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“Exporting an Idea,” in Exporting
the Alaska Model: Adapting the
Permanent Fund Dividend for
Reform Around the World

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CHAPTER 1

Exporting an Idea

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Our earlier book, *Alaska's Permanent Fund Dividend: Examining its Suitability as a Model*, examined the Alaska Permanent Fund (APF) and the accompanying Permanent Fund Dividend (PFD) from economic, political, and ethical perspectives. It concluded that although the two programs are not perfectly designed, they are a unique and innovative combination from which we can learn and on which we can improve. The two programs together constitute a model that we can adapt for use elsewhere. This book examines how the "Alaska model" can be adapted for use in other places, times, and circumstances.

Part 1 of this introductory chapter summarizes our definition of the Alaska model. Part 2 reviews the lessons our earlier work outlined from observations of the Alaska model and the need to adapt that model and build on it. Part 3 then previews the book.

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 and cannot evaluate), or 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 investments. 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 its citizens. Many nations and regions provide some form of cash benefits, but only a few pay regular dividends to citizens, and so far only Alaska pays a regular cash dividend linked to a permanent resource-based endowment. The APF-PFD combination links 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 and ensures that all Alaskans receive some tangible benefit from the state’s oil wealth.

In our earlier book (Widerquist and Howard 2012), we dubbed this unique combination the Alaska model. It consists of three elements: (1) resource-based revenue, (2) which is 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 difficult to determine, but we believe each element is important, and so it is worthwhile to reiterate the importance each of these three elements.

A. Resource Revenue

The ethical case for taxing natural resources is at least as good as, and probably better than, the case for taxing any other source of wealth. In fact, it is questionable whether resource taxes should be considered taxes at all. Many political philosophers argue that the natural resources of a nation ultimately belong by the people of that nation.¹ Any “tax” on such resources can be fairly described, and justified, as an appropriate user fee. We’re so used to governments giving away natural resources to corporations who sell them back to the people that fees for such resources seem like any other tax, but when one realizes that privatization of the gifts of nature places distinct and sometime onerous duties on others, the ethical justification for a user fee on private use of natural resources is obvious. One simple reason to move toward common-asset-based government financing can be gained from common experience. If you are like most people you have paid income taxes and you have paid rent. Which is easier? Of course, it is much easier to pay a regular rent than to navigate (or hire an accountant to navigate) the complexities of the income tax or corporate tax code. It would be easier for individuals and also for businesses simply to pay rents on all the resources they use, and it would be progressive, because wealthier people and businesses use more resources.

Resource taxes also have practical benefits. They can be used to discourage 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. Of course, not every country has as much oil as Alaska, but as this book will show, every nation of the world has enormously valuable common resources, most of which are given away for free to the few who sell them back to the many. We argued in our earlier book that shifting taxes to resources makes sense both from a practical and from an ethical standpoint. This book will argue that a great deal of money—perhaps enough to fund an entire government and pay a dividend as well—can be derived from common resource taxation (see Flomenhoft this volume and our concluding chapter).²

B. A Permanent Endowment

Alaska is not the only place in the world where the government receives most of its revenue from resources. For example, oil-rich Persian Gulf countries, such as Qatar and Saudi Arabia, raise all of their government revenue from user fees on natural resource extraction. No taxes are necessary. But this situation is temporary. Alaska's oil is a finite resource. It will run out eventually, as will all the resource revenue in the Gulf. The APF was set up as Alaska's attempt to transform its temporary resource windfall into a permanent endowment, but it is a small attempt. Less than one-fifth of the state's resource revenue has gone into the fund.

An SWF is not the only mechanism that can create a permanent resource-based endowment. Many common assets are capable of producing a permanent stream of revenue from user fees without the need go into a fund. These include land, the broadcast spectrum, all renewable resources, and common social assets such as money creation. A fund is necessary only to turn a temporary stream of resource revenue into a permanent income. For other assets, all the government needs to do is to treat them the way most nations treat oil fields—as the people's property rented out for private use to the highest bidder. Therefore, the Alaska model, as we

conceive it requires a permanent fund only if and when the resource revenue stream is likely to be temporary. Otherwise, direct distribution of revenue can be consistent with the goal of creating a permanent endowment.

C. A Cash Payment to All Citizens

The justification for resource taxation discussed above connects very closely with the dividend. People who own natural resources make them unavailable for others to use either collectively or privately. They should pay for that burden in cash. If everyone pays for the resources they own and receives compensation for the resources they do not own, we will all both pay and receive, but on average, people who use more will pay more than they receive, and people who use less will receive more than they pay. People who own resources privately often create opportunities for others, but they are not held to any duty to make sure they actually do it, and resources often go to lavish luxuries that create few if any opportunities for others. Also, because resource owners pay no one (but the previous private owner of those resources) for the privilege of holding natural resources privately, they can capture both the value they add to the resource *and* the scarcity value of the resource itself. Thus, the poorest of the poor in our international market economy are actually less healthy and poorer than our distant ancestors who foraged on unowned land. A resource-based cash dividend simply means the end of something-for-nothing. You can own a piece of the commons, as long as you compensate others for what you make unavailable to them.

There are many practical reasons for a dividend as well. It is an efficient and effective solution to poverty involving little or no cumbersome government bureaucracy.³ Jay Hammond saw it as a way to use collective greed as a check on private greed.⁴ Resource revenue—or any

kind of government revenue—attracts political corruption. Powerful individuals want a piece of that revenue. They have a powerful incentive to find some excuse to get legislators to spend, lend, or donate some of that money to them. Legislators often find such pressure impossible to resist, and policies that directly benefit a few can be easily dressed up as an investment in helping the many. As Hammond saw it, by predetermining that some or all revenue goes directly to the people, we can ensure that at least some resource revenue benefits all people. We can also give the people as a whole an incentive to pay close attention to what the government does with its endowment.⁵

An unconditional, regular cash payment to all citizens is often called a “basic income guarantee.” This idea figures significantly in the discussions in this book, and therefore, a brief introduction to it is worthwhile. Any policy that unconditionally ensures every citizen a nonzero income is a basic income guarantee. A “full” basic income guarantee ensures an income large enough to meet a person’s basic needs—enough to keep a person out of poverty. A smaller unconditional income is usually called a “partial” basic income guarantee.

Several different kinds of policies can ensure some kind of basic income guarantee. The two most commonly discussed policies are the “negative income tax” and the “basic income.” The negative income tax ensures that no one’s income falls below a certain amount by distributing targeted benefits to people with low incomes. Basic income instead gives a small income to everyone regardless of their income from other sources. The negative income tax is a program clearly aimed at addressing poverty. The basic income also might be motivated by a concern for poverty; the universality of a basic income insures that it gets to everyone who needs it, and avoids stigmatizing one part of the population. But it might be motivated by other

concerns as well, such as the desire to ensure that everyone, rich or poor, benefits from the extraction of oil whether or not they have a direct connection to it.

The negative income tax was widely discussed by economists, politicians, and welfare activists in the 1960s and 1970s. Based on Jay Hammond's remarks at the 2004 U.S. Basic Income Guarantee Network conference, we believe that Jay Hammond was influenced by this discussion. It has recently appeared on the political agenda in Germany. A basic income pilot project is under way in Namibia. The policy 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. The concept of basic income is currently popular with the Green parties 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.⁶ The Indian government will soon begin a basic income pilot project similar to the North American negative income tax experiments.⁷ And Iran has a form of basic income already underway, although it is still being phased-in to its full size.⁸

Nothing about basic income or the basic income guarantee ties it to any specific type of financing. There have been proposals to support it by income taxes, sales taxes, money creation, and almost any conceivable form of government revenue. The Alaska model finances basic income directly from a financial endowment and indirectly from user fees on oil extraction. Therefore, it is, in effect, a resource-financed basic income.

As discussed in our earlier book, 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 is unconditional. So, it constitutes only a partial, irregular basic income, but it is the only version of basic income currently in practice in the industrialized world.

2. Lessons from the Alaska Model

In the concluding chapter of our earlier book, we drew six lessons from our observations of the Alaska model. Because this book is about how to adapt the Alaska model to best employ the lessons learned from it elsewhere, it is worthwhile reviewing those lessons.

First, resource dividends are popular and they work. As that book argues, the PFD is one of the most popular state government policies in Alaska and possibly one of the most popular in any state in the United States. It provides a badly needed supplement to the incomes of all Alaskans, including the homeless, with no conditions other than proof of residency. At a time when progressive economic policies have been under attack across the United States and much of the industrialized world, the PFD has become “the third rail of Alaskan politics,” meaning that any politician who touches it dies. Alaska has one of the lowest poverty rates in the United States, and it is the only state in the United States that has become more economically equal over the last two or three decades. These developments are at least partially attributable to the PFD, and its existence has coincided with robust economic growth and a good climate for industry.

Second, a state or nation does not have to be resource rich to have a resource dividend. We argue that this is so because Alaska isn’t unusually rich; because the state has used only a small fraction of its resource wealth to fund the APF and PFD; and because every nation, state, and region has enormously valuable common resources. Often the difference between a “resource rich” and a “resource poor” state is that the resource rich state has a large amount of the types of common resources that governments generally tax while the resource poor state has

a large amount of the types of common resources that governments typically give away for free. Flomenhoft (this volume) backs up this casual observation with empirical evidence. He finds that the resource poor state of Vermont could support a resource dividend at least as large, and possibly much larger than Alaska's current dividend, if it made judicious use of its resource base.

Third, good policies are put in place when people and politicians look for opportunities. If Alaskans don't have the dividend because they are resource-rich, why do they have it? They have it because the right people were in the right places at the right time, and they took advantage of the political opportunities to create the APF and PFD. It's tempting—but wrong—to think of Alaska's experience as some aberration. Common resources are being privatized all the time all over the planet. Every new well that's drilled is an opportunity to assert community control of resources. So is every new mine that's dug, every new reserve that's discovered. Michael Howard discusses one such opportunity in his chapter on the possible link between carbon taxes and a carbon dividend.

Fourth, the people need to see themselves as the owners of the commons; and not just as owners but also as monopolists. One might fear that a resource dividend will make people more willing to accept the private depletion of resources. Once the people make some money selling resources to private industry they might think they can make more money by selling more resources. But before we assume that this possibility is a foregone conclusion, we should remember that industry has done a great deal of damage to the environment for centuries without paying any dividend. The assertion of the power to demand a payment in exchange for the use of a resource is the assertion of ownership over that resource. And along with ownership comes the power to set the terms. Those terms can be powerful environmental controls. If the acceptance of

those terms is what industry must do to buy access to common resources, it will accept those terms.

Once we assert community ownership over common resources, we must recognize that the community has *monopoly* ownership over its resources. Monopolists do not maximize profit by selling all they can at the lowest price. They make money by holding back the supply of their commodity so that it will command a higher price. Thought of this way, a dividend can be a powerful part of a government strategy. We can have more parks, bigger nature reserves, cleaner air, and safer water all while we make more and more money selling resources to private industry.

Fifth, a successful policy builds a constituency. Policies that help only a few people in a major way or help many people in a barely-noticeable way are constantly in political danger. Policies that help many people in a major way might be harder to create initially, but they're politically safer in the long run. Social Security and Medicare are two of the largest progressive social policies ever created in the United States. They were difficult to initiate, yet they have survived attacks against the U.S. social welfare system over the last 30 years while so many small programs have been cut back or eliminated. They survive partly because they are so large. So many voters benefit from them, that they make it politically difficult for politicians to cut them. The universality of the PFD takes that strategy one step further. Every single Alaska resident benefits from it. Suppose a politician wants to take money out of the PFD to put into program X. To be worth the sacrifice of the PFD to any individual Alaskan, program X would have to produce a sure benefit that was better than \$1,500 per year, every year for as long as that Alaskan expects to live in Alaska. Very few proposals can pass that test. The PFD is protected by

its own significance. To replicate the success of the PFD elsewhere requires a program of similar universality and size.

Sixth, successful policies also avoid creating an opposition. This lesson is essentially the converse of the fifth lesson. From lesson five we see that a policy is politically safer the larger the constituency on which it confers a benefit and the more significant that benefit is to them. We should, therefore, also recognize that a policy is safer the fewer people it harms, the less significant those harms are to them, and the more politically difficult it is to oppose those harms. Policies designed to get group A to help group B are particularly vulnerable to this problem. Group A will always be there as 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. Programs financed by progressive income taxes can create an opposition if people connect the burden of paying taxes with programs they see themselves as unlikely to need. Recognizing this divide, U.S. politicians have been able to demonize “welfare mothers” and to create a large constituency in favor of cutting social programs to finance top-rate income tax deductions.

The PFD is financed directly by the APF. The APF is just a pool of assets. No group of voters sees those assets as being theirs through any other means than the PFD. It has no natural opposition among voters (perhaps only among politicians who would like to have the power to use that money to help their friends and harm their enemies). Of course, the APF 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. The same can be true of all resources. People know that they have to pay to obtain ownership of resources. They are used to paying the previous generation of owners. Under a resource-tax system, people pay less to previous owners and more in user fees, but they pay either way. That's just the way of the world. There's no use opposing it.

We can see from these lessons that the Alaska model is a powerful idea that could be employed on a much larger scale in many more places. How we can adapt the model for use on different scales in different times and different places is the subject of this book.

3. A preview of this book

This book is divided into three parts. Part I discusses employing the Alaska model in the most similar circumstances: wealthy, resource-exporting nations and regions. Part II discusses applications of the model further afield. And Part III discusses a hybrid proposal for an individualized version of Alaska's fund and dividend.

Hamid Tabatabai begins Part I with a discussion of the second place in the world to introduce a resource dividend, of all places: Iran. Like Alaska, Iran stumbled onto the dividend following a peculiar set of circumstances. For most of its period as a resource-exporting nation, Iran has used its resource wealth to support an inefficient system of commodity subsidies (mostly on gas and oil consumption). Iranian politicians knew that these subsidies had to go, but the policies benefited so many people in such a significant way that the politicians knew they could not eliminate them without a similarly broad-based policy (see lesson 5 above). After lengthy discussion, the policy that emerged was a basic income in the form of a regular resource

dividend. The policy is not funded by a permanent resource endowment, but it does employ the other two parts of the Alaska model.

Angela Cummine looks at the very opposite issue. There are now many SWFs in the world today. Some of them are many times larger than the APF. Yet, only the APF pays a dividend. Given the enormous popularity of the PFD, why have no other resource-exporting nations imitated it? Employing information gained from interviews and other sources, Cummine assesses the reasons SWF managers around the world are skeptical about dividends.

Alanna Hartzok looks back at the Alaska model itself in advance of export. She argues that the APF and PFD embody the idea of socializing the rent of assets that rightfully belong to the people as a whole, but to do this, managers at the Alaska Permanent Fund Corporation (APFC) should take on a strong responsibility toward social investing, and they are not yet living up to that responsibility. Any nation or region wishing to socialize rent on a large or small scale should, therefore, take a look at what the APFC has done right and wrong.

Rather than looking at employing the Alaska model in other places, Cliff Groh looks at the future of the Alaska model in Alaska. Although the PFD has a sound permanent endowment in the APF, it is the only part of the Alaska government that has such safe financial footing. Most of Alaska's state budget is based on current oil export revenues. The volume of Alaskan oil exports has been declining for more than 20 years. So far, increases in the price of oil have more than made up for the decline in the volume of oil exports, but they will not always do so. When oil revenue begins to dry up, there will be enormous pressure on the state government budget, which will also put pressure on the APF and PFD. Groh discusses when this might happen, what it will mean, and what can be done about it.

Gary Flomenhoft begins Part II with a chapter estimating the potential for a common-asset-based dividend in the “resource poor” state of Vermont. He shows that even Vermont has many resources that are being given away for free by government to corporations who sell those resources back to the people at higher prices. Flomenhoft estimates how much revenue the state could generate by treating those assets the way Alaska treats its oil. In his low estimate, he finds that Vermont could support a dividend at least as large as Alaska’s and in his high estimate, he finds that Vermont could support a dividend many times larger—perhaps more than \$10,000 a year for every Vermonter. If a resource poor state like Vermont can do it, any state or nation can too.

Paul Segal discusses employing the Alaska model in the poorer nations of the world and discusses the impact on poverty of doing so. He finds that a resource dividend could cut world poverty by more than half, as measured by the World Bank’s poverty rate of US\$1.25 per day at purchasing-power-parity.

Jason Hickel examines the potential impact of the Alaska model on just one less developed nation—the newly independent state of South Sudan. Although South Sudan has large oil reserves to draw on, the potential impact of the Alaska model is hard to estimate because the state is so new and data are so poor. However, he finds that oil exports have the potential to finance both a substantial dividend and significant infrastructure improvements.

Jay Hammond’s contribution applies the Alaska model to Iraq. Hammond was the fourth governor of the state of Alaska, and is fairly described as the father of the PFD. He campaigned for the idea long after he left office. His posthumous contribution to this book is a piece he wrote near the end of his life suggesting that a permanent fund and dividend would help ensure that

Iraq's oil revenues were shared by members of all of its diverse communities. This chapter includes a brief introduction by Larry Smith.

Michael W. Howard's chapter discusses the cap-and-dividend approach to global warming as a politically viable way of applying the Alaska model at the federal level in the United States. The idea of cap-and-dividend is simple. The government limits the amount of carbon emissions allowed (the cap). It sells the rights to make those emissions to the highest bidder, and redistributes the proceeds as a dividend for all citizens.

Widerquist closes Part II with two chapters. The first examines the possibility for, and potential size of, a permanent common-asset-based endowment for the United States. The second examines the prospects for exporting the Alaska model back home to Alaska. That is to widen and deepen the use of the strategy we call the Alaska model in Alaska. Widerquist argues that a fuller use of the Alaska model will strengthen Alaska against the likely eventual decline in resource revenues.

Part III of the book is entirely devoted to the discussion of a proposal by Karl Widerquist to create an individualized version of the permanent fund and dividend approach. Widerquist's proposal, called Citizens' Capital Accounts (CCAs), assigns a portion of the principal of the fund to each individual at birth. They can decide when and whether to draw dividends, but the principal must remain in the fund for future generations. Widerquist argues that CCAs provide more economic security for the money than basic income or other similar proposals, because they allow individuals to keep the returns in their safe investment account until they are needed.

Subsequent chapters by Jason Bernstein, Ayelet Banai, Christopher L. Griffin, Jr., and Michael W. Howard evaluate, criticize, and consider variations of the CCA proposal. In the final chapter of part III, Widerquist responds to criticism.

In our final chapter, we review some of the findings of this book and consider the menu of options available for a government to employ variations of the Alaska model.

¹ Carter 2012; Vallentyne and Steiner, 2000a and b; see also chapters by Hartzok and Flomenhoft in this volume.

² The point is that the natural resources are available in abundance, and tax shifting should be given serious consideration. It may nevertheless be desirable to maintain a mix of resource and income taxation—as even Governor Jay Hammond (1996), the father of the Permanent Fund Dividend argued when he opposed the abolition of the income tax in Alaska.

³ Vallentyne and Steiner, 2000a and b.

⁴ Hammond 1996.

⁵ Hammond 1996.

⁶ US Basic Income Guarantee Network 2011; Basic Income Earth Network 2011; Basic Income Earth Network and affiliates 2011.

⁷ Shrinivasan 2011.

⁸ See Tabatabai, this volume.