

Georgetown University

From the Selected Works of Karl Widerquist

Spring May 10, 2011

A Day-Long Discussion of “the Alaska Model” at the University of Alaska-Anchorage

Karl Widerquist



Available at: <https://works.bepress.com/widerquist/23/>

A Day-Long Discussion of “the Alaska Model” at the University of Alaska-Anchorage

by Karl Widerquist

On April 22, 2011, I had the privilege of attending a conference at the University of Alaska-Anchorage discussing the book, *Exporting the Alaska Model: How the Permanent Fund Dividend Can Be Adapted as Model for Reform Around the World*. The book is edited by Michael W. Howard and me. It is due out early next year on Palgrave-MacMillan. This is my personal account of a conference held on Friday, April 22, 2011 at the Institute of Social and Economic Research at the University of Alaska

The “model” in the book’s title refers to two policies: the Alaska Permanent Fund (APF) and the Permanent Fund Dividend (PFD). Although the fund finances the dividend, the two policies were created at separate times by different kinds of legislation. The two policies together have three aspects that define what Mike Howard and I call “the Alaska model:” (1) resource revenue, (2) put into a fund, (3) the returns of which are distributed to all citizens or residents. Currently those three parts are put together only in Alaska, but many of the contributors to the book think that with some variation the model can and should be employed elsewhere.

The main purpose of the conference was for some of the book’s authors to exchange ideas with each other and with local experts. Seven of 17 contributing authors attended the conference. Four of them were from outside Alaska: **Angela Cummine**, political theory, Oxford University; **Gary Flomenhoft**, public policy, University of Vermont; **Michael W. Howard**, philosophy, University of Maine; and (me) **Karl Widerquist**, political theory, Georgetown University-Qatar. The other three contributing authors in attendance were from inside Alaska: **Gregg Erickson**, economist, Erickson & Associates, Juneau, Alaska; **Cliff Groh**, author and attorney, Anchorage, Alaska; **Scott Goldsmith**, economist, University of Alaska-Anchorage. Goldsmith hosted the conference.

More than a half dozen others attended the conference, including **Terrence Cole**, Professor of History and Northern Studies and director of the Office of Public History at the University of Alaska-Fairbanks; **Rick Halford**, former Majority Leader of the Alaska House of Representatives; **Fran Ulmer**, former Lieutenant Governor of Alaska, and Chancellor of the University of Alaska-Anchorage.

Most of the discussion was based directly or indirectly on the participants’ chapters, which were circulated in advance. Three chapters concentrated the discussion on the past, present, and future of the APF and PFD. Goldsmith’s chapter addresses the impact of the dividend on Alaskan society. Erickson and Groh’s chapters address the history of the APF and PFD and the challenges they face in the future.

Participants discussed what was intended by the legislation that created the fund and the dividend. Ulmer and Halford argued that few if any legislators at the time intended to create a basic income. Ulmer, who worked in Governor Hammond’s administration argued that he did not and would not have argued for it in those terms. I argued that whatever their intentions, they did create a partial basic income. Also, I believe that the intention of some of the participants, particularly Hammond, was to create something like a basic income by another name. When people say that the goal of the

dividend is to make sure that every single Alaskan shares in the state's oil wealth, and they do not think that receiving this money should be conditional on working or getting married or anything else, they have endorsed many of the goals of basic income even if they conceptualize it in a very different way.

All participants seemed to agree that the decisions to create the Alaska model was not coherent or necessarily rational. The combination of legislation that culminated in the delivery of the first dividends in 1982 was far removed from Hammond's 1974 proposal for "Alaska, Inc." In 1976, the government amended the constitution to create the fund but it took no action on a dividend. The first bill to create dividends would have made the size of the dividend dependent on the number of years the recipient had lived in the state. This bill was struck down by the U.S. Supreme Court as a violation of the equal protection clause of the U.S. Constitution. The legislature then hastily created a bill for an equal dividend for all Alaskan residents. The combination of legislation that created the Alaska model included the input of many legislators and quite possibly the influence of staffers, judges, constituents, lobbyists, and activists as well, although the public and lobbyists were not heavily engaged in the debate until after the public received their first dividend checks. Many legislators voted for the APF and PFD for no other reason than to get Governor Hammond to agree to sign some other bill. Without his single-minded pursuit (most participants agreed) the dividend would never had been created. There was so much money available at the time the legislature was able to get rid of the income tax, fund many new programs they wanted, *and* let Hammond have the dividend.

Because the legislation was a compromise between people with very different objectives, we cannot point to any goal as *the* goal of the fund and dividend, but we can point to some popular ideas. Some of the participants quipped that the APF was for "the future." This statement is not as flippant as it sounds. As Halford argued, democracies greatly over-represent the present. The APF is an exception. The two most commonly cited goals of the dividend are to ensure every Alaska benefits from oil exploitation and to protect the fund from political attempts to redirect the principal toward current spending. Citizens hold legislators much more accountable for protecting the APF's principal than they would if it was not used to finance a dividend.

Mike Howard and I discussed the possibility of applying the Alaska model elsewhere at the public luncheon in the middle of the conference. I discussed how Iraq and Mongolia are seriously discussing the idea, and Iran is already in the process of phasing-in a resource dividend that could turn out to be larger (relative to per capita income) than the Alaska Dividend. We also discussed six lessons we've drawn from our study of the Alaska model: (1) resource dividends work and they're popular. (2) You don't have to be resource-rich to have a resource dividend. (3) Look for opportunities and take advantage of them. (4) Think like a monopolist. That is, the community must realize that it owns its resources, which constitute the commons. The community has the responsibility to be a good steward of the commons, and it should not let them go cheap. (5) Make it significant: the Alaska Dividend survives because it is a program worth defending. (6) Avoid creating enemies. A pot of money that pays cash to every citizen has many supporters and few enemies. This observation is true of few other progressive policies.

Angela Cummine's chapter addresses part of the question of why the Alaska model remains unique. There are now many sovereign wealth funds (SWFs) around the world. Some of them are ten times the size of the APF. But only the APF pays regular dividends to citizens. She finds that managers of other SWFs are extremely skeptical about paying dividends, but that a close look at their arguments

against dividends shows them to be rather weak. Many participants speculated that managers of SWFs do not want the increased public scrutiny that would come with dividends.

Halford drew a dark lesson along these lines. The legislation that created the APF and PFD carefully made sure that something was in it for all constituent groups, but they left nothing in it for the politicians. To a politician, government revenue is something with which to aid your allies and afflict your enemies. There are no such opportunities in the APF as long as its returns are dedicated to the PFD.

Cole was sympathetic with one argument against dividends: Had the APF saved all the money it has used to pay out the PFD over the years, the fund would be worth roughly double what it is now: \$80 billion instead of \$40 billion. This he believes is a serious missed opportunity. My response was that there were many other lost opportunities to increase the size of the APF. The state could have devoted a higher percentage of oil revenue to the fund, changed a higher royalty to oil companies, and treated other natural resources the way it treats its oil. Any one of these actions would have made both the fund and the dividend higher. Several of the Alaskan participants had a more practical response: one of the key functions of the dividend was to protect the fund from raids by the legislature. If the APF paid no dividends, few Alaskans would have paid any attention to politicians who proposed spending down its principal. The fund might actually be smaller today had there been no dividends. Cole was sympathetic to this argument for dividends.

Howard and Flomenhoft's chapters each discussed applying the Alaska model in places that aren't going through natural resource booms. Howard discussed the cap-and-dividend and tax-and-dividend strategies to address global warming as an application of the Alaska model. According to him, a full-fledged cap-and-dividend program in the United States would produce a dividend of \$678 per person, nationwide. Flomenhoft's chapter shows how resource-poor Vermont could support a substantial dividend by applying the Alaska model to resources as diverse as forestry, groundwater, surface water, the broadcast spectrum, and so on. His low estimates suggest that Vermonters could have a per capita dividend of \$1,972, and his high estimates, which are not yet complete, suggest that the dividend could be more than \$5,000.

The last part of the discussion focused on the future of the Alaska fund and dividend. Groh and Erickson brought the group's attention to the decline in Alaska's oil output, which has been steady dropping since production peaked in 1989. When production drops to a certain point, it will no longer be profitable to keep the oil flowing through the Trans Alaska Pipeline. At that point the source of revenue not only for the APF, but also for 85% of Alaska's state budget will disappear. If and when this happens the state will face a fiscal crisis just when its economy is contracting. This in turn will put pressure on the legislature to raid the fund and end the dividend.

Participants discussed several possibilities that could put off any such day of reckoning, including improved oil drilling techniques, exploitation of natural gas, and wider oil exploitation. They also discussed several responses. Groh argued that the state would have three choices if and when oil stops flowing: cut the budget, raise taxes, or dip into the APF. Halford noted that dipping into the fund would likely begin by "changing" the formula for protecting the fund from inflation. One thing the state could do (in advance of the loss of oil revenue) is to put more revenue into the APF each year. The APF is Alaska's savings plan for the day when oil revenues disappear, but it is not nearly large enough now to make up for the shortfall that would occur if oil stopped flowing through the pipeline. The APF is not constituted as a public trust. The allocation of fund's investments and the

distribution of fund's returns are under the discretion of the legislature. Some participants believed that reconstituting the APF & PFD as a public trust could help protect them.

Erickson argued that the contraction of the oil industry would not be all bad. Many of the people now working in Alaska's oil industry would move to other parts of the country. He suggested that cashing out the fund (dividing the principle among all Alaskans) or giving Alaskans a portable share in the fund (allowing them to receive some portion of the dividend after leaving Alaska), might be good ways to facilitate population adjustment at that time.

Some of the participants emphasized that the looming budget difficulties are not caused by the APF or PFD but by the state's failure to do anything else to save for the time when the oil runs out. This fact provides an important lesson for exporting the model: any similar fund and dividend are not safe unless the rest of the budget is on sound financial footing. The APF and PFD, in themselves, are on financially sound and extremely popular. Barring a financial crisis far worse than the one experienced in 2008-2009, nothing *internal* to the APF and PFD threaten their continued existence (as long as they don't grow large enough to have a significant effect on Alaska's population size). The possible budget crisis of a state overly dependent on the revenue from one resource does threaten the APF and PFD.

Most participants were enthusiastic about the Alaska model and hoped that it would continue in Alaska and be imitated elsewhere.

-Karl Widerquist, Begun in Juneau, Alaska; completed in New Orleans, Louisiana, May 10, 2011