

PFD cuts could mean big ripples in Alaska economy

By Rachel Waldholz, Alaska's Energy Desk - Anchorage -

March 9, 2016

It's PFD application time in Alaska; the deadline is March 31. And if nothing changes, this year's check, like last year's, will total about \$2000.

But as lawmakers grapple with a mammoth budget deficit, it's becoming increasingly likely that the solution will require tapping Permanent Fund earnings — and reducing the dividend.

Experts say that will have ripple effects throughout the economy. Meanwhile, as Alaska considers scaling back the dividend, the rest of the world is warming to the idea.

The PFD has more impact in rural Alaska, where high unemployment combines with the high cost of living (including groceries like this \$7.50/gallon milk at Bethel's AC grocery store) to make dividend checks a crucial cash infusion. Photo: Rachel Waldholz/APRN

Karl Widerquist is a professor of political philosophy at Georgetown University's School of Foreign Service in Qatar. He considers the PFD an example of a universal basic income — actually, the *only* example.

"This is the closest thing to a basic income that has existed for any significant period of time, anywhere in the world," he said. "There are a lot of people talking about it, but only Alaska has done it, and Alaska's been doing it for over 30 years."

A universal basic income is essentially what it sounds like – a guaranteed minimum payment distributed to all citizens.

And the concept is having a moment. There's an upcoming referendum in Switzerland; pilot projects planned for Finland, the Netherlands and Canada; and increasing interest from Silicon Valley, which worries that the automation revolution — like self-driving cars — will soon put a lot of people out of work.

Widerquist says all of these places can learn from Alaska.

So what do we know, after distributing the PFD since 1982?

Actually, "There's an awful lot that we don't know," said Gunnar Knapp, who runs the Institute of Social and Economic Research at the University of Alaska, Anchorage.

There's never been much research on the dividend. Knapp said most Alaskans probably don't even know exactly how they spend it.

"You may think, oh, I used that thousand dollars to buy this plane ticket," he said. "But suppose you were going to buy that plane ticket anyway? Then really what that thousand dollars maybe went to was just all the regular stuff you'd buy, except you actually bought a little bit more of it."

But, Knapp said, some things are clear. For one, the dividend matters a lot more if you're poor than if you're rich.

For the twenty percent of Alaska households whose incomes average \$35,000 a year or less, the PFD is a major chunk of change. For a family of four, last year's checks added up to more than \$8000.

Knapp said that's one reason Alaska has one of the most equal – or least unequal – distributions of wealth in the U.S.

"There's many other things that enter into income equality," he said. "But certainly we know that the dividend is a contributing factor."

In general, Knapp said, the dividend also has a bigger impact in rural Alaska than the Railbelt. Cuts would hit hardest in regions with the lowest median household income – that includes some parts of Fairbanks and Anchorage, plus a wide swath of Western Alaska.

Standing outside the AC grocery store in Bethel, you can find plenty of people who put their PFD in a savings account, like 36-year-old Damien Jones.

"That's the best way to save it," he said. "Just put it in savings, let it accumulate, and when a rough time comes, you use it."

Jones was in town from Anchorage. He said he'd be fine if the PFD is cut. But he worries about others in the region, who must cope with both a high cost of living and high unemployment.

For many people, especially in the villages, the PFD is a crucial cash infusion.

Marie Andrew was in Bethel from Tuluksak. She spent her 2015 PFD on a 1995 Ford Explorer. But usually, she says, it just goes to bills. Cutting it would be a big deal.

"It would affect me a lot," she said. "I wouldn't be able to pay my lights or buy food."

Peter Uttereyuk, Jr., 26, is from Scammon Bay. He had his two-year-old son, Simon, on his hip. His last PFD went to diapers, wipes and food.

"It goes all to him," Uttereyuk said. "And *his* PFD goes to his savings for college, and whatever he needs for the future."

That's an example of an important function of the PFD, Knapp said: it make it possible to build wealth.

"For lower income people who really need to use most of their paycheck just to get by," he said. "It provides a way to accumulate and save money over time."

Those savings can then go toward college, a down payment on a house or to start a business. And that's true for people up and down the income ladder.

But what about everyone who spent their PFDs on new laptops or Christmas presents or snowmachines? They aren't just making October an Alaska retailer's favorite time of year, Knapp said. That money ripples through the economy.

In an analysis presented to lawmakers this month, Knapp estimated cutting the PFD in half could cost more than 6000 jobs statewide — and pull about a billion dollars of income out of the state economy.

Lawmakers must weigh those effects against the impacts of other options — such as cutting government workers or services; instituting an income tax; or raising oil taxes — or, Knapp said, some combination of them all.