

THE ALASKA PERMANENT FUND DIVIDEND PROGRAM:  
ECONOMIC EFFECTS AND PUBLIC ATTITUDES

by

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## EXECUTIVE SUMMARY

This study for the Alaska Permanent Fund Corporation examines public attitudes toward the Permanent Fund Dividend Program, the impacts of dividends on recipients, and the effects of dividends on the Alaska economy. The key findings are:

Attitudes - About 60 percent of Alaskans think the Permanent Fund Dividend Program is a good idea. Twenty-nine percent have mixed feelings. Ten percent think it is a bad idea.

Impacts - The "average" recipient saved \$200 of his 1982 dividend, paid \$200 in federal taxes, paid off \$50 in debt, and spent \$550. Of that \$550, \$450 went to day-to-day expenses (e.g., food, heat, clothing) and \$100 went to "special" items (e.g., airline tickets, VCRs).

Effects - Dividends create more spending money and jobs--and result in more population growth--than other ways of spending the same amount of public money, including bigger operating and capital budgets, tax reductions, and subsidizing economic activity.

Other major findings include:

### Attitudes

- A majority of Alaskans prefer the dividend program over more state and local construction projects, reduced property taxes, subsidized loan programs, or putting the money for dividends back into the Permanent Fund.
- Seventy-one percent of Alaskans would now choose to end the dividend rather than bring back the personal income tax. Fifty-five percent would be willing to give up some part of their dividends to pay for the longevity bonus for senior citizens. However, eighty-seven percent would not halt the "inflation-proofing" of the Permanent Fund so that the State could use the earnings for other purposes.

### Impacts

- The 1982 dividend distribution of \$450 million directly increased personal income in Alaska by 6.3 percent, about the same amount as the payroll of the Petroleum Industry.
- The relative benefits of the Permanent Fund Dividend Program to Alaskans vary widely. For one-third of all Alaskans, the 1982 dividends increased family income by less than five percent after taxes. But for one-eighth of all Alaskans, the dividends increased family income by more than twenty percent.
- Dividends substantially raised the incomes of many rural Alaskans. The 1982 dividends increased family income by more than twenty percent for over one-half of rural Alaska Natives.
- How Alaskans used their dividends varied with income. Lower-income Alaskans used more of the money to reduce their debt and for day-to day expenses while higher-income Alaskans used more of the money for taxes and savings.

### Effects

- The 1982 and 1983 dividends have been significant factors in the rapid economic growth of the early 1980s. As the dividends entered the Alaska economy, they created about five thousand jobs, primarily in support industries, and added about \$360 million to consumer purchasing power in 1983. Although the direct program effects impacted every corner of the state, the secondary effects have concentrated in the urban areas, which are the centers for economic support activities.
- Inflation and the desire to work were little affected by the dividends, and few people moved to Alaska solely to receive a dividend. However, because the dividend program stimulates employment more than other uses of public funds, it does have the effect of bringing more people to Alaska.
- No use of Permanent Fund earnings, including retaining dividends in the Fund, is able to arrest the projected decline in state revenues due to depletion of petroleum reserves if contributions to the Permanent Fund continue at the current rate.
- The use of current Permanent Fund earnings for dividends or public expenditures reduces the level of public wealth available in future years. Accumulation of dividends in the Permanent Fund increases future wealth but reduces current levels of economic activity.



### Purpose and Design of the Study

The purpose of this study was to examine economic effects of the Permanent Fund dividend program and public attitudes toward the program. The study was carried out by the Institute of Social and Economic Research of the University of Alaska.

In order to study dividend uses and public attitudes, we conducted a survey of 1,016 Alaska households. The limited budget restricted this survey to telephone interviews, which excluded some families from the sample but not sufficient numbers to significantly affect the reliability of the results. To ensure equal reliability of the results for all areas of the state, we conducted equal numbers of interviews in three different geographic classifications of the state: Anchorage, other urban areas, and rural areas. The overall results of the survey were then weighted to reflect the relative share of the total population represented by each geographic area. The results reported for the entire state are accurate within plus or minus three percentage points.

A second major source of information for the study was the Institute of Social and Economic Research's Man-in-the-Arctic Program (MAP) econometric model of the Alaska economy. We used the model to project changes in the Alaska economy resulting from the Permanent Fund Dividend Program.

Other major sources of information for the study included data on dividend distributions provided by the Alaska Department of Revenue, census data on the distribution of income in Alaska, sales data for rural stores provided by Alaska Commercial Company, banking data from a large number of sources, small community sales tax data, and public assistance payments data from the Alaska Department of Health and Social Services.

### Alaskans' Attitudes Towards the Dividend Program

We asked survey respondents three types of questions concerning their views on the dividend program: first whether they favored or opposed the program; second, whether they preferred the dividend program over a number of alternative uses for the dividend money; and, third, the extent to which they agreed or disagreed with various perceptions about the dividend program. Several well-known supporters and opponents of the dividend program reviewed the survey before it was conducted to assure maximum objectivity in the attitudinal questions. Our results reflect the attitudes of household members most responsible for household finances, whom we selected as our survey respondents.

A majority of those surveyed think the Permanent Fund dividend program is a good idea and favor it over such other public uses as reinvestment of Fund earnings, large state construction projects,



local construction projects, property tax reductions, or loans. Almost three-quarters would prefer that the state stop the dividend program, if necessary, to avoid reinstituting a state personal income tax. Only one in ten respondents favored limiting the dividend program to low-income households, but just over one of every two persons support the idea of using a portion of the money now spent on dividends to pay for longevity bonus checks.

A substantial majority of persons interviewed think that they are entitled to a share in the earnings of the Permanent Fund and have no problem with receiving money directly from the state. Most respondents emphatically believe that how residents use the money is of no concern to the state. In addition to viewing dividends as an entitlement, most respondents see the dividend program as a means of protecting the principal of the Permanent Fund and as a more effective vehicle for using public funds to benefit Alaska residents than legislative appropriations. They also think that the dividend program has made them pay closer attention to how the state spends the money it receives.

Survey respondents were mixed in their perceptions about whether dividends had been wasted on liquor or drugs, whether loss of dividend money in taxes to the Federal government is a problem with the dividend program, whether the dividends harm Alaska's image, and whether dividends are important sources of income in their communities. Rural residents were much more likely to see dividends as an important source of income.

Support for the dividend program is widespread among survey respondents, particularly among groups which tend to have lower incomes: rural residents, recent immigrants, persons with relatively less education, and younger and older Alaskans. Income itself is strongly related to attitudes toward the Permanent Fund dividend program, but even 45 percent of those living in households which received more than \$60,000 in income in 1983 supported the dividend program.

Three perceptions appear to be particularly important to those favoring the dividend program. Respondents were much more likely to favor dividends if they felt that (1) residents are entitled to a share in the state's wealth; (2) Alaska residents are better able to decide how to spend the state's money than the legislature; and (3) dividends are an important source of income. Household income did not explain any additional variation in public attitudes toward the dividends but accounts for much of the difference in perceptions about the importance of dividends as a source of income.

The importance of income and income-related perceptions in explaining support for dividends and the view that dividends are an entitlement suggest that much of the support for the dividend program will not diminish over time. Since support for the dividend program is apparently also a function of trust in the legislature's



motivations and abilities, public attitudes may shift in response to future state spending patterns, generally, and in response to specific proposals concerning the Permanent Fund in particular.

Finally, we observed that respondents who firmly expect that state revenues will decline in ten years were likely to oppose the dividend program in favor of increased savings while the reverse was true for those who firmly expect that state revenues will not decline. Less than half the persons we interviewed had either of these firm perceptions, however, and perceptions about future state revenues overall did not explain a substantial variation in attitude toward the dividend fund. This suggests that public expectations concerning future state revenues are not likely to substantially influence public attitudes toward the Permanent Fund dividend program, unless firmer public consensus on state revenue prospects should develop.

#### Effects of the Dividends on Income

The Alaska Permanent Fund Dividend Program has distributed more than 458 thousand 1982 dividend checks of \$1,000 and more than 430 thousand 1983 dividend checks of \$386.15 to Alaskans. More than \$15 million in 1982 dividend checks were distributed each month between June of 1982 and February of 1983, reaching a peak in December of 1982 at \$122 million. Almost all of the 1983 dividends were distributed between September and November of 1983.

About 31 percent of dividend recipients were children. Of all recipients, one-half had resided in Alaska for eleven or more years; one-fifth had resided in Alaska since 1959; and eight percent claimed only one year of residency. Two percent of the dividend checks were mailed to addresses outside Alaska.

Adults paid 28.4 percent of their 1982 dividends as federal income taxes. Since most children's dividend income was not taxed, the average tax rate for all dividend income was about 20.2 percent. Total federal income taxes were \$88 million on 1982 dividends and \$32 million on 1983 dividends.

The 1982 dividends directly increased Alaskans' after-tax income by about \$362 million, or by about 6.2 percent. However, the relative effects of dividends on after-tax income were much higher for large, low-income families. We prepared the estimates shown on the following table for the relative effects of 1982 Permanent Fund Dividends on after-tax income.

EFFECTS OF 1982 PERMANENT FUND DIVIDENDS  
ON AFTER-TAX INCOME OF ALASKANS

Percent Increase in After-tax Income of Individual's Family	Percent of All Alaskans	Percent of Rural Alaskans	Percent of Rural Alaska Natives
0 - 5%	35	29	12
6 - 10	26	23	11
11 - 15	15	15	15
16 - 20	6	7	11
21 - 25	4	5	11
26 - 30	4	5	8
31 - 35	3	4	7
36 - 40	2	4	8
41 - 45	1	1	3
46 - 50	-	-	1
> 50	<u>3</u>	<u>6</u>	<u>14</u>
Total	100	100	100

- Less than 0.5 percent.

NOTE: Totals may not add to 100 due to rounding.

As shown in the table above, the relative effects of dividends varied widely among Alaskan households. For 61 percent of Alaskans, 1982 Permanent Fund Dividend income represented less than a 10 percent increase in their families' after-tax incomes. For another 26 percent, the dividends represented an increase in after-tax income of between 10 and 25 percent. For the remaining 13 percent of Alaskans, the dividends represented more than a 25 percent increase in family income.

The contribution of dividends to family income was relatively greater in rural Alaska, and especially so for rural Alaska Natives. Our estimates suggest that dividends represented in 1982 more than a 25 percent increase in family income for 41 percent of rural Alaska Natives.

In sum, the 1982 dividends represented a substantial increase in family income for many Alaskans, especially in rural areas. However, for a majority of Alaskans, the dividends represented a relatively small increase in family income, especially after federal income taxes were paid. Since the 1983 dividends were about one-third the size of the 1982 dividends, their contribution to after-tax income was also smaller.



### How Alaskans Used Their Dividend Income

In each household surveyed, we spoke with the adult who knew the most about the use of the household's dividend checks and asked a series of questions about how much dividend income household members had used for the following categories:

- Special purchases
- Savings
- Debt reduction
- Day-to-day purchases
- Taxes

We asked separate questions about the uses of adults' and children's dividends and the uses of 1982 and 1983 dividends. Many interesting questions went unasked because the amount of time available in a telephone interview is limited.

As in any survey, respondents may not recall their households' purchases correctly. They may also avoid mentioning undesirable or illegal uses of income (none of our survey respondents mentioned any such uses). Similarly, many respondents may under- or overstate their total expenditures or have difficulty attributing purchases to special sources of income. To compensate for these limitations, we employed standard survey research techniques to internally check for the consistency of responses and referenced our survey responses to other secondary sources of information. We prepared several estimates of overall uses of dividend income based on different sets of assumptions about how to adjust for any overstated or understated uses.

Based on the survey results, between 5 and 15 percent of dividend income was used for special purchases, about one-fifth of which were airline tickets. Respondents mentioned a wide variety of other special purchases, among the most common of which were cars, furniture, houses, home additions, televisions, appliances, bicycles, snow-machines, and three-wheelers.

Between 15 and 25 percent of dividend income was saved, and about 5 percent was used to reduce debt. About 20 percent went to taxes. The remainder of dividend income--between 35 and 55 percent--was used for day-to-day purchases such as food, heat, clothing, and rent.

Lower-income and rural households used relatively less of their dividend income for taxes or savings and relatively more for debt reduction and special purchases.

Parents decided how their children's dividends would be used in over one-half of all households while children alone made the decisions in less than one-tenth. In the remainder of households, the decisions were made collectively. The greater the children's say in the use of the dividends, the greater the share of the



dividends which was spent, while the greater the parents' say, the greater the share which was saved or used to reduce debt.

In order to summarize the effects of the dividends, we asked each respondent the following question: "Overall, how would you say your household's spending, saving, and debt was changed by your dividend checks?" We categorized the answers in terms of the most significant effect which was mentioned. The following table summarizes the answers for the 1982 adults' and children's dividends, broken down by household income group. There were clear differences in the effects of dividends between income groups. The lower the income group, the greater the share of households which cited "reduced debt," "help with regular expenses," and "help with special purchases" as the most significant effects of dividends and the lower the share of households which cited "savings" or "little or no effect." Less than one-third of the lowest-income households thought that dividends had "little or no effect," compared to over half of the highest income households. The effects of adults' and children's dividends were also viewed differently: "reduced debt" and "help with regular expenses" were mentioned less frequently as effects of children's dividends while "increased savings" was mentioned more frequently.

MOST SIGNIFICANT OVERALL EFFECTS OF PERMANENT FUND  
DIVIDEND INCOME, AS SUMMARIZED BY SURVEY RESPONDENTS,  
BY HOUSEHOLD AND INCOME GROUP  
(Percent of Households)

Most Significant Overall Effect	1982 Adults' Dividends				1982 Children's Dividends			
	Under \$26,000	\$26,000- \$40,000	\$41,000- \$60,000	More Than \$60,000	Under \$26,000	\$26,000- \$40,000	\$41,000- \$60,000	More Than \$60,000
Reduced Debt	18.3	13.8	11.9	4.9	10.7	5.5	1.9	1.7
Increased Savings	9.1	19.3	25.0	15.8	20.1	24.5	28.9	21.7
Help with Regular Expenses	22.1	11.9	14.6	11.9	19.1	9.0	8.6	2.9
Special Purchases	10.8	9.8	4.9	5.1	7.2	5.5	9.4	1.7
Little or No Effect	27.9	36.3	33.5	49.3	31.7	41.1	38.7	52.6
Unaccounted for or No Answer Given	<u>11.8</u>	<u>8.9</u>	<u>10.1</u>	<u>13.0</u>	<u>11.2</u>	<u>14.4</u>	<u>12.5</u>	<u>19.4</u>
TOTAL	100	100	100	100	100	100	100	100



We examined dividend use in rural areas by comparing sales in twelve rural stores to dividend distributions using regression analysis. For eleven of these stores, we found that dividends significantly affected sales in at least some departments. In nine of the stores, total monthly sales increased by between \$83 and \$373 for every thousand dollars of dividends distributed locally during the month. Departments in which the effects on sales were greatest included groceries, soft goods, and hardware. Generally, the 1982 dividends had a greater direct effect on sales per dollar distributed than did the 1983 dividends. These results suggest that a large share of dividend income in rural areas was used to make purchases locally. They also serve to substantiate survey responses on how dividends were used in rural areas.

#### Economic Effects of the Dividend Program

This part of the study was divided into three sections which analyzed (1) the past and projected economic effects of the current dividend distribution program, (2) the relative economic effects of the program in comparison to other uses of an equivalent amount of Permanent Fund earnings, and (3) the economic effects of variations in the timing of the use of Permanent Fund earnings for dividends or other purposes.

The economic impact of the dividend program results primarily from the personal consumption spending it generates. Alaskans perceive dividend income to be some combination of permanent, transitory, and windfall income; and, consequently, less of it is spent than ordinary income. This is less so for lower-income Alaskans who consume most of their current income, including dividend income.

The dividends have been one of the most important sources of growth in disposable (after-tax) personal income in Alaska since the current economic boom began in 1980. The dividends directly accounted for 17 percent of the increase in disposable income for the years 1981-1983. Because of lags in both the distribution of dividends and personal expenditures, the spending of this income created 3 thousand jobs in 1982 and 5 thousand jobs in 1983. People moving to Alaska to fill these new jobs increased the state's population by 2 thousand in 1982 and another 2 thousand in 1983, resulting in higher government expenditures. In addition, the new jobs further increased disposable income by 9 percent in 1982 and by 23 percent in 1983.

The dividend program has not had any discernible effects on inflation. Few, if any, people have left the labor force as a result of dividend income. There is no evidence of substantial migration to Alaska by people hoping to receive dividends; at most, some people may have postponed their departure from Alaska in order to receive dividends. The secondary effects of dividends were felt



most in the support industries of trade, services, and finance which are concentrated in the urban parts of the state. Private holdings of wealth increased modestly and tended to be concentrated among the higher-income groups. The availability of funds resulted in a small amount of capital investment for business purposes.

Compared to the expenditure of an equivalent amount of public funds for other purposes, including government operations, capital projects, subsidies, local transfers, or nonpetroleum tax reductions, the dividends produce the largest increase in before- and after-tax income, employment, and population. Employment growth from dividends is in the support sector while government expenditures produce more jobs in government or construction-related industries. Our results are generalized for each sector as a whole. Particular government programs may have characteristics considerably different from the average, particularly for subsidies.

Because nearly all state revenues come from the production of finite petroleum reserves, total public spending--whether in the form of dividends or alternatives--is nonsustainable at its current level. Several long-term policies involving (1) different mixes of public and private uses of Permanent Fund earnings and (2) different mixes of current and future spending of Permanent Fund earnings were examined using simulation analysis. No alternatives are able to arrest the decline in public revenues, and none significantly alter the projected structural shift in the economy away from growth dominated by the public sector.

Permanent Fund earnings spent as dividends produce more employment, personal income, and expand the private economy more than public expenditure of the same funds but, as with all other spending alternatives, contribute to the future decline in the level of government services. If current public spending patterns--including paying dividends--continue, significant and continuing reductions in government expenditures will become inevitable in about 1993, cutting per capita real public spending to half its current level by the turn of the century. Saving of Permanent Fund earnings has the least effect on the economy in the present but increases future opportunities for public or private spending by enlarging state fund balances in the future--augmenting future public revenues projected to be much smaller than those of today. Thus, the use of Permanent Fund earnings involves a choice between public versus private and current versus future spending.