the stronger potential connections between the PFD and basic income, see Almaz Zelleke's contribution to this volume.

295 For a discussion of sustaining a basic income regime under variable tax rates and variable benefit calculations, see Van Parijs 1995, pp. 38–41.

wealth as the exclusive tax base for stakeholder grants reinforces the original premise for giving each adult such a handsome sum. Their assumption is that "the extreme concentration of wealth reflects past injustice and perpetuates it."296 Of course, many in the top percentiles of the wealth/income distribution have profited from intrafamilial gifts and bequests. Others have achieved record levels of purchasing power through innovation and business savvy. More convincingly, Ackerman and Alstott maintain that taxing income (or income in addition to wealth) could undo the salutary effects of either a basic income or stakeholding program. Not only does a wealth tax highlight the most important source of disparities in living conditions and possibilities, sophisticated manipulation of the existing tax code shelters more and more income derived from capital. Thus, a "hike in the income tax may amount . . . to yet another burden on wages, which are already heavily taxed for various social-insurance programs."297

The PFD's endogenous, or systemically internal, financing mechanism avoids the thorny policy choice among tax bases as well as deciding whether to raise taxes at all. Stakeholding theory's bold response to libertarians and utilitarians works on many conceptual levels, balancing simplicity and practicality in remarkable ways. But for the government seeking to "import" the Alaska model, the best chances of garnering the large, population- and GDP-adjusted sums that Ackerman and Alstott would deem satisfactory to equalize economic starting points will emerge in societies where existing financial surpluses or revenues from existing tangible resources can be converted into

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296 Ackerman and Alstott 2004, p. 53.

297 Ackerman and Alstott 2004, p. 54.

cash payments. Hence, if providing the optimal startup grant for young citizens is what we ultimately care about in stakeholding, the endogeneity condition that has been integral to the PFD's success could replace the initial wealth tax that Ackerman and Alstott proposed. The new universal asset program would not embody the political commitment to dismantling the arbitrary and perpetual hoarding of wealth. It would, though, yield a higher probability of long-term sustainability and popular backing.

3. Transforming the Permanent Dividend Fund into a true stakeholding program

If the Alaska legislature were to embrace stakeholding principles more explicitly, it would have to make one of several fundamental changes to the design and payment structure of the PFD. To borrow Robert Goodin's terminology, a politically and economically feasible transition would entail "sneaking up on stakeholding."298 One of the necessary amendments would change the current periodic payment schedule into a capitalized, one-time grant. The other would involve the types of responsible stakeholding instruction that Ackerman and Alstott predict for a society committed to their theory.

The easiest way conceptually—but maybe not politically—to reengineer the Alaska model into a full stakeholding system would involve adult residents surrendering their distributions. Granted, the approximately $1000 - $2000 per adult resident per year would not be enough to subsidize a lump sum at the magnitude envisioned by Ackerman

298 See Goodin 2003, p. 65.

and Alstott.299 But the best chance for Alaska or another adopting jurisdiction to institute the Stakeholder Society should be constrained by the endogeneity condition. In other words, if the only means for generating the necessary revenue were new tax provisions (consumption- or income-based) or other interferences with normal economic activity, the long-run stability of the new program might be jeopardized. Presumably if current PFD beneficiaries expressed a strong enough commitment to younger generations for a stakeholding program, the adult population deciding that political question would forego their modest annual dividend to ensure its solvency.

Ackerman and Alstott conceivably would deny that this version of the PFD upholds core values set out in their original proposal, namely the financially expedient and politically symbolic wealth tax approach to financing. As mentioned above, though, the endogeneity condition that already supports the Alaska model remains its strongest virtue. Stakeholding was developed at the end of a decade marked by unmatched prosperity in the United States and high optimism for future growth. Local and national economic conditions at present are so dire that exporting the PFD as a model for

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299 United States Census Bureau statistics covering the years 2005-2009 estimate Alaska's total population at 673,142. The adult share (those aged eighteen and older) represents about 73% of the total, or 500,060 residents. See U.S. Census Bureau 2011. Using the $1400 average calculated above, one year of adult dividend forfeiture would result in a capital stock of about $700 million. Assuming a 0.25% compounded interest rate and a constant annual addition to principal, it would take twenty years for Alaska to generate enough capital to fund one cohort's full $80,000 stake.

stakeholding will require not only political but also philosophical compromise. The Stakeholder Society takes equal wealth holdings at adulthood as its first principle. Thus, we should be able to treat the symbolism that wealth tax funding provides as a second-order concern to actually achieving the universal asset policy stakeholding promises.

Finally, the Permanent Fund Dividend Division, which manages the PFD, would need to supplement its administrative duties with a formal educational program for schoolchildren years before they are scheduled to receive their stakes. Will Paxton and Stuart White have defined "complementary education" as a method for increasing the chances that capital grants will be used responsibly.300 Such instruction might emerge as organized "discussion sessions in which people talk about what one can do with [a grant]: Representatives of universities, vocational trading schools, small business associations and trade unionists could all contribute to these sessions."301 Ackerman and Alstott certainly hold high aspirations for weaving stakeholding ideas into the American education system.302 The bottom line is that transforming the smaller PFD outlays into a major one-time capital grant, *especially since no child or family will have sacrificed personally because of the endogeneity condition*, requires additional training in financial responsibility. These sessions or classes must remain neutral with respect to the choices

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300 Paxton and White 2006, pp. 121–122.

301 Paxton and White 2006, pp. 121–122.

302 See Ackerman and Alstott 1999, p. 37 ("Classes named 'How to Manage Your Stake' will be as eagerly attended as those in driver's education—a universal rite of passage into the real world.").

that young men and women make for themselves with their newly acquired stakes. But the local or national government replicating the Alaska model has its own stake in sharing information about sound human and capital investment strategies.

4. Conclusion

The differences between Alaska's Permanent Fund Dividend and the Stakeholder Society proposal appear, at first glance, to exemplify the differences between basic income and stakeholding theory. The basic income approach to economic citizenship emphasizes how regular dividend streams can help alleviate unending cycles of poverty among the lowest portions of the income distribution. Stakeholding focuses on economic independence at the point when individuals can assume responsibility for their roles as citizens in a common political community. The superficial connections between the PFD and basic income, most noticeable through the Alaska model's current payment levels, become less salient once we realize that the PFD stands apart in many ways from *both* stakeholding and basic income. At present, no liberal political goal underlies the annual payments that the State's residents receive. Yet it offers policymakers attracted to universal asset policies the invaluable flexibility of funding from outside regular fiscal policy—what I have termed the endogeneity condition—that neither basic income nor stakeholding currently portends. Should any government realize Bruce Ackerman and Anne Alstott's proposal for a large capital grant at the age of maturity, it will most likely depend on "exporting" not just a natural-resource-based funding source but *any* source that does not require modifications to tax policy or other redistributive mechanisms. Of course, under this chapter's proposal, the newly conceived PFD would not accrue to

adults. Stakeholding is meant to benefit the young, and embracing a modified PFD along with dedicated financial education just might transform what many consider a pie-in-the-sky theory into practical reality.

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Chapter 11

The Alaska model: A Republican Perspective

David Casassas and Jurgen De Wispelaere[303]

Since 1982 each Alaskan has received an equal share of the returns to the Alaska Permanent Fund (APF), a publicly-owned investment portfolio funded by the state's oil revenue. These returns come in the form of a Permanent Fund Dividend (PFD) allocating an annual grant of roughly $1200 to each man, woman and child who meets the residency requirement.304 The PFD is the sole example of a large-scale economic policy combining resource taxation – effectively transforming a depleting natural resource into a "sovereign wealth fund" – with the individual and unconditional distribution of (part of) the revenue stream to all resident shareholders. We call this the Alaska model.

The PFD has proven to be a very successful program, enjoying tremendous support from citizens across demographic, socio-economic and political divides. As Scott

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303 We are grateful to the editors for the invitation to contribute to this volume, and to Simon Birnbaum, Mike Howard, Blain Neufeld, Cristian Perez, Philip Pettit and Karl Widerquist for detailed written comments on an earlier draft.

304 The most recent dividend paid out in October 2010 amounted to $1,281 per person, but the size of the dividend can fluctuate considerably in line with the value of the APF earnings Alaska Permanent Fund Corporation 2011. See Goldsmith 2005 and this volume for detailed information on the history, structure and workings of the APF and PFD.

Goldsmith pointedly relates, in Alaska today it amounts to "political suicide to suggest any policy change that could possibly have any adverse impact today, or in the future, on the size of the PFD."305 In addition, advocates of this Alaska model claim the PFD is a strong egalitarian policy, for it grants each citizen an equal share of a natural resource that is held in common ownership, rendering it immune to many of the intricate problems facing tax-and-transfer style redistributive programs.306 In our view, the Alaska model constitutes a staple allocation mechanism for those endorsing a left-libertarian strategy for achieving distributive justice.

In this chapter we assess the pros and cons of the Alaska model from the perspective of contemporary republicanism, an approach in political theory most famously associated with the work of Quentin Skinner and Philip Pettit.307 In brief, republicanism maintains that the foundation of a just political order is the safeguarding and promoting of republican freedom-as-nondomination captured in the idea that to be free is to live one's life protected from the (possibility of) arbitrary interference, or "domination", by others.

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305 Goldsmith 2005, p. 558.

306 The PFD is sometimes held to be responsible for making Alaska the most equal state in the USA (e.g., Vanderborght and Van Parijs 2005, p. 25). In our view the empirical support for this bold claim remains weak, despite evidence of a leveling effect of the dividend on after-tax income (Goldsmith 2005 and this volume).

307 See notably Skinner 1992 and 1998 and Pettit 1997 and 2001. Note that the term "republicanism" here refers to a branch in political theory and should not be confused with the Republican Party in the USA.

For republicans, the Alaska model is justified to the extent that it contributes to, or at least is compatible with, the most extensive republican freedom for all citizens. We believe the PFD currently in place in Alaska fails this particular test in important respects.

This chapter proceeds as follows. Sections 1 and 2 briefly discuss the basic ideas underlying republican political theory and distinguish the republican perspective from the left-libertarian one that, in our view, fits quite naturally with the Alaska model. Having set out a framework for assessing the Alaska model from a republican perspective, the next three sections each discuss a particular set of worries. Each of these sections argues that for republicans to endorse exporting the Alaska model into other polities would require significantly amending the basic model as well as expanding the discussion of the PFD to include the broader policy environment within which the model is expected to operate. But expanding the parameters of the Alaska model in either of these two ways is likely to introduce further obstacles that make exporting the model considerably more difficult. Section 6 concludes by suggesting that while the Alaska model may be compatible with republican concerns in a weak sense, republicans ought to proceed cautiously endorsing the model in any strong sense.

1. Freedom and the Alaska model

When assessing whether to export the Alaska model we must first ask ourselves what (if anything) might justify adopting the model in the first place. One important value that would give us a good reason to adopt an economic policy such as the PFD is if it contributes in important ways to individual freedom. Freedom is a notoriously complex and controversial concept, however, and political theorists disagree considerably about

what makes a policy freedom-enhancing (Carter, Kramer and Steiner, 2008). Our aim in this and the next section is to briefly outline the core values underlying the republican conception of freedom-as-nondomination that informs our critical assessment of the Alaska model throughout this chapter, and to contrast the republican justificatory project with that of the left-libertarian.308

Let us start with left-libertarianism, an entitlement theory of freedom grounded in two core ideas.309 First, there is the idea of self-ownership: in brief, individuals fundamentally own themselves, their bodies and their labor, and they have a robust moral right of non-interference such that we ought to be free to be or do what we want as long as we do not interfere with other individuals' equally foundational self-ownership rights. Of course, in order for us to actually do something in the world mere rights over our bodies and our labor are not enough; inevitably we need to make use of some materials that are out there in the external world. Here libertarians split in two camps. Traditional libertarians entertain a Lockean conception in which the world in its initial "unlabored" state is essentially unowned, and therefore ripe for appropriation – possibly subject to the

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308 See Widerquist and Howard, "Why Link Basic Income to Resource Taxation" (this volume) for an overview of alternative justifications in favor of the Alaska model.

309 Philosophically, entitlement theories and theories of freedom can be distinguished but for the purposes of this chapter we abstract from these distinctions. See Dowding, De Wispelaere and White 2003 and White 2011 for further discussion and application to the basic income debate.

Lockean Proviso to leave "enough and as good for others".310 Left-libertarians, on the other hand, believe that the world is owned in common and that any use of a worldly resource requires the payment of a "user rent" to be distributed equally to all others. The fundamental shift in seeing the world from unowned to owned in common is what allows left-libertarians to claim their theory to be egalitarian.311

It is easy to see how the Alaska model can be regarded as the left-libertarian allocation model par excellence: whenever one discovers a resource that is owned by all (in this case oil taken from the North Slope fields off the Alaskan coast, but numerous resources might fit the model as other chapters in this book argue), it is permissible (perhaps even mandated) to introduce a substantial resource tax on its use, which in turn can be used to fund a dividend distributed equally to all. This scenario fits quite naturally with the overall left-libertarian outlook of achieving robust equality without violating self-ownership. In addition, left-libertarians believe their preferred strategy of distributive justice through resource taxation has one further important advantage: it renders a substantive account of freedom-as-noninterference compatible with equality without

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310 On the Lockean Proviso, see particularly Nozick 1974, and for further discussion Waldron 1988 and Wolff 1991.

311 Cohen 1995 and Otsuka 2003; but see Arneson 2010 and Carter (this volume), for a critical perspective. Van Parijs 1995, the most prominent advocate of a basic income, refers to his particular brand of left-libertarianism as "real-libertarianism".

instances of exploitation.312 Consequently, it would appear the Alaska model constitutes the institutional personification of the left-libertarian theory of distributive justice; a view that is perfectly compatible with the fact that many non-libertarians (liberals, utilitarians, even some republicans) approve of the left-libertarian strategy of resource taxation combined with individual distribution of user rents for ulterior reasons. In other words, a left-libertarian strategy does not commit one to left-libertarian goals in a strict sense, but merely to the weaker goal of taxing and redistributing the value of natural resources compatible with the left-libertarian twin values of self-ownership and the equal distribution of the value of resources owned in common.313

Let us now consider an alternative approach to justifying the Alaska model on freedom-enhancing grounds, based on Philip Pettit's recent defense of republican freedom.314 Republicanism is a theory of freedom that privileges freedom-as-nondomination as the foundation of a just political order. In a nutshell, republican freedom implies the ability to put one's life plans into practice without having to suffer the arbitrary interference from other agents. An individual suffers arbitrary interference when another individual or group is able to interfere in her plans or choices without

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312 Widerquist and Howard "Why Link Basic Income to Resource Taxation", and Carter (this volume). But see Van Donselaar 2008 for a possible complication.

313 But see Carter (this volume) for an alternative characterization of libertarianism, and a left-libertarian argument in favor of sharing natural resources that does not rely on such resources being owned in common.

314 See particularly Pettit 1997; 2001.

regard for her avowable interests. For republicans it is not interference as such, but only arbitrary interference that restricts a person's freedom. This is because interference that reasonably tracks a person's avowable interests cannot be said to be impeding freedom in the relevant sense.

> An act is perpetrated on an arbitrary basis, we can say, if it is subject just to the arbitrium, the decision or judgement, of the agent; the agent was in a position to choose it or not choose it, at their pleasure. When we say that an act of interference is perpetrated on an arbitrary basis, then, we imply that like any arbitrary act it is chosen or not chosen at the agent's pleasure. And in particular, since interference with others is involved, we imply that it is chosen or rejected without reference to the interests, or the opinions, of those affected. The choice is not forced to track what the interests of those others require according to their own judgements.315

A further crucial aspect of the republican notion of freedom is that the mere possibility of arbitrary interference is sufficient to render someone unfree in the republican sense. When the possibility of intervention is sufficient to impede the way an agent plans her life, she is no longer independent or self-governing but governs her life according to the reasons of someone else: she literally lives her life under alien control.316 It is this focus

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315 Pettit 1997, p. 55.

316 Pettit 1997; 2001.

on “reasons” that allows republicans to conceptually and normatively distinguish their perspective from the freedom-as-noninterference that preoccupies left-libertarians.317

These assertions rest on a particular description of social life, in which many dimensions of dependence intersect. In essence, for republicans dependence arises whenever individuals occupy unequal social positions in society such that some are enabled to arbitrarily steer the lives of others. However, republicans equally accept that the realization of individuals' life plans requires coordinating actions with many others across multiple domains in life. The value of the life that our freedom is supposed to help bring about is thus crucially based on how others act: in this sense republicanism is an irreducibly social theory of freedom.318 The careful negotiating of the individual and social components of republican freedom – that is, the protection from arbitrary interference on the one hand, and the ability to lead a valuable social life on the other – is precisely the task of our political institutions. What republicanism calls for is, in effect, robust institutional protection against the power of some individuals or groups to interfere in our lives without due regard for our avowable interests; and particularly without regard

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317 Liberal theorists too typically endorse freedom-of-interference. It is a matter of some controversy whether libertarians should in fact be regarded as a subspecies of liberalism. Philip Pettit 1997 thinks as much for the purpose of contrasting both perspectives with republicanism, but see Samuel Freeman 2001 for the view that libertarians and liberals have little in common, a view held by Rawls 1993 himself. In this chapter we will not concern ourselves with the liberal perspective.

318 Pettit 1993.

for our reasons for opting for a course of action or life plan that becomes difficult, costly or outright impossible by the resulting interference. Such a free person is a citizen in the fullest sense of the term, a person who is free by virtue of being an equal – and equally protected – member of a polity shared with others who occupy a similar position. Republicans are not primarily concerned with the option freedom to be able to be or do as much as one might want to do, but rather with the distinctively social freedom of living one's life without requiring the permission of other individuals or groups, including the state and its bureaucratic agents.319

From its very inception, the republican tradition emphasizes the importance of material resources to ensure individuals' social and economic independence, which in turn is a necessary (but not sufficient) condition for individuals to retain a free status within a variety of social relations.320 Historically, socio-economic independence was intricately linked with being a property-holder. Republicans as diverse as Aristotle and Cicero, Harrington and Jefferson shared the insight that only proprietors can lead a truly free civil life by virtue of being guaranteed a material existence through the enjoyment of a set of material resources – be it money, land, cattle, or indeed, slaves. As Harrington puts it, "the man that cannot live upon his own must be a servant; but that can live upon

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319 Petit 2003; Domènech and Raventós 2007. Republicans share this social (or agency-based) conception of freedom with left-libertarians since both would restrict the conception of unfreedom to acts perpetrated by others; but where left-libertarians focus on interference, republicans worry about dependence.

320 Raventós 2007; Birnbaum and Casassas 2008.

his own may be a freeman."321 Similar considerations underpin the ideal of a property-owning democracy, advocated most eloquently in James Meade's ideal of Agathotopia: "A man with much property has great bargaining strength and a sense of security, independence, and freedom."322 And it is worth noting the particularly republican flavor of the first modern defense of a basic income: Thomas Paine, in his Agrarian Justice (1997), argued for the introduction of a basic income as a way to restore ownership rights over external resources that some individuals had lost following the enclosure of the commons.

> In advocating the case of the persons thus dispossessed, it is a right, and not a charity, that I am pleading for. (...) To create a national fund, out of which there shall be paid to every person, when arrived at the age of twenty-one years, the sum of fifteen pounds sterling, as a compensation in part, for the loss of his or her natural inheritance, by the introduction of the system of landed property: And also, the sum of ten pounds per annum, during life, to every person now living, of the age of fifty years, and to all others as they shall arrive at that age. (...) It is proposed that the payments, as already stated, be made to every person, rich or poor.323

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321 Harrington 1992, p. 269.

322 Meade 1964, p. 39. Property-owning democracy was subsequently endorsed by John Rawls 1999. See Birnbaum and Casassas 2008 for further discussion.

323 Paine 1997, pp. 326-327.

In short, for republicans, robust access to material resources – that is, the effective guarantee of a minimal standard of social and economic existence by right – is a conditio sine qua non for the enjoyment of the cherished value of freedom-as-nondomination. This in turn seems to offer a clear presumption in favor of a combined resource taxation and dividend allocation scheme such as the Alaska model, which offers each citizen access to an equal share of a commonly-owned material resource. Nevertheless, a republican version of such a device would be very different from the model implied in the left-libertarian strategy, for reasons we discuss next.

2. How Republicans and Left-Libertarians Differ

Before assessing the particulars of the Alaska model from a republican perspective, let us first point out three aspects in which republicans part way from left-libertarians; differences that explain why republicans do not share the enthusiasm of the Alaska model with their left-libertarian fellow travelers, despite a shared focus on social or agency-based freedom.

A first difference relates to the contrasting conceptions of freedom that republicans and left-libertarians endorse. Although both arguably adopt a conception of freedom that focuses on human interference with agency rather than expanding the range of options as such, they differ radically in terms of what freedom is really about.324 Left-libertarians firmly believe in freedom-as-noninterference; and arguably even in a particularly

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324 Pettit 2003.

restrictive form according to which interference with someone's free use of their body and their labor is explicitly prohibited by a strict conception of self-ownership. For republicans, what is at stake is the extent to which all citizens can live their lives protected from alien control, and at times this requires legitimate (state) interference. One important implication of this distinction for the present discussion is that where left-libertarians must rely on non-labor-affected means for social assistance, such as taxing natural resources, republicans can take a more relaxed attitude towards taxing a wider range of goods or resources, provided intervention results in an increase of republican freedom.325

Second, although many favoring a left-libertarian strategy of resource taxation insist the Alaska model will have a beneficial impact on poverty reduction, it should be noted that strict left-libertarians do not care about poverty as such. The use of external resources for combating poverty is at all times restricted by the principle of self-ownership and the principle of the equal right to world-ownership (i.e., the idea that users must pay a rent to all others). But surely this means poverty matters only insofar as there is a clear link between being poor and having either one's right to self-ownership or one's equal share to the use of external resources violated; outside of those two principles, poverty doesn't matter for left-libertarians.326 Taxing natural resources without taxing

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325 See Vallentyne 2003 for an analysis of different conceptions of self-ownership and justified taxation.

326 Of course, individual left-libertarians may care a lot about poverty and privately engage in action to alleviate it; but this amounts to charity not to the sort of systematic

labour, as in the Alaska model, is a safe bet for the left-libertarian for the simple reason that it ensures that one's libertarian freedom-of-noninterference remains robustly protected. But the resulting impact on poverty reduction is contingent at best, and many feel a theory of distributive justice ought to allow the fate of the poor a more central place. The republican focus on material independence as a condition for social freedom, on the other hand, arguably retains a close relation with the goal of poverty reduction. For republicans, poverty in all its forms – and thus not only abject poverty – infringes republican freedom-as-nondomination in a direct manner by virtue of the fact that lack of material resources is deemed to be the primary cause of social dependence inimical to republican freedom.327

Third, even where left-libertarians have strong egalitarian proclivities, they remain individual atomists and thus embrace no substantive conception of a political society or community apart from one of voluntary association.328 One need not be a collectivist to appreciate the limits of an aggregative-atomist conception of the polity in which the only function of the state is to facilitate the complex coordination of individual agency.329 This problem appears very clearly when considering the political framing of the PFD in

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poverty reduction as a matter of right demanded by republicans. Left-libertarian political theory does not have much to say about the fact that some people may live their lives in abject poverty.

327 Pettit 2006; Raventós 2007.

328 Otsuka 2003.

329 Pettit 1991; 1997.

Alaska. Goldsmith convincingly argues that the dividend is considered an entitlement rather than government expenditure: “There is a strong feeling among a portion of the population that the state-owned oil resource belongs to them as individuals rather than to all citizens collectively.”330 But there is an obvious sense in which this must be false, for no single individual could take her part of the resource and unilaterally decide how to use it. In other words, the very decision to extract a resource, license its use, and subsequently allocate its proceeds in the form of a regular individual dividend is a collective decision made by the polity. We return to this particular point in section 6. Understanding the polity along left-libertarian lines as a mere voluntary association may cause one to overstate the individualist aspects of the Alaska model. Here too republicans offer a different route, for republican freedom is inherently about free citizens jointly deciding the constitution of a stable political order in which each citizens’ republican freedom is robustly protected while appreciating the divergent forms in which they want to live their lives. When republicans emphasize individual freedom they always do so against a background of strong social connections and an awareness that individual freedom is simultaneously social freedom – i.e., the freedom to be socially situated on equal terms with other citizens. Republicanism is essentially a theory of politics mapped onto a theory of freedom.331 With these points in place we can now proceed with a

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330 Goldsmith 2005, p. 558.

331 Hence the apt subtitle of Pettit’s 1997 monograph: “Republicanism: A Theory of Freedom and Government”.

republican evaluation of the Alaska model and its prospects for exporting to other countries or regions.

3. An Economic Floor?

We expect republicans to be enthusiastic about the Alaska model since it quite literally aims to provide every citizen an economic floor, a recurrent amount of revenue funded through an equal share in the commonly-held natural resources.332 This seems to play right into the hands of the view that republicanism is crucially dependent on providing a baseline of material resources as a means of securing each citizen's freedom from arbitrary interference. This is most obviously the case in situations of abject poverty, where deprivation goes hand-in-hand with dependence on others for survival and the satisfaction of the most elementary needs. But equally we can surmise that an economic floor will assist many who face less dire circumstances, but nevertheless must adapt their actions and choices to accommodate the wishes of others for reasons of economic advantage. A typical example includes the many ways in which employees must accept their employers interfering in their working lives, and regularly even in their private lives. An economic floor aims to improve citizens' bargaining position in the economic sphere by independently guaranteeing their material existence.333

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332 Goldsmith (this volume). The importance of establishing an economic floor permeates the discussion of basic income.

333 Casassas 2007; Birnbaum and Casassas 2008.

What sort of economic floor can serve this purpose? Here several considerations come into play. In an ideal world we might require an economic floor to fully guarantee a person's material existence by satisfying her basic needs.334 Of course the notion of a basic need is controversial and multidimensional, and republicans accept that the precise nature of an economic floor must be adapted to accommodate the particular social context in which a citizen must shape her life. Moreover, the relation between material existence and republican freedom is not simple or linear. Instead, an economic floor should be conceived as a step good that contributes to republican freedom in a discontinuous manner: a gradual increase in the economic floor may have little or no direct effect on a person's freedom-as-nondomination until it reaches a "tipping point", at which point a "higher stage" of republican freedom materializes. While the satisfaction of basic needs constitutes a rather obvious tipping point, as it would make it possible (or more likely) for citizens to exit social relations that render them unfree, we can nevertheless imagine important steps below and above the basic needs point that contribute in relevant ways to the advancement of republican freedom. Consistent with this interpretation, we believe emphatically that an economic floor cannot be of such a low level that it could only contribute in a trivial manner to citizens' freedom from arbitrary interference: republican freedom requires a substantial economic floor.

To return to the Alaska model, republicans in principle applaud the idea of a cash transfer scheme that universally and unconditionally guarantees all citizens an income flow. But in the concrete case of the PFD in Alaska several concerns arise. While not

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334 Raventós 2007; Goodhart 2007.

insignificant in terms of consumption value (especially when spent on durable goods and other types of household investments), $1200 per annum falls far short of approximating a significant contribution to republican freedom. Frankly, being able to purchase that long-needed washing machine at the end of the year will help a household in many ways, but will not give an employee the sort of leverage to counter demands by his powerful employer, or allow a housewife to tell her husband to take up more of an equal share of the joint care responsibilities.335 It is interesting that there is little concrete evidence of spending patterns of the PFD in Alaska, but we think it plausible that the design of the payment as a one-year bonus arriving to coincide with the Christmas period will make it more likely that it is treated as a gift rather than a part of one's regular income.336 This reinforces the idea that the PFD is a nice consumption top-up, but not part of one's economic floor. And although it might counter the peculiar "Christmas-bonus" framing of the PFD, insisting on a monthly payout of around $100 is of little consequence in the absence of a significant boost of the amount itself. As a result, Alaska citizens are

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335 Interestingly, when discussing the fact that the PFD has turned Alaska into the most equal state, no attention at all is paid to gender equality in relation to income or employment opportunities.

336 On spending patterns, see the review of existing evidence (or lack thereof) in Goldsmith 2005.

perhaps better off in terms of wellbeing, but not necessarily more free in the relevant republican sense of freedom-as-nondomination.337

One of the arguments advanced in this book is that we should not stare ourselves blind at the current levels of the PFD, for we can easily boost the figures. On the one hand, we can boost revenue "internally" either by licensing the oil at a higher rate (as noted by Widerquist and Howard in the concluding chapter, drilling the Alaska oil comes quite cheap) or by devoting a much larger share of oil revenue to paying out individual dividends (or by both). On the other hand, we could expand the tax base by including other natural resources such as minerals or land, and even resources that are often taken for granted such as the broadcast spectrum or the global atmosphere.338 These options are discussed elsewhere in this book in more detail, so let us just note two republican concerns. First, the politics of expanding one's resource base, whether "internally" or "externally", is often quite problematic and for that reason we should not put our blind faith into this option; in particular given the extent to which the PFD must be swelled to

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337 While Goldsmith (this volume) is correct to point out a number of ways in which the certainty of a regular cash boost may have important effects on particular groups (notably rural communities in Alaska), this does not invalidate our view that overall the size of the economic floor provided by the PFD is simply too low to have a significant impact on republican freedom.

338 See Bollier 2006 on the broadcast spectrum, Howard (this volume) on the global atmosphere, and Flomenhoft (this volume) on these and other natural and social resources.

meet the requirement of constituting an economic floor that effectively contributes to republican freedom. In addition, realizing the financial value of a resource with high general use value may present unexpected difficulties. There may be reasons to resist fully commodifying a resource (e.g., to prevent business interests from entering a sphere with important social value); alternatively, a lack of sufficient investment capital may prevent a given society from taxing a resource to a point at which it generates a decent economic floor. Second, many advocates of the Alaska model would presumably think that when it comes to the size of the PFD "less is better than nothing", and thus endorse even a partial scheme generating only a meager dividend. But for republicans this option is not available unless there are reasonable expectations that the partial scheme will expand into its full-blown version, for the simple reason that only the latter genuinely contributes to what republicans value – freedom-as-nondomination.339

Consider a further complication. We often talk about the dividend, or the "economic floor", as if this on its own will generate whatever desirable effects we attribute to it. This may make sense when we are talking in terms of consumption value, for any cash amount translates into purchasing power in a fairly straightforward manner. But matters are a

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339 This suggests republicans adopt a more stringent requirement regarding the level of the economic floor than Van Parijs 1995 suggests when discussing his view of basic income pitched at the highest sustainable level. For republicans too low a level of "the highest sustainable basic income" may not be worth the effort in securing it, particularly when other measures are more likely to better promote republican freedom at low levels of basic income.

little more complicated looked at from a republican perspective. For an economic floor really only promotes republican freedom in conjunction with a wider set of social policies, including in-kind benefits such as access to health care and education, family policies, regulations pertaining to pension provision, employment directives, and so on. To use a phrase inspired by the debate on the Rawlsian basic liberties, we can distinguish between the "economic floor" and the "worth of the economic floor".340 The former is determined by the mere size of the dividend, but the latter by the broader policy context in which the dividend operates. Consequently, a PFD implemented in a liberal welfare regime will have a different impact on citizens' republican freedom than one implemented in a conservative or social-democratic regime.341 Taking policy context seriously allows us to appreciate that a low dividend within a comprehensive protective policy context enhances republican freedom more than an institutional framework where a higher dividend constitutes the sole mechanism empowering the weak.342 Republicans are surely right to be wary of any form of dividend fetishism that trades-off more expansive dividends against real advances in republican freedom. For this reason a republican evaluation of the APF and the PFD must include a debate on under what policy conditions republicans can really endorse the adoption of the Alaska model.

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340 Daniels 1989.

341 Esping-Andersen 1990; also Haagh 2011.

342 For the latter approach, see notably Murray 2006.

4. Economic Ceilings?

The establishment of an "economic floor" as a base for securing material existence paints only part of the republican picture. A concern with promoting citizens' republican freedom from arbitrary interference also requires that we establish something like an "economic ceiling". The rationale behind this republican requirement is again fairly straightforward. Lack of freedom in the republican sense is based on substantive inequalities of power, foremost unequal economic power that rapidly spills over in the social and political world. Vast accumulations of economic power typically go hand-in-hand with a capacity to create monopolies or oligopolies; to introduce entry barriers to markets; to fix prices in a predatory way; to control the use of strategic resources; to hamper autonomy and self-realization in the workplace; and so on. Economic power is often tied to economic inequality, and in particular to the vast differentials in income and wealth omnipresent in our winner-take-all-society.343 An economic floor rebalances this power inequality somewhat in favor of those vulnerable to arbitrary interference, or domination, by granting them a substantial measure of material independence. But this measure is insufficient in a society where some individuals disproportionately retain the power to determine the rules of the social and economic space in which free citizens aim to develop their lives, strongly suggesting republican freedom requires additional mechanisms for controlling powerful economic agents.

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343 Frank and Cook 1995.

Two types of ceilings suggest themselves to counter the potential for domination inherent in vast economic inequality. The first consists of measures to prevent money from seeping into other social domains, a form of "blocked exchanges."344 Such measures would allow economic inequality but impose a regulatory ceiling on what vast economic wealth can buy you in terms of arbitrary interference in other citizens' lives. The USA has a long tradition of regulations aimed at preventing the most powerful social and economic actors to erode the freedom of ordinary citizens.345 The second type of ceiling consists of directly limiting the range of economic inequality; without having to endorse strict equality, republicans are rightly concerned about a society in which an employer earns, say, 150 times more than the average employee. This is not the place to discuss the relative merits of each of these mechanisms. In fact, republicans should be happy to endorse whichever (combination of either) works best in a given society, although there are reasons to think an ex ante Rousseauean approach of preventing economic power by limiting income and wealth inequality may be preferable over an ex post attempt to restrict its negative consequences.346 But nothing in our assessment of the Alaska model hinges on opting for one rather than another; let it suffice to state that,

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344 Walzer 1983; for a critical perspective, see also Arneson 1995 and Barry 1995; 2005.

345 Sunstein 1993. For instance, consider regulations conceived during the progressive era, and under Franklin Delano Roosevelt's regime, geared at strengthening the economic foundations of democracy by institutionally restricting the opportunities' set of the potential "economic monarchs" (Beard and Beard 1939).

346 Rousseau 1984.

in our view, republican freedom requires not only an economic floor but equally a robust economic ceiling.

How does the republican requirement of an economic ceiling affect our assessment of the Alaska model? One response would be to say this concern does not apply as the PFD really only relates to the floor and is therefore fully compatible with whatever economic ceiling we might impose. Perhaps advocates of the Alaska model are correct to regard this as a matter of political debate entirely separate from the institution of a resource taxation scheme. They maintain the Alaska model remains purposively agnostic about the need for an economic ceiling, and if republicans would like one added they simply have to argue for it on separate grounds: nothing in the Alaska model prevents them from doing so. This answer may seem plausible on the surface, but thinking through the link between the economic floor and the economic ceiling within a republican perspective allows us to raise two distinct but related concerns.

First, consider a point hinted at in the previous section; namely, that the value of the economic floor is dependent on the wider policy context in which the PFD is implemented. A similar argument applies to the establishment of an economic ceiling: simply put, the republican value of the economic floor secured through a dividend will depend crucially on how much it affects the power balance between different citizens. A society in which all citizens have their material existence guaranteed constitutes a significant achievement from a republican point of view, but it falls nevertheless short of realizing republican freedom when powerful actors still retain the capacity to exercise significant social or economic control over others. In these cases, the republican freedom secured by the economic floor will be imperfect at best, and republicans must be

committed to exploring options that might secure such freedom more effectively. Taking into account the investment of time, effort, political capital and economic resources in securing a material floor raises concerns of inefficiency: perhaps resources are more usefully spent elsewhere unless we regain the ability to impose restrictions on powerful economic actors? In short, failing to control the "ceiling" comes at a considerable opportunity cost in terms of the reduced freedom guaranteed by the "floor". This is not a trivial concern for republicans, directly affecting the republican reasons for endorsing a particular policy.

Second, advocates of the Alaska model may counter the previous argument by suggesting republicans should adopt a piecemeal strategy of first putting in place a substantial economic floor, and only then proceed with the complementary task of building a robust regulatory or egalitarian ceiling. After all, if the PFD policy is compatible with an economic ceiling, this leaves republicans perfectly free to pursue their comprehensive goal of promoting republican freedom in a two-stage sequence. This response is plausible provided we assume total independence of the economic floor and the ceiling; that is, if we assume away any linked effects or path dependency. Unfortunately, this may not be the case. In fact, we may have good reasons to think the institution of the Alaska model has important effects on the political opportunities to build a strong economic ceiling. Scott Goldsmith shows how the PFD rapidly came to be regarded as an individual entitlement, and not something that the polity or the state distributes in an active sense.347 What seems to have happened in Alaska is that the PFD

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347 Goldsmith 2005, and this volume.

reinforces a conception of economic policy on broad left-libertarian terms, according to which natural resources owned in common are legitimately distributed to all individually yet direct economic redistribution through general taxation and economic regulation with redistributive effects more generally are regarded with suspicion. This effectively allows the justification for an economic floor to come apart from that of the economic ceiling, and even for the one to contradict the other. This is an outcome completely at odds with republican political theory; and it offers yet another good reason for republicans to take a cautious attitude towards the Alaska model.

It is important not to overstate the point. All-things-considered republicans may have no real grounds for opposing the institution of a PFD in the absence of an economic ceiling, in particular in cases where there is little prospect of any other progressive measures emerging in the short or medium run. But to the extent that a lack of an economic ceiling renders the freedom-promoting impact of an economic floor void, there may simply not be strong republican reasons for supporting the PFD.

5. Democratic Control?

A third republican concern shifts our attention away from distribution in a strict sense, focusing instead on the democratic politics of resource taxation more broadly. The starting point of the APF is the idea of a collectively owned asset, a sovereign wealth fund "collectively owned by the members of the political community".348 However, as Goldsmith shows, the political origins of the PFD are hotly disputed by its beneficiaries,

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348 Widerquist and Howard introduction to this volume.

who instead prefer to regard it as an individual entitlement to be ringfenced and safeguarded from the political sphere.349 The failure to robustly embed the APF into an appropriate political setting in Alaska is telling in terms of the individualist (left-libertarian) character of the Alaska model, but immediately raises a serious concern for republicans who conceive of society as governed by collective self-determination.

To understand the problem at hand consider first a central distinction within the concept of ownership between benefit and control: the legitimate owner of an asset may derive all the benefits from its use without having full control over the manner in which it can be used, or sold, or licensed, and so on.350 When the advocates of the Alaska model talk about common ownership, it appears they restrict their attention to the benefit dimension with little regard of the control dimension. When considering the political constitution of a sovereign wealth fund, there are three key decisions to be made: what resources to extract or to license for private extraction, how much to tax the resource in question, and how to allocate the resulting proceeds. It is our understanding that little democratic control is exercised by the people of Alaska on any of these decisions, with limited, "virtual" control currently only exercised at the last point.351 Although only the APF is constitutionally protected – aided by a strict "prudential investment rule" that was institutionalized from its inception by the governing body of the APF – the PFD is protected by a practical collective veto by virtue of beneficiaries resisting any policy

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349 Goldsmith 2005, and this volume.

350 Grey 1980; Fama and Jensen 1983.

351 Note that "virtual control" is perfectly acceptable to republicans Pettit 2008; 2009.

change that affects the size of their current or future dividends.352 But from a republican democratic perspective, this seems overly restrictive. A democratic society surely would want to improve the extent to which the citizens collectively determine the share of the proceeds to be allocated as an individual dividend, including the mechanics of how citizens receive such a grant – e.g., as a monthly or annual dividend, or perhaps even a stakeholder grant allocated once-in-a-lifetime.353 Such democratic governance of course implies adopting a radically different perspective from one that regards the PFD as a natural private entitlement to be protected at all cost.

Karl Widerquist proposes a move that goes some way towards granting individual citizens increased control over their stake in collectively owned resources. By turning the PFD into Citizens Capital Accounts (CCAs), he aims to give each citizen improved control on how to manage their particular share and how to use the resulting dividend.

> At birth each child receives shares in a government held and managed account in a fund of diversified investments such as stocks, real estate, commodities, and government bonds. The key feature of CCAs is: the

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352 Goldsmith 2005, and this volume.

353 Goldsmith 2005, p. 558 relates how it was at one point considered to cash out the actual APF "with the proceeds distributed equitably to all residents in one big dividend of about $40,000", a proposal subsequently defeated. Griffin (this volume) discusses whether the PFD should be regarded as a basic income or a stakeholder proposal. For a general discussion of the stakeholder model, see Ackerman and Alstott 1999) and Dowding, De Wispelaere and White 2003.

> account owner has access only to the returns in her account not the principal. She can withdraw her available returns each year, month, week, or day, or she can let the returns accrue for later. A fixed amount of the returns must be reinvested. These mandatory reinvestments become part of next year's principal to ensure that the principal increases every year. At death the entire principal (but not the available returns) is returned to the national fund to help finance the next generation's accounts. Compound available returns left in the account will become a part of the account holder's estate and taxed as any other estate asset.354

From a republican perspective the increased control and accountability within CCAs is welcome, but again remains insufficient as a mechanism of full democratic control. The main reason is that it only focuses on the last decision point, leaving the decision on what resources to extract or how much to tax them out of the picture. Unfortunately those are crucial political decisions, affecting the polity at large and therefore requiring collective self-determination and robust democratic control. The absence of a genuine democratic perspective on these matters is particularly hard to understand in light of the new global environmental agenda. For one obvious way to swell the size of the PFD is to extract more (types of) resources, but this may conflict with other values – notably

354 Widerquist (this volume).

environmental concerns.355 Resolving these types of deep conflict requires sustained political debate in which all arguments and all sides are given a fair democratic hearing, not insulating the issue from politics altogether.

A perspective that leaves the APF outside of politics (as currently seems to be the case in Alaska) or that only offers improved control in terms of individual accounts once the prior resource extraction-and-taxation process has already taken place (as in Widerquist's CCA proposal), severely limits the capacity of the polity to collectively determine what to do with the resources it holds in common. For republicans such democratic control is nevertheless essential precisely because the policy is the space in which individuals constitute themselves as citizens by engaging in collective projects against the background of robust protection of their individual republican freedom.356 In a similar vein, Erik Olin Wright suggests that basic income may "strengthen the power of civil society to shape the priorities for the use of the social surplus and the organization of economic activity."357 Republicans offer a variety of institutional mechanisms to improve democratic control in practice, whether in the "electoral dimension" through representation or in the "contestatory dimension" through a host of non-electoral devices

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355 Winter (this volume) offers a radical critique against the use of natural resource taxes on the grounds of complicity with environmental degradation. Howard (this volume) offers a contrasting view.

356 Pettit 1997.

357 Wright 2006, p. 6.

such as social movements or the courts.358 Practical solutions abound, but in the absence of a clear commitment to democratic control of all the aspects of the Alaska model – extraction, taxation, distribution – yet again republicans must remain skeptical in supporting the model being exported to other states or regions.

6. Conclusion

In this chapter we have taken a critical stance on the merits and prospects of the Alaska model from a republican perspective primarily concerned about securing citizens' freedom-as-nondomination. Although the Alaska model initially seems very promising, there are at least three areas of republican concern: the lack of a substantial economic floor, the lack of an economic ceiling, and the lack of robust democratic control over the processes of resource extraction, taxation and distribution. We believe all these concerns mean republicans ought to tread carefully when promoting the Alaska model for export into other countries or regions across the world. At first blush, republicans may not have good reasons to oppose the institution of an Alaska-style resource taxation-and-dividend program.

But some of the concerns raised in this chapter require that republicans remain vigilant. One set of concerns relates to the difference between adopting a policy that improves people's wellbeing – no doubt a laudable goal – yet falls short of impacting significantly on their republican freedom. The latter, more demanding requirement

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358 For the variety of democratic mechanisms ensuring democratic control prevails over populism or special interest politics, see Pettit 1999; 2000; 2008; 2009.

implies that republicans must constantly be on the lookout for alternative policies that promote the most extensive republican freedom for all citizens. In the absence of a clear sense in which the Alaska model genuinely promotes freedom-as-nondomination, any republican support must remain highly contingent and provisional. A second set of concerns arises once we consider that the institution of the Alaska model requires considerable investment of time, effort, political capital and economic resources and thus implies significant opportunity costs. These opportunity costs may become prohibitive where the economic floor obtained through the Alaska model fails to promote republican freedom. And matters are even further complicated where legitimate concerns arise about potential negative side-effects, such as path dependency effects of instituting a dividend scheme that reinforces an overly a-political culture of individual entitlement or the lack of genuine collective democratic control over the use of common resources. Thinking about what might constitute specifically republican reasons for adopting the Alaska model, it emerges that a republican perspective insists on more stringent conditions than those who tirelessly champion the Alaska route to a more free and equal society.

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Chapter 12

Climate Change, Complicity & Compensation

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A basic income is a very good thing. If set high enough it could help realize each person's equal right to be free. But it requires funding. And that raises significant ethical questions. How can we fund a basic income ethically? This chapter inserts itself between two judgments expressed by the editors of this volume. First the editors suggest we should fund basic income by taxing natural resource appropriation. They argue that "taxing natural resources is at least as good, and probably far better than the case for taxing any other source of wealth."360 The judgment is comparative and one reason for their preference (but perhaps not the only) is because most forms of taxation involve morally dubious expropriations of private property. If its funding were to involve wrongful rights violations, then a basic income funded through taxation would be complicit with that wrongdoing.

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359 The chapter is indebted to discussions at the 2011 annual conference Canadian Political Studies Association, the 2010 Conference of the New Zealand Political Science Association, as well as talks given to the New Zealand Society for Legal and Social Philosophy and the Centre for Applied Philosophy and Public Ethics, ANU. I received particularly valuable comments from Christian Barry and Karl Widerquist.

360 Widerquist and Howard, introduction to this volume.

But doubt should emerge regarding a second judgment, viz.—the editors' endorsement of Alaska's Permanent Fund Dividend (PFD) as having a strong ethical footing and being a model worthy of imitation and adaptation.361 Their endorsement may appear to follow from the first judgment. After all, funding for the PFD comes from taxing natural resource appropriation. But the particular character of the PFD suggests a reason not to confuse the two judgments. This paper interposes itself with the following argument. The PFD makes participating recipients complicit with grave wrongdoing because of its connection to the oil industry, a practice responsible for 150,000 deaths per annum.362

The complicity argument is familiar and my argument here is a specific example of a more general argument concerning actions that involve us in wrongful circumstances.363 For example, well-publicized campaigns tell consumers they risk complicity if they buy unethically sourced "blood" diamonds, unfair-trade coffee and sweatshop clothing. Similarly, universities and other institutions confront demands to

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361 Widerquist and Howard, introduction to this volume.

362 World Health Organization 2010. The webpage cites the report: McMichael et al. 2003.

363 At points, the chapter draws on American jurisprudence of accomplice liability. The law treats accomplice liability as an offence in which the accomplice assists or encourages a principal offender. Accomplice liability is a "secondary" offence parasitic on a principal offence. This chapter dispenses with that specific structure, relying on a broader, lay conception that attributes moral responsibility for jointly produced events.

reject funding from unethical sources, like slavery or weapon manufactures. Sometimes these campaigns suggest that consumers and institutions should desist as a way of pressuring suppliers to become more ethical. But this is not the whole of the argument. As the slavery example suggests, wearing a blood diamond or seeking donations from the "Gaddafi International Charity and Development Foundation" is morally objectionable just because it constitutes complicity in wrongdoing.364 That charge is identical to that confronting a basic income program funded by violating private property rights (a plausible reason for preferring the natural resource alternative). And because a similar argument applies to the Alaska model, there is reason to dispute model's comparative ethical superiority.

Here is the argument in brief:

1. An unjustified grave rights violation is intrinsically wrong.
2. The current oil industry necessarily involves unjustified grave rights violations.
3. (From 1 & 2) The oil industry involves intrinsic wrongs.
4. The Alaskan PFD makes participating recipients complicit with the oil industry.
5. (From 3 & 4) The PFD makes participating recipients complicit with intrinsic wrongs.
6. Complicity with something that is wrong is itself wrongful.
7. (From 5 & 6) Participating receipt of the PFD is itself wrongful.

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364 Criticism of donations made to the London School of Economics by the Gaddafi International Charity and Development Foundation prompted the resignation of the LSE's director in early 2011.

The argument is narrowly construed but its implications go beyond Alaska. Advocates of similar models using West Virginia's coal or Oregon's natural gas will confront identical concerns; the argument is robust across a significant number of proposed funding options. Beyond the narrow focus of this chapter, the argument may license attributions of complicity with regard to many industries. The problem of lethal pollution is not restricted to climate change. In a world in which the real limits of natural resource exploitation are daily becoming clearer, there is reason to beware linking basic income theory to continued natural resource exploitation. However, there may be versions of the funding model that do not have the ethical implications discussed here. If the appropriating industry does not involve wrongdoing similar to that specified by the argument (wind or solar power might be good examples), then my argument will not apply. This chapter motivates the argument against the Alaska model as it actually exists and then suggests a remedy. Along the way, I take up some potential criticisms. And it will be helpful to address a few at the outset.

The grave rights violations at issue are the annual deaths attributed to climate change by the World Health Organization.365 But Alaskans are not *guilty* of those deaths. The charge of complicity with murder is not equivalent to a charge of murder; it is a lesser evil. And this suggests a difficulty. Just as the above examples of blood diamonds and unfair trade coffee indicate the argument's familiarity, they also raise an important concern. The sin of wearing a pair of shoes made in a sweatshop is venial, not

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365 It is very possible that other injuries provide similar bases for complicity. I bracket that possibility.

mortal. Now some people might disagree. They would say that wearing sweatshop clothing is very wrong and that fact that most of us rarely give our shopping a second thought simply shows how morality is ahead of common practice. But I won't claim the relevant form of complicity is extremely wrongful. The following argument only requires that collecting a PFD is a minor wrong, equivalent in veniality with wearing sweatshop clothing. However, my argument is radical in its implications as it indicates how complicity in wrongdoing pervades our lives: using a car, a cellular phone, and air travel are only a small number of the ways in which everyday activity implicates us with wrongdoing. Although our sins in these matters may be minor, it is sufficient for my argument if collecting a PFD is just a little bit wrongful.

Given the venial character of the targeted wrongdoing, the reader may suspect the argument uses casuistic reasoning to build an ethical mountain out of a moral molehill. But the burden of my argument is to demonstrate that the Alaska model is not an "ethically clean" model for funding a basic income as an institution. The object of the argument is not individual action, but a societal institution. And it is not obvious that merely venial individual actions remain trivial at an institutional level. Consider an analogy with driving. Surely the moral implications of climate change are *a* reason not to drive. If you had a pollution-free option for equally efficient transport it would be the case that you ought to prefer it to your car. Driving is, at least a little bit, wrongful. Further, that reason ought to figure prominently in the decisions of those responsible for our civic institutions. And there is evidence to support that claim; our political systems are slowly beginning to control greenhouse gas emissions and promote the use of greener transportation. Just as climate change arguments target individuals as members of civic

institutions, my objection is similarly institutional, against the "Alaska model," not against the individual PFD recipient. But even if successful, my argument is not sufficient to dismiss the model entirely; indeed I will suggest a way by which it might be saved. But in the face of prima facie wrongdoing, its salvation will require promoters to engage in the messy business of justifying and negotiating trade-offs between evils.

Some final words of warning before we begin: the chapter relies on a substantial amount of unargued theory. The ethical framework is nonconsequentialist, but the chapter has little to say about what 'ultimately' makes something wrongful. Although some readers may anticipate the complicity argument depends on the principle that to benefit from a wrong is itself wrong, it does not. The beneficiary principle is unsound. The complicity argument relies on wrongful action, not wrongful benefit. Yet unfortunately, the discussion lacks a sophisticated theory of action. The distinction between actions and non-action is necessary to the argument but I discuss the nature of action only cursorily. Worse still, the argument switches between concepts of "practice" and "action," treating a "practice" (such as an "industry") as equivalent to an action. I think the equation sound as far as is necessary here, but it is impossible to discuss this at length. Lastly, the argument encounters some dubious ethical phenomena, including "joint actions," the "reasonable foreseeable" and "necessary conditions of practical maxims" and so on. These disreputables all make an appearance, but pursuing the questions they raise would take the chapter far beyond its remit.

1. Facts about Alaskan oil

The Alaskan economy floats on petroleum. Its low population density and geographic isolation intensify the significance of Alaska's oil industry. Oil revenues

account for over 80 percent of the state budget. Approximately one in three Alaskan jobs depend (indirectly) on the industry.366 Oil production is worth about $50,000 per annum to every Alaskan family of four, although much of that wealth goes to the public works necessary to service a vast thinly populated area characterized by a severe climate.367 Alaskans make comparatively good wages, pay no state taxes, and of course, they get an annual Permanent Fund Dividend.

Although important to Alaskans, in global terms Alaska's oil industry is relatively minor both in terms of the petroleum industry and the larger problems of climate change. Alaskan production was about 250 million barrels in 2008.368 That output was equivalent to 3.5 percent of total American consumption (7.14 billion barrels). Beyond the American context, as a percent of global oil consumption (about 31.3 billion barrels), the Alaskan contribution is a tiny 0.79 percent. Turning to anthropogenic climate change, in 2008, humanity produced approximately 5833 million metric tons of CO_2 from fossil fuels. (Climate change is, in part, a product of CO_2 emissions).369 The United States contributed about 19 percent of total annual CO_2 from fossil fuels. Americans are significant contributors. But the Alaskan oil industry is not. American petroleum consumption contributed 2436 million metric tons or 42 percent of the American total.

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366 Goldsmith 2008, p. 2. Only 5000 Alaskans work directly in the oil industry. Their activity plays no part in the argument.

367 Goldsmith, cited in Simon 2010.

368 US Energy Information Administration 2010.

369 Other greenhouse gases include methane, nitrous oxide and chlorofluorocarbons.

Working roughly,370 at 250 million barrels per annum, Alaskan output equates to 85.26 million metric tons of CO_2. In terms of global carbon emissions from fossil fuels, including emissions from coal and natural gas, Alaskan oil exploitation "accounts" for a tiny 0.0027 percent.

2. Wrongdoing

There are a number of potential reasons why the Alaska model for funding basic income might be problematic. An obvious first thought is that Alaskan oil is causing climate change. Although Alaskan oil is only a small part of humanity's global carbon production, every little bit "counts." But that argument appears insufficient against the following objection. Imagine that Alaska stopped producing oil tomorrow. Within a matter of days other sources of oil would replace the Alaskan contribution, both to the global energy economy and to the problems of climate change. Essentially, Alaskan production makes no difference to an overdetermined outcome. And if something makes no difference to an event, there is no good reason to think its moral character rests on its impact.371 If the reader disagrees, note that the validity of the

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370 I used the American figure of 19% of global CO_2 emissions to work out the Alaskan contribution. But Alaskan production might be more or less efficient than the global average. Such variation would change the numbers slightly without affecting the main point.

371 *Pace* Parfit 1984, p. 82.

causal argument would only strengthen my position. But the following argument does not rely on the causation claim.

A second option for wrongfulness is that the PFD model creates disincentives to "green" the economy. Imagine a polity in which every voter receives a monthly paycheck that depends on oil exploitation. It would be a foolhardy politician who stood in the way of maximizing the exploitative potential of oil. In that case, we might think the wrongness of the Alaska model would be indirect, impeding the development of a less carbon intensive economy. However, implementing the Alaska model would put upward pressure on oil prices simply because the price of oil must include the cost of the PFD. And since a higher price of oil is an incentive to green the economy, the argument confronts countervailing reasons. Perhaps an economist could work out the relation between differing prices for PFD, the price of oil and the incentives for greening the economy, but my own feeling is that neither effect would hinder or help the rate of oil extraction. Oil is at the centre of the global economy; that is why the oil industry is so profitable. If the profits available are not distributed according to the Alaska model, then those monies will simply go elsewhere. And oil will be extracted regardless. So it is not clear that the wrongness of the Alaska model could rest on its hindering a move to a greener economy.

When reflecting on these points, some readers might conclude that the only question is how the profits derived from oil exploitation will be put to use. If Alaskan oil production makes no difference to climate change and is likely to occur at a similar rate regardless of how its profits are distributed, for these readers (who perhaps fancy themselves as "realists") the critical analysis offered here would have merely academic

interest. But consider the following. Property crime in the USA is worth around $17.2 billion per annum.372 One can expect a similar figure next year. And only naïveté excuses those who believe political promises to eliminate crime. But nevertheless, the certain availability of ill-gotten gains is not a good reason to set up as a dealer in stolen goods. Some things are wrong in themselves.

All credible experts agree that burning fossil fuels contributes to anthropogenic climate change.373 As a result, most sensible people think that one of two things will happen. Either humanity will reduce its usage of fossil fuels before catastrophe, or humanity will wait until catastrophe causes it to reduce its usage. But the evidence indicates that catastrophe is already upon us. WHO's estimate of 150,000 attributable deaths is conservative. The estimate includes deaths attributed to extreme weather events occurring at an "increased frequency."374 Further, WHO argues that climate change is influencing morbidity, facilitating the spread of major killers including diarrhea and malaria.375 Finally, climate change is damaging food production, causing higher rates of malnutrition. These factors combine in a vicious feedback cycle as malnutrition

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372 Federal Bureau of Investigation 2008.

373 Although we should treat millennial claims with care, the general structure of climate change enjoys a rare degree of consensus. The leading body, the Intergovernmental Panel on Climate Change (IPCC), is unequivocal with regard to the severity and immediacy of climate change. For the IPCC's assessment of human impact see: Parry et al. 2007.

374 McMichael et al. 2003, p. 1583.

375 McMichael et al. 2003, p. 1594.

exacerbates the effects of disease and both reduce the resilience of individuals and societies to extreme weather events.376

The following facts are assumed by my argument. If either claim is false, the argument fails.

1. Global warming is killing a large number of people (150,000) every year.

2. The petroleum industry is a major contributor to global warming.

Considering the second fact, we can say that, given current technology, the resultant deaths are a foreseeable and necessary aspect of the petroleum industry. Moreover, as the exploitation of oil resources is implicated in those deaths, the practice embodied by the oil industry is wrongful. The unjustified killing of a person is a grave rights violation. And as a necessary aspect of the oil industry, these deaths constitute grounds for the complicity attribution.

But we need to be careful. *Oil exploitation* is not wrongful in itself. After all, it is possible to imagine a world in which a small amount of oil exploitation occurs with no ill effects. The argument does not concern an *act type* that is always evil, like slavery and torturing babies. Rather, the charge concerns wrongful *act tokens*. On any plausible account this category includes acts of unjustified killing. Oil exploitation shares in the unjustified killings attributed to climate change insofar as these deaths are a necessary feature of the industry. If the industry were to radically change so as to stop producing greenhouse gases then the charge would no longer apply. But that possibility exists only in fantasy. The charge applies to the "oil industry" as it actually is—a supply network to

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376 Ibid. p. 1544f.

a global economy producing 5833 million metric tons of CO_2 per annum.

We can contrast the necessary killings of this industry with its accidental deaths. Not all deaths attributable to the oil industry are necessary to the practice. Some deaths are 'merely' accidental; deaths occasioned by oil spills and other industrial accidents are examples. But the same is not true of the deaths attributed to CO_2 emissions. An oil spill is an *abnormal* incident attributable to a fault or error; but the production of greenhouse gas is a *normal* component of the industry. And this provides a reason to focus moral concern on that industry. While other aspects of our economies are part of climate change mechanism, the production of greenhouse gases is a central function or feature of the oil industry. This gives the oil industry a special (but perhaps not unique) status. We could not imagine an oil industry in any way like the one that currently exists in the absence of large-scale greenhouse gas production. Greenhouse gas production is not erroneous, accidental, or unforeseen. And the resultant deaths are grave claim violations that are a foreseen and necessary outcome of the primary usage of petroleum. This fact provides a reason to focus critical attention on oil industry and in turn, to focus on the moral questions surrounding the Alaska dividend, moral questions which are nontrivial when applied to the PFD as an institution.

A word of caution: the fact that oil industry is wrongful is not necessarily a sufficient reason to ban it. Sometimes we have reason to do wrong. It may be that the wrongfulness of oil industry, all things considered, is outweighed by justifications for its continuance. Nevertheless, the fact of wrongfulness is a weighty reason to desist. More particularly it provides a reason for otherwise complicit agents to prevent unjustified killings. I return to this point in section 5.

3. Complicity

One cannot be complicit on one's own. Like friendship and love, one can only have complicity with others. Standard cases of complicity involve joint actions, actions performed by a plurality of agents. But two factors make it difficult to call something a joint action: an increasing number of agents involved and a decreasing amount of overt coordination between them. Climate change is an overdetermined result of billions of actions by billions of people. And these actions are uncoordinated. Clearly 'climate change' is not an action itself. A product of so many hands, climate change is "an evil more inhabited than made."377

If climate change is not a joint action, the argument for complicity cannot rely on the independent existence of a joint action with which Alaskans become complicit. This section outlines a conception of complicity that does not depend on joint action, but rather emerges from participation in a wrongful event. I use the work of Christopher Kutz as a guide.378 Kutz suggests conditions of complicity that accommodate the judgment that participation in large-*n* wrongdoings, even participation that makes no difference to the wrongdoing, is nevertheless wrongful on the basis of the person's intentional involvement.

In the course of his argument, Kutz describes the unjustified firebombing of a

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377 Kutz 2001, p. 119.

378 Kutz 2001; 2007.

city.379 Call this case FIREBOMBING. The hypothetical case of FIREBOMBING lacks all justification, either in terms of the overall plan or the composite acts of those who participate: none of the standard excuses of 'military necessity' or 'following orders' apply. But once the decision to firebomb is made, no single participant can stop it. The firebombing mission includes over 1000 planes and 8000 crew, each doing a series of specific tasks. Each plane carries many incendiary bombs. Although incendiary bombs have the capacity to kill directly, the intended effect is indirect—to use the city itself as a weapon against its inhabitants. As thousands of bombs set thousands of fires, the emergent conflagration sweeps the city at terrific speed. Sucking air out of the bomb shelters, the firestorm kills as many by asphyxiation as by burning. For the sake of parity, assume that 150,000 civilians die. Causing these killings not only involves large numbers of people, they are 'over-determined' because no single action necessarily 'causes' a death.

Because FIREBOMBING is unjustified FIREBOMBING clearly involves wrongdoing. But as in the oil industry, the division of labor within FIREBOMBING permits those involved to divorce the tasks they perform from the final result. Mechanics service aircraft, IT staff update guidance computers, pilots fly a pre-set course; none of these actions actually kill anyone. Moreover, the overdetermined structure of the action affords participants the comfort of knowing that their part makes no difference to the outcome. The deaths appear inevitable. Just as guilt and blame retreat in the face of

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379 Kutz examines the actual firebombing of Dresden. To avoid argument as to the moral status of any particular case, I leave the example as a hypothetical.

inevitable natural phenomena, so they diminish when confronting unavoidable human processes. FIREBOMBING is a collaborative and 'bureaucratic' evil.

Collaborative evils resist assimilation to conventional attributions of blame because they are not actions. Actions emerge from agents. In the standard case an agent owns an action. Action is the means by which a person enters the world as a person, showing herself to be unique, creative, and free.380 Action is essentially singular and attributions of blame depend on this singular character. The burden and privilege of moral responsibility requires action to be identified with an agent. It is only when we can say that an act is that of an agent, when it shows something of her, that she can rightly take pride or be liable to blame. Consequently, treating mass events as an action is suspect; as it is in tension with the characteristic singularity and ownership that demarcates the realm of action and underpins desert attributions, including blame. Any plausible theory of complicity must retain these elements of individual ownership and attribution.

Let's consider a single participant in FIREBOMBING. She might not "intend" the wrongful outcome. Would she thereby escape complicity? Imagine an aircraft mechanic who is simply repairing an aircraft's strut. Perhaps, focused on the task at hand, the mechanic is "just doing her job." In the abstract, the claim appears plausible; repairing an aircraft is not a culpable act. The mechanic does not intend any deaths, only the repair at hand. Of course, back in the real world, aircraft mechanics usually know (or should know) whether or not a particular strut belongs to a bomber and the circumstances in

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380 Arendt 1958, pp. 175-79.

which the bomber will fly. In the context of FIREBOMBING, repairing an aircraft strut is an action with a distinct moral role and context. There are cases in which ignorance exculpates, but not as a rule. Human action is always an intervention into a complex world. Our ability to act depends on our ability, limited but nevertheless real, to assess our interventions with regard to the world's uncertainties.381 The complicity test is one of reasonable foreseeability, not the participant's subjective mental state. Indeed, it is irrelevant whether anyone actually "wills" the wrongful outcome. Complicity emerges from actions meeting the standards of agency, not the willed status of complex and overdetermined events. It is sufficient to complicity that people behave rashly or negligently in the context of those events. And this means the complicity of those involved remains in their own hands. In short, the complicit agent acts in a way that identifies her person with the wrongful event.

Reflecting these demands, American law requires complicit agents to act so as to align themselves as agents with the wrongdoing. Leading cases include *United States v. Falcone,* written by Judge Learned Hand (1940). In *Falcone* Hand argued that a complicit agent "must in some sense promote [the wrongful] venture himself, make it his own, have a stake in its outcome."382 Hand captures the elements of active intervention and "agency-alignment"—Immanuel Kant might say that the complicit agent makes the

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381 See discussions in the Introduction and the Chapter entitled "Responsibility and Luck..." in Honoré 1999.

382 *United States v. Falcone* 1940.

wrongful outcome a condition of the maxim of her will.383 Agency that satisfies these conditions would meet the demands of 'ownership' and 'attribution' raised in the previous paragraph. To elaborate, the complicit agent meets three conditions. First, she acts so as to interpose herself into the event in question. Second she must be in control of her involvement—be able to know herself to be part of the event. In legal terms, this active involvement must be of a kind for which it is reasonable that the agent would foresee as involving her in wrongdoing. And third, the action must be such that the complicit agent aligns her agency with the wrongful event, gaining a personal stake in the wrongdoing. An agent meeting those three conditions participates in the wrong in a way that makes her complicit.

Given this account, the complicity argument can negotiate the difficulties of attribution posed by large *n*, uncoordinated events. Individual involvement is not a series of parallel but discrete individual actions. Such atomism is not the most convincing description of the world. We grasp at the totality of events. Often individual actions only make sense when understood against the background of larger canvas.384 FIREBOMBING is such an example.

This section asked "what is the character of complicit involvement in an over-

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383 Kant 1998, pp. 31-33.

384 An alternate theory appears in Tolstoy. In Part II of the appendix to *War and Peace*, Tolstoy uses the ineffectuality of human agency at the collective level, particularly the ineffectuality of wartime commanders, to suggest that the ultimate meaning of events as "being a battle" depends on God. I think it depends on the accuracy of the description.

determined, large-*n* evil?" The answer concerns the involvement of agents in wrongful events. In this case, the aircrews and their support staff are together responsible for firebombing a city. In Kutz's terms, "an agent who wills participation wills the collective act as well."385

4. Complicity and the Alaskan PFD

The wrongness of Alaska's PFD rests on a particular relationship between the PFD, the exploitation of petroleum, and the deaths of 150,000 people per annum. One relationship between PFD recipients and the oil industry is that of a beneficiary. But as indicated above, the beneficiary principle is unsound. Recall FIREBOMBING. Imagine the firestorm eliminates a widget supply company in the town. Widget orders subsequently increase in the neighboring town, benefiting the neighboring town's manufactures. The increased benefits are not obtained unjustly or retained improperly.386 The wrongfulness exposed by the complicity argument does not depend on benefits but rather upon wrongful agency.

The final stage of the argument moves from the wrongful status of oil exploitation to challenge the morality of Alaska's PFD. Complicity in the deaths attributed to climate change would need to meet three conditions, the agent must involve herself in the wrongdoing, she must be in control of that involvement, and her action must be open to

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385 Kutz 2001, p. 142.

386 If the reader disagrees, she can simply lengthen the time between the wrongful act and the benefit. At some point, the principle becomes clearly implausible.

the reasonable imputation of a wrongful maxim of the will. Consequently, the argument depends on attributing these conditions of agency to Alaskan participants.

The PFD's annual dividend gives Alaskans a personal stake in the oil industry.387 Each year, Alaskan residents must register to receive the PFD. Registering for the PFD is an example of action meeting the standard of involvement. Any Alaskan who does not wish to receive the monies can repudiate the payment simply by failing to register. Alaskans are not coerced into receipt. The PFD is not manna from heaven. Nor is it a non-excludable public good or an externalized benefit derived from another's action. Registering is a means by which Alaskans participate in the PFD. Alaskans will their involvement in the PFD. And a condition of it being willed is the continuance of the wrongdoing underpinning its receipt. The PFD participant knows (or ought to know) the monies originate from oil extraction. The PFD participant knows (or ought to know) that petroleum exploitation is a significant contributor to climate change. And finally, the PFD participant knows (or ought to know) climate change causes unjustified killings. Meeting the standards of involvement, control and the reasonable imputation of a wrongful maxim, the participant in the PFD acts as so to align her agency with those deaths.

The individual participant's involvement is one of the many ways in which people are complicit in climate change. But it is not inconsequential. Consider the question from the perspective of those killed and their families. Confronting those wronged, could a PFD participant genuinely disavow moral responsibility? Could they justify the PFD to

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387 "Personal stakes" are not restricted to "benefits."

the father, mothers, and children of the dead?388 They could not and the complicity argument demonstrates why. The Alaska model is not a morally clean source of funding. And when we consider the PFD as an institution, the argument has significant force. But it is not devastating. Rather, it merely puts the Alaska model "on all fours" with the foremost alternatives.

5. Saving the Model

In a morally complex and tragic world, ethically pure action may be rare. Although there are likely to be less costly choices, perhaps no feasible option for funding a basic income is without some ethical cost. And sometimes the costs of an alternative can excuse otherwise impermissible actions. A well-worn example is BANK ROBBERY. In BANK ROBBERY the robber confronts the bank clerk with the threat, "the money or your life." The clerk acts permissibly in giving the money to the robber because she has a very good justification for performing an otherwise impermissible act. If a basic income program rests on the equal right of each to be free, then it has a powerful justification at its root. And for Alaskans, it may not be possible to find an alternative revenue stream in the foreseeable future. Recall that over 80 percent of state revenue depends on oil exploitation. One in three jobs in the state are similarly dependent. Perhaps similar points could be made about other economies and their natural resource potential. The point is not that dependence negates culpability. Rather, the point is practical; it may not be possible to replace revenue from the oil industry as a source of funds.

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388 Cf. Scanlon 1998, pp. 4-5.

If a basic income modeled on the PFD would realize freedom, it may be possible to justify the model in the face of its complicity with killing. After all, complicity is not as bad as murder. And freedom is highly valuable. One way to move forward would be to make fine-grained comparative assessments between different models of funding and then choose the least tainted. But it may be possible to "clean up" the Alaska model. Its justification would be stronger if the worst of the grounds of blameworthiness could be removed or mitigated.389

The ground for the charge of complicity rests on the 150,000 people who die annually from the effects of climate change. Therefore, if the Alaska model were to combine basic income payments with sufficient funding to stop the killings the complicity argument would no longer provide a reason to object to the model. In theory, a 'combined' program is possible because the oil industry does not kill directly. Instead, the attributable deaths happen indirectly, through malnutrition, disease and extreme weather events. Therefore, adequate preventive and remedial measures could, by stopping the killings, remove the reason to object to the program.390 The Alaska model would come to have two components. Funding derived from natural resource appropriation would provide monies for a basic income and to prevent the deaths that would otherwise occur due to climate change. Let's call this second component of the model its "avert funding." It is a type of Pigovian tax.391

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389 I owe this suggestion to Christian Barry.

390 The chapter brackets the moral implications of previous deaths.

391 Pigou 1920, Part 2, Chapter 9.

As it stands, the proposal for "avert funding" appears impractical and unfair.392 It is extremely unlikely that any polity could derive sufficient funds from natural resources at a level adequate to sustain both a basic income and mitigate climate change. As climate change is a global problem, the proposal is impractical. Moreover, it is unfair for any particular polity to assume all the burdens of climate change. After all, why should Alaskans pay to avert all attributable deaths? And allowing other polities to "free ride" on Alaskan "avert funding" would create a system of perverse incentives, as other polities could impose progressively greater demands on Alaskans without paying the costs.

One way around these problems is to limit "avert funding" so that it mitigates only those negative effects (we are focusing on unjustifiable deaths) that could be attributed to the industry in question. It seems plausible that, when an evil is caused by a multiplicity of contributors, agents only bear remedial responsibility for the burdens they would assume if all those who contributed were to assume their fair share of responsibility.393 For example, one straightforward way of distinguishing fair shares

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392 One reader argued that if Alaskan oil exploitation is contributing to climate change and Alaskans are amongst those who are injured, then some portion of avert compensation could be incorporated into the dividend itself. I would think this claim difficult to maintain in face of the actual facts about climate change. The brunt of damage will be borne by people in developing states, but there is no theoretic reason preventing the dividend from being used in this way. It is just difficult to see how one might justify it in practice.

393 Murphy 2000, 77f.

would be to carve up responsibility on a contributory basis. If Alaskan oil contributes 0.0027 percent of global carbon emissions, then Alaskans are responsible for preventing 0.0027 percent of the annual deaths due to climate change, (405 killings per year). One might refer to that ratio as the Alaskan polity's "fair share" of avert responsibility. If all polities met their "fair share" of avert responsibility, then no person would be killed by the effects of climate change. As a result, including sufficient avert funding as part of its basic income program would discharge Alaskans' "fair share" of responsibility for the wrongful killings and free the Alaska model from the complicity objection.

The proposal is yet crude. There are plausible mechanisms other than "contribution" for assigning responsibility; the ultimate design may need to incorporate diverse elements, including the capacity of the contributor to pay. Moreover, it may be difficult to closely tailor the provision of preventative and remedial measures to the actual numbers of lives saved and over-provision will encourage free-riding. It is important to emphasize that the principle behind the compensation model is not dependent on the particular mechanism of assigning responsibility. One could feasibly eliminate the wrongdoing some other way. But while some free-riding may be ineliminable, the proposal would have a contrasting virtue of providing an internal incentive within the funding model to replace oil revenues with sources of funding that do not kill people. Alaska has significant wind, geothermal, hydroelectric and tidal energy resources. And as the deaths attributable to the basic income program decreased, so would the money spent on "avert funding." Decreasing the cost of compensation would increase the monies available for other purposes, such as reducing the price of the natural resource being taxed.

6. Conclusion

Let's recapitulate the central argument. In the language of *Falcone*, an accomplice must "promote" the wrongdoing, "make it his own, have a stake in its outcome".394 I have argued that participating recipients of the Alaskan PFD act so as to align their agency with deaths attributable to climate change, therefore the PFD instantiates complicity with those deaths because the PFD gives Alaskans a stake in that wrongdoing.

As my argument against the PFD is moral in character, it embraces any relevantly similar actions. As so much of the Alaskan economy depends on oil industry, and oil revenues pay for a large proportion of public services, the argument is likely to be robust across a large domain of public life. Focused on Alaska's PFD, my discussion has been limited in scope. But it is nevertheless powerful because it confronts those who endorse the model with a potential incoherency. As the Alaska model is not an ethically clean source of funds, it is not obvious that a basic income funded by a practice involving unjustified killing is preferable to one funded through other forms of taxation. However, it may be possible to prevent the injuries that form the basis for the complicity charge. If that is possible, and I sketched the principles of avert-funding in section 5, then the Alaska model would be freed of the complicity charge, as there would be no attributable wrongdoing. In such an event, the superiority of the model, as compared to conventional taxation, would remain unchallenged by the complicity argument.

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394 *United States v. Falcone* 1940.

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Chapter 13

Why Link Basic Income to Resource Taxation?

Michael W. Howard and Karl Widerquist

As the essays in this section make clear, a resource-financed basic income (or stakeholder grant) along the lines of the Alaska model can be defended on the basis of a variety of principles: liberal egalitarian (Zelleke; Griffin), left-libertarian (Carter), and civic republican (De Wispelaere and Casassas). But, some of the authors in this section are also skeptical about various aspects of the Alaska model, especially Zelleke, De Wispelaere and Casassas, and Winter. Resource taxation is most closely associated with left-libertarianism, and not all theories of justice imply that resource taxation is the preferred method of funding a basic income. But there are nonetheless reasons from each perspective covered in this book, and perhaps other perspectives as well, to support the combination found in the Alaska model.

The chapter discusses the compatibility of the Alaska model with several theories of justice, including left-libertarianism, liberal egalitarianism, and civic republicanism, and by way of doing so, it responds to many concerns of the authors in this part of the book. It then discusses Steve Winter's moral objection to the Alaska model and Jim Bryan and Sarah Lamarche's defense of it. Although the Alaska model is most easily seen as a left-libertarian policy, we argue that it is consistent with many other theories of justice.

1. Left-libertarianism

The left-libertarian perspective offers the most natural fit between a basic income and resource taxation. All libertarians, left and right, accept a principle of self-ownership. The idea roughly is that all people own themselves, including their labor, and by extension the fruits of their labor. Commitment to this principle can place taxation of the fruits of individual in question. Left- and right-libertarians differ on ownership of natural resources and the things we make out of them. Right-libertarians consider the earth and the bounty of nature to be initially unowned and up for grabs. There is no commitment to equal distribution of natural resources. A natural right to property gives rise to objections, from right-libertarians, to any taxation at all, or at least to any taxation beyond that required to sustain a minimal state, devoted solely to the protection of natural rights. Some right-libertarians would object to any special taxation of oil drilling, arguing that full ownership of the oil belongs solely to the companies that drill for it. However, although right-libertarians are critical of redistribution in general, many prominent right-libertarians have argued that basic income is the one form of redistribution they can support.395 Right-libertarians might favor a basic income for pragmatic reasons or as the fulfillment of the "Lockean proviso:" the responsibility required by most right-libertarian property theories that appropriators to leave "enough and as good" for others.[396]

Left-libertarians believe that no one has any more right to natural resources than anyone else. Any privatization of the commons carries with it the obligation to

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395 Hayek 1944; Friedman 1962; Buchanan 1997; Murray 2006.

[396] Widerquist 2010.

compensate each for the loss of equal access to resources. Thus most left-libertarians strongly favor resource-based taxation, and some libertarians believe that resources are the only legitimate tax base.397 Resource-based taxation could yield significant revenue if it includes not only oil but also land, the atmosphere, and accumulated social wealth. Some left-libertarians also believe that a resource dividend (a resource-financed basic income) is a good way to ensure equality of resources. Thus, the Alaska fund and dividend are a small-scale embodiment of left-libertarian ideals, but as Ian Carter (this volume) shows, one can make a case for a significant resource dividend even without the common ownership assumption.

2. Liberal egalitarianism

Some critics of libertarianism reject the concept of self-ownership altogether; one reason is that the associated doctrine of property appears to entail that mothers would own their children.398 Others question whether self-ownership entails a right-libertarian doctrine of property rights.399 Conceding that freedom is fundamentally important, liberal egalitarians distinguish the most important liberties—of speech, press, religion, association, and political liberties—from unlimited property rights. They argue that it is sufficient that there be some secure rights to personal property to guarantee that

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397 For a broadened conception of resources that includes jobs as assets, thus allowing for income taxation, see Van Parijs 1997.

398 Okin 1989, pp. 74-88.

399 Cohen 1995.

individuals will be able to pursue their ends and develop their personalities without interference.400 But there need not be historically based constraints on the distribution of property that preclude taxation and redistribution to bring about greater equality. Rather, if each person deserves equal respect and concern, furthering each person's opportunities by insuring to each a fair share of resources, even if this means taxing the more fortunate, will enhance freedom more than formal rights that do nothing to constrain inequality of wealth and power.401 Others note that property rights themselves only exist because of a legal framework that makes the rights and their enforcement possible. Such a framework is not possible without taxation. So one cannot coherently object to taxation in the name of prior property rights, which rights would not exist without such taxation.402 From this perspective, the proper object of evaluation is the totality of taxation plus government expenditures, and the way this totality affects each person, often with a particular concern for the worse off.403 While there is considerable debate among liberal egalitarians about whether the condition of each, and especially the worse off, should be measured in terms of income, welfare, opportunity for welfare, or resources, all (including also utilitarians) can agree that a just society will place a high priority on the elimination of poverty.404

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400 Rawls 1971, p. 61.

401 Dworkin 2000.

402 Murphy and Nagel 2002, pp. 8-10.

403 Rawls 1971; Parfit 1998.

404 Murphy and Nagel 2002, p. 135.

Thus, all would be willing to support a much wider range of legitimate taxation than would be permitted by either right- or left-libertarians.

Applying this to the Alaska model, not all liberal egalitarians support basic income. Some argue as a matter of principle that everyone should get a basic income at the highest sustainable level. But others think that reciprocity among equal citizens justifies a requirement to work in exchange for income. Such a work requirement would be compatible with a minimum income floor, but even this might be fleshed out with conditions and means tests, or tied to work through wage subsidies.405 But others criticize these conditions and means tests for a variety of principled and pragmatic reasons.406

There is even less agreement among liberal egalitarians about any particular funding source for a minimum income, whether it be a basic income, a negative income tax, or the more traditional welfare state minimum guarantees. The main point is that there is no particular preference for resource taxation, and there is opposition to limiting taxation to resources for self-ownership reasons.407 By the same token, there is no particular reason to oppose resource taxation in principle. Liberal egalitarians can welcome a dividend funded from resource taxation when it is progressive in its effects (see Howard in this volume, on a carbon dividend). If a resource dividend is taxable and combined with income taxation, it has the advantage of being universal, and no less

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405 Rawls 1993; Phelps 1997; Van Parijs 1997; 2003; Atkinson 1996.

406 Zelleke 2008; Howard 2005; Widerquist 2008; Barry 2005.

407 See Widerquist; Griffin, this volume; Ackerman and Alstott 1999.

progressive than benefits targeted to the worse off. As a step toward a full basic income or a substantial citizen's stake, a partial dividend funded from resource taxation can also be welcomed by a liberal egalitarian.

Almaz Zelleke's criticism of the connection between the Alaska model and basic income is liberal egalitarian insofar as she sees poverty elimination or alleviation and reduction of inequality as essential purposes of basic income. The PFD shares three features in common with the definition of a basic income popularized by the USBIG network: it is unconditional, paid to individuals, and not means-tested. But, she argues, it is not a "minimum income guarantee" since it fluctuates in amount and is not in any case at a level sufficient for basic needs.

Moreover, poverty eradication was never a central concern in the establishment of the PFD. Its goal was rather an equal sharing of common wealth, regardless of effects on poverty or inequality. Her worry is that this history and conceptualization of a resource dividend will make it difficult to introduce a basic income oriented toward greater equality and less poverty. Many of the people who would support a resource dividend would not support a basic income.

The first concern could be addressed within the Alaska model itself by raising the level of the PFD. This is feasible on the basis of resource taxation in Alaska because as we argue in the concluding chapter of this book, oil is virtually the only one of Alaska's resources that supports the fund, oil taxes are low in Alaska by world standards, and only 11.4 percent of Alaska's oil revenue is normally directed to the APF. A much larger dividend is possible, possibly enough for a full basic income, sufficient to meet individuals' basic needs. For some further exploration of this question, even in resource

poor states, see the chapter by Flomenhoft.[408] If not, then the question is whether there would be any inherent problem in supplementing the dividend with tax revenue from other sources.

Even a small and variable dividend helps alleviate poverty. Although liberal egalitarians who favor basic income would usually like to see a full basic income, a partial basic income is better than none. Practical politics seldom produce results very close to theorists' visions. The Earned Income Tax Credit surely helps the working poor, even though low-wage employers capture some of its benefits and even though we would like to see a larger, more broadly based refundable tax credit.

The incompatibility of a resource dividend with the goals of a basic income is unproven at best. Alaska's Governor Hammond, without whom there would not be a PFD, was partly motivated by concern for rural poverty, so liberal egalitarian concerns were not entirely out of the equation. Still, granting that most Alaskans see the PFD as an equal share of a commonly owned resource, and are indifferent to inequality and poverty, a policy can mean different things to different supporters (and opponents). It can be introduced for one set of reasons, but become the basis for expansion for entirely different reasons. For example, a primary motivation for instituting the PFD was to preserve the APF, but over time the APF has come to be valued as the basis for the PFD. What was a means has become an end.409 By legitimizing an income stream that is

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[408] This volume.

409 See essays in this volume by Groh and Erickson; Bryan and Lamarche; and Goldsmith.

universal and unconditional, the PFD could be linked in other contexts with an approach to poverty and inequality that includes basic income.410

The irregularity of the dividend is a concern not only for guaranteeing a minimum income, but also for other purposes. But variability is not inherent in a resource-financed basic income. The PFD is already designed to even out some of the fluctuation resulting from ups and downs in the stock market, the amount of the dividend in a given year being based on the fund performance over the previous 5 years. This strategy has proven to be only a small protection from fluctuations. Lewis proposes a strategy to reduce the variability of the fund by using the positive square root of inflation adjusted PFD values.[411] The APFC has considered a strategy to reduce the variability of the dividend by distributing a fixed percentage of the fund's market value each year.412

3. Communitarianism and civic republicanism

Communitarian critics of Rawls and other liberal egalitarians thought that modern liberalism, including its egalitarian versions, failed to recognize the value of community, representing it as a mere aggregate or a contract between self-sufficient, "unencumbered" individuals, and that justice is relative to the traditions and practices of particular political

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410 For evidence of the difficulty of adapting the APF to purposes other than those for which it was created, see McBeath 2008, pp. 188-192.

[411] This volume.

412 Erickson and Groh (this volume).

communities.413 But communitarians were criticized in turn for neglecting safeguards for individual freedom that are among the achievements of liberalism, and romanticizing traditional communities that have oppressed women and minorities.

Civic republicanism, compared with right-libertarianism, is a kind of egalitarian political philosophy, but with important differences from liberal egalitarianism. Contemporary republicanism emerged in part as a reaction to liberal egalitarianism and communitarianism.414 Civic republicanism is grounded in regard for the freedom of each individual, but emphasizes the interconnectedness of each person with the social whole—it is "an irreducibly social theory of freedom" (De Wispelaere and Casassas, in this volume). Civic republicans recognize political participation as an important constituent of each person's freedom, and are more concerned with freedom from domination, secured by the equal status of each person, than with freedom to consume or expend resources. Thus civic republicans might seem less egalitarian than liberal egalitarians in not insisting on the maximization of a minimum (of welfare, or income, or opportunity) for the worse off, so long as each has enough to be independent and free of domination. However, civic republicans might seem more egalitarian than liberal egalitarians in requiring a more equal distribution of power (hence the concern with economic ceilings, absent in Rawls's theory of justice, in addition to economic floors). Civic republicanism may also appear

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413 Taylor 1985; MacIntyre 1984; Sandel 1982; Walzer 1983.

414 Kymlicka 2002, pp. 284-326.

illiberal to the extent that it requires duties of each citizen to insure full participation, such as a duty to vote.415

The Alaska model is justified from a republican perspective, according to De Wispelaere and Casassas, "to the extent that it contributes to, or at least is compatible with, the most extensive republican freedom for all citizens," freedom from "the (possibility of) arbitrary interference, or 'domination' by others." This emphasis on freedom as independence takes us back to the same roots as those of basic income and stakeholding, in the thinking of such figures as Thomas Paine, who aimed for a rough equality of property owners, and thus a "presumption in favor of a combined resource taxation and dividend allocation scheme such as the Alaska model." But their assessment of the Alaska model is more qualified than that from a left-libertarian perspective.

Like liberal egalitarians, republicans are not constrained, for possible tax bases, to non-labor sources of wealth, but can "take a more relaxed attitude towards taxing a wider range of goods or resources." Like liberal egalitarians, and unlike left-libertarians, republicans do care about poverty as such, because it is "the primary cause of social dependence inimical to republican freedom." Unlike left-libertarians and some liberal egalitarians, republicans are not social atomists. Society is not a voluntary association. One worry about the Alaska model is that it may reinforce a social atomist conception of the relation of individual to state that neglects those choices we make jointly, and that our individual freedom depends upon being situated in a web of social relations that insures the equal standing of each. Republicans are more concerned with agency and collective

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415 Kymlicka 2002, pp. 294-99, 316.

agency than either libertarians or liberal egalitarians. But as we remarked earlier, a resource dividend can be interpreted variously, justified from different perspectives, and retrieved from one tradition to be put to use for another.

Another concern is whether the economic floor provided in the Alaska model is adequate. An economic floor is a key component of insuring republican freedom, but to serve republican purposes it must be at least at a threshold that creates some genuine independence, and the PFD at current levels "falls far short." Whereas poverty alleviation is a matter of degree, with some income support being better than none, De Wispelaere and Casassas argue that income below the threshold makes no difference with respect to domination. But surely this depends on how poor someone is. Granting that independence only is achieved above a threshold, a small dividend for people just below the threshold still makes a difference.

De Wispelaere and Casassas's criticism of the size of the PFD is, of course, a criticism of the Alaska Dividend as it currently exists. It is *not* a criticism of the Alaska model, which is not specific as to amount of the dividend. A larger resource dividend would not be vulnerable to this criticism. Even within the limits of the current APF, it is possible that the goal of non-domination would be better served by reorganizing the PFD program as a stakeholding program, or citizens' capital accounts, either of which would give citizens access to larger lump sums at certain times.416

Liberal egalitarians such as Rawls do not require an economic ceiling, and in fact would prima facie oppose it, whereas republicans see this as needed to insure a rough

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416 See in this volume essays by Griffin and Widerquist.

equality of power.417 To the extent that establishing a dividend as an "entitlement" creates a path dependency on libertarian policies, creating a dividend on the Alaska model could become an obstacle to later more robust republican measures such as a ceiling, or state expenditures on public goods that foster republican liberty, a shared civic culture, and participation. To the extent that the PFD arose in a somewhat libertarian environment, and the PFD is at least consistent with that environment, if not reinforcing it, it will be difficult to graft onto the PFD other purposes, warranting changes in the model itself. But these challenges for achieving republican policies would exist a fortiori if the PFD did not exist.

Exportation of the Alaska model, De Wispelaere and Casassas argue, should involve amending the model to include more democratic control at all levels of the policy, from resource extraction, to taxation, to allocation of the revenue. The PFD, they argue, ringfences the dividend from political deliberation, framing it as an entitlement. The history of debate over the PFD shows that it has not been entirely removed from political controversy, although its popularity has perhaps made it politically untouchable. But more importantly, to some extent the removal of the dividend from political challenge can be seen as a republican virtue. While it would be desirable to expand democratic discussion about resource extraction and taxation, a secure dividend for each person, at least above an appropriate threshold, safeguards individual independence from domination, leaving each free and equal for participation in collective self-determination. If there had been no dividend, that resource wealth and the process of allocating permits

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417 Rawls 1971; but see Rawls 1993, pp. 356-63.

for extraction would most likely have been turned over to special interests even less committed to republican freedom than libertarian minded ordinary citizens.

Furthermore, there is some evidence that the existence of the dividend has contributed to a more active citizenry, vigilant about irresponsible investment or uses of the APF.418 Even if this vigilance is too narrowly entitlement-focused, it may contrast favorably with what there might be in the absence of the PFD.

4. A moral objection to a dividend funded from oil revenue

Steve Winter (this volume) raises a different kind of objection to pairing a basic income with resource taxation in the Alaska model. The oil, which is the basis for the PFD, is a resource that when used as fuel results in environmental pollution that is contributing to climate change that in turn will result in thousands of deaths, which Winter argues counts as a human rights violation. To the extent that PFD recipients are complicit, they don't seem to be any more complicit than people who buy gasoline or airline tickets. To the extent that that the government program creating the PFD causes people to become complicit in global warming, it doesn't seem to do so any more than government programs providing free roads, free stoplights, and a free air traffic control system. So the complicity is "venial" not "mortal."

Winter's criticism is narrowly focused on climate change as if it were the only form of lethal industrial pollution that occurs as part of normal operation. This implication is misleading. Steel smelting creates lethal air pollution not as an accident but

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418 See essays in this volume by Groh and Erickson.

as part of normal operations. Fertilizers similarly create lethal water pollution. Rubber rubs off of bicycle tires, gets into our surface water and atmosphere and eventually leads to deaths. Winter seems to imply that there is some special complicity problem with climate-change related industries, when in fact, most manufacturing and a good deal of our transport involve lethal forms of pollution. To somehow craft government policy to free people from complicity with pollution-related deaths would require an enormous change in the make-up of our economy. Winter's moral premises imply little specific about the Alaska model or even about the oil industry but instead apply broadly to most manufacturing, with which all of us are already complicit.

Furthermore, the Alaska Dividend is probably not the primary source of complicity with climate change, and it is perhaps not the most morally salient form of such complicity. Winter argues, "the fact that oil industry is wrongful is not necessarily a sufficient reason to ban it. … It may be that the wrongfulness of oil industry, all things considered, is outweighed by justifications for its continuance." These other benefits we get from the oil industry that justify its continuation must also make us complicit, and if they are large enough to justify the continuation of the oil industry despite its causing 150,000 deaths per year, they must be larger than the benefits Alaskans get from the dividend. We are uncertain whether receiving a dividend from an industry that has already been justified on an all things considered basis actually makes one any more complicit than the benefits that justified the industry's existence.

Setting replies aside, assuming Winter's points are valid, they do not invalidate the Alaska model; they imply two restraints on its application. First, as Winter argues, if the government receives revenue from a morally dirty industry, its primary responsibility

is to use that revenue to counter-act the harmful affects of that industry. Devoting revenue to the Alaska model comes after that duty is fulfilled.

Second, the government should look to morally clean resources as sources of funding for the application of the Alaska model. If, as we should, we reorganize our economy to reduce wrongful deaths as much as possible, our new economy will still use resources, and we can apply the Alaska model to those resources.

Winter's criticism raises a related question. If a dividend is tied to a resource that, for whatever reasons, ought not to be further exploited, is the popularity of the dividend a problem, because it creates an obstacle to sound social or environmental policy? In the case of Alaska, is there pressure to drill for more oil (for example in the Arctic National Wildlife Refuge) in order to boost or prolong the revenue for the APF that would not be there without the PFD? Would a carbon dividend such as Howard describes, based on a carbon tax or carbon cap, perversely create popular support for prolonging the exploitation of fossil fuels? We address these questions in the concluding chapter of this book. The answers partly depend on the success of political education about the multiple aims of the policy, the civic mindedness of the citizens, and the extent to which the Alaska model helps citizens see themselves as owners and stewards of the environment. Remember, of course, that the *primary* effect of taxation is to discourage production, and that redistribution of the proceeds of taxation can be used to help ease the transition to other sources of power.[419]

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[419] See Howard (this volume), and Widerquist and Howard, "Lessons" (this volume).

Bryan and Lamarche (this volume) shed some light on this problem. If they are correct in claiming that a resource dividend protects natural resource wealth by saving money from resource sales for future generations, it also reduces some of the pressure to keep drilling. Properly planned, an Alaska model will phase in reliance on the fund as the resource itself fades out. Whether this has been done entirely successfully in the case of Alaska is open to some question.420

5. Efficiency

To the moral arguments considered thus far, we may add some efficiency considerations, which of course, are moral arguments in utilitarianism and have moral weight in almost all theories of justice. A tax shift from wage and capital income taxes to resource taxes will avoid inefficient distortion of incentives. Taxes on wages and profits discourage useful labor and investment, but taxes on resources cause no such disincentives.421 By discouraging the depletion of resources, in itself a "bad", resource taxes have an additional positive environmental impact. Granted, taxes on wages can have a contrary incentive effect: by reducing income, taxes create an incentive for workers to labor more. Nevertheless, by reducing the return to labor, income taxes create a marginal disincentive to work. Concern for such disincentives may be trumped by the sorts of moral considerations raised by liberal egalitarians and republicans. But if there

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420 See essays in this volume by Groh and Erickson; and Goldsmith.

421 See essays in this volume by Flomenhoft; Hartzok.

are moral arguments that favor resource taxation, or at least show it to be permissible, then the efficiency arguments are additional reasons to support resource taxes.

Efficiency arguments for an unconditional, universal citizen's dividend or basic income have been discussed in the basic income debates.[422] In comparison with conditional and means-tested income support schemes, a basic income (and to a lesser extent a negative income tax) reduces costs of administration and monitoring, and improves the take up of benefits by those who need it.423 An income floor can facilitate more flexible and efficient labor markets without impoverishing workers. Entrepreneurial risk-taking can be encouraged. Individuals have extra resources to invest in education and retraining.424

Thus resource taxation and basic income are independently defensible on grounds of efficiency. One additional reason for combining the two in a single policy is that the policies are mutually reinforcing.425 In Alaska, a universal dividend has generated widespread support for the APF and the taxes that fund it. This is important not just for the immediate beneficiaries of the dividend but also for future generations who will benefit from assets saved rather than spent. The creation of a large fund based on assets kept in common in turn affords an easily understood and generalizable claim by each to a

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[422] Widerquist and Lewis 2006; Widerquist, Lewis, and Pressman 2005.

423 Standing 2005; Offe 2005.

424 Pressman 2005.

425 Bryan and Lamarche, this volume.

share of the commons, which can naturally take the form of a basic income, or some variant such as a stakeholder grant.

6. Conclusion

To conclude, among all the philosophical justifications for a basic income, that provided by left-libertarian theory makes the most direct link to resource taxation. However, we have considered rival moral theories to show that a resource-financed basic income can be consistent with them as well even though these theories are not wedded exclusively to resource taxation. Although for reasons we have canvassed, adherents of these theories might prefer in other contexts to pursue other possible sources of revenue in addition to or instead of resource taxation, Anyone might have some attraction to the Alaska model's promotion of shared ownership of natural resources and its assurance that everyone will receive at least some tangible benefit from that ownership, without necessarily endorsing the whole of left-libertarian theory. In addition, right-libertarians should be attracted to it as the least intrusive government policy to relieve abject poverty, and liberal-egalitarians, communitarians, and republicans should be especially attracted to the Alaska model as an efficient and effective policy to promote shared social equality and opportunity.

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Conclusion

Chapter 14

Conclusion: Lessons from the Alaska model

Karl Widerquist and Michael W. Howard

Cliff comments:

- Jay Hammond was more clearly father of the dividend than the fund.
- "Had the state saved more of its oil revenue in the APF..." Cliff comments that I should mention that this is the Cremo Plan.
- Lesson 2 Cliff comments that "Alaska had per capita spike in 1970s and 1980s before falling back."
- Just above the conclusion, be sure to clarify the source of funds (taxes vs. royalties).

The APF and PFD are not perfectly designed, but they are a unique and innovative combination, from which we can learn and on which we can improve. At a time when conditional social policies are under attack across the industrialized world, the Alaska Dividend continues to be extremely popular. It distributes a yearly dividend to every man, woman, and child in Alaska without any conditions whatsoever. It has helped Alaska maintain one of the lowest poverty rates in the United States. It has helped Alaska become the most economically equal of all 50 states. And it has helped Alaska become the only U.S. state in which equality has risen rather than fallen over the last 20 years. Alaska is doing something right, and the dividend is a big part of it.

After nearly 30 years of positive results in Alaska the rest of the world should take a look at the Alaska model and think about adapting it to work in other places. This concluding chapter discusses some of the improvements needed for the APF and PFD system and then discusses six lessons to draw from the Alaska model.

1. Challenges to the Alaska Permanent Fund and Dividend and improvements needed to the model

Two simple improvements can be dealt with briefly. Alaska's fund and dividend were created from revenue from greenhouse gas producing industries. Alanna Hartzok argues that any SWF has a responsibility toward ethical investing. That responsibility should impose a constraint on the prudent investor rule, but an investment strategy that is ethical first and prudent second can still support a growing fund and dividend. Steve Winter's chapter argues that the first responsibility for communities deriving revenue from industries contributing to global warming is to use some of that revenue to counteract global warming. We agree that governments of oil-producing and oil-consuming regions have a responsibility to abate global warming, but certainly fulfillment of this responsibility would not take up all the revenue available for creating an Alaska-style fund. Importantly, this argument applies only to funds supported by taxes on industries contributing to global warming or other forms of pollution. It would not apply to a similar fund supported by land value taxation or taxes on some other industry that did not inherently contribute to pollution.

Chapters by Scott Goldsmith and by Gregg Erickson and Cliff Groh discuss the potential for the PFD to affect migration rates in and out of the state. It is possible that the Alaska Dividend could attract more people to move into the state and fewer people to move out of the state than otherwise would. It would, therefore, swell the state's population. There is no evidence that any demographic distortion has occurred so far, and

given the size of the dividend, we would not expect a significant effect any time soon. Currently the dividend barely covers someone's airfare from other states. They have to be in the state for a full calendar year before they can apply for their first dividend, and then they must remain in the state until the following October before they can receive it. It is hard to believe that the potential of a $1500 dividend would make a large impact on that decision.

But the demographic distortion issue would become important if the dividend were larger. And, because we argue that one of the improvements most needed in the Alaska model is a larger dividend, this issue returns to importance. At some level a resource dividend would have to have a significant effect on people's migration decisions. Two aspects particular to Alaska have contradictory effects on demographic distortion. First, Alaska is the most isolated of the U.S. states. This distance gives Alaska a natural barrier that other states do not have. Second, Alaska is not a nation, and it does not control its immigration. Any U.S. citizen can move to Alaska at any time, and they must be treated as a full citizen as soon as they establish residency. The demographic distortion issue would be much less important if the Alaska model were applied on a national basis. A nation can control its immigration and can decide when immigrants become eligible for the full rights of citizenship.

Of course, the ideal solution to demographic distortion would be a worldwide dividend. For now we're stuck with the nation-state system and considerable squabbling over resource ownership among the nations. For the idea to catch on in all the nations, one state or nation is going to have to show the others how well a resource dividend can

work. If other areas imitate a successful dividend, they will reduce or counteract the demographic pull of the dividend.

Several concerns point to the need for a larger fund and dividend. Many of the arguments in Part Two of his book, pointed to the need for larger, more stable, and more predictable dividends to more significantly reduce poverty and increase financial security and freedom of recipients. We have also argued that a larger fund is valuable, because it would enable the government to finance itself more from the endowment and less from current taxes.

The biggest reason Alaska needs a larger APF is not a problem with the dividend at all but with the state's fiscal position. Alaska is poorly prepared for the day when its oil runs out. In 1980, when the oil money was new and expected to be flowing strong for decades, the state government voted to eliminate the state income tax. Looking at short-term effects only, this seemed like a great idea. The state simply didn't need the tax; it was making far more money in oil revenue than it needed to run the state budget. But of course, everyone in the state knew that the oil revenue would be temporary. Having nearly the entire state budget funded off temporary revenues will put the state in a precarious position when the oil runs out. The state will need to find new revenue sources just when the industry that dominates the state economy will be contracting. Perhaps, natural gas will create a new resource boom just as the oil money begins to run out. Perhaps some other part of the Alaskan economy will take over. But a danger is out there. Oil flow through the Alaska pipeline peaked in 1988. It has been gradually declining since, and some observers believe that we are only a few years away from the day when

the amount of oil flowing through the pipeline will no longer be enough to maintain its economic viability.

Alaskans recognized this danger at the time and their solution was the *permanent* fund. Instead of spending all the oil money as it came in, the state would put some of it into a fund, and spend only the interest, so that it would benefit Alaskans permanently. Cooler heads thought it would be better to save more of the oil revenue. Governor Jay Hammond, the father of the permanent fund and dividend, wanted to dedicate half of the state's total revenue from oil to the APF, but the final legislation gave the APF only one quarter of oil royalties, and oil royalties account for less than half of the state's total revenue from oil. According to Goldsmith (this volume), constitutionally mandated deposits into the fund have amounted to only $11.8 billion (adjusted for inflation, as all dollar figures quoted below are) since the fund was created. That amounts to only 11.4 percent of the $103.5 billion of revenue the state has received from oil. Over the years, the legislature has occasionally made additional deposits into the APF of $7 billion, for a total of $18.4 billion, or 18.2 percent of the total revenue the state has received from oil—still only a little more than one-third of what Hammond originally proposed. The APF's current market value (April 15, 2011) is slightly more than $40 billion. It's simply too small to make up for the loss the state will experience when oil revenues cease.

Had the state saved more of its oil revenue in the APF and continued to finance most government spending through regular taxes, the APF might now be large enough to be a real cushion against lost oil revenues. Instead, when those revenues run out there will be enormous pressure to redirect the PFD and perhaps even APF principal toward

supporting the state budget. This looming pressure on the state budget is, by far, he biggest threat to the survival of Alaska Dividend.

The best response to this problem right now would be for the state to start saving more money immediately, while the oil revenue is still coming in. But for using the Alaska experience as a model on which to export, it's useful to consider what might have been. How big could the APF and PFD be now if the coolest heads had prevailed in Alaska? The next section addresses this question.

2. How big could the Alaska Fund and Dividend be?

To get an idea about how big the APF could have been, we need to look at what has happened to the oil money generated in the State of Alaska, make some guesses about what could have been done with it, and then consider other possible resource revenue. In three examples, we gradually go from where we are now, to the best-case scenario.

At the time of this writing (April 15, 2011), the APF is just over $40 billion.[426] The most recent PFD (October 2010) was $1,281. This $40 billion in assets has accumulated from deposits totaling of $18.4 billion between the creation of the fund in 1977 and 2010. Thus, even though the fund has paid out dividends every year, the principal has increased by a total of 217 percent. According to Erickson and Groh (this volume), the state has received a total of $103.5 billion in oil revenue over that period.

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426 $40,025,100,000, according to the APFC website. This figure is in 2011 dollars, all other figures are in constant 2010 dollars.

The remaining $84.4 billion has gone mostly to the general state budget, some of it has gone into other funds.

Assume that instead of eliminating the income tax, the state decided to deposit all oil revenues into the APF. Assume that they decided to split the returns to the fund evenly between paying the PFD and supporting the regular state budget. Assume that the state adopted the rule of spending 4% of the market value of the APF each year, and assume that this on average is about the same percentage that actually has been paid out in dividends on average each year. Assume the fund's $103.5 of hypothetical investments performed as well as its actual investments of $18.4 billion.

Example 1: Under these assumptions, the APF would now stand at $225 billion. It would have $9 billion available, $4.5 billion for state spending and $4.5 for dividends. If all 700,000 Alaskans applied for the PFD, each would receive a dividend of $6,428.57. A family of four would receive $25,714.29. Instead of receiving the once-year-bonus of $1,000-$2,000, every man, woman, and child in Alaskan could count on regular payments of more than $1,000 every two months. Current total state spending is $10.5 billion per year. The $4.5 in APF returns devoted to the state budget would now cover nearly half of the state's annual spending, income taxes could be reduced or services increased accordingly.

But this is not the limit of how big the APF and PFD could be. According to Erickson and Groh, oil produced in Alaska has generated more than $300 billion in total revenue, two-thirds of which has gone to oil companies. Fees, royalties, and taxes on Alaskan oil are very low by world standards. Some nations capture as much as 80 percent of oil revenue (Warlock). Even though the oil was discovered by state geologists on state

land, and the oil companies were brought in only as hired help, the state didn't drive a very hard bargain and received much less than the market rate for the oil fields they still own. Assume the state drove a much harder bargain with the oil industries and managed to capture about two-thirds of the total value oil produced in Alaska, still less than Norway, Russia, and many of the Middle East nations capture (Warnock).

Example 2: Under these assumptions, the state would have deposited $200 billion into the APF over the last 33 years. If all the assumptions from the first example remain the same, the APF would be worth $434.8 billion. The APFC would send $8.7 billion to the state for the general budget, and it would distribute another $8.7 billions in dividends. The state would only need to raise $1.8 billion in taxes to cover all other current spending. Every Alaskan would received a dividend of $12,422.36 per year, perhaps $1,000 a month or $250 every week. That amounts to nearly $50,000 per year or $1,000 per week for a family of four.

But this amount is still not has high as the APF could go. This is only as high as it could go based on only resources alone. If they applied the same model to all of Alaska's resources, the APF could be higher still. we have no data on the total value of Alaska's other resources. Let's assume for the sake of argument, that Alaska could raise half as much from all its other resources put together (including fisheries, water, land, the broadcast spectrum, etc., as Flomenhoft discusses in this volume) amount to half of what oil has produced over the last 33 years.

Example 3: Under this assumption, the state would have deposited more than $300 billion into the fund. Its total value would now be about $650 billion. Its yearly returns would produce $13 billion per year for the state budget and another $13 billion

for dividends, which would be $18,633.54 per person per year—more than $350 per week. The state could eliminate all taxes. User fees on state resources would produce revenue enough for to finance these dividends and the entire current state budget of $10.5 billion and it would still have $2.5 billion leftover.

Finally, we have found the best-case scenario. How rosy is it? The assumptions about the returns to the fund's investments are realistic; our hypothetical fund does no better and no worse than the actual fund has. The assumptions about how much money the state could have gotten from the oil industry are also realistic; they are in line with what many oil-producing nations receive. The assumption about revenue from other resources is admittedly a wild guess, but certainly that revenue is greater than zero. So, even if the total would be less than in example 3, it would still be more than in example 2.

What most makes these examples over-optimistic is that they ignore the state's need to spend some of the oil money as soon as it came in. When oil money started coming in, Alaska was a poor state with weak infrastructure and poor schools; it no longer is—thanks to the oil boom. Although some of the oil money was wasted, some of it was well spent. As David Rose, the first director of the APFC, argues, "Until basic needs are met, such as education and public safety, the government has no business saving for the future." Alaska had to spend a lot to meet its needs at the time, but it could have saved much more than it has; it could have driven a harder bargain with the oil companies, and it could apply the Alaska model to more than just oil and mining.

Had the state done this, the APF would now be in the hundreds of billions of dollars—perhaps eight to ten times its current size. The state government and the

dividend would be near invulnerable to the coming decline in the oil revenue because neither would be relying on oil revenues for yearly expenditures. It's not too late for Alaska to put more money away into the APF. The state could reinstitute other taxes and start saving all of its oil revenue. They could get tough with oil companies, and they could apply the model more widely. If Alaska wants to be ready when the oil runs out, the government needs to take steps like these now.

The relevance of these examples for exporting the model is that they illustrate how much more potential the resource dividend has than has currently been tried even in Alaska. But there are many other lessons to take from the model.

3. Lesson 1: Resource dividends work and they're popular once they're in place

The first and simplest lesson is that resource dividends work and they are popular once they're in place. This point is argued throughout the book and throughout the chapter, and so we don't need to reiterate the reasons here. The trick, as we argue blow, is getting them in place.

4. Lesson 2: A state does not have to be resource rich to have a resource dividend

It's easy to think that anything connected with the Alaskan oil industry is an aberration; something possible only because of Alaska's oil windfall. But the second and

most important lesson is simply that the Alaska model *can* be exported: you do not have to be resource rich to have a resource dividend. There are three reasons why we know this is true.

First, Alaska isn't unusually rich. Oil has transformed from one of the poorer to one of the wealthier states, but it is still not the wealthiest state in the union. In fact, including the District of Columbia, Alaska ranks only tenth with a per capita GDP of about $42,000—only $2,500 higher than the national average. Alaska has no greater financial means than many other states and nations.

Second, as we have seen above, Alaska uses only a tiny fraction of its resource wealth to fund the entire dividend. The fund is supported almost exclusively by taxes on one resource, oil. Alaska's taxes on oil are very low by international standards. And the state devotes only a small portion of that revenue to the APF and PFD.

Third, every country, state, and region has resources. Gary Flomenhoft (this volume) estimates that Vermont—a resource-poor state—could support a dividend larger than Alaska's current dividend, if it made judicious use of resource taxes. The most resource-poor countries in the world are probably Hong Kong and Singapore, where millions of people are crowded together on a little island, and they have to import almost everything they consume. But these countries have fabulously valuable real estate. we wouldn't be surprised if a tax on Singapore's land could support something much larger than the Alaska Dividend.

5. Lesson 3: Look for opportunities

Lesson 2 shows that Alaskans don't have the dividend because they are resource-rich. Why do they have it? The answer to that question is the third lesson: look for opportunities. Alaska has the dividend because Alaskans took advantage of the opportunity. Again, Alaska's resources do not make it unique. Common resources are being privatized all the time all over the planet. Usually, they are given away by governments for free to corporations who sell them back to the public. But it is much easier to make taxes a condition of privatization than it is to impose them later. Every new well that's drilled is an opportunity to assert community control of resources. So is every new mine that's dug and every new reserve that's discovered.

Many other opportunities are less obvious. Recently, the United States government gave away a huge portion of the broadcast spectrum to private companies for digital television broadcasting. If they had auctioned off leases to the highest bidder, they would have raised billions of dollars per year. The need to do something about global warming is another opportunity. Two strategies currently being discussed, "tax and dividend" and "cap and dividend" would make polluters pay for the damage they do to the environment and return the proceeds to everyone (Howard, this volume).

What made Alaska unique was that Governor Jay Hammond was in place to take advantage of the opportunity. He was not the only person responsible for the creation of the fund and dividend, but it is clear that it would not have happened without his single-minded pursuit of it for his entire eight years as governor. He made it his top priority. It was the object seemingly of every budget compromise he made from 1974 to 1982. To some extent the Alaska Dividend owes its existence to the right person being in the right

office at the right time. But with a working model in place, it will be a little easier at the next opportunity. If people and politicians become more aware of the model and on the lookout for opportunities, they will find them.

6. Lesson 4: Think like an owner; think like a monopolist; think like Johnny Carson

To assert the right of the community to charge fees for the use of resources is to assert community ownership of resources. Of course, there is a danger in selling off resources and using the proceeds for the public benefit. People might then want to sell more resources to make more money. Once corporations have bought off the people, perhaps they can get away with doing even more damage to the environment. The solution to this problem is the fourth lesson: think like a monopolist. That is, once we assert community control of resources, members of the community need to remember that, as a group, they have a monopoly over those resources.

Monopolists maximize profits, not by selling all they can at bargain prices, but by restricting supply, selling less at higher prices. But some monopolists do more. One monopolist we should take as a model is Johnny Carson. In the 1970s, he found himself to be the most popular entertainer on American television. He demanded and got a record high salary, but he didn’t stop there. He had his workload reduced from five to four days per week, and his vacation time increased to something like three months per year. He realized that his time was not only valuable when he sold it, but also when he left it

unsold. Our resources and our environment are valuable not only as items for potential sale; they are valuable just as they are. As community owners of our environment, thinking like the stockholders of a monopoly, we could have more money coming in at the same time that we also have larger parks, more nature reserves, less pollution, and better resource management.

Anyone who is worried that a dividend will buy off individuals' environmental diligence should remember that polluters have been doing a job on our environment for thousands of years without buying off the people they harm. Nobody got a dividend when the Stone Age Maori hunted the New Zealand moa to extinction. Nobody got a dividend over the hundreds of years it took the fishing industry to slowly destroy the cod fisheries on the Grand Banks. Nobody gets a dividend for the arsenic in our water or the sulfur dioxide in our air. Because the community has not asserted ownership of these shared resources, companies have been free to think of them as owned—free to take from and dump waste into the environment as they please.

The assertion of the community's right to demand compensation for individual or corporate exploitation of our environment can actually be an important part of the solution to our environmental problems. The right to compensation is part of the right of ownership, and along with ownership comes the right to manage, regulate, and restrict access. Receiving payment for resources helps the members of the community think of themselves as joint owners of the environment with the power to command that tenants be good stewards of the environment.

7. Lesson 5: Build a constituency

This feeling of shared ownership is one of the reasons resource dividends tend to be so popular once they're in place, leading us to the fifth lesson: build a large constituency. One way to build a constituency is through universal rather than targeted policies. Economically and philosophically speaking, we am indifferent between programs for all people and programs for all of the poor. As long as we permanently, unconditionally, eliminate poverty, we don't care whether we do it through a targeted negative income tax or a universal basic income or any other system. But politically speaking, our observations have taught us that we are much more likely to eliminate poverty with universal programs, because universal programs build a large constituency that will protect the program from political attack. It is easy for politicians to single out the recipients of targeted programs, because they are a relatively weak and small.

Another way to build a constituency is to be significant. Insignificant gimmicky programs might be easier to pass, but they are also easier to cut when a less favorable administration comes into power. If a politician proposed cutting the Alaska dividend, every Alaskan would face losing $1,000-$2,000 a year for the rest of their lives. Whether that politician was promising a tax cut or some other spending program, they would put a universal constituency of Alaskans in the position where they would sacrifice something very significant for the uncertainty that the replacement will be delivered.

The British Labour Party recently failed to build a sufficient constituency to defend its "Child Trust Fund." This program was intended to be universal. It was designed to ensure *eventually* that every native born British citizen would own something. But the government decided to phase-in universality by granting a small

“baby bond” only to children born in or after 2002. Each child would receive a bond of 250 pounds at birth and another of 250 pounds at age 7. This investment would provide enough for a one-time dividend of perhaps 2000 pounds at age 18—hardly a life-changing amount.

When the new Conservative-Liberal-Democratic coalition government came into power, the Child Trust Fund was one of the first programs they announced they would eliminate. The only people directly harmed by the cuts are babies born after 2010. The loss will only be a small one-time dividend, and they won’t feel the loss in their wallets or be able to vote on it until 2028. It is not surprising that no significant opposition developed to the new government’s plan to scrap the Child Trust Fund. The previous government did not create a program that was significant enough to a sufficient number of voters to make it worth defending.

Alaska’s PFD, like America’s Social Security System, is protected by its significance. So many voters will fight against cuts in it that it cannot be easily eliminated. They have very good reason to care about it, because it makes a difference in their lives.

8. Lesson 6. Avoid creating an opposition

The companion to building a large or universal constituency in favor of a program is the sixth lesson: avoid creating an opposition. Policies, such as the minimum wage and rent control, put most of the burden on one, specific, easily identifiable group who will probably fight the program as long as it exists. Even programs financed by broad-based

income tax can create an opposition if people connect the burden of paying taxes with programs they see themselves as unlikely to need.

But the Alaska Dividend has virtually no opposition. No one has reason to feel burdened by its creation and continued existence. The yearly dividends are financed by the returns on state-owned investments. They don't cut into anyone's perceived ownership.

Of course the Alaska fund is created and continually enlarged by taxes (or "royalties") on oil drilling. But the oil companies aren't complaining. It was part of the deal they made to obtain the right to drill. Complaining about that now would be like complaining that they have to pay a price for steel, trucks, or ships. It doesn't make sense to complain about what is obviously an unavoidable cost of doing business. The state owns the oil fields. Anyone who wants to drill must pay. That's just the way of the world. But notice how atypical that model is. Usually the state awards ownership of resources to corporations for free. Anyone who wants to use those resources must pay the corporations. And that's just the way of the world. The A good solid policy simply becomes the way of the world.

There are times when corporations will fall all over each other to pay taxes. "Medical" marijuana producers in California are asking to be taxed so that they can be seen as legitimate businesses. Had the U.S. government sold leases to the broadcast spectrum (instead of giving it away), they would have found many willing customers. Trying to impose those taxes now is more likely to create an opposition, but even so, once the idea is firmly established that taxes and regulations reflect community

ownership and custodianship of the environment, there is little for an opposition to build around.

9. Conclusion

The Alaska dividend is not as large as it should be, but even at the level it is now, it has significant progressive effects, it works, and it's popular. It's time to recognize the Alaska Fund and Dividend as a model we can build on.