

SCOMM

#9:23

TO: Fran Ulmer
Director
Policy Development and Planning
Office of the Governor

DATE: July 20, 1977

FROM: Tom Singer
Senior Planner
Policy Development and Planning
Office of the Governor

SUBJECT: House Permanent
Fund Committee/
DPDP Coordination

HOUSE PERMANENT FUND COMMITTEE

Pending Research Proposals and Needs

Priority List

The following list is a summary of general research areas and needs identified in the consultant's reports to date. Hopefully, you and Clark can prioritize the proposals, assign them among the participating agencies and interests, and organize and coordinate staff efforts at drawing up more specific work plans. The subjects which I feel are most critical are identified by an asterisk.

General

Who

Staff¹

Clark's people will do this

Subject

*On-going list of specific suggestions for the enabling legislation which are presently buried in their reports.

Capital Markets and Economics

Clark will send us extracts for comment

Who

ISER

Subject

*Study the capital availability gap in Alaska. What are the capital flows: loans by economic sector and geographical location; loan applications both denied and granted). (BD p. 15) (AT p.29)²

1. Staff includes committee staff, DPDP staff and legislative affairs.
2. BD is Beldon Daniels' report, AT is Arlon Tussing report. Page citations are included.

ISER

*ISER OR
SOMEONE*

* Study the capability of the Alaskan economy to absorb the capital supplied by the Alaska Permanent Fund. Also what is the relative sensitivity of various enterprises to capital availability vs. information vs. natural resource availability or quality vs. labor force quality vs. transportation vs. communication vs. energy costs vs. institutional environment, etc. (AT p. 4).

ADL, ISER

ADL

This proposal should be coordinated with the above proposal. Study the possibilities which exist for primary, value added industrial activities in Alaska which can produce goods at competitive cost, and methodologies which are available for deciding 1) What are the underlying goods -market or financial- market reasons for the lack of private capital, 2) if they can be overcome through either alteration of the price (interest rate) or availability (terms) of money, and 3) the net benefit of such alteration. (BD p.11) (AT p.31)

ISER

*GALBY
ISER*

For various scenarios of the expansion of different industries in Alaska, analyze the growth implications on State government and the economy. (AT p.35)

ISER, Legislative Affairs

P

Study the income effects of Alaska Inc. Study empirically the effects of spending the \$900 million from Prudhoe Bay. Study the Salmon/Bottom Fishery (like Delta Barley).

Fiscal Planning and Coordination With the Rest of State Government

Who

Staff, B&M

*Dna + L will expand on met + JWG DONTA
Higgett's work*

Subject

*Combine short-and long-term revenue projections (Revenue) and expenditure

projections (B&M), estimate the size of the surplus, and analyze the implications for State spending and the Permanent Fund.

Daniels

Study banking regulations and tie-in to Permanent Fund. (BD p. 35)

B&M, CED, DPDP

*Study State loan programs and tie-in to Permanent Fund, and compare with SBA and EDA programs in Alaska. (AT p. 35)

Tussing

*Develop appropriate contribution formula to Permanent Fund to smooth the growth of the General Fund. (AT p. 32)

Criteria and Constraints

Who

Subject

Staff

*Develop loan criteria which embody the goals chosen for the fund by the Legislature.

Daniels

*Study dual accounting and socioeconomic annual report-i.e., performance evaluation criteria based on criteria and goals. (BD p. 62)

Accountability

Who

Subject

CRA

Report on appropriate local input alternatives. (BD p.66)

DPDP Contract

Control and management study to be coordinated with Beldon's work.

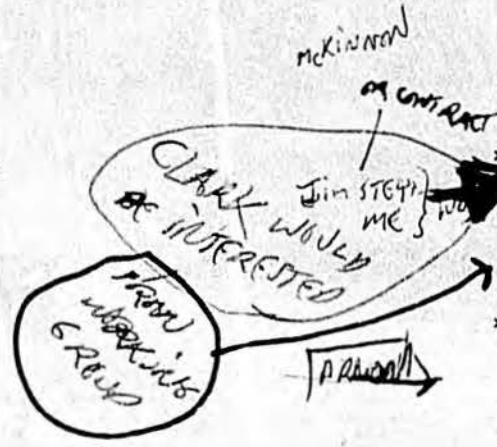
Structure

Who

Subject

Daniels³

1. Refine proposal to create: Technology Development Corporation Intermediate and Long-term Financing Agency



*I MUST CALL
OUTLINE FROM BELOW - FOR CLARK*

*LATER
W&B:W*

CLARK WILL ASK BELOW FOR THIS

BELDON'S WORK!

I CAN PUSH FOR THIS IN W.G. - W&B FOR SENATE'S WORK

KEVIN'S W&B

Control and management study to be coordinated with Beldon's work. Clark, man, etc. meet with John, Mike, etc. for formal presentation + coord. need to firm up joint committee parties

Community Development Finance
Corporation

Central Development Bank

2. Decentralization Question for
above.

3. General Discussion of
Accountability in organizations
around the world.

3. We understand Beldon is doing these three tasks.



for Bidden Daniels

TO: Fran Ulmer, Dona Lehr, Tom Singer of DDP

FROM: John Mollenkopf

CONCERNING: Reactions to Tussing, Daniels Presentations to
Special Committee on the Permanent Fund.

The two consultants to the Special Committee on the Permanent Fund concentrated their testimony on the difficulties which face any State attempt to guide the economy's development, particularly when the attempt is made through capital subsidies. They stressed that the APF's most effective role will be to conserve the State's nest egg. They therefore argued that the APF should be organized in a conservative manner which would aim it at wealth management/conservation rather than such goals as economic diversification or enhanced Alaskan ownership (both of which are contained in the language of the APF constitutional amendment.)

It is my belief, however, that these two consultants were lead by their concerns to commit the APF to an excessively conservative stance. I would therefore like to summarize the argument as posed by Tussing and Daniels, state their conclusions, articulate the underlying assumptions on which these conclusions are based, and criticize them. In this process some alternative ways of thinking about the APF will become evident.

1. Summary of Tussing's and Daniel's argument.

The two economists made essentially similar points. They basically say:

- public capital cannot make economic expansion happen which was not already fairly likely. It facilitates, rather than initiates.
- the factors which do determine which types of economic expansion takes place, such as labor, raw materials availability, transportation infrastructure, and world market prices, are largely beyond the control of the State and the APF.
- "Likely" economic expansion will typically involve production organized by large multinational firms (e.g. ARCO) exporting to a world market. Such firms can tap worldwide capital sources (and therefore do not require funds from the APF).
- The only exception to this rule will be small Alaskan firms which produce for local consumption rather than export; such firms do not have access to adequate long term debt.

On the basis of these four observations, the two economists conclude: 1) that the APF cannot, and should not, complement or displace existing financial intermediaries to any great extent, since they are doing their job, but to the extent it does so should commit itself primarily to the strong activities of the multinationals and secondarily to the weak activities of small Alaskan businesses, and 2) that most APF funds should be invested on Wall Street more or less as a trust fund operation.

2. Comment on the assumptions which are critical to this line of argument.

While in and of itself this line of argument has its merits, it depends upon and entails some unstated assumptions which deserve close, and I believe critical, scrutiny. Let me describe them in turn.

First, this argument supposes that a multinational corporation-based, export-oriented economy is preferable to a more diverse, Alaskan-based economy which mixes import substitution, added downstream product processing, and local entrepreneurship with the more basic export activities. Or if the former is not preferable, it is inevitable.

Second, it evidently assumes that questions of accountability, whether of the APF or of the firms which it assists, is not crucial (since the APF is restricted to a passive financing function rather than an active entrepreneurial function.)

Third, to reach this type of conclusion the authors evidently feel that no significant economic alternatives are available to the State other than multinational exports of timber, oil, fish, or other raw materials.

Fourth, both authors assume in their testimony that the APF should invest its money only in directly productive activities, as opposed to indirectly productive investments in the preconditions for constructing an alternative economic future.

Each of these assumptions can be challenged on the facts. A little thought experiment might suggest why they should be challenged. Imagine that Alaska develops along the assumed trajectory: it deepens its dependence on major oil and gas extraction projects, adding minerals as well. It also develops major additional export activities in lumber and fish. The APF is largely invested in high grade stocks, but also makes substantial loans to help finance these developments. What then?

Alaska has become what might be called a resource colony. Its future will be tied to world market prices in the various commodity areas, and its fate will in part be determined by the entry of new, perhaps lower cost exporters. The chance of such exporters banding into some form of "OPEC" will be nill. Though these sectors will probably involve high-wage, unionized jobs for Alaskans, these jobs will be insecure. To the extent that the State engages in down-stream processing, these activities will be highly capital intense, utilizing capital goods produced elsewhere and technicians trained and migrating from elsewhere (and ready to migrate again to new technical work should Alaska falter.) The State's economy would even more than now depend on decisions made at corporate headquarters far removed from, and not terribly sensitive to, Alaska. In short, the State would have set itself up for the type of boom-and-bust cycle which characterized the gold mining era, with no more long-lasting benefit, and not much more economic diversification. Not only is this potentially an unwise course for the State's policy makers to plot, it controverts the constitutional language which established the APF. If I recall correctly, the amendment stressed goals like economic diversification and independence.

In point of fact, it appears that there are sources of entrepreneurship in the State which, unlike the large corporations, do not have access to sufficient capital, which could produce import substitutes for the local market and which could also further process renewable resources like fish or timber. It also appears that the APF might well focus on removing or reducing the barriers which confront Alaskans, but not the large corporations, as they attempt to market goods over long distances. Examples include public or user-owned fish marketing organizations, lumber mills, etc. (If it is true that factors other than capital constrain Alaskan economic growth, then the State and the APF can locate and address these constraints rather than merely accepting them.) In other words, each of the implicit assumptions in the chain of argument advanced by Tussing and Daniels can and should be given serious scrutiny. The failure to do so commits Alaska to an economic development strategy which it may come to rue.

To conclude: the world provides models both of countries which adopted a commodity export strategy and came to regret it (Cuba and sugar, Chile and copper), and countries which decided from the outset to import substitute, stress local entrepreneurship, and use public capital to help local businesspeople market effectively (Japan and Israel stand out in this respect.) While it is possible that Alaska's export commodities will enjoy an unlimited boom which would permanently postpone the due bills for that type of strategy, such an outcome is far from guaranteed. If it does falter, no matter how well APF funds are invested they can do little to compensate. If, however, they are used to build up a more diverse and self-sustaining economy, they will have left something solid behind after the oil has been pumped away. At the very least this alternative is worth serious exploration.

July 19, 1977

TO: Hon. Clark Gruening, Chairman, Special Committee on the Permanent Fund, Alaska State Legislature

Ms. Fran Ulmer, Division of Policy Development and Planning,
Office of the Governor

FROM: John Mollenkopf, Public Management Program, Stanford Graduate
School of Business *John Mollenkopf*

CONCERNING: The Accountability Issue for the Alaska Permanent Fund

As all of us know, one of the most important issues facing the legislature as it seeks to define the Alaska Permanent Fund's organization and goals is the issue of accountability. The Permanent Fund represents one of the most important steps the legislature will take; it is a unique opportunity. How the responsibility for this step will be shared is both a sensitive and important problem. What is the best way of thinking about it?

The problem of how, and to whom, the Permanent Fund is to be held accountable, can be broken down into two parts. First, it is important to be as clear as possible about what one means by the very term. To whom is the government to account for its actions? At what level of decision? What specific mechanisms will make accountability possible? Secondly, the specific animal we are talking about, basically an economic development bank, will have its own distinct characteristics, some of which will help and some of which will make accountability more difficult. What are these specifics? What can we learn from economic development funds which have been held up as models in order to improve the Permanent Fund's responsiveness?

A. The overall issues.

Government bureaucracies tend to develop various constituencies which help them do their job more easily and provide the political muscle to keep their funding going at budget time. Some of these constituencies are client groupings (defense contractors, for example), while others are interested bystanders, legislative purse-holders, or the like. As the relationship between government agencies and their constituencies hardens over time, bureaucracies become vulnerable to criticisms of unresponsiveness, lack of accountability, and resistance to change or guidance. Devices which were originally created to help the agency be responsive, such as advisory committees, may even become a means for further insulating an agency from broad public input. In attempting to design a responsive and accountable public organization, therefore, one cannot focus simply on specific mechanisms, but must also take into account the broader structure of interests which surrounds a given agency.

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To get accountability, one must think through not only what happens at the top, but how decisions are made all the way through the organization. It not only matters who gets on the Permanent Fund Board, or to whom that Board is obliged to report, but how the inside of the Fund is organized. The Fund of necessity will have to make important tradeoffs among alternative objectives. How these decisions get made (and therefore how the Fund determines who it will be responsive toward) will depend on who makes these tradeoffs, whether advocates for both sides are present, and the like. If this aspect is left out of the organizational design, such decisions will be made by default. The Fund might, for example, spend most of its money on large capital projects simply because their proponents ask for larger sums of money and know where to make their pitch. But would this really be the "right" allocation? In order to assure that the Fund is both accountable and responsive, such problems have to be taken into account in the Fund's design. While it may be a relatively small agency, and perhaps in some sense more efficient than other types of grant-making agencies, it will inevitably have some bureaucratic characteristics which will raise the question: to whom is accountability owed?

In the Permanent Fund's case, a number of key actors are involved. Fund management itself will follow professional norms in its attempt to invest its funds. The legislature will wish to guarantee that the Fund pays sufficient attention to the diverse constituencies which it represents. The executive wants to use the Fund as part of an overall economic development and public revenue-maintaining strategy. The banking community wants to assure that the Fund acts as a complement, rather than as a competitor to, its activities. In- and out-of-state potential loan recipients are primarily interested in public assistance in their pursuit of private return, while labor, the fishing industry, the mining industry, and other economic interest groups will each want to see that their interests, if not advanced, are at least not jeopardized. Impacted communities affected by Fund decisions may want to have some influence, as will individual citizens, who wish to enjoy the benefits of economic growth while protecting and enhancing the Alaskan lifestyle.

The problem of the Fund's accountability thus revolves around how to include, and balance, each of these constituencies most appropriately. What "appropriate" turns out to mean naturally depends on what goals the people of Alaska, through their legislators, choose for the Fund. It is probably safe to say that the Fund will have an obligation, however strong or weak, to respond to each of these constituencies. The costs and benefits of alternate organizational designs for this pattern of accountability can be substantial. If the Fund is closed off to all but a few constituencies, it may act speedily, but at the cost of planting the seeds both of future conflicts and a skewed investment pattern. If, on the other hand, the interested parties are all included and balanced off in the process of making decisions, considerable grief may be avoided. The cost may come if disagreements preclude timely and aggressive decision-making. The legislature will want to weigh this balance carefully. Like the founders of the United States, it will be solving a problem of constitutional design.

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The key problems in designing accountability into the Alaska Permanent Fund may thus be summarized under three headings:

1. What are the key constituencies to which the Fund rightly owes some degree of responsiveness?
2. Where, in the Permanent Fund decision-making process, can attention to the concerns of these constituencies best be fit in? How can they be balanced without excessively hindering positive action.
3. What specific mechanisms, ranging from advisory boards to social/economic impact reports to legislated investment criteria, to direct policy-making legislative oversight, can most appropriately be used to assure accountability to these constituencies?

B. The Permanent Fund's specific organizational context.

Banks are well known for their mystique. Finance is a realm not particularly accessible to the common man. While public access to information, and participation in decision-making processes, are important in any case, they will be particularly important for the Fund. With the accountability problem as described above in mind, it will be important to try to learn from other models which have been held up as successful development funds. How well would they work in the Alaskan setting? Are they really accountable? Can we learn from their shortcomings? Consultants have mentioned the British Columbia Credit Union, the Canadian Development Corporation, the Connecticut Product Development Corporation, the Massachusetts Community Development Finance Corporation (not yet operational) and the soft-money side of the World Banks as such examples. Other less successful experiences, such as the Small Business Administration, also come to mind.

We need to ask of these models the following types of questions: to whom have these organizations been accountable? whose goals, as a result, have they tended to maximize? is this experience one to be replicated in Alaska, or modified? have disputes arisen over their responsiveness, and what has been their result? By answering such questions, it should be possible to rank these model organizations according to how well they might represent Alaska's constituencies, and what modifications might be indicated. By investigating them, it would be learned how other jurisdictions have chosen to solve the trade-off between responsiveness to diverse constituencies and the need for sufficient agreement to act on sound investment opportunities.

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C. How to accomplish this type of investigation.

Three types of work need to be done: sounding out various constituencies within Alaska about what they think their proper role in the Fund, and others' roles, might be; laying out the basic relationships between Permanent Fund design and accountability to these constituencies (including the costs and benefits of different alternatives), and assessing and learning from the experience of other economic development funds. This work can be done with varying degrees of thoroughness, and therefore varying degrees of expense. The first task, for example, is already being carried out in part through the Public Forum, the committee's information package, public hearings, and similar efforts, and could be augmented by some systematic interviewing. The second involves both the review of a considerable body of literature in political science and public administration, and the creative thinking of a few individuals who have been actively engaged in the design and management of public organizations. The third could either involve extensive field analysis or simply a literature review and some large phone bills.

It is the author's belief that a relatively small number of working days for the right professionals could be combined with a modest effort from well-guided research assistants in order to produce a thorough, well-informed, and experientially-grounded set of alternatives to assist the Special Committee in its effort to think through the accountability issue. Should the committee have an interest in doing so, the author would be happy to discuss in more detail who these people might be and where they should invest the larger parts of their effort.

The Accountability Issue for the APF

Thinking about this aspect of the APF and its investments can be broken down into two parts: overall conceptions of what it means for the public sector to be "accountable" (to whom? for what decisions? through what channels?) and what specific models have been advanced for accountability of economic development funds, particularly those funds which have been held up as models.

A. The overall issues.

We know that government bureaucracies tend to develop certain constituencies which can help them smooth their flow of inputs and outputs in different ways (some are clients, some are legislative purse-string holders, etc.) This produces a situation where bureaucracies become vulnerable to criticisms of unresponsiveness, lack of accountability, and resistance to change or guidance. Indeed, mechanisms designed initially for "input" may become vehicles for furthering these types of insulation from public demands. Focussing strictly on different mechanisms without considering the broader structure of interests which surround a given bureaucracy can thus lead the observer somewhat astray.

PF AS
A
BUREAUCRACY

IN SOME OFG. FORM


In this particular instance, the key actors involved ~~are~~ appear to be the following: the Fund itself, which must act as trustee for Alaska's future; the legislature, which wishes to guarantee a certain degree of responsiveness to individual constituencies; the executive, which seeks to implement an overall economic development strategy (which itself will be formulated at least in part with political concerns in mind); the potential consumers of loans, who are primarily interested in public assistance in their pursuit of profit and expansion; the impacted communities where Fund-stimulated activities might take place; and the citizens as a whole, who wish to enjoy sound economic growth ~~at~~ while ~~the same time as~~ the Alaskan lifestyle, ~~is protected and enhanced.~~ *protecting and enhancing*

The problem of accountability for the APF thus ~~involves~~ *(revolves around how)* ~~an appropriate inclusion and balancing~~ of each of these ~~elements~~ *actors*. Like the founding of the United States, it is a problem of constitutional design. What "appropriate" turns out to mean ~~of~~ *naturally* ~~depends~~ depends on which goals the people of Alaska set for the APF. But regardless of which specific goals are chosen, it is probably safe to say that each of the actors mentioned above ought to have some influence on the APF. Put another way, the APF will rightly have some obligation to be responsive to each of the constituencies described. To say that the APF ought to be "autonomous" or "independent" in this context begs the question, for usually independence from, for example, the legislature, actually means dependence on, for example, the loan beneficiaries. *W/37*
(The literature on how regulatees have come to dominate supposedly independent federal regulatory boards provides an example of this phenomenon.) *lines flow*

To
appropriately

The key problems in designing accountability into the APF may be thus summarized under three headings:

1. What are the key constituencies to which the APF rightly owes some (doubtless varying) degree of responsiveness?
2. Where, in the APF decision-making process, can attention to the concerns of these constituencies best be fit in? How can they be balanced without excessively hindering positive action?
3. What specific mechanism, ranging from advisory boards, to social or economic impact reports to legislated investment criteria to direct policy-making oversight, is the appropriate vehicle for representing each of these interests in the overall balance?



A considerable literature on different accountability mechanisms and how they work in different circumstances could easily be summarized as a background to the APF's organizational design.

B. Closer examination of specific organizational models.

With such general concerns in mind, it will be possible to "test" available models against the Alaskan setting to see what forms of accountability each might afford. The key examples which consultants have mentioned include: The British Columbia Credit Union,*the Canadian Development Corporation, the Massachusetts Community Development Finance Corporation (not yet operational), and the soft-money side of the World Bank. It would also be possible to contrast their experience with less successful models like the Small Business Administration, which are both less responsive and not as successful in promoting new economic activities.

*Connecticut Product Development Corporation

The types of question one would want to ask about these examples include the following: to whom are these organizations accountable? whose goals, as a result, do they tend to maximize? Are important constituencies, and therefore important goals, left out? If so, how has the organization, and those who authorized it, responded to claims of unresponsiveness? What about when such claims exist, but have not been pressed in the political arena? By answering such questions, it should be possible to rank organizational models according to how well they would represent the constituencies which are important in the Alaskan case. Information would also be gotten on different ways to solve the tradeoff problem which pits the need for responsiveness and accountability to diverse constituencies with the need to have sufficient agreement to act on sound investment opportunities.

Some possible models are described below; they could be designed into the APF's framework either singly or in combination.

<u>Model</u>	<u>Example</u>
	various foundations
	none
	Gruening memo
	SIAC proposal; Manitoba Mines Ministry
	Massachusetts CDFC; Colorado linked deposit system
	Typical commercial bank

Some vehicles for representation

Notice
 Public hearings
 Legislated investment guidelines
 Advisory board
 Elected APF board membership
 Appointed "public members"
 Environmental/social/economic impact reports on investments
 Annual legislative authorization
 Local veto over fund-supported projects