The Alaska Permanent Fund Dividend: A Case Study in Implementation of a Basic Income Guarantee

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by

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II. The Alaska Permanent Fund Dividend (PFD) Program

The Alaska Permanent Fund dividend, or PFD as it is commonly called, fits a BASIC INCOME definition quite well.[1] It is essentially universal, individual, non-conditional, uniform, regular, and provided in cash. It falls short in that the size of the annual payment fluctuates from year to year and is small relative to measures of poverty.[2] In this section, I discuss the creation of the PFD and its main features.[3]

The state established the Alaska Permanent Fund in 1976 when oil production began from the Prudhoe Bay field, the largest oil field ever discovered in North America. The primary purpose of the fund was to save a share of the public revenues generated from a non-sustainable resource. Fund deposits come from a twenty-five-percent share of royalties (ownership payments based on the wellhead value of the oil) collected by state government. This deposit represents a saving of only about ten percent of total petroleum revenues because the state also collects significant production, property, and income taxes from the industry. The Fund balance is invested in a portfolio of assets to maximize its long-run rate of return.

These fund deposits are constitutionally prohibited from being spent, but fund earnings are available for appropriation by the state legislature for any purpose, similar to other general revenues. By this mechanism, a share of the non-renewable state revenues from petroleum production is transformed into a sustainable flow of revenues from the investment earnings of the Permanent Fund, and future generations of Alaskans will be able to share in the financial benefits from current petroleum production.

A secondary purpose of the fund was to take some of current revenues "off the table"—removing them from the temptation of the current legislature to overspend and thus to waste public funds while overheating the economy.

The fund grew slowly in its early years because royalty deposits, based on the oil price, were small. Thus annual earnings from the fund were small and attracted little attention.

But with the Iranian Revolution and the increase in the price of oil in 1979, Alaska state oil revenues—including royalties—grew dramatically, and public spending, on both pre-existing

[1] One definition of Basic Income can be found in Jurgen de Wispelaere and Lindsay Stirton, "The Many Faces of Universal Basic Income," *The Political Quarterly* 75(3) 2004, p. 266-274.

[2] In addition, unlike the Permanent Fund, it is not protected by the state constitution.

[3] Detailed information about the Alaska Permanent Fund can be found on the Corporation website at http://www.apfc.org/home.

the most significant effect of the dividend on their overall consumption behavior, most respondents said it had little or no effect, or that it helped with regular expenses. Roughly 30 percent responded that it was to reduce debt or increase savings.

One reason there may be more savings out of dividend income than other sources is the fact that it comes in a lump sum once a year which might influence some recipients to save it, who would not otherwise do so.[18] However, there is no evidence that the cumulative saving of dividends has resulted in a significant accumulation of wealth or provided a base of assets, or "grubstake" as we say in Alaska, leading to private sector investments generating economic development.

Whatever the pattern of purchases and consumption over time, most of the cash from dividends will ultimately find its way into the Alaska economy to increase employment, population, and income. A rough estimate of the total (direct and indirect) macroeconomic effects of this increase in purchasing power is 10 thousand additional jobs, 15 to 20 thousand additional residents (drawn to the state because of the jobs), and $1.5 billion in additional personal income.[19]

An important macroeconomic feature of the dividend is the stability it adds to the economy, in spite of its variation in size from year to year. The income flow from the dividend is independent of all the other sources of income coming into the economy, and this additional diversity provides stability when other sources fluctuate.

Two features of the dividend—it is an equal distribution to all residents and it is taxable as personal income by the federal government—contribute to a leveling effect on the distribution of income. The dividend adds a larger percentage to after-tax income at the

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they viewed as a one-time windfall compared to how they have allocated more recent dividend distributions.

[18] Since 1991 applicants have been able to designate a part of their dividend to a University of Alaska Section 529 College Savings Plan established for the benefit of a child. Plan earnings are tax free under current law, and the proceeds can be used to pay qualified expenses at the University of Alaska or any other eligible institution of higher learning. Since its inception there have been about 80 thousand individual deposits into these accounts via PFD applications. The "pick-click-give" program which started in 2009 allows applicants to direct a portion of their dividend to charitable organizations. About 5 thousand people used the program in its first year, and an estimated 10 thousand will use it in 2010.

[19] These rough estimates do not take into account potential general equilibrium effects discussed later in the paper. See Scott Goldsmith and Jeff Wanamaker, "The Economic Impact of the Alaska Permanent Fund Dividend," Institute of Social and Economic Research, University of Alaska, 1989, and Scott Goldsmith, "A Comparative Analysis of the Economic Effects of Re-imposing Personal Income Taxes, Reducing Permanent Fund Dividends, or Reducing State Spending," Institute of Social and Economic Research, University of Alaska, 1987.

lower end of the distribution than at the upper end. This has been a factor contributing to the leveling of the income distribution in Alaska since the early 1980s.[20]

The dividend establishes a floor below which the cash income of residents cannot fall, but it is not large enough by itself to provide a BASIC INCOME. For example, the federal poverty guidelines of the U.S. Dept of Health and Human Services defined the poverty level for a two-person household in Alaska in 2009 to be $18,210.[21] However, there are a number of federal and state "safety net" programs like social security, the earned income tax credit, unemployment insurance, and food stamps that help to lift people above the poverty income level.

Consequently as an addition to the "safety net" the dividend has been one factor in the decline in the official poverty rate since Alaska attained statehood, particularly among Native Americans. The Native American poverty rate fell from 25 percent to 19 percent between the census years of 1980 and 1990.[22]

The dividend is particularly important in rural parts of the state where the economy is largely a mixture of government cash-based transfers and subsistence activities and where wage paying employment is scarce. Households are cash poor and the subsistence harvests can fluctuate dramatically from year to year. Under these circumstances the cash provided by the dividend is particularly important not only because of its size but also its predictability.

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[20] Between the early 1980s and the early 2000s, the after-tax income of the richest 20 percent of families increased at a faster rate than the poorest 20 percent in 38 states. In 11 states the growth rates were about the same for the two groups. Alaska was the only state in which the income of the bottom 20 percent grew at a faster rate (25%) than the income of the top 20 percent (10%). In the early 1980s, Alaska had the greatest income equality of any state, measured by the ratio of average income of the top 20 percent of families compared to the lowest 20 percent—6.6. By the early 2000s Alaska had fallen to 43rd place at 5.8 while the U.S. average had increased from 5.5 to 7.3. The trend toward greater income equality in Alaska was due both to faster growth in incomes of families at the bottom of the distribution—25% compared to 19% for the total U.S. and to slower growth in incomes of families at the top of the distribution—10% compared to 59% for the total U.S. See Jared Bernstein et al. "Pulling Apart: A State-by-State Analysis of Income Trends," Center on Budget and Policy Priorities and Economic Policy Institute, Washington D.C., 2006.

[21] These guidelines are used in the determination of eligibility for many, but not all, federal assistance programs. The guidelines are higher for Alaska than other states because of the high cost of living, but they do not reflect differences in the cost of living across regions within the state.

[22] Scott Goldsmith et al. "The Status of Alaska Natives Report", prepared for the Alaska Federation of Natives, Institute of Social and Economic Research, 2004. The census poverty rate is based on the poverty threshold, a definition that varies with household composition, but does not account for the higher cost of living in Alaska relative to other states. As the relative cost of living has fallen in Alaska since statehood, one would expect the calculated poverty rate to increase if all other variables were held constant. Thus the reported decline in the poverty rate over time is an underestimate of the actual trend in well being of the population.