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## Diapering the Devil: How Alaska Helped Staunch Befouling by Mismanaged Oil Wealth: *A Lesson for Other Oil Rich Nations*

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### Preface

“I call petroleum the devil’s excrement. It brings trouble. . . . Look at this *locura*—waste, corruption, consumption, our public services falling apart. And debt, debt we shall have for years.”

So warned Juan Pablo Pérez Alfonso, a Venezuelan founder of OPEC. A September 24, 2004, article in the British magazine *The Economist* elaborates further on Pérez Alfonso:

During the heady oil boom of the mid-1970s . . . he was seen as an alarmist. . . . In fact, he was astonishingly prescient. Oil producers vastly expanded domestic spending, mostly on gold-plated infrastructure projects that set inflation roaring and left mountains of debt. Worse, this did little for the poor. Venezuela had earned over \$600 billion in oil revenues since the mid-1970s but the real income per person of Pérez Alfonso’s compatriots fell by 15% in the decade after he expressed his disgust. The picture is similar in many OPEC countries. So bloated were their budgets that when oil prices fell to around

Editor’s note: This chapter has kept as much as possible Hammond’s original text even though it was an unfinished manuscript.

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\$10 a barrel in 1998, a number of countries—including Saudi Arabia, the kingpin of oil—were pushed to the brink of bankruptcy.

But it was long before Alaska struck oil that events prompted actions that ultimately served to at least modify the adverse effects cited above. In essence, Alaska managed to avoid much of the befouling of Pérez Alfonso's "devil's excrement" by actions that served to at least halfway pin on a "diaper."

### Oil Wealth Windfalls: Blessing or Bane?

It all started with fish. Perhaps the greatest inducement for Alaskan support of statehood in 1959 was the prospect of abolishing salmon traps. Alaskan fishermen had long resented the virtual monopoly enjoyed by

Seattle-based fish barons. Not only did they sop up the bulk of the salmon harvest with devastatingly effective fish traps located at the mouths of prime spawning rivers, but in Alaska's Bristol Bay, home waters for the world's largest wild sockeye salmon run, the canneries blatantly favored nonresident fishermen over Alaskans when it came to assigning the company's fleet of wooden drift gill-netting sailboats.

Prior to 1952, allegedly for conservation purposes, Bristol Bay gill-netters were not allowed to use power, and while the vast fleet of sailboats embarking at sunrise on the morning tide may have been picturesque, mortality rates were high, while income to Alaskans was pitifully low.

In our quest for statehood, we Alaskans piously attempted to make the case for fish trap abolition on the basis of conservation. It was a phony argument. Actually, fish traps provided far better segregation of salmon stocks and management of harvest to allow for adequate escape-ment to individual river systems than did a drift gill-net fleet. A wish to get a bigger piece of the action, not concern for the resource, was our major motivation.

This hypocrisy, along with other questionable assertions by most advocates and the utter rejection of any consideration of Commonwealth status, prompted me to oppose statehood. When asked my reason for doing so I rudely questioned our ability to finance and administer statehood. Not even the scent of oil had yet seeped into our nostrils. Instead, Alaska's major sources of income: fishing, mining, and trapping, all were in steep decline. Moreover, I imprudently pronounced, "With our tiny population of under 100,000, virtually any idiot who aspired to public office was likely to achieve it." Subsequently, there have been those who assert I proved that upon frequent occasion.

While the gush of oil wealth in the late 1970s provided the potential for financing state government, the jury is still out as to whether we have the ability to administer state government prudently. Perhaps the best inducement, indeed obligation to do so, lies in Article 8, Section 8, of Alaska's constitution, which states: "The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the state, including land and waters, for the maximum benefit of its people." While this does not actually say the people rather than government own those resources, as many contend, it amounts to virtually the same thing.

This mandate first prompted me to attempt to assure that *all* Alaskans received a discernible share of those benefits. That battle, I lament, continues here in Alaska despite growing worldwide awareness of the potential for other resource rich nations to follow Alaska's example, and thereby largely avoid the common past practice of selectively benefiting the favored few at the expense of the many.

### **Bristol Bay's Blighted Bonanza**

Though I had little aspiration for political office at statehood in 1959, much to my bewilderment and no little dismay, I found myself elected to the Alaska House of Representatives as an independent. I had not campaigned at all, but told the local school teachers urging me to run that I would *consider* doing so only if they were willing to collect the number of prospective voter signatures required to place my name on the ballot as an independent. They came back the next day with the petition for me to submit. My "consideration" in their minds had translated into "commitment" and, though I had made none, I knew they would feel I had broken my promise should I fail to run. So, with no fear of winning, I ran and, to my great surprise, won.

It was with much reluctance that I left the good life I had in bush Alaska as a commercial fisherman, pilot, and guide, where I not only could call my own shots but also build my own targets. Moving my family to Juneau, adhering to the legislative schedule, and, perhaps worst of all, enduring daily strangulation with that abomination of the western world—the necktie—did little to enchant me. Thus, it came as no small surprise that I found the legislative process intriguing.

Most intriguing were efforts to comply with that aforementioned constitutional mandate that I thought was being largely ignored. A select few, mostly from outside Alaska, were reaping the benefits of our resource development—too often at the expense of the many. Fisheries were a prime example, though they, unlike mining or timber, at least yielded a modest raw fish tax to the state. Not surprisingly, the prime issue addressed by the first Alaska legislature was that of fish traps, which provided fortunes for their nonresident owners and returned little benefit to Alaskans.

When Nick Bez, a powerful and persuasive spokesman for the Seattle-based salmon industry, testified before the legislature urging us

to phase out rather than instantly abolish all fish traps, he made an excellent case. I complimented him but advised he was wasting his time. “Sorry Nick, but even if we were persuaded by your arguments, you’d simply have to go through this drill all over again before the brand new legislature which would replace us.”

Accordingly, one of our first actions was to outlaw fish traps. However, their abolition did little to improve the lot of many Alaskans. Non-residents remained favored by Seattle processors in assignment of company boats, and few Alaskans could afford to compete with the ever-increasing costs of larger, faster, and better-equipped company-financed power boats.

While in the legislature, I proposed several measures designed to give Alaskan fishermen a better competitive edge. Virtually all were struck down as unconstitutional, and rightly so. Either they violated the U.S. Constitution’s Interstate Commerce Clause or they abused the “privileges and immunities” of nonresidents. Obviously a different approach was required.

That approach was found in the taxation power vested in local governments. In 1962 the Bristol Bay villages of Naknek, South Naknek, and King Salmon—total population about 2,000—banded together to form Bristol Bay Borough, the first of its kind in Alaska (a local government entity similar to a county). Inducement to obtain local control was not the only carrot provided by the legislature. At my behest, it also doubled the amount of state-collected raw fish taxes returned to a borough and enacted a statute that allowed a municipality to impose a “use tax.”

Prior to becoming a borough, despite the extraction (“use”) of literally billions of dollars of salmon wealth from our waters, our communities were little more than rural slums. We had no high schools, sewer or water systems, health care facilities, fire, police, or ambulance services. Garbage was dumped over the riverbank in hopes it would flush out with the ice during high spring tides. Such conditions prevailed when I took over as borough manager in 1965. While I would like folks to think altruism was my major motivation, the prime factor, of course, was simply money—or rather, lack of it. A study presented to me by my borough assemblyman, Martin Severson, indicated that a whopping 97 percent of the fishing payday made within the boundary of the Bristol Bay Borough went elsewhere: 65 percent to nonresidents and 32 percent

to those living in Alaska but outside the borough. Local residents got but a paltry 3 percent!

The solution seemed simple: Impose a use tax of, say, 3 percent to be paid by all fishermen on their catch. For every \$3 paid in taxes by locals, we would glean \$97 from nonresidents. To offset the impact on local fishermen already paying high property taxes, I proposed putting tax money into a conservatively managed investment account, then each year issuing residents one new share of dividend-earning stock. I called the concept "Bristol Bay, Inc." It fell flat on its face. The ordinance required to impose the tax went down to crashing defeat at the polls. All people could hear was the word "tax."

So adverse are most Alaskans to taxes that even should one be devised which made them money most would oppose it. Naively, I thought this was simply due to ignorance. Hence, in hopes of providing enlightenment, I took to the stump, wrote newsletters, and spoke to interest groups, carefully explaining what seemed a wondrous potential for not only remedying the borough's pitiful lack of services, but also bolstering the finances of every resident, whether they fished or not.

To my dismay and consternation a second vote on the use tax ordinance went down by an even bigger margin.

Reluctantly, I abandoned the Bristol Bay, Inc., stock-sharing concept and presented two new ordinances in what I hoped would be an offer the public couldn't refuse. Ordinance "A" would impose the 3 percent use tax. Only if ordinance "A" were to pass would Ordinance "B" kick in, which would then abolish all local residential property taxes.

Most locals checked their records and, finding themselves far better off with both the use tax and elimination of residential property taxes, approved both ordinances. The results exceeded my wildest imagination. Almost overnight the Bristol Bay Borough was transformed from that virtually destitute rural slum into what *Fortune* magazine termed "The richest municipality in the nation on a per capita basis." Unfortunately, however, instead of providing all residents with equitably distributed discernible dividends from which they could pay for services desired, almost all our newfound wealth went into inequitably dispersed government programs.

My salary as part-time borough manager had been but \$6,000 a year. My total budget was \$35,000. From this, I hired a secretary for \$12,000, paid legal fees, and employed a part-time bookkeeper. Our

largest expense was installation of a chain-link fence to keep bears from strewing garbage from the riverbank onto the road. But a few years later, after I had left my borough job and returned to the legislature, the borough manager's salary was \$81,000. Twenty-one full-time employees were hired and the annual budget exceeded \$4 million. However, the borough had also built a high school, acquired fire and police protection, and provided a sewer system, health care, ambulance services, docking facilities, and perhaps the finest state-of-the-art garbage disposal system to be found in Alaska.

These may have been worthy accomplishments, but, nonetheless, they were programs that provided individuals with inequitably distributed selective benefits. Moreover, the residential property tax relief local citizens had been promised was denied when the legislature passed a bill limiting residential property tax relief to but \$10,000. This was designed to strike a blow against the exceedingly wealthy and powerful North Slope Borough, which some feared would boost its property taxes excessively on oil facilities, while exempting local residents' homes.

That legislation provided the Bristol Bay Borough Assembly with grounds to deny the total residential property tax exemption I had promised and, in effect, made a liar out of me. In an attempt to remedy this some years later, I proposed that the assembly at least give fishermen a credit against their property taxes equal to that which they paid in fish use taxes. Assembly members smiled indulgently, allowing that such was an interesting proposal, but did nothing to prevent fishermen being double-barreled with both use and property taxes. To their credit they did, however, heed one suggestion. The conservatively managed investment portfolio envisioned under Bristol Bay, Inc., was established. Ultimately this grew to \$12 million.

Believing other fishing communities could prosper if they adopted a similar use tax, I appeared before the Alaska Municipal League, outlined what we had experienced in Bristol Bay Borough, and suggested the league might wish to follow suit. Curiously, it was years before any other municipalities did. Today, however, virtually all municipalities encompassing fisheries have done so. Meanwhile, fishing communities had lost hundreds of millions of dollars in prospective revenues, which they could have gleaned almost painlessly, largely from those who lived elsewhere and profited from doing business within the municipality.

Difficulties I've experienced in attempting to sell programs, which seemingly would be ardently embraced by beneficiaries, suggest I am a lousy salesman. Evidence of this frailty next became evident when I attempted to peddle the Bristol Bay, Inc., concept to Alaska Natives.

### Again—No Sale

With passage of the Alaska Native Claim Settlement Act (ANCSA) in 1971, Alaska's aboriginal peoples were accorded 44 million acres of land and \$900 million by the U.S. Congress. This measure was the culmination of years of effort by Native leaders to secure reparations for past abuses and broken promises. Actually, however, passage was finally facilitated by the need to acquire permission from prospective Native landholders to cross lands over which the proposed Trans-Alaska Pipeline would be built.

After passage of the Settlement Act, the debate then commenced as to what the Native Alaskans wished to do with their money and land. Some of my Native constituents from the village of Nondalton, some twenty-five miles away, visited me at our Lake Clark homestead to seek my counsel. My first response was: "Don't ask me, a *gusuk* (nonnative), to try to tell you how to handle your money and lands. That's for you to decide."

They were not about to let me off the hook. "Look, you're our representative and are not at all shy in suggesting how the Bristol Bay Borough handles its wealth. Surely you have some ideas. What are they?"

I responded, "It seems to me you have two prime options. You can split your assets and form a multitude of mini-bureaucracies with the attendant administrative and legal costs; or you can follow the concept I proposed for the Bristol Bay Borough: create a conservatively managed investment account and spin off equal dividends to every Alaska Native. Such an account should be managed by professionals under counsel supplied from an elected advisory board of Natives representing every group in Alaska. That way you can lift yourselves up by the bootstraps rather than depend on government handouts."

With a population explosion accompanying a decline in fishing, trapping, and ability to live off the land, many Native leaders decried what they perceived as growing dependence on government programs, which could make drones of some of the most self-sufficient of the Earth's peo-



ples. The area's primitive housing, lack of gainful employment, sewer or water systems, health care, adequate schooling, fire-fighting equipment, and police protection all served, by contrast, to point out the comparative affluence of Appalachia in the southern United States.

Why not, instead, make stockholders of all Alaska Natives and thereby provide them with the means, along with the responsibility, to use it for their collective best interests? After all, if they have the capability of meeting some of their needs from their own pocket and the responsibility to do so, it would seem freedom of choice and self-determination could do much to retain self-respect, while meeting what the people themselves felt to be their primary needs—far better than “Great White Father” paternalism.

I so stated the same in an article appearing in the *Tundra Times*, a now defunct publication that played a key role in uniting Alaska Natives in pursuit of justice. While a few Native leaders were intrigued with the investment account and equitable stock-sharing concept, opponents mounted persuasive arguments. Whether these were primarily prompted by deep concern for Alaska's indigenous people or self-interest is debatable. Certainly there were those who salivated over prospects of obtaining high-paying jobs, pocketing lucrative legal fees, or promoting pet projects.

There also were, perhaps, those who feared the enormous financial and political clout Natives would have were they to consolidate to form a monolithic entity, permitting them to move and shake in those realms as never before. They argued persuasively that each corporation should be able to spend its share of the wealth as it saw fit: “You don't want others from elsewhere telling you what to do with it,” was the refrain. By accepting that counsel, the enormous political and financial power potential was splintered, though still remained a considerable force.

Ultimately, rather than creating a single investment portfolio managed by a board of directors comprised of Native leaders from throughout the state, which would spin off equal dividends to every Alaska Native, the majority bought the argument they should not permit others to determine how their share of the wealth would be used. As a result, instead of the equitable stock-sharing concept proposed in Bristol Bay, Inc., some fourteen regional and over 200 village corporations were formed, much to the delight of a multitude of salivating attorneys, along with those who obtained lucrative corporate jobs.

While a few corporations have prospered handsomely and a number of exceptionally competent Native business and political leaders have emerged, in some cases poor investments were made in fly-by-night schemes that would not have passed muster had they been scrutinized by a money-managing control board composed of non-locals. Lack of experience in handling large sums of money, nepotism, and village politics sometimes prompted imprudent, low- (and even no-) interest loans and investments that served to place some corporations on the brink of bankruptcy. And though virtually all corporations have paid stockholders dividends, there is an enormous disparity. Some have distributed annual dividends as high as \$50,000 to every shareholder, while others provided less than \$500.

By contrast, had the equitable Bristol Bay, Inc., concept been adopted and the pooled settlement monies experienced growth, comparable to Alaska's subsequent investment of a portion of its oil wealth in what is now known as the Alaska Permanent Fund, every Alaska Native would probably be receiving thousands of dollars annually in dividends. Ability to invest in sound economic development would not in the least have been hampered. Instead, many of the unsound investments that have been made no doubt would have been avoided had others, able to overlook local politics, screened them from elsewhere. Receipt of dividends—the size of which was dependent on the prudence of such investments—would assure such screening.

Had the land claims money earned on par with that of the Alaska Permanent Fund, I am told the initial dividend would have been about \$1,154 per shareholder for that year. Not many years later, a prominent Native legislator studying the issue asserted the dividend would then have been about \$5,400. If so, by now it might well be five figures. Dividends of that magnitude not only would have taken many off welfare, but would have provided communities with enough financial resources to have assumed municipal status and, with the accompanying taxing authority, provided services that they were willing to pay for and that villagers believed were in their best interests. Instead, many villages became increasingly dependent on government-funded entitlements.

Nothing gives folks a greater feeling of accomplishment and worth than self-determination, sense of ownership, and personal responsibility. When obligated to fund and maintain power plants, schools, community centers, local roads, and airfields from their own pockets, people

are likely to count coins more carefully and maintain standards in which they can take pride. When government provides those programs gratis with few strings attached, inequity, duplication, and inefficiency too often become a matter of course. The latter approach has not only shackled many villages to dependence on both state and federal largesse, but has encumbered Alaska with government service costs per capita far in excess of any other state.

### **Artificial Respiration**

Elsewhere, when ore bodies deplete, natural catastrophes strike, or bread baskets become dust bowls, often people depart leaving ghost towns in their wake. Not so in Alaska. We simply do not let villages die.

Of the over 200 villages in Alaska, few have viable economies. Private sector jobs are exceedingly scarce. As a consequence, unemployment in Alaska is perennially the nation's highest. By contrast to many Alaskan villages, Appalachia is affluent. With their burgeoning growth, Alaskan communities find it increasingly difficult to subsist off adjacent lands or waters. Accordingly, many villages are heavily reliant on government spending.

In hope of addressing some village problems, some time ago the state legislature attempted to persuade villages to band together and form organized boroughs (similar to counties) under the threat that if they did not do so, the state would perform all the functions of the borough assembly, including imposition of property taxes. Though the law has been on the books for more than forty years, not once have legislators elected to act in that capacity. To do so not only would be highly unpopular, but also with the scant property values found in many villages, taxes accrued would probably not cover cost of collection. As a consequence, the state or federal government picks up the entire tab for most services, including education.

To assure that the more affluent rural areas with a sufficient tax base participate in helping fund government services, just as do folks in urban centers, a statewide property tax to help finance schools had been proposed. However, one size hardly fits all. Levying a property tax sufficient to fund schools in all villages could cripple the poor ones. Yet I believed a tax system could be devised that would provide equity, while recognizing some communities needed more help than others. I

therefore proposed that we first determine what the total statewide property values were per capita. Then should, say, a 3 percent statewide property tax be imposed for those communities in which they generated *less* than what they would if local per capita property values were the same as those statewide, the state would fund the difference. Conversely, should that 3 percent tax generate more than that overage, the overage would go to the state. That way, all would be taxed the same, but affluent municipalities, such as the North Slope Borough with high oil property values, would have to assume more of their local government service costs than would those virtually destitute.

That proposal also fell flat on its face and perhaps rightly so. Costs of statewide assessment and administration might have sopped up even more state money. Unfortunately, inequitable taxation has continued to help create what some term an urban/rural divide. Many in Alaska's urban areas resent what they feel are inordinately high local property taxes required to fund their schools, while the state provides substantially greater support for those many rural communities unwilling to tax themselves. Yet who can blame the latter so long as the state will pick up the tab? This disparity, coupled with federal legislation that provides that on federally owned lands "rural residents" are granted highest, and sometimes exclusive, priority in the harvest of fish and game, has further frayed the state's social fabric.

In another effort to reduce crippling costs of attempting to provide services to hundreds of economically unviable communities—not connected by roads and lacking adequate housing, schooling, and basic services—I once proposed we determine which regional centers had the most viable economic potential and focus on providing them with top-notch schools and other services. For example, in the Bristol Bay region the village of Dillingham had a population of about 6,000 and the Bristol Bay Borough, which at that time encompassed a now closed Air Force base, a population of about 2,000. None of the other twenty-some villages in the region had a population of more than 300 and some less than 100. First-rate educational, transportation, social, medical, sewer and water, police, and fire suppression services could be provided to these centers, thereby encouraging those who aspired to these emoluments to move thereto. Others who wished to retain the "village lifestyle" cherished by many rural folk would not be obliged to move,

but would not be provided housing and service subsidies of a comparable nature.

Once again my proposal fell flat. Instead, at enormous per capita cost, we have attempted to provide similar services to each and every community regardless of size or potential. The result has in many instances been both inadequate and inequitable.

For instance, in my one-time hometown, Naknek, within the Bristol Bay Borough, the state and municipality fund K-12 education, maintain airfields and roads, provide police and fire protection, ambulance services, and garbage collection. One mile across the river, in South Naknek, and then thirty miles south of the village of Egegik, both with populations of less than 200, we struggle to provide the same. Another thirty miles south we do likewise for Pilot Point, population of about 100. Forty miles further down the Alaska Peninsula these service costs are again duplicated in Port Heiden, population less than 200. And so on throughout over 200 small villages in rural Alaska.

Further compounding costs to the state, and reducing the inclination of villagers to move, was institution of what is known as the Power Equalization program. This provided that in communities where costs of electrical power exceeded a certain amount, the state would pick up a portion of the overage. This did little to promote efficiency or conservation. Instead, it was but another attempt to make it more likely people would remain in their home villages rather than migrate to a more economically viable area.

The cost of providing these services in village after village with little, or perhaps no, economic base for existence is astronomical. The argument for continuance of such seemingly wasteful practices is that if the villages were allowed to die, many villagers would be compelled to move to urban areas and go on welfare at perhaps even greater expense to the state. Unfortunately, there is likely some truth to that argument. Meanwhile millions upon millions of dollars are poured into rural villages unable to financially fend for themselves.

Partially in an effort to provide villagers with both the capability and responsibility for meeting some of the needs they deemed most crucial, when I was elected governor in 1974 I proposed a program patterned after my failed attempt to create Bristol Bay, Inc., while mayor of the Bristol Bay Borough. I called it "Alaska, Inc."

## Alaska's First Dividend Program

Shortly after becoming governor in 1974, I learned that Alaska charged one-half the national average severance tax on our natural gas. The main reason for this was to provide lower cost gas to Anchorage consumers. However, most of our gas was being shipped to Japan. While I did not so much oppose giving Alaskans a subsidy, I had little enthusiasm for providing a similar subsidy to the Japanese. Moreover, most Alaskans, though "owning" the gas, were not beneficiaries of the subsidy and therefore were being denied that "maximum benefit" obligated by our constitution. This prompted introduction of legislation to double Alaska's gas severance tax to match the national average.

However, Anchorage legislators were not about to pass such a cost increase on to their constituents, even though that increase reportedly amounted to but \$19 per year for the average gas-consuming family. To no one's surprise, the bill was quickly buried. Clearly, an offer they couldn't refuse seemed in order. To accomplish this, we introduced two bills: one doubled the severance tax and the other, contingent upon passage of the first, granted everyone in the state a "dividend" in the form of a \$150 credit against their state income tax. Both passed and millions of new dollars flowed into state coffers. Two million dollars went out in tax credits; the remainder increased the state's general fund. The only ones unhappy were the Japanese.

Subsequently, however, I found almost no one remembered the tax credit. At that point I decided that if another dividend program were established, I wanted to put a check in *everyone's* hand, rather than simply a credit for those making sufficient income to pay a state income tax. I thought that by so doing people would better recognize and appreciate the dividend concept and demand the state maximize returns from its resource wealth.

I believed the best, perhaps the *only*, way to meet our constitutional mandate to manage our natural resources for the maximum benefit of all the people was to grant each citizen an ownership share in Alaska's resource wealth to be used as they, not the government, felt was for their maximum benefit. To accomplish this objective, I proposed that 50 percent of all mineral lease, bonus, royalty, and severance taxes be deposited into a conservatively managed investment account. Each year

one-half of the account's earnings would be dispersed among Alaskan residents, each of whom would receive, annually, one share of dividend-earning stock. The other half of the earnings could be used for essential government services.

While I believed we should have put all our oil wealth into such an investment fund and lived off its earnings, it was obvious the legislature would never forgo the opportunity to spend a sizeable portion of that oil wealth. Only by permitting them to do so could I possibly hope to get any significant amount into that investment account.

My rationale for creating such an investment account and making shareholders of Alaskans was manifold:

1. I wanted to encourage contributions into the investment account and to protect against its invasion by politicians by creating a militant ring of dividend recipients who would resist any such usage if it affected their dividends.

2. I wanted to transform oil wells pumping oil for a finite period into money wells pumping money for infinity. It was apparent that unless we did so, politicians would spend every windfall to satisfy insatiable short-term needs and demands, only to find themselves in a world-of-hurt when oil wealth declined. Such had been the experience of virtually every oil-rich state and nation. Not only Pérez Alfonso's Venezuela had been defiled by "the devil's excrement."

3. To put it crudely, I wanted to pit collective greed against selective greed. In the past, those who knew how to play the game were able to secure subsidies for their pet projects, many times at the collective expense of all other Alaskans. One example of this was a program granting loans not based on need at an interest rate far less than what that money could have earned in an investment account such as proposed in Alaska, Inc. In one year alone, more money had been lost to the state through subsidized loans not based on *need* than was paid out that year in dividends, and those loans went to but 6 percent of the people.

4. I wanted to remove a number of Alaskans from welfare. (The legislature subsequently frustrated this effort by exempting dividends from consideration as income when determining one's eligibility for welfare.)

5. By issuing shares of dividend-earning stock annually and allowing Alaskans to accumulate them over time, I hoped to eliminate the magnetic attraction for others from elsewhere who might otherwise be

inclined to flock to Alaska in order to receive dividends. Few would do so for the mere \$50 dividend per share we initially set arbitrarily, but many might if everyone received a few thousand.

6. I wanted to install a sense of ownership in all Alaskans that would incline them to support healthy resource development and resist unhealthy versions. To determine whether such development was healthy, I cited four criteria that should be met: A. Was it environmentally sound? B. Did the majority of Alaskans want it? C. Could it pay its own way? D. Did it meet our constitution's mandate that it provide maximum benefits to the people? All the people?

7. I wanted to eliminate controversial state expenditures for such things as abortions. Many sorely resent use of their state dollars for this purpose. Let individuals aspiring to an abortion pay for it instead, from their dividends. Keep the state out of it.

To promote these concepts, fashioned after my failed Bristol Bay, Inc., proposal, I created "The Alaska Public Forum." My intent was to travel about the state holding public meetings in an attempt to glean support for a constitutionally enshrined Alaska, Inc. This, of course, required not only support from two-thirds of the legislature to place the proposal on the ballot, but also voter approval. Despite my efforts, response from most Alaskans was either derision or a massive yawn. Accordingly, I simply proposed a statute to accomplish my objectives. Legislative support, to say the least, was underwhelming. Fortunately, however, there were some legislators who felt more prudent handling of any resource wealth windfalls was in order.

This attitude came in the wake of a \$900 million windfall we received in 1970 from leases issued in Prudhoe Bay. Though a handful of us then in the legislature agreed with then Governor Keith Miller that we should invest at least half of this bounty and spend only its earnings, the majority of legislators quickly sopped it all up in pet projects. Chief among these was to disperse money to municipalities in revenue sharing, which helped to lower taxes but gave little evidence to voters of anything concrete occurring or being constructed. As a result, many felt the windfall had been "blown."

Reflecting on voter displeasure, several legislators swore that if another windfall were to blow our way we would not make the same mistake. Nonetheless, such caution virtually blew out the window when the next windfall blew in. To their credit, however, a sufficient number



of legislators were successful in passing legislation creating what they termed “The Alaska Permanent Fund.” This statute at least created a semblance of Alaska, Inc., but fell far short of what I had hoped for. The 50 percent contribution of oil lease bonuses, royalties, and severance taxes that I had proposed was cut to 25 percent, and severance taxes, which constitute roughly half of our oil wealth income, were eliminated and instead funneled into the general fund. Moreover, no stock-sharing dividend program was included in the legislature’s statute.

Though, by now, I had been working on trying to sell the investment account stockholder concept for fifteen years and finally a first step toward that objective had been taken—I vetoed the measure in one of the most painful actions I felt forced to take. I did so because I feared that absent stockholder concern by all Alaskans over how the fund was utilized, we would simply create a semipermanent fund, allowing continuance of past practices that saw special interests with the most political clout invading the fund while the general public was largely short changed. Therefore, I insisted that the legislature place on the ballot a proposed constitutional amendment that, if passed by voters, would not only enshrine the fund in the constitution, but also require a public vote before any of the fund’s corpus could be spent. While I wished to include a dividend program in that amendment, it was evident the legislature would never pass the measure with such a provision.

In the next general election, voters approved the amendment and the fund was established. Next came the chore of trying to secure a dividend program. Once more, I confronted not only apathy but also strong resistance in the legislature. Nonetheless, I proposed legislation that provided that one share of dividend-earning stock would be issued each year to all Alaskans over eighteen years of age. My hope was to create an annuity account to be dispersed when children reached the age of eighteen. I also wanted eligibility to receive shares to be contingent on providing evidence one had voted in the previous general election. I thought nothing could do more to boost our pathetic average 40 percent voter turnout or provide greater capability for our youth to either go on to college or into the workplace with the several thousand dollar cushion they’d receive when coming of age. Some contended the voting contingency would perhaps boost voter turnout to over 100 percent by those attempting to vote more than once. (I later learned that it would be impermissible to base eligibility for receiving dividends based on evidence one had voted. The

Alaska Supreme Court had struck down such an attempt when the North Slope Borough had offered to pay every voter \$5. However, I'm told that it would be permissible to hinge eligibility for dividends upon having *registered* to vote.)

Initially, most legislators were vehemently opposed to the dividend program. Delegations came to my office on more than one occasion assuring me there was no interest in passing such legislation. My response was to advise them that unless they at least permitted the dividend legislation to come to the floor for a vote, they would be called back into special session the day they adjourned, and, moreover, those who voted to keep the bill in committee could expect all their goodies to be stripped from the budget. My good friend Clem Tillion, who was at the time state senate president, delivered this message with gusto. In doing so, Clem earned the title of my "strong right arm and swift left foot." Largely as a consequence of Clem's efforts, the bill emerged from committee and passed by a substantial margin.

Believing "old-timers" should receive one share of dividend earning stock for each year they had lived here after statehood in 1959 when they, in essence, by constitutional mandate, became owners of our resource wealth—just as new-timers would in the future—I had provided that "shares" would be issued retrospectively back to statehood some twenty-one years before. Each share's dividend was arbitrarily set at \$50. (Later the size of dividends would be determined by dividing the number of shares issued into approximately one-half the previous five-year average earnings of the Alaska Permanent Fund.) I agreed that the other half of those earnings not dispersed in dividends could be used for essential government services. Thus, those who had been here since statehood would initially receive twenty-one dividends yielding shares totaling \$1,150.

This feature prompted two newcomers to the state, Ron and Penny Zobel, to challenge the constitutionality of the program. They charged it improperly discriminated between Alaskans on the basis of durational residency. Superior Court Judge Ralph Moody agreed. However, the Alaska Supreme Court overruled Moody in what Chief Justice Jay Rabinowitz said was a close call. The case then went before the U.S. Supreme Court, which ruled against the state. Chief Justice Rabinowitz informed me that had we issued "shares" *prospectively* commencing in 1980, we would have been on solid ground, but that the U.S. Supreme Court deemed issuing "shares" retrospectively impermissible.

This conclusion seemed completely irrational to me. After all, old-timers here before statehood would have received only twenty-one “shares” in their twenty-first year of residency, whereas newcomers in their twenty-first year would have received 210 shares: one the first year, two the second, three the third, and so on. Accordingly, if anything, under our original program old-timers were discriminated against.

While I admire those who, through courage of conviction, espouse politically unpopular remedies for what they view as injustice, the nobility of the Zobels’ cause would have gained much luster if they, as federal employees receiving 25 percent salary adjustments tax free because of Alaska’s high cost of living, had been equally concerned that all Alaskans were not granted such consideration. Nonetheless, their efforts probably accorded the Permanent Fund even greater protection by expanding benefits to a far greater number of dividend recipients, including children.

With the U.S. Supreme Court’s negative ruling, it was back to the drawing board. The legislature next passed a measure that granted every qualified Alaskan a dividend of \$1,000. This amount was deemed to approximate three years’ worth of dividends from one-half of the past five-year average of the fund’s earnings. The other half has been available for legislative appropriation but to date none of it has been so spent. Public fear that any such use will reduce their dividends has made legislators extremely gun shy. Those who have received annual dividends since their inception have received more than \$21,000 in total—a family of four, more than \$80,000.

When first considering the idea of dividends, I had explored the possibility of providing all Alaskans with basic health insurance or credits against, say, their heating or power costs. However, once again this would fail the equity test since many already had health insurance coverage under government or private sector plans, and the additional bureaucracy required to administer such programs would be counterproductive. In the end, it was concluded that the most equitable distribution of benefits was the cash dividend to be used as the recipient, not the government, thought best.

One of the major objections some have had to dividends is the potential magnetic attraction that would lure many “freeloaders” to flock up here to receive dividends. This would have been avoided under the original program in which one share of dividend-earning stock would be

issued for each year one resided here. When the court struck that down, that magnetic attraction became a real concern.

While I did not necessarily recommend it, I suggested a legal means by which that attraction could be eliminated in but a year or two. First, we could announce that all who wished to qualify for dividend “A” must do so during the ensuing twelve months. Then the door for qualifying for dividend “A” would close. Perhaps when the Permanent Fund had grown by, say, 10 percent, we would then issue dividend “B,” the amount of which would be determined by dividing that 10 percent by the new total number of Alaskans eligible. Those who qualified for dividend “A” would also qualify for dividend “B.” As dividend “A” recipients died off or left the state, their shares would be added to the dividend “B” pool and so forth.

While this certainly would reduce the magnetic attraction of the current program, it would, of course, to a degree serve to divide Alaskans and possibly splinter support for maintaining the integrity of the Permanent Fund.

## Uneconomic Development

In 1980 the legislature abolished Alaska’s income tax, which I, at the time, asserted was the most stupid thing we could do. Reduce or suspend it but don’t take it off the books completely, for it will prove almost impossible to resurrect, no matter how desperately needed. When asked what are some of the things I most lament not having done during my term in public office, I’d have to place my failure to veto income tax repeal high on that list.

Some felt I was contending Alaskans were stupid by endorsing income tax repeal—not at all. Even brilliant people can do stupid things. Just ask Bill Clinton. However, unlike Clinton, Alaskans were thinking with their wallets instead of their heads.

While income tax repeal certainly benefited a number of Alaskans financially in the short term, with it the state embarked on the road to what I term “uneconomic development.” This is development that does not generate sufficient new revenues for the state to offset the cost of providing services to the attendant population increase or for managing, enforcing, or enhancing resources being exploited. The late revered State Senator John Butrovich pled with us not to repeal the income tax, recall-

ing that almost all those old-time legislators who had nerve enough to support its institution were defeated during the next election. Despite Senator Butrovich's pleas and my arguments against tax repeal, the legislature gleefully repealed it. As I recall, only two legislators voted against it.

Why did I not veto that repeal? Simply because I didn't have nerve enough to confront accusations that I had broken a commitment to permit it to become law if our bill suspending the tax was struck down by the court. Unable to believe that would happen, when a reporter asked, "If the court strikes down the tax suspension bill, would you permit it to become law?" I responded, "Since there is a repeal referendum on the ballot supported by almost every Alaskan, I might just as well, since I'm sure the legislature would love to jam a veto override down my gullet, if the public did not first impeach me."

To my dismay, the court struck down our bill. That same reporter again confronted me saying, "You said you'd let the repeal become law if they struck the suspension bill down. Do you intend to keep that commitment?"

While I actually had made no such commitment, it would have always been believed by some that I had broken my word had I vetoed it. Accordingly, despite my misgivings, I did not. For this lack of courage I apologize to all Alaskans for placing a false charge impugning my integrity ahead of their best long-term interests. I should have subordinated my concerns to theirs and vetoed the bill in a last-ditch effort to avoid creating a condition that not only encouraged legislators to spend as if there were no tomorrow, but also ultimately placed the Permanent Fund in harm's way. Though a veto would not have stopped income tax repeal, it might have caused many more Alaskans to recognize the folly of abolishment.

While arguing against tax repeal I had stated,

Many Alaskans believe we are spending beyond our means. I agree. To correct that, you either reduce spending or increase your means. By repealing the income tax we did precisely the opposite. We reduced our means and severed the major constraint on runaway spending: the cord that attaches the public's purse to the fingers of politicians. No longer requiring them to tweak that cord each time they wish to increase spending, it sailed into the stratosphere. In the process we also

promoted “uneconomic development” by failing to extract enough new revenue to offset costs imposed on the state by new development and its attendant population increases. Instead we shoveled in “one-time-only” oil dollars to pay for them.

This action, of course, is what created the fiscal gap—a gap that would have been little more than a fissure had the income tax been suspended like a Damoclean sword over the legislature, threatening to decapitate them if they permitted spending to spin out of control.

This is why I feel so passionately that we create of our Permanent Fund a true ‘People’s Portfolio,’ which could assure a bright future for our children’s children by virtually guaranteeing we invest much of our oil wealth in their future well-being rather than throwing it in the maw of the fiscal gap.

Having stated all the above, there remained another, perhaps the primary, reason for not exercising my veto power. The Alaska Permanent Fund program had not yet been ironed out and I feared many legislators—preferring to spend those dividend dollars as they, rather than individual Alaskans, saw fit—would torpedo the entire program.

Our failure to meet recurrent expenditures with recurrent income seems lost upon many Alaskans. The prime factor obscuring this dangerous situation is our ability to balance the books from monies that have gone into an account called the Constitutional Budget Reserve (CBR). This account is comprised of funds received from settlements made on behalf of the state from several suits lodged against oil companies, most during the seventies, but some only settled years later. Into that fund have gone several billion dollars.

The CBR was established by constitutional amendment as a repository for “one-time-only” oil litigation settlement dollars. According to law, any funds extracted from the account are loans to be repaid by the legislature. In essence it too is a “Permanent Fund.” However, it is the best example we have as to just how impermanent such funds are when not protected by dividend recipients who would never tolerate failure to repay loans from the fund if it hit them directly in the pocket book, as would extractions from the Alaska Permanent Fund. To date not one cent has been repaid to the CBR. Instead, it has steadily dwindled from

several billion dollars to but only a couple. Each year for the past several, legislators have dipped into the CBR to span an annual fiscal gap of several hundred million dollars. Our ability to do this has obscured from Alaskans the fact that we face a fiscal crisis unless we mend our ways and get back on track, paying for recurrent government expenses with recurrent income, not ephemeral, one-time-only oil dollars.

It is easy to understand why most Alaskans seem unaware of the folly of continuing past imprudent practices. After all, most of us came from states that were forced to pay for government with recurrent income. The vast reservoirs of finite oil wealth that could be ladled from obscured the fact that we were foolishly funding government from unsustainable sources.

Compounding the problem is the fact that most Alaskans fail to recognize that there are really two state economies. The private sector economy does wondrously well when our population expands; more goods and services are sold, and those selling them prosper. However, while the private sector economy flourishes when population increases, the public sector economy (that is, government) would be far better off financially if our population were to decline. This is the case because the cost of providing government services vastly exceeds the amount of new revenue gleaned from taxes to offset the cost of these services. Instead, we pay for those services with finite oil dollars that are the same in magnitude whether we have 600,000 people up here or 6 million.

The picture is further distorted by the fact that there are two public service economies: local government and state. While the local public sector economy may prosper by development that adds to the local tax base, the major costs of government services, such as education, are borne by the state, and the impact of local growth on the state public sector economy may, and often does, impose a loss on the rest of the state.

Until these economies are brought into balance, all growth and development proposals should take into consideration the collective impact on all citizens of the state, not simply local populations.

## **A Proper Role for the Permanent Fund**

Without a state income, sales, or property tax, the only sustainable funding source Alaska has, currently, is the Permanent Fund. Certainly

it should play a key role in our financial prospectus. Given my preference, I would have imposed on all our natural resources sufficient taxes to contribute enough money to the Permanent Fund to cover costs for mitigating environmental concerns, management, enforcement, or enhancement, plus an equitably distributed public benefit as mandated by our constitution. To date, only oil does so. Timber, minerals, and fisheries have contributed not one cent to the Permanent Fund. Instead, oil indirectly subsidizes all other development.

One environmentalist friend not long ago criticized me for emphasizing economic over environmental concerns when discussing prospective development projects. He asked, “Why do you no longer emphasize quality of life and vision for the future? Instead, you seem to focus primarily on economics.”

Unfortunately, some are prone to forget that there is more than one dimension to the environment. It encompasses not only the physical environs but also the economic and social. None should be ignored when evaluating some prospective economic development project. By overemphasizing the former over the latter, environmentalists are too often contemptuously written off as “tree huggers,” “preservationists,” or “greenies.”

In Alaska, to some developmental “extremists,” the label “environmentalist” ranks just under “child molester,” and it is contemptuously appended to any who oppose their pet projects. When asked if I am an environmentalist my response is, “Of course. Isn’t everyone?” However, my concerns are not confined to just the physical environs; there are also social, economic, and spiritual dimensions to the environment. Too many of us tend to focus on but one or two dimensions and ignore the others.

Too many emphasize the adverse physical and social impact of some proposed development project they deem destructive over the long-term overall economic impact. In my view, they would be wiser to place greater emphasis on economics. Many projects that strike horror in their hearts are salivated over by special interests that stand to profit handsomely. Only if it can be shown that such a project costs the majority of Alaskans more than it profits them economically will folks—who couldn’t care less about the “dicky birds”—sit up and take notice. Under Alaska’s current tax policies, many proposed mega projects that would perhaps provide enormous benefits to a select few would no



doubt cost the rest of Alaskans. They would not generate enough new revenue to offset the costs of state involvement in providing infrastructure, maintenance, permitting, enforcement, and tax-free state services for the attendant population increases that accompany such projects, as new folks and their families flood up here seeking jobs.

As I mentioned before, although Alaska's constitution mandates we manage all our resources for the maximum benefit of the people (and in my view that means *all* the people), from the very beginning that mandate has been largely ignored. For example, early on Alaska had imposed a 1 percent severance tax on oil, a modest raw fish tax, a tiny stumpage fee on timber, and a nickel-a-ton tax on coal, the rationale for these taxes being that we could adjust our tax structure later after companies started to do business up here. I believed this precisely backward. Instead we should have started out with, say, a 99 percent severance tax and worked our way slowly down until we started to get vibrations. At that point, we would have a far better idea of what the appropriate level of taxation might be to encourage development that met the constitutional mandate to maximize benefits. Once having determined that level, we should have stuck with it. Instead, since we really had no idea how many eggs we could snatch from these golden geese without endangering the species, we changed our taxation policies repeatedly and, at this writing, are contemplating doing so once again. How much better it would have been for both the state and industry to establish a stable tax that met the constitutional mandate yet encouraged development. At the level the state felt met that mandate, industry could either pursue development or leave the resource in the ground, on the stump, or in the water.

Initially, I had proposed that a severance tax of at least 12 percent be levied on all nonrenewable resources and one of 6 percent on "renewables" such as timber and fish. These would all go into the Permanent Fund and thereby give every Alaskan a sense of resource ownership, with the attendant support for resource development that could meet those four criteria I felt crucial to assure healthy resource development:

Is it environmentally sound?

Do most Alaskans want it?

Can it pay its own way and not require state subsidies?

Does it provide maximum benefit to the people?

I failed, however, to get my severance tax proposal passed, and Alaskans really have no idea whether we are maximizing our benefits

from any form of resource development. The Permanent Fund provides about the only lens through which the public could and would view more realistically the true costs versus expense of development, but unfortunately, only in the case of oil.

One example of a popular project that clearly failed to meet those criteria was a petrochemical plant proposed for the Kenai Peninsula that would create scores of high-paying new jobs. Since the mantra of many politicians is “Jobs! Jobs! Jobs!” they fail to ask the question “At what cost?” In this particular case those costs were substantial. The only way the plant would be economically feasible was if the state would agree to sell our royalty oil at a discounted rate, which translated into a \$240,000-per-year subsidy for each job created. When, as governor, I turned the proposal down, some viewed it as but another example of “Hammond’s anti-growth and development policies.” If stifling growth was truly my objective, I failed miserably. Growth during my administration, fueled by excessive spending of nonrecurrent oil wealth, was unprecedented.

Clearly, in the minds of most Alaskans, oil development does a pretty good job of meeting those criteria. That is why most endorse oil development in the Arctic National Wildlife Refuge (ANWR). Certainly oil has contributed monumentally to Alaska’s economy, even if it does not fully meet that constitutional requirement for *maximization* of benefits to all Alaskans.

## Hooked on Handouts?

Are we Alaskans hooked on handouts? You bet! But dividends are like a barbless fly compared to gaffing done by income tax repeal. Consider: Though \$80 billion in oil wealth has been spent for unequally dispersed state service “dividends” worth over \$7,000 per capita, for which we pay almost nothing, not one cent has gone out in PFDs! Only some earnings from investments of our other \$30+ billion in the fund go for these equitably distributed dividends. Addiction to free services burgeoned with tax repeal. That action created far greater “something for nothing” dependence than dividends.

Again, our constitution mandates that Alaska “manage its resources for maximum benefit of its people.” Asked what’s the maximum benefit they’ve received from oil, no doubt most would say dividends. Certainly, no program better meets that mandate. Couple that with the fact

that dividends yield the biggest bang for the buck in stimulating our economy, and that any reduction in dividends would have exactly the same effect as a “head tax” paid by only and all Alaskans in the same amount, whether prince or pauper, one would think politicians would use dividends last rather than first as budget gap fill. Yet increasingly dividends are dubbed “The worst thing we ever did” by House Speaker Pete Kott. Former House Speaker Brian Porter said, “The difference between us is we’d use dividends first. You’d use them last.” And an ex-governor (who shall remain anonymous) terms them a “cancer” on Alaskans’ image as rugged individuals.

If dividends are a “cancer,” that cancer—by contrast to tax repeal—is but a penny-sized skin lesion. To subject it to radical surgery before treating the multibillion dollar fiscal gap, a tumor bloating our bellies, seems asinine. Though PFDs may have caused that skin lesion, tax repeal proved far more carcinogenic by conditioning us to believe we are entitled to those huge, free, inequitably distributed service “dividends.” Had we, instead, *suspended* the income tax pending its need, spending would have been greatly curtailed and there would likely be no fiscal gap. After all, the best therapy for containing malignant government growth is a diet forcing politicians to spend no more than that for which they are willing to tax. In that regard, I once suggested that, depending on location of brain, every politician have branded on either their brow or their buttocks the pledge: “I will not spend more than that for which I am willing to tax.”

Before slicing dividends to cure that skin lesion, let’s first treat that belly tumor with surgical budget cuts and, if necessary, the “radiation” of user fees and less regressive taxes. Let’s leave dividends in the people’s pockets so they can both better afford and, to a degree, elect whether or not to pay coming user fees and taxes.

At every forum, discussion, seminar, and committee meeting I have attended during which means of bridging our fiscal gap was discussed, there was much less enthusiasm for reimposing a broad-based tax than reducing dividends. At the end of each of these I posed this question: “Will someone here please tell me when it ever makes more sense to cut dividends and use those dollars to span the fiscal gap, thereby imposing a head tax on every Alaskan while exempting transient pipeline workers, construction stiffs, and commercial fishermen, rather than using tax dollars?” The answer, of course, is “Never!” Yet far more effort has

been expended by the legislature to do the former, while the latter has been largely ignored.

That is not to say that the dividend program is without defect. It was badly bent when the original program was struck down. That would have treated the Permanent Fund as the people's investment portfolio by granting all a share of dividend-earning stock for each year they "invested" in Alaska. When the Court ruled against us, I was so distraught I considered vetoing the substitute bill creating the current program. However, since I thought dividends would still best protect the fund from erosion by government spending, I approved it.

Most agree that without dividend recipients fending off invasion, the fund would long ago have been spent. Accordingly, dividends impose an effective spending limit. Unfortunately, however, this spending constraint was largely offset by tax repeal that eliminated that major curb mentioned earlier: limiting politicians to spending only that for which they are willing to tax. Accordingly, should we need dividend dollars for government programs, lawmakers should have to retrieve them through user fees or targeted taxes. Instead, Speaker Pete Kott said he would convert the Permanent Fund from a sacred cow to a cash cow to balance the budget. Problem is, who gets to fondle the udders—the people or the politicians? It makes little sense to pay out ever-increasing dividends if we have in place no means of recouping whatever is necessary to fund essential government programs.

Before high oil prices bailed them out, legislators, fearful of voter outrage for either imposing taxes or using Permanent Fund earnings for government, were compelled to cut popular programs. While howls of anguish from those affected had not yet become deafening, they increased as scalpels sliced ever deeper into state programs. Before those scalpels became meat axes, I had hoped that voters would ease off on the rack on which the legislative body was being stretched, lest it burst asunder and bloody us all. Ratcheting down on one end of that rack were those who would permit no use of Permanent Fund earnings, save for dividends and inflation proofing. At the other end were those who have conditioned politicians to view even the suggestion of taxes as akin to self-immolation.

I make no apology for being among the first group because it always makes more sense to use a tax dollar for government spending than it does a dividend dollar since the latter costs every Alaskan, and only

Alaskans, a dollar. About twenty cents of each tax dollar could be raised from outsiders, and the rest from those of us who can best afford it. Our problem is not with those who would stand at one end of that rack, but those who would stand at both ends. We cannot have it both ways. If we do not want politicians to touch our prospective dividends, we must back off on our opposition to taxes, or vice versa.

Meanwhile, we should not so much blame legislators for painful budget cuts. We have put them in such a bind on that rack, they see no political alternative but to try to stretch fewer and fewer available dollars over the straining body politic. Only when the pain inflicted exceeds that of either new taxes or invasion of Permanent Fund earnings will tension ease off. Unless we soon provide some wiggle room, in an attempt to slice their bindings, the scalpel they wave will not only excise fat but slice deeply into the meat and muscle of government.

### **Disbursing Permanent Fund Earnings**

Virtually every governor since my term has promised to require a public vote before any fund earnings could be spent for other than dividends or inflation proofing the fund. Some had to be coerced into doing so. My successor, in 1982, Governor Bill Sheffield, had originally opposed the dividend and came within one vote of abolishing it before he got religion and concluded that action would be political suicide and that dividends played a key role in Alaska's economy, annually trickling *up* from the grass roots hundreds of millions of dollars. Economists assert the dividend program provides the greatest bang for the buck of any state expenditure.

Governor Steve Cowper, who succeeded Sheffield, tried at the end of his term in 1990 for a constitutional amendment to put some Permanent Fund earnings into an education endowment, but he failed to get the necessary two-thirds vote in the state senate to get it on the ballot.

In 1990, former Secretary of the Interior and former Governor Walter Hickel called a press conference to announce he had decided to run for governor on the Alaska Independence Party ticket, primarily because President George H. W. Bush's White House chief of staff, John Sununu, had called him, urging him not to run for governor against Republican primary winner, Arliss Sturgelewski. Affronted by this, Hickel pronounced, "I had not planned on running, but no one tells me what to

do, so I'm filing under the Independence Party ticket." At that time, I had great apprehension regarding the future of the Permanent Fund under Hickel as governor. Though these were later happily reconciled, his comment prompted me to hold a press conference of my own.

During that particular campaign three prime issues dominated. Each night there would be two opposing talking heads on television being queried as to their positions on those issues: re-criminalization of marijuana, abortion, and who would qualify for the subsistence use of fish and game resources when inadequate supplies would not permit all Alaskans to do so. At my press conference I got reporters' attention when I stated:

I've called this press conference to announce my intentions regarding entering the gubernatorial race as a write-in candidate. Some have suggested I do so. But I'm like Wally Hickel. I don't like to be told what to do, so I'm not going to do it!

Now that we've disposed of one inconsequential matter, I'd like to address three others. During this campaign the prime focus has been on three issues legislators are unlikely to address at all: certainly they won't touch abortion with a twenty-foot pole; recriminalization of marijuana is on the ballot as a public referendum; and subsistence will likely be resolved by the courts, if at all. How individual legislators stand on these issues will in all probability make not the slightest difference. On the other hand, only one candidate, Tony Knowles, has mentioned how legislators intend to enhance and protect the Permanent Fund.

While several reporters interpreted this as an endorsement of Knowles, it was not. I simply wanted to get all candidates on record regarding their intentions regarding the Permanent Fund. A few days later, there appeared in the paper a full-page ad by candidate Hickel announcing that he would veto any appropriations of the Permanent Fund for other than inflation proofing or dividends.

When Hickel later became governor, he adhered to that promise. Knowles, who succeeded Hickel in 1994, did so as well and in 1999 insisted that a fiscal plan passed by the legislature, including use of fund

money that otherwise could be used for dividends, be placed on the ballot. It was defeated by a whopping 83 percent of the voters, largely because no lid had been placed on the amount of dividend dollars that could be so spent.

During the pre-election debate on the matter, I debated the governor and appeared a dozen or so times on radio, television, and various public forums, urging voters to disapprove the proposal unless there was an acceptable lid placed on the amount of earnings that could be used for other than dividends. Though I, and I am sure most other Alaskans, got sick of hearing me repeat, ad nauseam, arguments on this matter, I was happy when they prevailed. Voters remained so concerned that any such use would reduce their prospective dividends, most legislators for years have been reluctant to spend even that portion of Permanent Fund earnings not required for dividends.

Past attempts to use earnings failed to pass muster largely because they either would have reduced dividends beneath what they would be under the current method of establishing dividend size, or they created unpredictability. One approach proposed would continue to take the past five-year average fund earnings and divide that in half; one-half to be dispersed in dividends while the remainder could be spent for government services. However, fluctuations in the stock market make such payouts imprecise and unpredictable.

Largely in order to reduce such unpredictability, the Permanent Fund Board has recommended a different approach for determining annual dividend size. They proposed the Permanent Fund be treated as an annuity as are many investment funds. Traditionally these provide that 5 percent of the fund's market value (POMV) can be dispersed annually on the assumption that it will annually earn an average of 8 percent and the 3 percent differential will offset inflation.

Recently rejected, however, was an effort to transform the Permanent Fund into such an annuity in order to make payouts more predictable. A proposal to disperse annually 5 percent of their market value (half as dividends and half for state services) failed to pass the legislature since opponents quickly discerned that dividends would in a few years be hundreds of dollars less under the 50/50 split than they would be under the status quo. Had the legislature passed the measure and placed it on the ballot, no doubt voters would have rejected it overwhelmingly.

While my preference would be to distribute in dividends all of those earnings not required for inflation proofing the fund, that would only make sense if we provided means by which some of those dividend dollars, when and if required for essential government services, could be recouped.

The alternative is to permit state government to use prospective dividend dollars as it sees fit. Those legislators who would prefer to so use money now going out in dividends argue that government can spend those funds more efficiently than can individuals. Perhaps true, but hardly more *equitably*. Government services that impact every Alaskan differently are in themselves a form of inequitably dispersed “dividends.” To date some \$80 billion in nonrecurrent Alaskan oil wealth has been spent largely for recurrent government expenditures such as education and other mandated services. By contrast, not one cent of oil money has gone out in individual dividends—only about half the earnings of that portion of our oil wealth that goes into the Permanent Fund—which now totals at this writing over \$30 billion.<sup>1</sup> Certainly, some Alaskans have squandered their dividends, but most have used their dividends to fund their children’s higher education or to offset the impact of local taxes and Alaska’s high cost of living.

## Another Lost Opportunity

Looming large during the 2002 state elections were proposals for bridging Alaska’s so-called fiscal gap between recurrent revenues the state takes in and recurrent expenditures. While most candidates ran with assurances that they would address the fiscal gap, when oil prices rose to help bail us out, the issue was virtually abandoned.

Some of us thought instead that then was the easiest time to put in place a contingency plan that would be implemented only if clearly required. In an attempt to devise one, I met with retired State Senator Rick Halford, deemed by many to be one of the most knowledgeable, intelligent, and respected legislators to have ever served the state. We drew up a plan that required a threshold be set beneath which the CBR could

1. Editor’s note: “The Alaska Permanent Fund returned 14.5% for the first half of Fiscal Year 2011, and ended December 31 with a value of \$38.4 billion.” See Alaska Permanent Fund Corporation (online), *Fund News*, February 4, 2011.



not be depleted without triggering means to recoup revenues required to bring it back up to that threshold. This could be accomplished through either budget cuts or increased taxes. If the latter, they would only be imposed to the extent necessary to retain the CBR threshold and then would be suspended or declined accordingly if no longer needed.

I suggested that such an “insurance” plan be called the Halford Plan. He objected saying that appending his name to it would bring excessive political baggage and that it instead be called the Hammond Plan. Not wishing to taint it by appending either of our names to it, we elected to call it the Parachute Plan. Our rationale was that the parachute would only deploy if necessary to assure a soft, rather than the catastrophic, crash landing, which could occur were the CBR no longer able to provide any cushioning and only Permanent Fund money be available to cushion the fall.

When the campaign manager for gubernatorial candidate Frank Murkowski became aware of our plan, he called me to announce, “What a wonderful idea! Frank will love it.” When I told him of our debatable choice of names for the plan he said, “We’ll call it the Murkowski plan.” I told him that would be fine with me.

Meanwhile, Murkowski’s opponent, Democratic candidate Fran Ulmer, instantly perceived the wisdom embodied in the Parachute Plan concept and ardently supported it publicly. Fran had worked for me during my administration and so impressed me with her intelligence and dedication that I once offhandedly said if she ever chose to run, she would have my endorsement. Later a newsperson who was aware of that commitment asked me if I intended to keep it despite the fact that when I made it Fran had not declared a political party preference, while I had declared as a Republican. My response was, “Of course.”

Supporting her against Republican Murkowski was viewed as apostasy by many Republicans and no doubt helped kill the Parachute Plan that, by now, was being branded the Fran Ulmer Parachute Plan. Unfortunately, in announcing her ardent support for the plan, Ulmer stated that everything would be on the table, including a possible income tax. Once again we saw why so few politicians feel they can afford to be totally honest. It was soon charged that if Fran Ulmer were elected, she would resurrect the income tax. With this, she no doubt lost droves of votes. Had she instead asserted that a whole range of budget cuts

would be considered instead of taxes, conservatives would have applauded her.

Rather than permitting Fran Ulmer as governor to impose an income tax upon resentful Alaskans, the Parachute Plan would have *prevented* her from doing so unless conditions were such that most Alaskans agreed some sort of broad-based tax was necessary. Though increasing numbers of Alaskans had already reached that conclusion, the Parachute Plan died aborning.

Later upon his election, Governor Murkowski requested I meet with him. I did so with some trepidation, fearing there might be some residual resentment for my support of his prime opponent. Instead, he was most affable and sought my counsel on several matters.

In conveying that counsel I suggested he at least establish a threshold beneath which he would not permit the CBR to deplete. He agreed and set that threshold at \$1.5 billion. At the time it appeared we had about two years before the CBR would drop below \$1 billion. Subsequent escalating oil prices, however, have deferred that moment of truth indefinitely before that threshold would be met. Again, despite assertions of virtually every legislative candidate in fall 2004 that “fixing the fiscal gap” would be one of their highest priorities, the flood of new oil wealth sluiced it off the legislative agenda.

When the income tax was passed by the Territorial Legislature and signed into law by Governor Ernest Gruening, it served to save the state from bankruptcy, according to historian Terrence Cole. Yet, as I said, Alaskans, like most Americans, are so anti-tax that should we structure a tax that made them money, as would have my original Bristol Bay, Inc., proposal—most would oppose it. A courageous action by the Alaska House to resurrect an income tax brought voter wrath down upon them and cost some members who supported it their next election. Because of her support, our current U.S. Senator Lisa Murkowski, previously one of the most popular and talented state legislators, almost lost her reelection bid for the State House.<sup>2</sup> Later, during her campaign for the U.S. Senate, charges that she had supported a state income tax were resurrected and no doubt cost her many votes.

2. Editor’s note: U.S. Senator Lisa Murkowski was officially named the winner of Alaska’s U.S. Senate race on Thursday, December 30, 2010, making history by becoming Alaska’s first winning write-in candidate. Paraphrased from *Anchorage Daily News* (adn.com), November 7, 2010.

## Governor Murkowski's Fiscal Gap Conference

In February 2004, Governor Frank Murkowski called a conference of some fifty appointed Alaskans to discuss Alaska's "fiscal gap," which for each of the past several years has required use of nonrecurrent revenues to span the difference between recurrent income and recurrent expenditures. A change in my travel plans allowed me to attend. While I had not intended to speak at the conference, a majority of those present insisted I be permitted to do so. At first I declined, but when granted a few hours to prepare remarks I agreed.

While the governor had asked conferees to confine comment to discussion of a percent of market value (POMV), I said I found it impossible to completely isolate discussions of a POMV from the manner in which it, in conjunction with other measures, could help span the fiscal gap with minimal pain. As a guiding principle, I urged conferees to place paramount our constitution's mandate to manage our resources for the maximum benefit of the people. That to me means all our people, not simply the fortunate or recipients of subsidized jobs or state services. Nothing, I said, better meets that mandate than our dividend program. If you dispute that, I challenge you to poll Alaskans and ask what state program provides them with a greater benefit. While perhaps some would list one of our free state services over dividends, those are in effect selective "dividends" that inequitably benefit some Alaskans far more than others.

Reducing dividends to pay for government services would impose what is, in essence, a reversibly graduated "head tax" on all and only Alaskans. The poor would pay a larger percentage of their "income" in taxes than would the rich; transient pipeline workers, commercial fishermen and construction workers would get off scott-free. I suggested that dividends be increased and then recaptured as necessary through either income or sales taxes, or, my favorite, user fees, which charged prime beneficiaries of services in proportion to benefits received. Former State Senator Rick Halford told me he first opposed the dividend program only to become one of its staunchest advocates. Efforts to reduce dividends to permit legislators to spend some of those dollars prompted this comment from Halford: "We Alaskans are like a bunch of Neanderthals who, when confronted with mammoth oil wealth, consumed the bulk of the carcass,

spending over \$80 billion in the process for things future generations of Alaskans will have long forgotten. Now we are squabbling over the 20 percent of the bones and the bowels still left.”

For a long time, I too have feared we would continue to make the same mistakes that Pérez Alfonso, the World Bank, and economist Vernon Smith warned against: investing in new programs and projects when resource wealth is abundant, only to find when oil prices decline we are almost bankrupt and can't maintain them.

The People's Portfolio Plan that Governor Murkowski's conference proposed for Alaska consisted of three parts. First, establish a POMV endowment that would annually disperse 5 percent of the fund's market value in dividends. Second, tax, or assign a user fee, and back money required to fund essential government services. Tie the magnitude of such taxes or user fees to the amount required to keep the Constitutional Budget Reserve at or above the governor's \$1.5 billion threshold. Third, make the tax rate flexible so that it is not locked in concrete but could decline or be suspended should other appropriate revenues become available.

While in many ways I personally would prefer a state sales tax, its regressive nature poses problems. As an alternative I suggested an income tax capped at no more than one's dividend, since it appeared to have greater public support. As I had mentioned earlier, this capped income tax concept occurred to me during the 1999 debate on the legislature's proposed fiscal gap plan, which proposed not only a modest income tax but potentially unlimited use of Alaska Permanent Fund money. Thus, I made a dozen or so radio, television, and public presentations.

At one such presentation, a Rotary Club member rose to state: “I don't mind losing my dividend but I'll be damned if I want to be taxed on my hard earned income just to assure the less productive can get theirs.”

I asked: “How many of you agree?” Virtually every hand went up.

I then asked: “I can understand that, but what if we were simply to cap the tax at no more than your dividend? You say you don't mind losing yours, but why take it away from who can least afford it?”

His response: “I could live with that.”

I again asked: “How many agree?” Again virtually all raised their hands.

I proposed the capped income tax primarily to cut the legs out from under those who oppose a regular income tax for the justifiable reasons that it could penalize productivity and transfer one's hard earned income to those who are less productive. It was suggested in hopes of bolstering support from fainthearted legislators who are intimidated by screams of outrage anytime someone mentions the words "income tax." Certainly, a flat, uncapped income tax would be less regressive, because a tax on capped income, after some time, might begin as a progressively graduated income tax but could dramatically become a regressive tax on more and more Alaskans. If more money were needed, the higher echelon would still pay no more than their dividend, while increasing numbers of less well off Alaskans would begin to pay more than their dividend's worth.

Accordingly, I proposed that the tax cap could only be removed by a vote of the people. While this made it more palatable to some, it posed no great impediment. Alaskans would soon realize they had two choices if more revenue were needed: either remove the cap and capture more revenue from the affluent and less from low-income folk or raise the tax rate percentage to draw in the same number of dollars. Once that knowledge sank in, I suspect that cap would fly off faster than the cap on a bottle of Bud at a ballpark.

Here's an example of how that plan would have worked in 2004. Five percent of the \$30 billion market value of the Permanent Fund would yield dividends of roughly \$2,365 for every Alaskan. I am told a tax equal to the national average state income tax, which is 5 percent of what one owes in federal taxes, would yield roughly \$250,000,000. Were such the case, an individual would have to earn roughly \$170,000 in federal taxable income to pay the state \$2,365 in taxes. (A taxpayer would pay the feds 33 percent or \$47,850 and the state five percent of that or \$2,392.) A family of four would have to have income of over \$540,000 to owe the state the equivalency of their four dividends totaling \$9,460. (They'd pay the feds 35 percent of \$540,000, or \$189,000, and the state 5 percent = \$9,450.) Pretty darn painless! While conferees seemed increasingly intrigued with this approach and 61 percent of them at first voted to reinstall an income tax, politics prevailed and they next voted to simply urge that an income tax "be considered."

Two days after the conference adjourned I could not believe my ears when the chairman of the conference appeared on television to

announce: “Hammond’s got his figures all wrong. Why, a person earning but \$16,000 in federal taxable income would pay a state income tax equal to his dividend.” A few days later the *Voice of the Times*, hardly a bastion of Hammond support, did him one better asserting that a person earning only \$15,000 would pay the state his entire dividend.

What the newspaper had done was to apply the *federal* tax schedule that would require a citizen earning \$16,000 to pay a *federal* income tax at the 15 percent rate (15 percent of \$16,000 = \$2,400). The taxpayer would pay the state only 5 percent of that, or \$120, leaving a balance of \$2,365 minus \$120, or \$2,245 dividend dollars in his or her pocket. It went on to damn the horrifying suggestion that dividends be increased and a capped income tax imposed, which might take more dividend dollars back from the rich than the poor. An outrageous suggestion!

However, the damage was done. Though I urged the chairman and the *Voice of the Times* to acknowledge their mistake publicly, they never did and the subsequent legislature did nothing whatsoever to address the fiscal gap—this despite the fact that virtually all running for office had pronounced that the fiscal gap was their highest priority.

Fiscal concerns, however, were flushed down the tube when high oil prices provided an unanticipated windfall, the entire amount of which the legislature spent in an orgy of politically popular projects. Not one cent went into the Constitutional Budget Reserve, though by law the legislature is required to repay monies borrowed from that account. Instead, an effort was mounted to use some Permanent Fund earnings affecting dividends without approval by public vote.

## Converting the Permanent Fund to an Endowment

Currently, roughly one-half the previous five-year average earnings of the Permanent Fund are distributed annually in dividends. Their size is therefore unpredictable and varies from year to year. While this approach adds a bit to stability, avoiding dramatic fluctuations from year-to-year, it poses predictability and administrative problems. As a consequence, the Permanent Fund Board has proposed the fund be converted to an endowment and five percent of the fund’s market value appropriated annually. This is common practice for endowments and is based on the assumption that the corpus of the fund will increase by at least 8 percent per year. This allows for inflation proofing the fund by 3 percent

annually, which traditionally has been proven adequate to sustain the fund's value.

The Permanent Fund Board further proposed that the 5 percent appropriated be split 50/50, with half going for dividends and half for "essential government services." Governor Frank Murkowski endorsed the endowment concept and with modifications it could be made acceptable. Two major problems must be overcome before the public would support it. First, it must assure that dividends in the future will be no less than they would be under the current system used to determine their size. Second, in the event that a 5 percent appropriation would invade the corpus of the fund, a public vote would be required under current constitutional mandate. Both of these problems could be addressed by statute without amending the constitution. The requisite legislation could simply read: "Up to 5% of the Permanent Fund's market value may be appropriated annually for dividends, provided, however, the legislature may assess up to 40% of this amount for essential government services. The remainder shall be distributed annually in dividends to all qualified Alaskans. In no case, however, shall dividends be less than one-half the previous five-year average earnings of the fund." Were this statutory approach taken, the fund's board would have to determine each year how much of the 5 percent could be appropriated to avoid invasion of the fund's corpus, which otherwise would require a public vote. Accordingly, the cleanest approach would be to simply amend our constitution with the aforementioned constitutional language.

Were that done at this writing when the Permanent Fund contained about \$30 billion, 5 percent would have yielded \$1.5 billion. A minimum of \$900 million would have gone out in dividends and \$600 million would have been available for community dividends. At least \$300 million of this would have gone to Anchorage, thereby providing, among other things, immense relief from crippling property taxes. Anchorage Mayor Mark Begich told me that property taxes brought \$180 million into Anchorage in 2003, so that relief would be substantial.

Accordingly, in exchange for virtually enshrining dividends in the constitution, the use of no more than 40 percent of the money appropriated from the fund for government services might be acceptable, so long as dividends will be no less than under the status quo.

To date, Alaskans have been very leery of the POMV approach since the original proposal would have not only permitted invasion of the

fund's corpus without a public vote, but would have reduced dividends in a few years by hundreds of dollars from what they would otherwise be under the status quo.

## Best Means of Spanning Alaska's Fiscal Gap

For years I had sought means of spanning the fiscal gap that would be simple, effective, and salable. Though some pieces of the puzzle were evident, it was not until the POMV endowment concept came forward that the last piece fell in place.

An annual payout of 5 percent of the Permanent Fund's market value could span the fiscal gap with little pain, while accomplishing an amazing array of other worthy objectives. Rather than splitting that 5 percent—half for dividends and half for government services—were we to appropriate it for nothing but dividends, with the provision that no more than 40 percent could be assessed by the legislature for essential government services combined with a capped income tax, we could do all of the following:

- Better meet our constitution's mandate to manage resource wealth for the people's maximum benefit. Now only about 2.5 percent of the fund's value goes for that purpose.

- Span a billion dollar fiscal gap the first year alone: 5 percent of the fund's \$30 billion market value would yield \$1.5 billion in dividends. Since non-Alaskans would pay at least 10 percent or \$100 million, Alaskans would only have to pay \$900 million, leaving \$600 million to be dispersed in dividends.

- Fully fund education.

- Restore municipal revenue sharing.

- Help eliminate uneconomic development by better ensuring that development will pay its own way.

- Encourage healthy development.

- Fulfill the original intent of the dividend program.

- Increase dividend amount predictability.

- Guarantee continuance of dividends.

- Increase size of dividends.

- Ensure initial minimal political pain.

- Enhance re-election of those who support it.

- Impose spending constraints on legislators.



- Require no immediate tax imposition.
- Reduce federal tax drain on dividends.
- Increase economic “bang for the buck” of dividends.
- Narrow the gap between “haves and have-nots.”
- Promote local hiring.
- Promote the Cremo plan concept.
- Remove many from welfare.
- Take not one cent of one’s hard-earned income in taxes.
- Increase percentage of tax paid by nonresidents.
- Reduce dependency on oil pricing.
- Staunch “brain drain.”
- Make Alaska not only the most envied state in the nation but also, as economist Smith asserts, an example for all other oil states or nations.

Most to whom we explained the plan instantly saw its potential and evidenced support. Those who did not were asked to review the plan and disprove our contention it could meet all of the above worthy objectives. So far none has done so. Some, however, still would prefer to use half an endowment’s appropriation for government services. They concede, however, that such an approach would never pass voter muster since it would reduce prospective dividends by hundreds of dollars in a few years.

## **A Broken Bargain**

When I was in office, the state, the oil companies, and the federal government agreed to split the oil wealth pie roughly one-third, one-third, one-third. Initially, such was the case. However, in the early 1980s oil interests proposed that an Economic Limit Factor (ELF) be established, which granted oil companies a break for certain declining fields or when oil prices dipped precipitously. I said I would support ELF only if it did not reduce the state’s one-third share. Initially it did not. However, not long after I left office, ELF was renegotiated to grant oil companies an even better break in light of oil prices that had plunged to about \$10 per barrel. Unfortunately, however, no countering provision assured that should the price climb monumentally, providing a windfall to operators, an amount of that windfall sufficient to rebalance the three-way split arrangement would blow the state’s way. Instead, federal legislation

granted an additional share of that pie to the oil companies, resulting in 2004 in roughly 19 percent, or \$2.28 billion, going to the federal coffers, 27 percent, or \$3.24 billion, to the state, and a whopping 53 percent, or \$6.35 billion, to the oil companies. As a consequence, the state has been shortchanged hundreds of millions of dollars each year for the past several years and will continue to be denied what was once agreed to be our “fair share.”

To Governor Murkowski’s credit, in 2005 he proposed at least a modest change in ELF that would recapture some of that loss. Naturally, oil operators heatedly opposed it, suggesting they would pack up their drill bits and leave if readjustments to ELF were carried out. Unfortunately, oil interests contribute substantially to the election of many legislators who seem inclined to bow to oil company threats, rather than place the public interest above that of big oil.

Naturally, oil interests scream in anguish at any proposals that could diminish their percentage of the take, asserting they might leave should we now “change the rules of the game.” Of course, when it was to their benefit, they had no hesitation about changing those rules, which subsequently boosted their share far above the initially agreed upon one-third, while reducing the state’s share accordingly.

Currently an initiative designed to place the issue before the voters has been proposed and would likely pass in light of the tremendous profits oil companies are gleaming with high oil prices.

Of course, there is a point of diminishing returns when one is dealing with golden geese. At what point does massaging the cloacae to encourage the expulsion of ever more eggs translate into a throttling?

I do not blame the oil companies for opposing changes to ELF. After all, it is the obligation of their CEOs to get the best possible deal for their stockholders. When as governor I was asked how much I would tax oil, my response was: “For every cent we can possibly get. After all, just as it is the obligation of oil company CEOs to maximize benefits for their stockholders, so is it the obligation of the state’s CEO to do the same for his.” That is where the concept of stock ownership in the Permanent Fund comes in. By granting all Alaskans a share they tend to notice whether or not that share is a fair one and thereby support efforts to assure that development clearly pays its own way—and then some.

Ideally, we should have put all our resource wealth into the Permanent Fund and lived off its earnings. Had we followed the wise counsel of attorney Roger Cremo, who attempted to persuade Governor Keith Miller in 1970 to put all our resource wealth into a Permanent Fund-type investment portfolio, it could now spin off both significantly higher dividends and fund essential government services. Unfortunately, only a handful of legislators agreed.

Since it makes no sense not to provide the means to retrieve some of those dividend dollars through taxes or user fees if needed, I favor the latter, which obligates to the best extent possible those who receive the most benefits from a public service to pay most. For example, if minors receive thousands in dividends and more money is required to fund education, I see no reason why they should not be required to relinquish a portion of their dividends as tuition. After all, education is the state's largest single expenditure and minors are the prime beneficiaries. Curiously, under normal taxing procedures those with fewer children actually pay more for education because of tax exemptions granted parents with several children in school. Charging tuition would help remedy this inequity and imbue children with a sense of responsibility and understanding that services cost money. Similarly, state subsidies for highway and ferry systems could be eliminated were Alaska's gasoline taxes to be raised at least to the national average.

However, first, oil taxes should be adjusted to redeem the state's initially agreed upon one-third share. Only then should user fees or a broad-based sales or income tax be imposed if we lack sufficient revenues to fund essential government programs. Alaska is fortunate in having a clear means of deciding just when and to what degree such taxes might be required.

## **The World Bank and Others Wade In**

For a number of years, other states and nations seemed unaware of the Alaska Permanent Fund and its dividend program. Then, in the spring of 1999, I received four phone calls evidencing growing interest. The first came from a Danish television production crew, which informed me that they were coming to Alaska and wanted to interview me on our Permanent Fund program, in the belief it might have worthy application in

Greenland. They informed me that in the past, development of Greenland's natural resources is perceived to have yielded little benefit to the majority of Greenlanders, while a select few have prospered. They were intrigued with Alaska's program and believed it might have application for new resource development contemplated in Greenland. They wondered if I would permit them to interview me on the matter. I was pleased to do so.

Shortly thereafter I received a call from the World Bank asking if I would be willing to go to Washington to brief its members on the Permanent Fund program. They had looked at every other state and nation with oil wealth and concluded that Alaska had done by far the best job of assuring that all Alaskans receive some benefit. Second, in the bank's view, was Norway, which in large measure copied its program after Alaska's, the difference being that Norway distributes government services such as socialized health care and unemployment benefits rather than cash dividends.

When I appeared before the World Bank, I advised them of efforts in the state to cap or even eliminate the dividend program by some who believe government, rather than the people, should determine how all the oil wealth is spent. Their advice was: "Don't change it. It's a stroke of genius since it provides transparency. Dividend recipients are inclined to view far more clearly what government does with their resource wealth if they have a direct, discernible stake in it such as is provided by dividends."

Echoing Juan Pablo Pérez Alfonso, they informed me that citizens in many oil-rich states and nations found themselves worse off than before. They cited Nigeria as one example. Some \$296 billion in oil wealth had flowed through its economy and left in its wake infrastructure and government services that could not be sustained when oil prices or flow declined. While a few prospered handsomely, most citizens ended up saddled with debt rather than discernible benefits. Throw in a heaping helping of corruption and you have a recipe for disaster. Nigerians present confirmed this conclusion and expressed great interest in adopting a program like Alaska's, which to a large degree countered destructive past practices.

I next received a call from a party in British Columbia who wanted to promote an Alaska-type program for that province.

Finally, I received a call advising me of a book entitled *Who Owns the Sky* by one Peter Barnes. The cover blurb states:

Global warming has finally made clear the true costs of using our atmosphere to soak up unwanted by-products of industrial activity. As nations, businesses, and citizens seek workable yet fair solutions for reducing carbon emissions, the question of who should pay—and how—looms large. Yet the surprising truth is that a system for protecting the atmosphere could be devised that would yield cash benefits to us all. In *Who Owns the Sky*, Peter Barnes redefines the debate about the cost and benefits of addressing climate change. He proposes a market-based institution called a “Sky Trust” that would set limits on carbon emissions and pay dividends to all of us who collectively own the atmosphere as a commons. The trust would be funded by requiring polluters to pay for the right to emit carbon dioxide and managed by a nongovernmental agency. Dividends would be paid annually, in much the same way as residents of Alaska today receive cash benefits from oil companies that drill in their state. . . . Barnes sets forth a practical new approach to our shared inheritance—not only the atmosphere, but water, forests and other life-sustaining and economically valuable common resources as well. He shows how we can use markets and property rights, not only to preserve and share from [natural resources], but also to pass [them] on undiminished to future generations.

### The Ideal Solution: A Plan for Iraq?

In spring 2004, a *New York Times* article by Steven Clemons advocated a Permanent Fund dividend-type program for Iraq, asserting nothing could do more to promote a democratic capitalistic mind-set among masses of unemployed young Muslims. Were they to sample a bit better life while here, they might be less inclined to seek “paradise” by blowing themselves up along with as many “infidels” as possible.

Every revolution in history—Russian, Chinese, French, and U.S.—was triggered by the gulf between the “haves” and “have-nots.” Certainly, Iraq seems fertile ground for another. Under Saddam, those at the top lived in opulence and those at the bottom in squalor. Oil wealth fattened the few, while the many starved. Shunting some of the country’s oil wealth to the citizens might do a lot to help forestall further chaos.

Certainly, it would incline most Iraqis to oppose terrorists who were blowing up “their” pipelines and thereby hitting each and every Iraqi directly in the pocketbook.

I sent the *Times* article to Senator Ted Stevens, suggesting he show it to President George W. Bush. Stevens advised he had, and that the President was intrigued. Soon after, Secretary Colin Powell and members of Congress were on television advocating dividends as an Iraqi democratization effort.

Later, I was asked to keynote an address to an international congregation in Washington, D.C., supporting such a plan. Brazilian Senator Eduardo Siplicy introduced me saying, “A few years ago I read this man’s book outlining Alaska’s dividend program (*Tales of Alaska’s Bushrat Governor*). It inspired me to introduce legislation in Brazil. Last year the Governor signed it into law. Brazilians feel it’s one of the best things that ever happened.”

Economists, educators and others present then stated what they thought to be a dividend plan’s potentials, not only for Iraq, but also for their own countries. At conference end, dividend programs had been proposed for Mexico, Chad, Venezuela, Ecuador, and Bolivia, among others.

Dr. Stephen Bezruchka of the University of Washington School of Medicine made an intriguing presentation. He had studied the general health of various nationalities. To his surprise, he found the health of a nation was not nearly so dependent on quality or availability of health care as on the gap between the “haves” and the “have-nots.” He cited Japan, which, despite having the highest rate of smoking among developed countries, now ranks number one in the world as far as collective health of its citizens is concerned. In 1960 Japan ranked sixteenth, while the United States ranked thirteenth. What caused the change?

According to Dr. Bezruchka, the United States has the greatest wealth and income gap of any rich country, which is the main explanation for its dismal health ranking among developed countries. As our wealth and income gaps have grown, so has our distance from being the healthiest country. After the Second World War, Japan restructured its economy to be egalitarian. Today, during its economic crisis, managers and chief executive officers are taking cuts in pay rather than laying off workers, something that is inconceivable in the United States.

By contrast, America has continued to drop on that international “health meter” and in 1997 had dropped to No. 25. Bezruchka attributes this to the fact that for the past twenty years every state has seen an *increase* in the gap between “haves” and “have-nots,” with one exception. Alaska is the only state in which that gap has narrowed.

His attributing this to dividends at first confused me. After all, both fat and not-so-fat cats get the same dollop of dividend “milk.” Why, therefore, would the gap not remain constant? The answer, of course, is now we have almost 200,000 new income recipients, children, added to the equation, boosting those at the lower end.

During my comments to the conference, I mentioned that I had urged U.S. Senator Ted Stevens to advocate an Iraqi dividend program to the President, and I hoped to discuss it with the President personally. Not all conferees were Bush supporters. One complained: “Hey, that might help get Bush re-elected. How about getting together with Kerry instead?” Another asked, “If we can arrange it, would you meet with Nader?” My response was that I would be glad to meet with any candidate. I would love to see them vying to promote what could well be a popular and effective step in offsetting charges no one had a peace plan for Iraq. I was pleased to learn that Senator Lisa Murkowski did introduce a resolution advocating a dividend program for Iraq.

Folk from elsewhere seem far more aware of a dividend program’s potentials than many Alaskan politicians who covertly hate it simply because if they can’t get their hands directly on those dividend dollars, it compels them to consider cutting budgets or advocating new taxes. Both actions demand intestinal fortitude, seemingly in short supply these days.

At conference end, a professor of economics who had written a book advocating dividends for other states and nations made a comment to the effect that conservatives in Alaska must love the dividend program since it is by far the most conservative thing that could have been done with their oil wealth. It makes a mini-capitalist out of every Alaskan and avoids spending all that oil wealth on government as would socialists. Reflecting on this, it occurred to me that Alaska’s shift from a “liberal” Democrat dominance prevailing prior to dividends to the “conservative” Republican stance of the present coincided exactly with advent of the dividend program. I told him that, oddly, it is the so-called Democrat

“liberals” who now seem the most ardent defenders of dividends. He found this as perplexing as do I.

In an article appearing in the *Wall Street Journal* in 2003, Nobel laureate for economics Vernon Smith had this to say about Alaska’s Permanent Fund dividend and its possible implication for oil-rich countries such as Iraq:

With the capture of Saddam Hussein, President Bush has a symbolic victory against his critics. However, the unfinished Iraqi economic reconstruction presents the President with a historic opportunity to craft a new geopolitical economic paradigm for movement of assets from governments to citizens. The last decades have seen a world-wide transfer of state owned assets to private entities, most often as governments have found themselves unable to afford their varying brands of socialism. However, this transfer of assets has served largely to generate funds for government—sales to retire government debt, fund political priorities, or as an alternative for raising taxes—creating a funding system easier for politicians but more difficult for the public it serves.

For long-term success, the enormous task of nation rebuilding in Iraq requires attention to more than the creation of a political democracy. No matter how well intentioned a democracy might be, the next government will be tempted to corruption, violation power if it owns and controls the great economic wealth potential of Iraq. This is the time, and Iraq is the place, to create an economic system embracing the revolutionary principle that public assets belong directly to the public—and can be managed to further individual benefit and free choice, without intermediate government ownership in the public name.

There is a very important precedent, in part for this action—The Alaska Permanent Fund. The State of Alaska elected to put a portion of its vast Prudhoe Bay annual royalty revenue into a citizens’ Permanent Fund for investment in securities. Each year a dividend from this Fund is dispersed to every Alaskan citizen. This Fund was the first to recognize the full rights of citizens to share directly in the income from public assets.



This Fund, however, has important shortcomings which should not be repeated in Iraq.

Smith believes those shortcomings include failure to put *all* our state revenue from oil wealth into the people's account and using its earning for nothing but dividends. Instead most of it went to state government. Says Smith: "When oil prices went up, the state succumbed to the temptation to repeal its income tax and spent its oil income like there was no tomorrow. Consequently, today the Alaska state government has a budget crisis and a deficit gap, but the 600,000 Alaska citizens share equally in dividends from their Fund, now worth \$27 billion."<sup>3</sup>

Smith believes that because it disciplines government spending and the political process, we should require politicians to tax dividend dollars back through what he terms "the eye of the needle of voter scrutiny." Far better that than to let politicians have free priority access to what should be the people's earnings on their assets. Smith's article continues:

This action would launch the new Iraqi state as one based on individual human rights, and the rule of law, and anoint it with rock-hard credibility by giving every citizen a stake in that new regime of political and economic freedom. The objective is to undermine any citizen sense of disenfranchisement in the country's wealth, economic and political future, and to galvanize citizen support for a democratic regime. Now is the time to act, before post war business-as-usual creates de facto foreign and domestic spoils of war property rights claims, leaving out a citizenry brutalized by a totalitarian regime and in sore need of empowerment in their own future.

## **Afterword by Lauren Stanford**

Every morning my grandfather would sip his coffee and solve his cryptquote or crossword at the dining room table of his Lake Clark cabin, the old radio wheezing nearby. After the last letter was filled in the

3. Editor's note: As of July 2011, it is worth \$41 billion.

appropriate box, he would slowly rise from his chair, grasp his cane, and make his way out to his office. His desk and computer were situated among my grandmother's geraniums and achimenes in the solarium. In this little Eden he would perform mundane tasks, then open a document and start typing his numerous thoughts. His final project was *Diapering the Devil*. Ever adamant about protecting and promoting the Alaska Permanent Fund, my grandfather would talk anyone's ear off who would listen. On August 2, 2005, he passed away in his sleep, his voice seemingly silenced forever. Now, due to the hard work and persistence of Larry Smith and others, Jay Hammond will continue to be heard.

————— AN OIL-TO-CASH READER —————

# The Governor's Solution

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**How Alaska's Oil Dividend Could Work  
in Iraq and Other Oil-Rich Countries**

TODD MOSS

*Editor*

CENTER FOR GLOBAL DEVELOPMENT  
*Washington, D.C.*

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