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A Conference on Alaska's Future Frontiers

Supplement

Sheraton Anchorage Hotel
December 6,7,8 1979

FUTURE FRONTIERS AGENDA
Anchorage Sheraton Hotel
Supplement

Wednesday — December 5, 1979

Noon —	Registration and material distribution.
4:00 P.M.	Delegate Room and Group Assignments Yukon Room

Thursday, December 6

8:30 A.M.	Convocation Breakfast Welcome and Remarks by Senator George Hohman, Jr., Representative Russ Meekins and Ed Merdes Howard Rock Ballroom
10:00 A.M.	Assignment of Group Leaders, Editors Kuskokwim West Room
10:30 A.M.	Work Groups begin Alpha — Room 311 Beta — Kuskokwin East Gamma — Kuskokwin West Delta — Yukon Room Epsilon — (to be announced) (Groups will retain these meeting room assignments throughout the conference)
1:00 P.M.	Lunch
2:00 P.M.	Continue work groups and comment solicitation
6:00 P.M.	Adjournment
8:00 P.M.	Banquet — Howard Rock Ballroom Keynote Speaker: R. Buckminster Fuller

Friday — December 7

9:00 A.M.	Continuation of Work Groups (same room assignment)
Noon	Lunch
1:00 P.M.	Work groups and organization of comments
6:00 P.M.	Recess for Dinner
8:00 P.M.	Resume work groups and comment organization

Saturday — December 8

9:00 A.M.	Summary of delegate work reports Howard Rock Ballroom
Noon	Press Conference on findings
1:00 P.M.	Conference conclusion

January 14, 1980 — Report to the Alaska Legislature

The Future Frontiers Conference, 1979
is dedicated to
Gene Guess
Former Speaker of the
Alaska House of Representatives

This conference, Future Frontiers, is a continuation of a process begun ten years ago with the convening of the Legislative Council / Brookings Conference on the future of Alaska.

Then as now, Alaskans were asked to determine their State's most pressing needs and to provide guidance to the Legislature regarding allocation of North Slope oil revenues.

Many problems identified by the 1969 conferees have been addressed and substantially corrected by legislative action since that time, but there is still much before us in the 1980's.

As preparation for this conference, the series of issue papers contained in this book have been solicited from individuals who have experience in Alaskan affairs. (A supplement of papers is also provided; those that did not make the typesetting deadline.) Their format should provide background, present status and proposed directions for the conference issues. We commend these Alaskans for providing this timely material for the Future Frontiers delegates and the legislature.

Senator George Hohman Jr.
Representative Russ Meekins
Co-Chairmen
Future Frontiers Conference

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FISCAL FUTURE

OIL AND GAS POLICY IMPLICATIONS FOR THE DECADES AHEAD

by

Kenneth E. Showalter

[illegible] with almost no increase in oil many years. Given the perception that Prudhoe Bay would sustain Alaska individually, it is understandable to a degree why there was virtually no concern for fostering an economic climate and a leasing policy that would encourage further oil and gas exploration and development in Alaska.

ALASKA AT THE CROSSROADS: THE 1969 CONFERENCE RECOMMENDATIONS

> No group of Americans in recent times has had such an opportunity freely to plan its future. An oil bonanza has enriched the treasury of a state previously penurious and underdeveloped. This new condition gives today's Alaskan an unparalleled opportunity...[1]

Those were the thoughts of the Delta Group as contained in their Statement following the 1969 Conference on the Future of Alaska. In reading the reports from the seminar entitled "The Financial Foundations for Future Alaska," one becomes aware of several prevailing trends of thinking. First, there was definitely a perceived need to improve educational opportunities and social programs to better the lives of Alaskans. Second, the conference attendees clearly viewed environmental protection as an important priority, along with the need to foster fisheries and other non-oil kinds of development within the State. Third, there was virtually no indication that oil and gas policy for the future was even a subject warranting discussion.

In the October 20, 1979 Alaska Growth Policy Council Symposium entitled "Alaska's Financial Future," Governor Jay Hammond provided an understanding of what was in people's minds at the time. At that time, according to the Governor, "it was thought that the $900 million was enough to sustain us for many years..." As a result, the Government set out to implement programs to meet the needs of the people, and within ten years, State expenditures had risen 900%. During that period, there was not one major lease sale to broaden the State's revenue base. Instead, the State government looked to broaden the State's revenue base. Instead,

In addition to carrying out needed educational and social programs, the environmental goals reflected in the 1969 seminar were implemented not only at the State but also at the Federal level. Several of the most well-known environmental goals reflected in the 1969 seminar were implemented not only at the State but also at the Federal level. Several of the most well-known environmental laws that have been passed in the last decade reflect those concerns; the National Environmental Protection Agency is surely the most prominent. Additionally, there is the Endangered Species Act, the Ocean Dumping Act, the Coastal Zone Management Act, the Marine Sanctuaries Act, and, as a part of the Native Claims Settlement Act, there is D2.

The effect of these changes over the past decade has been monumental. For the people of Alaska, the changes have resulted in a unique economic environment. Alaska has the highest per capita income in the U.S., yet individual Alaskans pay a relatively small percentage of personal income as taxes. Alaska's state government has loaned out more money than any other. In the Lower 48, Alaskans are known as "the blue-eyed Arabs" because of Prudhoe Bay and the oil potential thought to exist in the State. With the recent OPEC price increases, Alaska now looks forward to a $1 billion surplus in unexpected revenues. From an oil industry perspective, Alaskans can hardly be viewed as environmental rapists either. The concern for the environment has made itself increasingly evident: from the repurchase of the Kachemak Bay Leases to a set of leasing regulations that result in a permit package weighing close to 93 pounds compared to some 3 pounds for such a package ten years ago. Given the beliefs of a decade ago, therefore, many of the perceived needs expressed in the 1969 Conference have been met. But, as Governor Hammond recently reiterated, Alaska depends on one resource—petroleum—for some 70% of the State's day to day needs.

the revenue base in 1968, that goal has largely not been met. At this point in time, a decade after the first such symposium, it is most appropriate for thoughtful people in the State to pause again and examine not only where we have been in the past decade but where indeed should the State be headed in the decades ahead.

Current Status Some New Perceptions About Alaska's Fiscal Future

In the past year, several prominent economists have reached similar conclusions about Alaska's fiscal future given their perceptions about Alaska's current stauts. Economists at the Institute of Social and Economic Research of the University of Alaska were among the first to write about the problem: the growth of State expenditures coupled with extremely high dependence on one field - Prudhoe Bay, which will decline - for the bulk of the State's revenue. Alaska Pacific Bank economist Bob Richards then wrote a report reflecting the same concern and analyzing some of the options. A year ago, the Alaska Oil and Gas Association commissioned a report entitled "Alaska's Emerging Fiscal Crisis" which highlighted the conclusions of both studies and cited further evidence of concern from legislative consultants such as Bonner and Moore and Milton Lipton as well as University of Alaska Professor Bradford Tuck. In the recent Public Symposium on Alaska's Financial Future, Arlon R. Tussing addressed the same problem and provided his own insights as to what can or can not be done about the problem.

Interestingly, these economists not only appear to agree about the problem but also about several elements affecting a solution. Yet it appears that many Alaskans in policy-making positions within the government are still operating with the assumptions of a decade ago, assumptions that are incorrect in light of the perceptions of 1979. As stated in the University report mentioned above "The future financial health of Alaska's State Government is one of the most crucial, and least understood, challenges facing Alaskans."[2] From our own experience in Alaska, Sohio would agree that the problem is not well understood. As the largest single tax-payer in the State, as well as a company with 75 of our assets here, we consider ourselves to be Alaska citizens and are concerned about these misunderstandings not only because they directly affect our ability to operate in Alaska but also

to highlight the findings of these economists and legislative consultants in the hope of both establishing the importance of oil and gas policy directions for the future well-being of the State and all its citizens (individuals and corporations) and suggesting policy alternatives that are appropriate to today's understaning of Alaska's fiscal position.

As previously stated, there is virtually unanimous agreement among major economic consultants to the State that Alaska faces a serious problem of dependence on a field that wil decline for the bulk of its revenues. There is recognition of this fact increasingly evident in the government as exemplified in public statements by the Governor. What is not well understood is what should be done about it or what can be done about it. The popular answer was voiced to a degree, without the current sense of urgency, back in 1969 before there was recognition of the implications of a government financially based on the Prudhoe Bay field. Without recognizing the problem, Alaskans felt a need to diversify the economic base. That is still a whorthwhile goal today, but few in policy-making positions seem aware that there are limtis to the degree that diversification can, in the near term, meaningfully contribute to the State's economy: that indeed Alaska is now and will be for the foreseeable future dependent on oil revenues to operate the government. This fact has profound implications for oil and gas policy, but before detailing these, it is important to understand why petroleum development is inevitably the keystone to Alaska's future economic well-being.

The Alaska Oil and Gas Association's "Emerging Fiscal Crisis" lays out much of the current thinking on the problem. In addition to submitting that booklet for the record of the symposium, I would like at this time to quote the following which explains why, despite its vast resouce potential, Alaska will still have to depend on petroleum reserves for the foreseeable future:

> Professor Bradford H. Tuck, Economic Analyst of the Federal State Land Use Planning Commission and Associate Professor of the University of Alaska, recently showed, by a few comparisons, how unrealistic it is to believe that non-petroleum resource revenues could possible contribute enough revenue—soon enough—to eliminate the need for petroleum revenue

Revenues in 1979 (real millions):

Revenues from commercial fishing would have to increase by a factor of 80, or

Alaska annual coal production would have to amount to 5.53 times total 1975 U.S. production, or

Alaska copper production would have to rise to 8.76 times total 1977 U.S. production, or

Personal income tax of Alaskans would have to increase by a factor of approximately five.

Professor Tuck acknowledged that, to a degree, the above is unrealistic in that, for example, no one revenue source would have to make up for the full burden of replacing petroleum dollars in the future, but the facts present a strong message.[3]

In his prepared remarks for the October 20, 1979 symposium on Alaska's financial future, Arlon Tussing's words evoked the same message and took it A FEW STEPS FARTHER TO POINT out some conclusions relevant to State policy planning. In summary, Tussing's message was as follows:

> Surplus state revenues guarantee economic growth for Alaska, but this growth is not likely to create a stable, diversified economic base, no matter how the money is spent or invested in Alaska.[4]

Tussing's reasoning is based on the observation that a number of factors including high labor costs and inflated land prices will continue to discourage investments that have to face price competition in national or world markets. Thus, he wrote, "only the biggest deposits of oil, gas, or metallic minerals, the densest and most accessible stands of timer, and the highest-value fisheries, will be able to overcome Alaska's high cost of doing business or its remoteness from the world's population centers."[5] Tussing further stated:

> The critical limits to the growth of Alaska agriculture of bottomfish processing, for example, are not investment capital or infrastructure, but rather include market development, technical experience, managerial competence, and the general sophistication of the surrounding economy. *Each of Alaska's other basic industries probably has its own natural pace of development; while state and federal regulation can retard its growth, the ability of government funds to force accelerated development is strictly limited.* (Emphasis added.)[6]

It is further pointed out that even construction of a gas line or a world-scale petrochemical plant or a world-scale refinery will not serve to diversify Alaska's economic base; in fact, the opposite is true. Alaska's dependence on petroleum will even be heightened, as each of these depends on a continuing source of petroleum. To avoid a total gloom and doom projection perhaps, Tussing concluded by stating that it is conceivable that "new oil and gas discoveries or the growth of some other basic industry" might postpone the predicted fiscal crash indefinitely. Sohio is in no position to guess what the "other basic industry" might be, but we are in a position to suggest some policy options that the State might wish to consider at this juncture in its history.

Implications for Oil and Gas Policy Now and in the Decades Ahead

To summerize up to this point, the fiscal trends of the past decade were reflected in the position papers of the 1969 confernce

on Alaska's future. The perceptions at the time included (1) a feeling that Prudhoe Bay revenues would be more than adequate indefinitely to support the kinds of social programs that were felt to be needed at the time and (2) a desire to promote non-oil and gas economic activity within the State. With these perceptions, there was little interest much less concern about fostering economic and regulatory policy conducive to oil and gas exploration in the State. The major focus of concern regarding resource development was in fact environmental alone.

Today, many Alaskans share a new concern, but few are aware of several important factors related to that concern. The concern is over the fact that the government is highly dependent on one field which will start its decline in the next decade. Further, there is virtually unanimous agreement among economists knowledgeable about Alaska's economy that the State faces a potential fiscal crisis as a result of the trends of the past decade; and the "charismatic" fiscal chasm, to use Revenue Commissioner Tom Williams words, may occur in some ten to twenty years, possibly as early as 1992.

A critically important factor that has yet to be widely recognized, particularly in government circles, is that for the foreseeable future, Alaska's continued dependence on petroleum revenue is inevitable. Because of Alaska's uniquely high costs, non-petroleum investments will perforce continue to face difficulties in view of price competition in national and world markets. The question emerges: will the State of Alaska have new sources of petroleum revenue from new oil and gas discoveries when they are needed to prevent possible collapse of the State's economy? In view of the perceived lack of need even to hold a major lease sale on State land in the past decade and considering past and recent regulatory and tax policy trends, the answer is unclear at best.

What is clear is the State's urgent need at this point in time to reassess or indeed assess for the first time Alaska's oil and gas policy trends in the light of the newly recognized fact that new oil and gas discoveries are *crucial* to the State's ability to survive as an economically viable institution in the decades ahead. With a contemporary understanding of the importance of new oil and gas discoveries to Alaska's survival, the State cannot afford to be capricious as to State policy affecting oil and gas. Indeed, there is a critical need to design and implement policies that will encourage much more exploration than has taken place in Alaska in the past decade. With some [illegible] of Alaska's jobs dependent on the petroleum industry, A[illegible]laska have a vital interest in this matter.[7]

In view of the high costs of operating in Alaska, concerned Alaskans need to step back and examine past and current leasing, tax and regulatory policy to determine if there are steps that can be taken to improve Alaska's perceived investment climate relative to that of other states. Even Sohio, with some 75% of its assets here in the State, has to consider outsiders' opinions of the Alaska investment climate for petroleum as it is often people outside the State who make the financial decisions as to whether or how much to invest in Alaska exploration and development. When Sohio was trying to raise capital to build the Trans Alaska Pipeline System, for example, we were turned down by potential investors who, in explanation during the formal Federal Energy Regulatory Commission proceeding, cited as reasons "the generally negative posture of environmentalists and the hostile political climate then existing" as well as the "hostile atmosphere" against the petroleum industry.[8] In light of the above, we offer the following suggested policy alternatives to enable Alaska to compete more successfully for oil and gas exploration and development dollars in the years ahead.

Leasing: To attract exploration dollars to Alaska, the State needs to allow access to areas believed by the industry to be most favorable for oil and gas discoveries, and this needs to be done on a scheduled, predictable basis. As Arlon Tussing observed in the recent conference on Alaska's financial future, cited above, even with oil and gas, "only the biggest deposits...will be able to overcome Alaska's high cost of doing business or its remoteness from the world's population centers."[9] Thus, it is important to lease acreage that the industry has expressed high interest in. Predictability in the schedule will not only allow efficient planning by the industry but also foster lower cost operations and assure that the infrastructure of service companies and contractors that have evolved in Alaska will continue in place, keeping their thousands of employees at work on a steady basis. Aborted lease sales or changes in the schedule create uncertainty that is devasting to industry planning and to the support industries. Lease sales in areas that are of little interest to the industry will not, of course, either attract investment dollars nor sustain

[illegible] systems, it would seem that to the extent that they discourage needed private investment dollars in exploration or unduly risk the State's financial future, they are not in the State's best interest. With the use of net profits bidding in the Beaufort Sea Lease Sale, for example, the State is running the risk of emerging a net loser which, in view of the predicted fiscal crisis ahead, would be an unmitigated disaster for Alaskans.

Tax Policy: If Alaska wants to compete for exploration dollars with other states, changes in petroleum tax laws may be warranted, particularly considering that the current tax structure is tailored to Prudhoe Bay, the largest oil field ever discovered in the United States. Again, particularly considering Alaska's high costs, the need to be competitive suggests that the total tax burden on oil and gas should at least be no higher here than in other prospective areas. Even in Alaska, the future is not likely to be more Prudhoe Bay-sized fields but rather smaller fields with marginal economics where tax policy will make a difference both as to exploration dollars invested and the decision as to whether a discovery is sufficient to be developed. Further, as with leasing policy, there is a need on the State's part to be predictable. As Milton Lipton stated in 1978:

> I think it's true that insofar as the State's budgetary needs or revenue deficiencies always seem to be made up by oil industry taxation, this becomes a disabling and discouraging thing for industry...This cannot be a matter of indifference to companies that have their choice of operating any place.[19]

Regulatory Policy: With the contemporary understanding of the crucial role of new oil and gas discoveries in maintaining the State's fiscal viability, it is critical that State officials re-examine the unprecedented regulatory burden that has evolved as a result of preparations for the Beaufort Sea Lease Sale. If there was ever a time to recognize that there must be a balance struck between environmental and developmental goals, it is now. As Senator Ted Stevens recently observed in a speech before the Anchorage Chamber of Commerce, the people in the Lower 48 are going to need and want Alaska's resources, and when the national need is preceived to be great enough, the people in the rest of the country will demand Alaska's resources—particularly oil and gas—and they won't care particularly what happens to Alaska's environment in the process.

[illegible] driving conditions proposed for the Beaufort Sea Sale—a deadline that could result in two to three years of unnecessary delay in drilling of a single well—Alaskans should work together to find solutions to concerns (such as the May 15 deadline proposed by Natural Resources Commissioner Robert LeResche) that neither compromise the environment nor indirectly lead to a backlash against such stipulations because of the delay they cause. For the same reasons, the emerging Coastal Zone Management Programs around the State need to be examined carefully by the Coastal Policy Council and legislature to ensure that local, state and national interests are considered in order to avoid a potential backlash harmful to the very environment that the proposed ordinances are trying to protect. The responsibility of State officials to work to find a balance between environmental and developmental goals at this juncture in Alaska's history is awesome, but that responsibility must be taken by all officials with responsibilities in those areas, and it must be taken now.

I would like to close by thanking the sponsors of this important conference for inviting a member of Alaska's oil industry to participate. The fact that the perceptions of 1969 led to the policies of the last decade gives us hope that the perceptions of 1979 will enable us to work together with those in Alaska's government in the decades ahead to create an environment in which Alaska's natural resources may be developed in a manner consistent with the goals expressed in the State's constitution: "It is the policy of the State to encourage...the development of its resources by making them available for maximum use consistent with the public interest"...of all Alaskans."

Footnotes

[1]"The Financial Foundations for Future Alaska." A Conference on the Future of Alaska. Seminar One Reports. Delta Group. p. 7.

[2]"Alaska's Revenue Forecasts and Expenditure Options." Institute of Social and Economic Research. University of Alaska. Vol. XV. No. 2. July 1978. p. 1.

[3]Starratt, Patricia E., *Alaska's Emerging Fiscal Crisis*. Alaska Oil and Gas Association. 1979. p. 7.

[4]Tussing, Arlon R., "Investing in Economic Development." Remarks delivered at a Public Symposium on Alaska's Financial Future. Alaska Growth Policy Council. October 20, 1979. title page.

[5]*Ibid*., p. 2.

[6]*Ibid*., p. 5.

[7]Reaume, David, Department of Commerce and Economic Development. Statement before Eighth Annual Economic Development Workshop for Alaska Communities. November 7, 1979.

[8]Bank, Richard K., Metropolitan Life Insurance Company. Prepared Testimony. TransAlaska Pipeline System. Dockett No. OR78-1. Federal Energy Regulatory Commission. November 20, 1977. pp. 7 and 12.

[9]Tussing, *op. cit*., p. 2.

[10]Starratt, *op. cit*., p. 12.

[11]"The Constitution of the State of Alaska. Article VIII. Section 1. Full text. It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest."

Biographical Sketch

During high school, Kenneth Showalter worked as a farm laborer, freight handler for B&O Railroad. During college years he worked part time in his father's hardware store and during the summer he worked as a carpenter on construction projects. Showalter joined the Standard Oil Company (Ohio)—Better known as SOHIO—in November of 1950 as a marketing department trainee. He worked a great variety of jobs in a half dozen locations around Ohio, including industrial sales, consumer sales, sales manager, site developer (real estate), division manager and department manager of pricing. In early 1975 he was assigned the job of Assistant Director of Alaskan Affairs and later promoted to Directo Alaska Government Affairs, his current job. His current employer is SOHIO Petroleum Company.

PROPOSED TAX STRUCTURE FOR ALASKA DURING A BUDGET SURPLUS

prepared by
Ken Gain

Introduction

During the decade of the 70's Alaska's burgeoning oil production, increased taxes on the petroleum industry, and the rapidly accelerating price of petroleum due to inflation and the high prices established by the O.P.E.C. cartel have produced substantial unanticipated revenue to the State of Alaska. As a result the State will be entering the decade of the 80's with surplus revenues in the range of $2-4 billion. In view of this large surplus, it is only appropriate that Alaska review and perhaps modify its existing tax structure.

History

Since Statehood, the tax revenue needed to support state government has come primarily from the following sources:

(1) Severance taxes on petroleum extraction, and ad valorem taxes against petroleum related facilities;
(2) Excise taxes levied primarily on the sale of gasoline, tobacco and alcohol;
(3) Gross business tax levied against the gross receipts of Alaska business; and
(4) Corporate and personal income tax.

At the beginning of the 70's, the principal source of State revenue was the corporate and personal income tax. However, during the decade, a series of new and larger taxes levied against the petroleum industry as well as the increasing production of and price of petroleum, have increased the revenue from petroleum related taxes to the point where they constitute over 65% of the State's current tax income. This increased income from petroleum related taxes as well as the State's royalty income from the sale of State owned oil, has been responsible for creating the large unanticipated surplus.

By 1978 it became obvious that the State would begin securing surplus income from oil taxes and royalties and therefore, certain modifications of the tax structure were adopted by the 1978 Legislature. As of January 1, 1979 the gross business tax, which was an extremely unpopular tax with business people, was repealed. In addition, the net cost of the personal income tax to Alaska residents was reduced through enactment of an "Individual Income Tax Credit." This resident tax credit allows a tax credit of $100 per taxpayer ($200 for joint returns) against taxes otherwise due in 1979 and will increase to $300 per taxpayer ($600 for joint returns) in 1981.

As a result of the unanticipated surplus, considerable discussion has been generated in recent months on the subject of abolishing or significantly reduing the personal income tax. Although it would of course be possible to reduce other taxes, no substantial support has developed toward reducing them. It is considered highly unlikely that anyone but the petroleum industry would support a reduction of taxes against that industry and therefore the author will address only the probabilities of reduction or elimination of some of the other taxes. Because alcohol and, to a lesser degree, tobacco create substantial public health costs as well as other social welfare costs (related to alcohol), the current taxes on these items do not yet offset their social costs. Therefore, repeal of these taxes would meet with substantial opposition. The increased price of petroleum, which is responsible for the unanticipated surplus, has also greatly increased the cost of gasoline to the Alaskan consumer. Therefore, support could be generated for a repeal of the excise tax against gasoline which would thereby reduce its cost to the Alaskan consumer. However, in terms of the overall current price of gasoline and the future anticipated cost, the elimination of this tax would not make a substantial price difference. Moreover, it is the opinion of this author that price is the ultimate answer to the conservation of petroleum products and therfore elimination of the excise tax against gasoline would only delay petroleum conservation in Alaska. Based on the foregoing, it therefore appears that the prime candidate for reduction or elimination is the personal income tax and the corporate income tax.

Putting the Income Tax in Perspective

In analyzing Alaska's personal and corporate income tax, it is important to understand the relationship with the Federal income tax. The regulations for the Alaska income tax closely parallel those for the Federal income tax and is based upon a percentage computation of the Federal tax. There is, however, one significant difference. Federal income tax rules provide that State income taxes are an allowable deduction for taxpayers who itemize deductions on their Federal Income Tax Return. Therefore, an Alaskan taxpayer, in the highest Federal bracket (70%) may deduct 70% of the amount of State income tax he pays from the amount of Federal income tax he pays. This means that for the highest income brackets, the net cost of the State income tax is only 30¢ on the dollar. For a person at the lower end of the income bracket (14%), the net cost is a sharply increased 86% of the actual tax. For the person who does not itemize deductions on his Federal tax return, the amount of Alaska income tax paid has no affect on the amount of Federal income tax paid, and therefore the net cost to him of the Alaska income tax is 100% of the amount paid. In almost all cases, it is usually advantages for persons who own homes (due to the fact that mortgage interest and real estate taxes are itemized deductions), or who have high incomes to itemize their deductions on the Federal return. Therefore, it can readily be seen that the persons who pay the highest percentage of net dollars (although not necessarily the most dollars) in State income tax are those persons who rent or who are in the lower income tax brackets.

In analyzing the income tax, it is also important to analyze just who is really paying that tax. In a recent talk, Governor Hammond indicated that the gross revenue from the personal income tax was approximately $130 million, of which amount $30 million is paid by non-residents of the State of Alaska.

It must be remembered that most projections indicate that the income from petroleum taxes and royalties will sharply diminish within fifteen years unless there are additional oil discoveries. Therefore, the projected level of state spending will begin resulting in deficit budgets. Any elimination or reduction in taxes to Alaskan residents is likely to be temporary in nature.

Before enacting any new tax, four basic questions which must be answered are as follows:

(1) Is the tax reasonably fair?

(2) Is the tax reasonably easy to administer?

(3) Is the tax reasonably related to the ability of taxpayers to pay?

(4) Will the tax have an undue negative affect on the economy? (Since government is not as efficient in its utilization of capital as private enterprise, higher taxes will always have some adverse economic impact.)

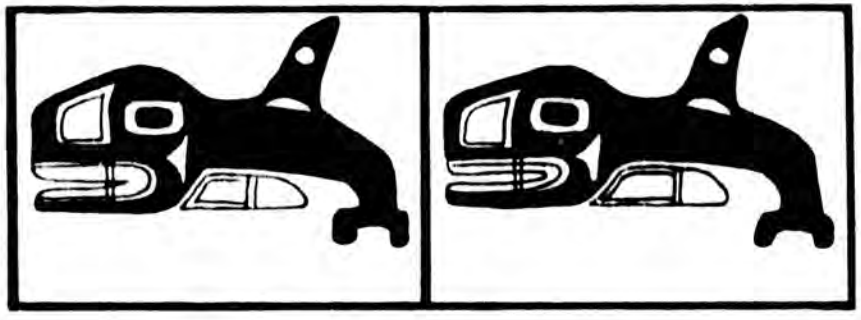
Therefore, when consideration is given to the reduction or elimination of the tax, it is only reasonable the same criteria should be applied.

One Alternative is to Simply Eliminate or Reduce the Current Income Tax

In analyzing the pros and cons of the alternatives the criteria which would be used for imposing a new tax will be applied.

Pros

The reduction or complete elimination of the income tax is incredibly simple to administer. With taxes reduced, it is a simple matter of reprinting the tax schedule. If they are eliminated it would be relatively easy to disband that portion of the Department of Revenue dealing with the income tax. It is certainly reasonably related to the ability to pay since no one would be paying any income tax. On the one hand it can be argued that it is very fair, since those persons who will benefit are those persons who are paying the taxes in the first place. However, a sub-



statistical argument can be made that the reason the tax can be eliminated is due to the profits derived from Alaska's natural resources, and that since these resources belong to all of Alaska's residents, all of them should share in an equitable manner. Unfortunately, the matter as to which approach is the most fair is pretty much a matter of individual philosophy and should be the subject of a book on philosophy rather than a brief paper on tax structure.

Cons

The negative arguments against complete elimination of the income tax begin with a discussion of whether or not it is fair which, as discused above, is a matter of individual philosophy. The overwhelming argument, and of this author's opinion, the key issue against eliminating the tax is the economic impact on the State of Alaska. As discussed earlier in this paper, any reduction in the Alaska income tax will, for the taxpayer who itemizes his deductions, increase his Federal income tax. Therefore, a significant portion of the amount of reduction in Alaska income tax will be offset by a corresponding increase in Federal taxes. Although the author does not have at his disposal hard statistics as to the percentage of Alaskans who itemize Federal returns and their averge Federal tax rate, it is reasonable to assume that since approximately 50% of all Alaskans are homeowners, approximately 50% do in fact itemize deductions on their Federal tax returns. Based on examination of Alaska's per capita incomes, it is reasonable to assume that the average Alaskan who itemizes his Federal tax return would conservatively be in the 30% Federal tax bracket. Therefore, complete elimination of the $100 million in State income tax paid by Alaska residents (Governor Hammond's figures) would amount to a corresponding increase of $15 million in Federal income taxes (50% x $100 million x 30% = $15 million). Considering that $30 million of the total $130 million in income tax is paid by non-residents, the complete elimination of the personal income tax would result in only $85 million (or approximately 65% of the loss of revenue to the State) in the pockets of Alaska residents. While an additional $85 million at the personal disposal of Alaska residents would certainly enhance the economy, it is this author's opinion that we should strive for a higher return.

The Recommended Tax Structure

It is this author's opinion that the State would better be served by keeping the income tax in force and providing a series of tax credits which will either reduce, eliminate, or provide a negative tax based on a series of tax credits related to the high cost of living in Alaska. This proposal would be based on continuation of the current "Individual Income Tax Credit" with additional credits equal to the amount of real property taxes and heating and electricity paid, or indirectly paid as a renter, on a permanent residence within the State of Alaska. Obviously, there would have to be some limitation as to the amount of such credits. These credits could easily be established, year to year by the Legislature, depending on the amount of revenue needed to operate the State. Assuming that it is the intent to completely eliminate the $130 million collected in income tax, it wuld be possible to calculate these credits as the maximum of the actual total (i.e., sum of the current individual credits, plus the cost of real estate taxes on the residence, plus the total cost of the heating and electricity for that residence) or say $325 per family member, which is the approximate per capita amount based on $130 million income tax revenue. Since a portion of this recommendation is to allow an actual negative income tax, it is important to separate the tax structure from the welfare system. It is therefore recommended that an additional maximum limitation be established as 50% of the taxpayer's gross earned income.

To allow renters to take advantage of credits for taxes and utilities, which they indirectly pay through the owner of the property, it will be necessary to place a certain administrative burden on owners of rental property. To offset their cost in providing this service to tenants, it is proposed that owners of rental property be allowed to deduct as tax credits the amount of credits for real estate taxes which would be attributable to vacant units. As an illustration of how this would work, assume that a taxpayer owned a four-unit apartment building on which the real estate taxes were $1,200/year and that throughout the year he averaged a vacancy of 25%. In this instance, the renters of each unit would receive a $300 credit and the owner would receive the remaining $300 credit. The renters would, in addition to the credit for real property taxes paid, receive credit for their pro rata share of the utilities.

Relief to corporations paying the corporate income tax should be provided by allowing tax credits to help offset the high cost of doing business in Alaska. While it would be possible to establish corporate credits for real estate taxes paid, and utility costs, it is this author's opinion that a more beneficial type of credit should be related to the number of Alaskans employed. It is therefore recommended that corporate income tax relief be related to Alaska employee credits. Under this system each corporate taxpayer would be allowed a tax credit, equal to an amount established by the Legislature, for each employee who is an Alaska resident. By utilizing this form of credit, there would be greater incentive to those types of industry and business which are labor intensive and therefore provide greater benefits to more Alaskans. It would even be possible to allow higher credits for certain industries, the development of which the Legislature would like to encourage.

Since these credits are likely to be temporary in nature, and may vary from year to year, the most efficient method of administering the credits is to prepare an additional schedule to the current income tax form. After the taxpayer completes his normal income tax computations, he would then prepare the form for his credits. So that the taxpayer realizes that he will ultimately pay for any new government programs enacted, and that the credits are in fact temporary, the form should have a label such as "Temporary Tax Credits Due to Surplus Petroleum Revenues." By utilizing this method, the amount or limitation on the credits could be varied from year to year, depending on the State's revenue needs, while at all times maintaining a high level of consciousness with the taxpayer that he is ultimately responsible for the cost of government programs.

Pros

The recommended alternative is fair if the reader subscribes to the philosophy of fairly equal distribution of the benefits among the entire population. Because it spreads the amount of tax reductions more evenly through the populace and is related to cost of living and doing business in Alaska, it is more related to the ability to pay than the alternative of a complete elimination of income taxes. With the exception of credits which would accrue to non-resident corporations employing Alaskan residents, all of the credits would accrue to the residents of Alaska and therefore would provide a greater dollar impact on our economy. Because of the broader distribution and the allowance of a negative income tax, the benefits would accrue more heavily to persons who do not itemize their Federal income tax returns, and therefore will reduce the amount of the tax reduction benefits, which would be lost through increased Federal taxes.

Cons

An argument against this recommendation is, of course, the element of fairness which again depends on philosophy. Another argument against the proposal is that it would be more complicated to administer than a complete elimination of the income tax. On the other hand, the mechanism already exists for administering the income tax and with the exception of providing regulations for determining the amount of credits to renters, it should not be significantly more difficult to administer than the present law. Since owners of rental property would be receiving some benefits in exchange for calculating credits to renters, they should be quite cooperative.

Summary

In summary, it appears that the recommended course of action is preferable to complete elimination of the income tax in that it directs more dollars into the Alaska economy, and will benefit more Alaskans, particularly those currentle receiving no reduction in Federal taxes for the amount of State taxes paid. It also has the benefit of providing the greatest tax reduction for those businesses providing the most jobs for Alaskan residents.

While adoption of this tax structure would leave some higher income Alaskans still paying income taxes, it must be remembered that these higher income persons are already receiving substantial credits against the amount of their Alaska income tax through reduction in the amount of their Federal income tax. Therefore the issue of fairness does not seem to be an overwhelming one.

The major objection against the recommended tax structure, as opposed to the alternative of eliminating income taxes, is that there is no cost or effort involved in the elimination of income taxes. However, it is likely that at some future date it will be necessary to again levy income taxes and the amount of tax reduction benefits lost to the Federal government and non-

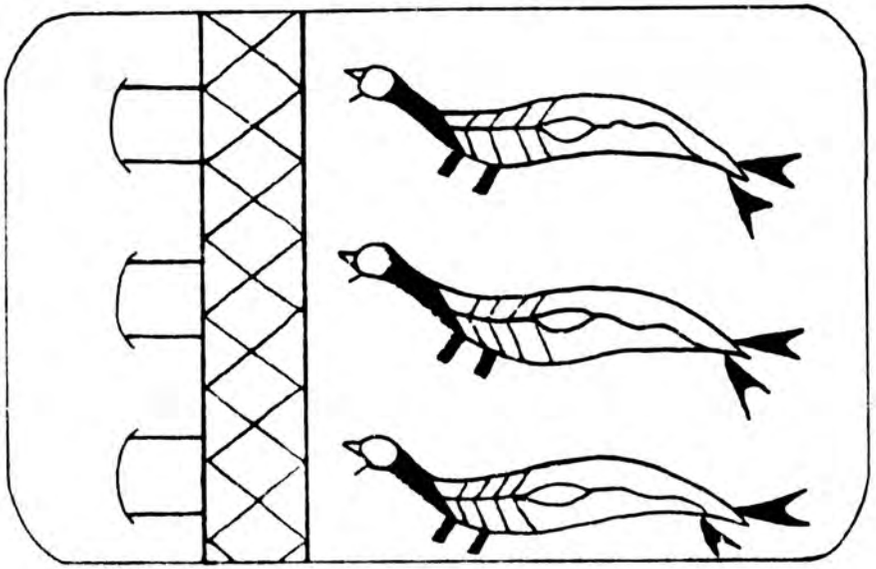
the Legislature to distribute benefits from our petroleum wealth greater than the amount of income taxes, but still retain the necessary mechanism to levy taxes which might be required in the event of some unforeseen change in petroleum revenues.

Footnote

[1]According to the Department of Revenue, actual revenue for fiscal 1979 from income taxes was $117,181,248.80 from personal income taxes and $24,828,170.87 from corporate income taxes for a total of $142,009,419.80. They were unable to, as of the date called, verify the amount paid by non-residents.

Biographical Sketch

Kenneth Jay Gain, MAI, SRPA, SRS, CCIM, is a 28-year Alaska resident who is currently employed as President of Professional Realty, Inc., and as Chairman of Real Estate Services Corporation, of Anchorge, Alaska. In his personal practice he specializes in counseling clients in achieving tax shelter through investment in real estate. He has also organized and currently manages some 15 partnerships designed to provide tax shelter for investors.



PERMANENT FUND

prepared by
Emmitt Wilson

Since it became apparent several years ago that Alaska would be able to accumulate a sizable surplus due to mounting revenues from the North Slope Oil Reserves, everyone and everybody has developed their plan for managing or spending these revenues. The past two sessions of the State Legislature have considered the idea of a permanent fund bill to establish the control of this apparent wealth.

In reviewing the report on the Brookings Institute Conference held ten years ago after the $900 Million oil lease sale, it is obvious that trying to predict and predetermine the actions and consequences of the next ten years will be nothing more than guesswork on the economists part. Throughout a history that has experienced the failure of four distinct economic systems, economists, for the most part, have only projected from current assumptions and later explained why their predictions failed. Ten years from now it is unlikely that my statements and recommendations will have stood the test of time but I offer them in the belief they would be good for Alaska today and well into the future.

The number one controversy that exists within Alaska at this moment is what to do with $1 to $4 Billion the State will apparently receive this fiscal year, over and above all operating costs-and the possible $45 Billion of such accumulated surplus by 1995. It appears we are now in the position that John Maynard Keynes would describe as having a budget balanced at naught on both sides, with the community starving to death because of inability to put itself to work. Theory and practice have lost contact.

At the very same time we are amassing these billions of surplus dollars, we are witnessing the failure of hundreds of Alaska businesses due to the lack of financing. Our homebuilding industry that is so vital to continued economic growth and expansion is being devastated because of the lack of mortgage money within the income limitations of the homebuyer. Moreover, hundreds of

[illegible] can be gainfully employed. Prior to [illegible] we need to answer at least four questions:

(1) Should Alaska continue to tie itself to the monetary policy of the Lower 48?

(2) What exactly is economic growth and is it desirable?

(3) Have we enough of it now?

(4) How can we get more of it, if we desire?

Should Alaska continue to tie itself to the monetary policy of the Lower 48?

By sharply increasing interest rates and adopting direct controls on the money supply, Chairman, Paul Volcker and the Federal Reserve Board have ordered what could be a long and severe recession with higher unemployment a certainty. This could be costly to Alaska's economy even if Mr. Volcker were right in predicting that it will bring inflation down, perhaps to 10% by the end of the year.

This is unlikely, however, since Alaska's unemployment rate is well above the Lower 48 and much of the inflationary boom is beyond the reach of monetary policy. The market power of big business to set wages and prices is a good example. So too is OPEC oil pricing, with another increase expected in December. A huge increase in social security payroll taxes in January will increase employer costs, drive up prices and reduce employee take-home pay, creating new pressures for catch-up wage increases. Higher interest rates are in themselves inflationary in the short run, since they increase the cost of money. Federal tax collections will decline with the Gross National Product and federal outlays for recession relief will rise steeply. The resulting increase in the deficit will be upwards of $20 Billion for each percent of unemployment. This deficit will have to be financed at the higher rates of interest decreed by the Fed, which will further increase the deficit.

Productivity, the lack of which is another cause of inflation, is not improved during recession. Factories have to be operated at less than efficient levels of capacity and investment falls off due

[illegible] head of the AFL-CIO, has called the Volcker [illegible] the wrong move at the wrong time."

Since World War II there have been three recessions with nearly five million unemployed, with ratios rising to almost 8 percent. This is not an indication of healthy economic growth. The main problem appears to be the huge U.S. trade deficit we are acquiring due primarily to the demand for energy that last year amounted to $40 Billion and is estimated to reach $90 Billion in the coming year.

Alaska does not face such deficits. Instead, we are blessed with resources that insure tremendous increases in our Gross National Product." We have sources of continued cash flow, far and above the needs of prudent state government. Why then should we not return some of this income to the electorate in the form of tax relief, low interest loans and programs to benefit education and health? Instead, we are becoming part of an orchestrated recession being created by the Feds. We have the resources, the markets, the people and finally the money we have always lacked, until now, to build ourselves the best life and dynamic economy of any state in the Union, and of most countries, for that matter.

What is economic growth and is it desirable?

There are a variety of criteria for economic growth such as "the dollar output of goods and services," or some in the more abstract, such as "progress," "well-being," "higher living standards," etc. Measurements, meanwhile, can be in physical units, such as energy, tons, dollars, and also in human terms, such as the number of people employed and unemployed.

Affluent societies do not need to increase their tonnage of physical goods as much as they need to increase services; including the arts of living. Beyond the dollar totals, beyond full employment, lies this central question - *How well does the gross output serve the people who live in the economy?* Alaska is abundantly supplied with hard and soft minerals, water, forests, fish and money. We are seriously under supplied with job opportunities, schools, teachers, hospitals, housing, livable cities and many public necessities. We need to monetize our resources and our men and women.

Our economy is far below potential at the present time. We should never forget the fundamental goal, *to keep citizens employed and the community healthy.* Until every person who wants to work is working, until every housing unit has food, shelter, clothing, health services and education, we have not adequately managed our economy.

How can we get more of it (economic growth) if we desire?

It has never been done in an open society without increasing its debt. Our so-called free enterprise system is primarily a debt system, where bank money, which began as a debt of the borrower, is converted into new wealth. To increase the growth rate, money must go into the flow faster than it is taken out. The new money, it has been found, will also stimulate an increase in spending over and above the amount of the original addition.

John Maynard Kaynes was the first to draw attention to what is now generally known as the "multiplier." When money is motionless, as in a sock or a vault, nothing happens-except to the ego of its possessor. When it is spread around the market, the initial expenditure activates a series of waves, like a stone thrown into a pool of water, which continue to expand for some time.

Most of us assume that the initial spending is the only spending; we completely neglect the multiplier. Thus $1 Billion, borrowed from the banks and spent by the government to put a man on the moon might be regarded as a total loss, to some, money down the drain. Actually, owing to the multiplier effect, perhaps $2 Billion will be spent for food, shelter, clothing, health and education. The scientists, engineers and workmen spend their salaries and wages. The individuals who receive the money spend most of it save some of it. Business firms also save some of it, as the dollars go around and around in the circuit

Professors Canto, Joines and Webb of the University of Southern California, Graduate School of Business Administration, did a study on the effect of Proposition 13 in California. Proposition 13, which became law in July, 1978, placed a lid on property taxes at 1% of market value and dropped revenues on which counties, municipalities and school districts rely, from $12 Billion

to about $5.6 Billion. The $6.4 Billion cut in property taxes was approtioned as follows: only $2.3 Billion went to homeowners, with the landlords getting $1.2 Billion and commercial and industrial interests winning a $2.9 Billion cut.

The $2.9 Billion cut for the Business Community prompted Governor Brown to urge corporations to invest their tax savings in California to create more jobs and a "Buoyant Economy."

The report which was presented a year after the Bill was enacted showed there was a decline of 100,000 jobs in the public sector but a creation of 552,000 new jobs in the private sector. The unemployment rate in California declined from 7.6 percent to 6.2 percent while the U.S. rate declined from 6.1 percent to 5.8 percent; the lowest gap in 20 years for California.

To [illegible] income tax cuts in [illegible] were followed by a [illegible] in unemployment and a dramatic increase in the Commonwealth's surplus. Similarly, the professors noted that in 1982 and 1984 tax cuts resulted in the national economy experiencing "a period of unprecedented expansion," with unemployment declining from 6.7 percent to 3.8 percent in 6 years.

These examples illustrate the multiplier effect. It doesn't matter if it is in the form of a tax cut or *new* loans. If it allows an addition to current investment which would not have occurred otherwise, incomes will necessarily be increased and at a rate which will normally exceed the rate of the increased investment.

Money lenders, centuries ago, issued gold certificates to an amount greater than the gold in their vaults. They thus created money "out of the air," or more properly, created the means to finance an increase in production. They took a calculated risk that the gold certificates with inadequate metal behind them, would stimulate enough enough activity by the borrower so that he would possess new wealth, and could repay the loan and interest.

Keynes summarizes the modern process. A grant of bank credit, and the checks resulting therefrom, will tend to:

(1) increase the output of wealth,

(2) increase employment,

(3) improve wages, and

(4) raise the gross national product.

The bank credit comes "out of thin air" to begin with, but usually materilizes into useful economic events. Credit can be extended to a businessman, to a government, to an individual or to a charitable enterprise, for that matter. The businessman normally gives his note, the government its bond, or short-temr paper. Both help to create money or numbers never before in existence!

The only thing that has ruined this desirable process is infla-

[illegible] for the or equipment goods & services. Inflation can be independent of, and is not necessarily correlated to, the amount of money or credit available."

We've been offered hundreds of contributing causes of inflation, most of which are really effects, not causes. In any viscious cycle, an effect becomes a cause, and vice versa. High interest rates are a case in point. Inflation requires high interest rates. Lenders are entitled to receive back at least as much value as they lent. If the dollar is worth less at the end of the loan period, equity demands that the lender receive enough additional dollars to make up for the loss in value of dollars lent, but interest costs are part of the expense of doing business, so high interest *resulting* from inflation in turn *causes* more inflations.

Until we completely change our U.S. corporation tax structure to a graduated rate (above $100,000 earned) we will not stop inflation. With a g[illegible]uated corporate rate, price and profit increases would be as wo[illegible]less to business as wage increases are to labor. As it is now, wage increases are just added on to the price, plus the profit on the increase, and passed on to the consumer.

A graduated corporate tax program that would achieve this end of price-wage spiral would be profitable to business, labor and the entire economy since each would gain more real buying power instead of dollars worth less all the time.

Martin J. Meyer and Dr. Joseph M. McDaniel, Jr. wrote a book entitled *Don't Bank On It*. In it they say "Believe it or not, any sum of money deposited in any Bank or Savings and Loan Association at any time during the past 10 to 25 years, after deductions of average income taxes on interest earned, would have brought more loaves of bread, more heads of lettuce, more rides on the subway or more copies of the *New York Times* with the original deposit than it will today will all of the compound interest added. Money must be made to multiply itself many times over in the span of a score of years if the thrifty are to keep pace with inflation."

The best Master Trust Agreements offered by the top banks and money managers with their "very *aggressive*" asset mix of [illegible] return of 11.8% over a five year period. Their [illegible] asset mix of 80% bonds, 6% [illegible] and 9% cash is projected at 9.3%. After adjustments for management fees and taxes (in the case of corporations and individuals) the net after tax return is more like 6.4% to 6.8%.

The State of Alaska, to my knowledge, has never had a net effective yield on its investments in excess of 8% annually. Meanwhile, an inflation rate of at least 10% is predicted for this year.

Under these conditions how can anyone argue that "Saving" our surplus money for future generations is the correct path to take when we are not even getting our own money back at the end of the year.

The State can, however, realize a much higher rate of return if we can obtain the direct results of the multiplier effect within our economy.

Take for example an 11% net return from a master trust agreement in comparison to an 8% - 30 year loan on a new home built in Alaska using a $100,000 principal amount. The 11% will make the State $11,000 in interest the first year. The 8% home loan will only return $8,000. How can we justify this? At least 50% of the $100,000 is labor that the economists say turns over 5 to 7 times before winding up in someones bank account. Let's be conservative and just figure 4 times, or $200,000 of direct benefit to the economy generated by the labor portion of this one loan. The land that was subdivided required permits from the municipality, soils tests, engineering, title reports, legal documents, utility design and construction, all before the lot was produced. The house, besides the labor, required the materials and equipment and tools, all of these things contribute to a continuous sequence of expansion and we call the multiplier pro[illegible]ess. And taxes are paid to the municipality and state each time the sequence occurs. The property tax at 9 mills on an $80,000 assessment would be $720 per year. The state income tax on $200,000 in a 9% tax bracket would be $1,800.

The difference between the 11% and the 8% rate to the homeowner would be $218.50 *less* per month. Assuming most of this

went back into circulation with the multiplier effect of 4-1 it would mean $10,488 per year additional benefit to the economy. Considering these compounding beneficial effects how could anyone say that "outside" investment is better for Alaska, unless you do not want growth or employment.

The similar advantages of providing superior rate financing to Alaska businesses would be just as dramatic. If you would pull 20 case files at random from the State Business Loan Section, that were made without bank participation, you would find typically a $100,000 loan at 8% for 10 years will provide that business $500 - $700 of new money per month that it didn't have before. Applying the multiplier effect to this, it should become obvious that just as the tax cut under Proposition 13 put new money into play, that created jobs and actually more than made up the tax loss, this same result could be accomplished in Alaska by just lending people their own money at reasonable rates.

I would strongly recommend that 50% of the Permanent Fund be allocated for investment in a revolving loan fund for Alaska homeowners and businesses.

From every indication, the abnormally high interest rates decreed by the Feds will be forced back down within one year. Treasury Secretary, G. William Miller, the administration's chief economic spokesman, in a recent appearance before a subcommittee of a House-Senate joint economic committee, assured them the administration is prepared to "offer alternatives" to the current policy. The Treasury-Secretary said he believes a two-tiered system of bank interest rates, with lower rates for smaller business "makes good sense."

Lawrence B. Simons, Assistant Secretary of Housing and Urban Development, on November 9, 1979 confirmed that they are about to ask Congress for money to buy single family mortgages at below-market interest rates. A 1974 law authorizes $10 Billion for such purposes.

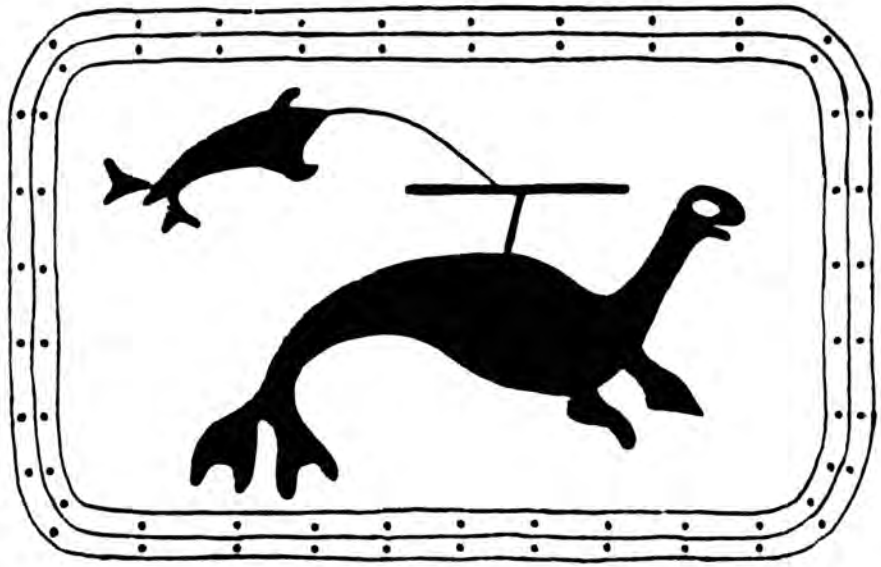
When the rates drop, Alaska could sell its mortgage portfolio or utilize the bond market "to create money," if it wished. In this manner the original funds could be leveraged to many times their original amount.

These loans should be available to all qualified Alaskans, regardless of income or mortgage amount limitations. The process for smaller business loans should be simpler and faster, and bank participation should be a choice of the borrower, not a compulsory requirement.

The Permanent Fund can provide the energy Alaska's economy has been waiting for...an adequate flow of money that can add millions of dollars of income and thousands of jobs.

Biographical Sketch

Emmitt Wilson is the director of the Alaska Teamsters 959 Credit Union.



David L. Allison

The issues of management, regulation, harvesting and processing of the fish resources located off the shores of Alaska have been in the forefront of the debate over Alaska's Natural Resources Policy since prior to statehood. However, not since the 1930's and 1940's when codfish salteries located along the western and northwestern coast of Alaska closed down, has there been significant domestic and Alaskan concern for high volume - low unit value seafoods such as pollock, cod, rockfish and sablefish.

In 1976, after much debate, and in the face of strong opposition from the U.S. Department of State, Congress passed, and the President signed, the Fisheries Conservation and Management Act of 1976 (FCMA).

The FCMA provided new opportunities and challenges to the State of Alaska. The extension of U.S. fisheries management jurisdiction from 12 to 200 miles opened up a vast protein resource to American fishermen and processors. The options for the State of Alaska were:

(a) to do nothing about development of this new resource;

(b) to follow the lead of industry;

(c) to follow the lead of the federal government; or

(d) to take the lead by coordinating the efforts of state, federal and private sector interests towards the goal of maximizing the benefits of development for Alaskans.

Governor Hammond chose the latter option, and, with the support of both houses of the Legislature, he established a Bottomfish Development Coordinator in his office and appointed members to a newly constituted Bottomfish Task Force. The Governor charged the task force with the responsibility of planning a State Bottomfish Development Program which would:

[illegible] and profitably in domestic and world markets;

(b) develop, within a period of approximately 20 years, the domestic utilization of Alaska bottomfish resources to the fullest optimum yield;

(c) encourage the establishment of permanent onshore processing facilities through state support of adequate port/harbor and community infrastructure;

(d) encourage the maximum participation of Alaskan workers and entrepreneurs in the bottomfish industry; and

(e) conserve and manage the fishery resource for a long-term, sustainable fishing and processing industry in Alaska.

Goals and policies were recommended by the Task Force and established by the Governor. State funded demonstration projects and surveys of industry and community needs were conducted. As a result of state executive and legislative efforts, the State of Alaska initiated the most complete and comprehensive program for domestic development of underutilized species of any of the states. Even federal assistance programs and policies, as we move into the 1980's, are keying on the state planning and development activities. *The State of Alaska Program for Development of the Bottomfish Industry* has become the framework within which a flexible and dynamic development program can be constructed, extended and maintained. This paper is an overview of the State program with notes on what it is, who is involved and where the program is headed in the future.

The State initiated program has now reached a significant stage of expansion. Community needs assessments directed by the Arthur D. Little planning document have been completed by the Department of Community and Regional Affairs through the first, or study, phase. Demonstration projects have been completed in several areas of the state and documents have been submitted detailing the experience of the processors and fishermen involved in those initial projects. Educational and informational conferences have been well attended, regulatory structures have been reviewed and potential barriers to full development have been identified.

The effects of the FCMA and state efforts are already beginning to become evident. Black cod (sablefish) fishing and processing effort has shifted from Japanese fleets to U.S. vessels during the past nine months. The domestic black cod fleet has expanded in only 18 months from fewer than 20 small handline vessels to more than 50 boats with state of the art automatic longline gear on many of them. Foreign vessels are being moved out of the tanner crab fishery over the next two years, and even that action is regarded as too slow by the fishermen. The latest 125 foot class vessels from the troubled king crab and salmon fleets are being modified with bottomfish and mid-water gear and onboard heading and gutting equipment to allow seasonal participation in the bottomfish fishery. Diverse elements of the industry, including processors and fishermen in small towns and villages around the coastal rim as well as federal and regional assistance agencies, are turning to the State of Alaska for direction and information on how and where the most effective further development of the industry should take place.

In establishing the State development program to date, the following elements of state government have directly participated and will, along with additional divisions and departments, have continuing responsiblity through completion of the twenty-year plan:

(1) Office of the Governor:

a. Bottomfish Coordinator and several Special Assistants*
b. International Fisheries and External Affairs*
c. Coastal Zone Management*
d. Division of Policy Development and Planning*

(2) State Legislature*

a. Joint Committee on Resources
b. Bottomfish Interim Committee
c. Office of the Speaker of the House
d. Office of the President of the Senate

(3) Department of Commerce and Economic Development*

(4) Department of Community and Regional Affairs*

(5) Department of Education

(6) Department of Environmental Conservation*

(7) Department of Fish and Game*

(8) Department of Labor*

(9) Department of Public Safety

(10) Department of Transportation and Public Facilities*

(11) University of Alaska

*Represented on Work Group or Task Force

In addition, the Governor's coordinator and the legislative program managers have integrated into the planning process fishermen and fishermen's organizations, native regional corporations, village corporations, labor unions, seafood processing and marketing representatives, the Alaska Fisheries Development Foundation, Economic Development Administration, National Oceanic and Atmospheric Administration (NOAA), National Marine Fisheries Service (NMFS), North Pacific Fisheries Management Council, and the Army Corps of Engineers.

The effective coordination and correlation of these local, state and federal agencies with one another and with the private sector industry interests remains an essential part of the fishery development program as we move from the organizational stage into active implementation of the program design.

Phase II of the development program, the implementation phase, is ready to get underway. In Phase II fishermen off Alaskan shores should accelerate their capture of progressively larger portions of the optimum yield (OY) of bottomfish and other underutilized species. Both onshore and offshore domestic processing expansion should begin to impact foreign allocations. Port and harbor development, together with shore-based support infrastructure, will be moving rapidly into the desing and construction stage.

Sufficient data is also becoming available through studies

of the University of Alaska and the University of Washington to answer long standing questions regarding socio-economic impacts, cost-benefit comparisons between gear and vessel types, likely employment scenarios, foreign investment impact and quality assurance requirements. Such study and research efforts will continue as an integral part of the implementation phase with the results of those efforts being incorporated into the twenty-year development program on an ongoing basis. The state program is moving according to schedule toward realization of goals and objectives set by Governor Hammond in 1977, 78 and 79.

Projects underway and tentatively planned for FY81 and FY82 are directed towards accomplishing the following tasks:

(1) Complete a full analysis of the labor force characteristics of the fishing and fish processing and marketing industry.

(2) Encourage and facilitate the creation and utilization of a trained Alaskan labor pool.

(3) Reduce the extent of the boom-bust economic cycle and extremes of seasonal unemployment in coastal areas, both in fishing communities and business and supply centers.

(4) Analyze the impact of foreign investment and market control on Alaskan fishery development and work towards resolution of problems flowing from such situations.

(5) Refine and expand data base on amounts and locations of stocks of fish and increase the utility and availability to the industry of data accumulations.

(6) Develop and implement means and methods to more effectively distribute necessary technical and practical information to fishermen and processors. [A comprehensive whitefish processing manual is now available as a result of a Kodiak demonstration project this past year.]

(7) Make available additional bottomfishing education programs for fishermen and processors from basic bottomfish fishing and processing skills to specialized procedures for trawl

of high technology

(8) Complete the identification of appropriate locations and begin design and construction process for establishment of port and harbor facilities as well as water, power, sanitation, housing and transportation infrastructure in targeted communities.

(9) Update and refine goals, policies, objectives and activities of the state program to conform to results of ongoing study and research efforts.

(10) Identify and analyze new or expanded finance and bonding mechanisms for infrastructure development and direct financial assistance to fishermen, processors and marketing organizations to assist their entry into the bottomfishery.

(11) Continue analysis of marketing and quality assurance problems and formulate proposals for addressing those problems.

Among specific communities and areas likely to be impacted by the development programs underway or contained in the FY81 and FY82 programs are:

Ketchikan*	Anchorage*	Kake
Kodiak*	Hoonah	Sand Point*
Petersburg*	King Cove*	Sitka*
Cold Bay	Juneau	St. Paul*
Yakutat*	St. George	Unalaska/Dutch Harbor*
Cordova*	Valdez	Dillingham (Bristol Bay)
Seward*	Homer*	Hooper Bay/Scammon Bay
Akutan	Kenai	Norton Sound - Nome

*probably major development impact

Virtually all programs impacting these communities are either:

(1) one time study efforts, or

(2) planning, design and construction of capital projects which will be eventually paid for by user fees.

The State and federal efforts, including investment of approxi-

mainly 4.5 million dollars plus federal vessel financing guarantee programs, have generated or stimulated the following types of existing and planned development and investment: (approximate amounts)

(1) Unalaska/Dutch Harbor: $35 + million dock, harbor and port development (American President Lines, Village of Unalaska, City of Dutch Harbor). $10 + million processing plant expansions (Pacific Pearl, PanAlaska, Unisea, others). $5 + million commercial facilities expansion and development (private mall, Unisea, city and village).

(2) Homer: $10 + million combination port/harbor development for expanded fishing fleet and processing facilities.

(3) Seward: $20 + million shipyard construction.

(4) Over $125 million in construction of vessels designed for, or capable of conversion to, trawl fishing for pollock, codfish and other underutilized species.

(5) Expansion of the U.S. black cod (sablefish) fleet off southeast Alaska from fewer than 20 vessels to more than 50 vessels, many specially designed and outfitted for highly efficient automated longline fishing.

(6) Increased employment in fish processing, marketing and related activities in Anchorage, Ketchikan, Petersburg, Kake, Sitka, Sand Point, Kodiak, King Cove, Dutch Harbor, Unalaska, Cordova and Valdez.

(7) Management, development and consultation services generated by the private sector in Anchorage, Fairbanks, Kodiak, Juneau and Seattle.

(8) Multi-million dollar proceeds from Aleutian Islands Area State Land Sales.

In addition to direct financial investment and returns, other types of benefits for Alaskans and industry have flowed from the investment to date:

(1) Clear demonstration of the ability of Alaska to take a leadership position in State-Federal cooperative planning and management of natural resource utilization and community development.

(2) Increased concentration of federal research and development funding in areas impacted by development of the fisheries off the coast of Alaska.

(3) Reduction of foreign fishing fleet activity off the coast of Alaska and replacement by American vessels with American crews.

(4) Demonstration of the effectiveness of advance planning and policy formulation for major state projects.

Addtional tangible benefits are likely to flow from continuation of Alaskan fishery development and the Bottomfish Program:

(1) Development of a labor force of Alaskan citizens to take advantage of 10,000 to 20,000 new jobs over the next 10 to 20 years.

(2) Development of viable fishery oriented communities in rural coastal areas with strong local government units.

(3) Increased feasibility of surface transportation from Anchorage

to the Aleutian Islands and western Alaska as year-round fisheries and processing expand the permanent population base in those areas.

(4) Reduction of state's dependence on non-recurrent revenues.

(5) Provision of government services to meet the needs of southwestern, western and coastal Alaska citizens in a more effective and efficient manner.

(6) Encouragement of economic development which offers long-term net benefits to all Alaskans.

(7) Improved ability of the private market system to provide needed goods and services to Alaskans as well as to other domestic and foreign markets.

(8) Promotion of rational development and management of fish and wildlife for the long-term economic and social benefits of all Alaskans.

(9) Reduction of the boom-bust cycle in the Alaska economy.

(10) Improved U.S. balance of payments.

The State of Alaska has made remarkable progress in moving towards realization of the Governor's Renewable Resource Development goals through the bottomfish program within the brief time since the FCMA was established. With continued cooperation, assistance and advice from individuals and agencies in the private and public sector, from fishermen, business people, consultants and advisors, from critics and supporters alike, we can continue the development and implementation of a program which is charting Alaska's future frontiers today.

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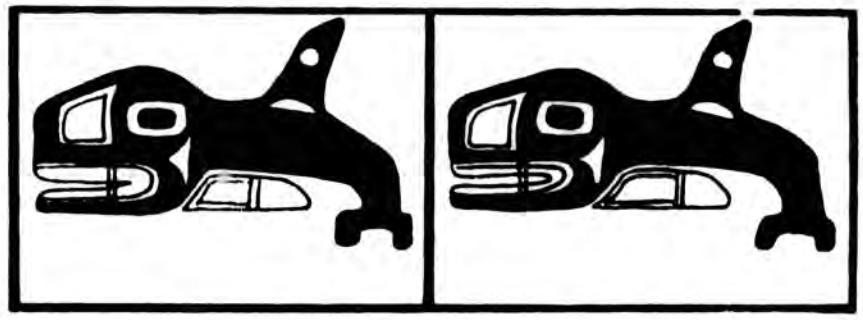
Biographical Sketch

Dave Allison is a planning and program specialist with the Office of the Governor, Division of Policy Development and Planning. He specializes in bottomfish industry development issues and policies. He graduated from Marian College in Indianapolis, Indiana in 1964 and received his Doctor Degree from Indiana University in 1968. He served as a State Representative in the Indiana Legislature in 1969 and 1970 and practiced law as a partner in the law firm of Allison and Barnhart until leaving Indiana for Alaska where he has lived since 1978. He has served on the boards of numerous civic and non-profit commissions and organizations and is a member of various professional associations in the fields of law and fisheries.



HISTORICAL PERSPECTIVE

by

Richard Montague

Alaska Division of Tourism: Government concern for fostering growth of the visitor industry dates from Territorial Days. The Territorial Legislature regularly appropriated funds for tourism promotion and one of the early line agencies established by the newly created Alaska State Government in the 1960s was the Alaska Travel Division, first placed in the Office of the Governor, in recognition of tourism's external role as a promotion agency whose focus lay primarily outside Alaska. Subsequently, the division was transferred to the Department of Commerce, then in the mid 1960s to the Department of Economic Development. The division of tourism, as the agency is currently known, is a line office within the Department of Commerce and Economic Development.

Legislative intent behind creation of a line division for tourism was to foster continued growth of the visitor industry through two main methods of approach: *external promotion* of visitor attractions through media advertising, distribution of informational literature, participation in travel shows and similar events, and *internal promotion*, primarily through administration of grant programs to assist political subdivisions and non-profit organizations in furthering local development of visitor attractions and facilities. Although percentages have varied from year to year, generally the amount spent on external promotion exceeds that spent on internal promotion by three to one. This expenditure pattern directly reflects the Legislative mandate to concentrate primarily on bringing visitors, *i.e.*, non-Alaska residents, into the state, rather than on promoting travel within Alaska on the part of Alaskans. The two considerations go hand in hand, however, since out-of-state visitors require a physical "plan," *e.g.*, both publicly and privately operated attractions and facilities to service the traveling and vacationing public.

The aiding and abetting of the growth of tourism has been viewed since the beginning of Alaska state government within the overall context of fostering the state economy as a whole. Essentially, the division's promotional programs may be viewed as the sum total of efforts to import monies into the state through the vehicle of visitor spending instate. Recently concluded independent studies show out-of-state visitor spending probably exceeded $200 million for 1979, thereby making tourism a highly significant factor in Alaska's export/import economy. By the measuring point of spending brought into the state and the instate spending on travel within the state, the visitor industry ranks second among Alaska's industries.

Visitor spending within Alaska generated at least $20 to $25 million in taxes, fees and receipts to state government in terms of 1975 dollars. More than 6,000 Alaskans were employed on a full-time, 12 months of the year basis in catering to visitors in 1975. Their wages in 1975 are estimated to have exceeded $55 million. Tax receipts by local government in 1975 are estimatee to have been between $4 and $5 billion.

A secondary purpose of creating a division of tourism was to establish an agency which would function as the principal advisor to the administration and Legislature on matters of state tourism policy, as well as visitor industry and state government. The latter is a highly significant function, as tourism is, seen from the point of view of state government, a "mixed" activity, in that the state itself is heavily involved in the visitor industry through the state museum system, the state system of public works and waysides, the state ferry system and the department of fish and game.

tourism Revolving Loan Fund:

During the early 1960s, the Tourism Revolving Loan Fund was established to provide a state loan program for the construction of new tourism facilities. The program has been highly effective in providing for the construction of additional hotel space statewide. Through October 1979, $24 million in loan funds have been granted to 49 private sector firms and organizations. The program is administered by the division of business loans within the Department of Commerce and Economic Development.

Staffing: The division has offices in Juneau. During summer months, temporary personnel are assigned to the state-operated visitor information center at Tok. Current division complement is 15 of which 5 are professional staff. The division is one of

[illegible] ceiling of 29 positions. This decreasing in staffing has been brought about without any significant decrease in the functions of the division.

Current Status

Cooperative Marketing: Beginning in 1975, the division embarked on a program of *cooperative marketing*, a departure from earlier promotional concepts. Under this new approach, funds of the private sector and the public sector were combined under the division's leadership direction to create a joint cooperative marketing program. Legislative authorization for combining public and private sector funds was contained in the revisions to the 1975 Tourism Act, part of the Legislation which transferred the functions of the Department of Economic Development into the newly formed Department of Commerce and Economic Development.

Several factors led to this new concept, principal among which was the realization within the private sector that only through cooperative pooling of private sector funds with those of the division could a sufficient mass of monies be brought together to raise the nationwide level of awareness of Alaska to a point where a significantly larger number of North Americans would vacation in Alaska. Raising consumer awareness was simply too large a problem to be successfully attacked without a joint cooperative effort. Another factor was the attitude of the Hammond Administration which looked with favor on such industry-government efforts as part of a general precept that industry should contribute an appropriate share to state-supported programs directed primarily toward helping a specific economic sector.

Cooperative Marketing Budgets: Cooperative marketing began in the spring of 1976 with the contribution of $94,000 of industry funds to the joint marketing program for the 1976 season. The net effect of this first contribution was to enable the division to expand and stretch its existing program thereby allowing more persons to be informed about vacationing opportunities in Alaska. The cooperative program has functioned in essentially the same manner since 1976, with a joint marketing plan being established each year which provides for both public and private sector input and funding. The marketing program is "neutral," however, [illegible] in the jointly sponsored media advertisements. Contributions to the cooperative marketing program can be best shown in tabular form, *viz*:

Division of Tourism & Cooperative Marketing Budgets

Fiscal Year	General Fund Appropriation	300 Category Funding	Private Sector Funding	Total Operating Budger
FY 76	1,172,300	699,000	94,000	1,266,300
FY 77	1,415,300	679,000	557,500	1,972,800
FY 78	1,411,700	693,600	402,000	1,813,700
FY 79	1,666,500	900,500	400,760	2,067,260
FY 80	2,026,400	1,268,200	588,100	2,614,500
TOTAL:	7,692,200	4,240,800	2,042,360	9,734,560

As is evident from the table above, the total operating budget of the division from FY 76 to FY 80 was approximately $9.7 million dollars, of which $7.7 million was provided by the General Fund and $2.0 million by the private sector. The private sector contributed equals 27 percent of the divisions's *entire* state-funded budget and 48 percent of its state-funded contractual services account during this five year period. This is not other joint industry-state economic activity which can boast such a record of sustained private-public sector cooperation in the common cause of state economic development.

Approximately 80 percent of the $2 million of private sector funds stem from firms headquartered outside Alaska. Principal contributors have been major airlines serving Alaska, tour operations and travel wholesalers, and cruiseship companies.

The base of private sector support for cooperative marketing has grown as well. The first year of cooperative efforts, 1976, saw six firms joining with the division as "marketing partners." The 1980 program includes 54 private sector marketing partners. Alaska's cooperative marketing efforts, in fact, are *international* in scope, as the tourism office of Canada's Yukon has been a regular "marketing partner" in these efforts.

Achievements of Cooperative Marketing: Most observers credit cooperative marketing programs with having played a very major role in the more than doubling the annual visitor stream to Alaska. The most recent benchmark year before launching cooperative marketing, 1973, saw about 215,000 visitors to Alaska. During 1979, visitor industry and divison statistics show over 510,000 visitors, an increase over 1973 of 137 percent.

Shifts in Visitor Stream Segmentation: The visitor market has undergone significant shifts in market segmentation over the past fifteen years. These shifts have been especially evident during the past five years of cooperative marketing. These trends are evident from the following table, *viz*:

Visitors Entering Alaska by Mode of Transportation

Calendar	Percentage Accounted For By: Cruiseship	Ferry	Airlines	Highway	Total
1964	19%	20%	22%	39%	100%
1967	15%	22%	24%	39%	100%
1973	17%	13%	39%	31%	100%
1977	15%	6%	68%	11%	100%

The most dramatic shift in transportation mode is the trend toward commercial air, from 22 percent of the visitor stream in 1964 to 68 percent of the visitor stream in 1977. It is estimated commercial air travel in 1979 will account for 75 percent of more of all arriving visitors. The trend toward air travel parallels a corresponding *decrease* in highway traffic (as measured at Port Alcan), which has essentially remained at fifty to sixty thosand per year for the last six years. These market segment shifts reflect the general trend toward use of mass-mode transportation systems to travel to Alaska, both as a time-saving and a cost-saving measure. They also reflect a shift in the types of persons vacationing in Alaska. Whereas the Alaska visitor market was heavily influenced by the retired persons and senior citizens market in the early 1960s, the 1970s have seen significant expansion of the "adventure" travel market, primarily middle aged persons from professional and managerial groups who actively seek recreation and vacation experiences beyond the traditonal fare of cruiseship voyages and conducted city sightseeing. Both market segments, the retired/senior citizens market and the younger

[illegible] "mix," although growth potential in terms of numbers is judged to be greater in the latter category rather than in the former.

Offshore Holiday Market: An important emerging visitor market is holiday travelers from Europe and the Far East. The current offshore visitor market is slightly larger than 20,000, of which the largest national group are West Germans, followed by Japanese. As European-origin visitors tend to remain in Alaska about twice as long as visitors from North America, their economic impact is far greater than their numerical number suggests. Japanese visitors tend to be a short-term market, as normally Japanese groups spend only one week in the state. An interesting aspect of this market is the hope that the Japanese may emergy as a significant factor in winter tourism to Alaska, particularly for skiing.

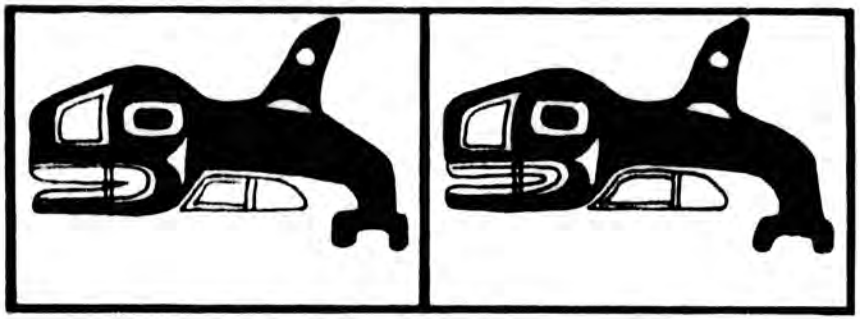
"Worlds of Alaska:" The media advertising campaigns funded through cooperative marketing have essentially focused on promoting the availability of the state's tourism information brochure, *Worlds of Alaska* through coupon response advertising. Readers of the cooperatively funded advertisements in publications such as *Alaska Magazine*, *National Geographic*, *Sunset*, as well as other publications, are urged to mail the prepaid reply coupon to obtain their free copy of *Worlds of Alaska*. Over one million copies of *Worlds of Alaska* have been distributed through this means since the campaign began in spring of 1976. The publication is revised annually to insure that prospective visitors receive the most up-to-date information possible regarding Alaska visitor attractions and facilities. The 1980 edition of *Worlds of Alaska* is 112 pages and has doubled in size since the initial edition of 1976.

A particularly useful feature of this annual publication is the "Alaska Travel Index" section which lists over 1,200 Alaska visitor industry firms and organizations which provide services to the traveling public. The address of each listed business or organization contains the code designated "DOT" allowing recipients to gauge the number of response letters deriving from listings in the Index. There are a large number of visitor industry firms in Alaska which receive upwards of 100 such letters each year requesting additional information or actually making bookings. The net effect of these annual cooperative marketing programs

visitor information necessary to purchase an Alaska vacation either as a travel "package" or on a "plan-it-yourself" basis where the visitor makes his own independent arrangements. Listings in the "Alaska Travel Index" are free to visitor industry firms, whether a firm is a financial contributor to cooperative marketing or not. There is absolutely no way in which small or medium-sized visitor industry firms could place information on their attractions or facilities in front of an annual audience of millions of readers without cooperative funding on the part of both the private and public sectors.

Computer Analysis of Visitor Interests: Beginning in 1978, the cooperative marketing effort added a new aspect to the traditional coupon reply forms by which readers ordered they copies of *Worlds of Alaska*, the division's fulfillment brochure. This new aspect was inclusion on the reply card of interest categories, allowing prospective visitors to request additional information. The names of visitors asking for such information are made available to private sector firms for direct mailing of product-line literature. The private sector ordered over 1 million such computer-generated names for the 1979 program. These private sector mailings supplement the mailing of *Worlds of Alaska* which the division sends to all coupon respondents.

Of the some 300,000 coupon responses received from the 1979 campaign, the latest year for which such figures are available, almost 40 percent, or approximately 124,000 persons, specifically sought information on hotels, motels, lodges and resorts in Alaska. Computer analysis of visitor inquiries for the 1979 program can best be shown in tabular form, *viz*:



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Interest Category	Information Requests	% of Total Response
Hotels, motels, lodges and resorts	123,777	41%
Tours to/within Alaska	120,434	40%
Travel to Alaska by air	63,277	21%
Travel to Alaska by car, camper or motorhome	149,879	50%
Travel to Alaska by cruiseship from Calif.	52,595	18%
Travel to Alaska by cruiseship from British Columbia	52,388	18%

Interest Category	Information Requests	% of Total Response
Travel to Alaska by ferryliner	71,465	24%
Travel to Alaska by motorcoach or rail	61,179	21%
Travel off the beaten track	106,829	36%
Sportfishing and sporthunting	79,971	27%
Convention and incentive travel	9,230	3%
Special interest activities	78,040	26%
Off-season (winter) travel	53,233	18%
TOTAL:	1,022,297	100%

On the average, each coupon respondent in 1979 requested information on 3.4 interest categories.

Significant is the relatively large percentage of coupon respondents seeking information on the "adventure" category, *i.e.*, travel off the beaten track, special interest (birding, wildlife observation, etc.) activities, sportfishing and sporthunting, as well as off-season (winter) travel.

Cross-tabulation of these interest categories shows that more than one third of all coupon respondents specifically request information on these interest categories. The interest level of 40 percent for information on tours to and within Alaska is a direct

vacation of the market segmentation which places about one third of all travel to and within Alaska in the "package" category, whereas the remaining two thirds is independent travel where the visitor puts together his own itinerary. Interest in mass-mode transportation is clearly shown by the interest in travel by air, water (cruiseship and ferries), and surface (train or bus). As is typical for the United States generally, about one half of all respondents sought information on travel by car, camper or motorhome. These are primarily independent, *i.e.*, non-package travelers who plan to vacation either by driving to Alaska or by flying to Alaska and renting cars, campers or motorhomes. The fly-drive market segment is expected to achieve substantial gains as the American public turns to more fuel-efficient and less-costly ways to vacation.

New Directions

Success of Cooperative Marketing: Alaska's widely acclaimed program of joint private-public sector promotion has drawn nationwide attention and several states are investigating how they might benefit by patterning their promotion efforts on the Alaska formula. The essential ingredients of the Alaska cooperative formula can best be summarized as follows, *viz*:

(1) Strong and effective leadership on the part of the division of tourism in designing and implementing cooperative programs. The division has been willing to assume the lead role in getting such programs funded and into operation. The division also functions as the essential "neutral" marketing partner, the catalyst which allows the private sector partners to cooperate toward the commonly shared goal of destination promotion.

(2) Insight and willingness on the part of the private sector in being willing to collectively pool their funds with those of the state in cooperative ventueres. It is an act of considerable farsightedness for a private sector firm voluntarily to place its own promotional funds in a common "kitty," over which the private sector firm making the contribution does not have programmatic control.

(3) Success of the program is greatly increasing the nationawide consumer awareness of Alaska's vacation potential and the resultant substantial (more than doubling) increase in the visitor stream. The program demonstrates the proof of this correlation is the continued willingness of the private sector to make major financial contributions to the program over a period of five years.

Fine Tuning: Both state government and the Alaska visitor industry have created jointly a vehicle, namely cooperative marketing, which has won nationwide respect and has proven its effectiveness by generating growth in the visitor stream. As the years have progressed, the basic program has been refined and honed to make it increasingly responsive and cost-effective. Much of this could not be accomplished until market research had been completed to show where the program had made significant breakthroughs, since much of the cooperative effort entailed pioneering marketing efforts on the part of government as well as industry.

A successful formula has evolved from the dialogue of the past five years which should prove extremely helpful in furthering growth of the Alaska visitor industry over the next decade. Two key factors will determine whether such efforts will be successful: 1. Will funding continue to be available in sufficient amounts from both the private and public sectors? 2. Will the degree of cooperation and trust which currently exists between the private and public sectors be maintained? A major uncertainty remains. What will be the attitude of state government to continued growth of the visitor industry? Far greater efforts will have to be made on the part of both industry and government to explain the aims and goals of the visitor industry to the Alaska public during the decade of the 1980s than was done during the decade of the 1970s. The future of Alaska's visitor industry is absolutely linked to the state's posture on economic development over the next decade.

Biographical Sketch

Richard Montague was graduated from Harvard University in 1956. After service in the U.S. Army and as a writer and photographer, he moved to Alaska in 1969 to join *Alaska Magazine* and *The Milepost*. He founded his own publishing business in 1973, Alaska Travel Publications, Inc. Director of the division of tourism since January 1975, he is a member of Rotary, Society of American Travel Writers, SKAL, and the Explorer's Club (New York). Mr. Montague is also a member of the national board of directors of Discover America Travel Organizations DATO) in Washington, D.C.