

**Before the Senate State Affairs Committee
Hearing on SB 1 and 2
January 28, 2017**

**Written Testimony in Support of SB 1 and 2
Brad Keithley, Founder, Alaskans for Sustainable Budgets**

Alaska is in a recession.¹

Let that sink in for a moment. Alaska is in an economic recession. That means in real economic terms, less money is circulating in the economy, fewer people have jobs and household incomes are falling.

The Governor's decision to cut the PFD has taken even more money out of the economy and reduced household incomes even more at the very time the overall Alaska economy and Alaskans need that support most.

In short, the Governor's decision has made Alaska's recession worse.

If the cut had been matched by offsetting spending elsewhere, potentially some could argue that the step of cutting the PFD had simply redirected the money to another sector of the economy. But it wasn't. It simply has been taken out of the Alaska economy and kept in the Permanent Fund earnings reserve.

Using the numbers included in the study last March by the University of Alaska-Anchorage's Institute of Social and Economic Research (ISER), cutting the PFD and keeping the difference in the earnings reserve has reduced Alaska incomes by nearly \$1 billion out of an only, roughly \$40 billion income economy in the first place.²

¹ "Recession grips Alaska as employment losses hit new sectors," *Alaska Dispatch News*, <https://goo.gl/MZJOCA> (Dec. 2, 2016).

² Knapp, Berman & Guettabi, *Short-Run Economic Impacts of Alaska Fiscal Options*, Institute of Social and Economic Research, University of Alaska Anchorage (March 30, 2016) (hereinafter, the "March 2016 Report"). The total value of the PFD cut was \$650 million. According to the March 2016 report, the income multiplier applicable to PFD cuts is between 1.30 and 1.49 (Table III-6 at p. III-9), implying a total impact of between \$845 million and \$968 million.

January 29, 2017

Put another way, in the face of a recession the Governor singlehandedly has reduced overall Alaska income by nearly 2.5%.³

Moreover, the effects of the cut have fallen disproportionately across the economy. Using the numbers from the March ISER study, the PFD cut has reduced the discretionary income of the lowest earning 10% of Alaskans by 20%, while barely touching the discretionary income of the highest earning 10% (according to the ISER numbers, their discretionary income has been reduced by less than 1%).⁴

And according to an October ISER study, the PFD cut has pushed up to an additional 2% (12 – 15,000) Alaskans below the poverty line.⁵

It's one thing if such disparities are created by natural economic forces, but in this case the increased disparity and resulting increased poverty rates result directly and solely from government action.

Again, let that sink in for a moment, standing alone the Governor's action is directly increasing statewide poverty rates and income disparity. In the face of a recession. That isn't even bad economic policy; it's terrible economic policy.

SB 1 and 2 would reverse that decision and restore the remainder of last year's Permanent Fund Dividend unilaterally cut by the Governor.

It would restore the nearly \$1 billion in economic activity eliminated last year because of the Governor's action. It would reverse the increase in poverty levels and income disparity resulting from government action.

In short, it would keep the state's economy even in the face of a recession. It wouldn't improve it from where it otherwise might have been had the Governor not taken his action, but at least it won't make the already difficult situation worse as the Governor's action has done.

There is more work that needs to be done this legislative session to respond to Alaska's economic situation. As we have long advocated the legislature needs to develop a sustainable government budget that improves the state's overall economy, not takes from it. In our view a

³ According to the most recent data published by the federal Bureau of Economic Statistics, total Alaska nominal income currently is slightly over \$41 billion. *SQ1 Personal Income Summary: Personal Income, Population, Per Capita Personal Income*, Bureau of Economic Analysis, Department of Commerce (2016Q3, <https://goo.gl/BK77bh>).

⁴ The March 2016 Report contains data for those two income segments "per \$100 million" of PFD reduction ("For every \$100 million raised with PFD cuts, the ten percent of households with the lowest income lose 3.3 percent of per-capita disposable income, compared with only 0.1 percent among households with the highest incomes.") The numbers in the text are derived by multiplying those factors by 6.5 to equal the total \$650 million level of PFD cuts.

⁵ Berman & Reamey, *Permanent Fund Dividends and Poverty in Alaska*, Institute of Social and Economic Research, University of Alaska Anchorage (October 18, 2016) at 14 ("Reducing the PFD by \$1,000 will likely increase the number of Alaskans below the poverty line by 12-15,000 (2% of Alaskans)").

January 29, 2017

critical part of that is to maintain the PFD – and the positive economic impact it generates – in its current form.⁶

But in our view, while they should, legislators don't have to agree to that long-term goal to support this bill.

The situation addressed by this bill is separate from that longer-term issue. Over the longer term some are advocating cutting the PFD and using the difference to help fund government. As we have argued – and the ISER analysis supports – that conversion from private to public economic decision-making over the PFD revenues results in a net economic loss to the overall economy, as well as increases poverty and income disparity, but at least there is some minimal offset.⁷

Here there is none. The amount cut from the PFD is not being injected elsewhere into the economy. It simply has been put "on the shelf."

Some argue that the cut improves government's ability to maintain or increase future spending levels by increasing current savings levels. But financing potential future spending levels at the expense of reduced current overall incomes, increased poverty rates and income disparity amid a recession is questionable at best.

If new revenues indeed are needed to finance current savings, they should be drawn from other sources, not the revenue source which ISER's March study said has the "largest adverse impact" on the economy of any of the revenue options.⁸

One more time, Alaska is in a recession. Pulling the worst overall economic lever – and the one that has such significant disproportionate impacts – should be taken off the table.

Alaska's government needs to be fair to all Alaskans at all economic levels and of all generations. The Governor's PFD cut does none of that. Because SB 1 and 2 seeks to reverse that bad economic policy, we strongly support it.

⁶ Keithley, "Why we believe cutting the PFD has the largest adverse impact on the overall Alaska economy," Thoughts on Alaska Oil & Gas, <https://goo.gl/yIlsaOv> (Jan. 21, 2017).

⁷ For an analysis of the comparative effects of the various options, see "Sunday's First Post from Alaskans for Sustainable Budgets," Alaskans for Sustainable Budgets, <https://goo.gl/5NmT1f> (Aug. 22, 2016).

⁸ March 2016 Report at A-15 ("The impact of the PFD cut falls almost exclusively on residents, and it is highly regressive, so it has the largest adverse impact on the economy per dollar of revenues raised.")