Newspaper Articles - Taxes

Gubernatorial candidates give their opinions on taxes

Editor's Note: This is the second in a series of written questions submitted by The Associated Press to 15 candidates for governor. Democrat Bill Walley has withdrawn. Republican Don Wright, Democrat Phil Stoddard and Libertarian Ed Hoch did not respond.

THE ASSOCIATED PRESS

With the state's treasury shrinking because of slipping oil revenues, Alaska has come face to face with the unwelcome prospect of laying off workers, cutting services and delaying or halting state projects.

With that in mind, The Associated Press asked candidates for governor: "Is it time to reinstate the state's individual income tax, a statewide sales tax or any other kind of tax – including changes in the way oil taxes are collected?"

Here, in alphabetical order and edited for length, are their responses:

Steve Cowper, Democrat: "No candidate wants to talk about it, but the truth is that the current administration overestimated its revenues by as much as $750 million. That means that very little money may be available next year because we'll have to pay the bills for election-year irresponsibility first. Before I close schools and lay off our police officers, I'll propose an income tax, at least on a temporary basis.

"I'd consider a proposal to impose a state sales tax and remit the proceeds to the municipalities if it is backed by a consensus of municipal assemblies or councils. I'm against raising oil taxes."

Joe Hayes, Republican: "I do not feel we need a state income or sales tax at this time. I would oppose imposition of such taxes without a vote of the people. We must also maintain a stable taxation policy on our resource industries to encourage expanded development and the creation of new jobs.

"Further, I have proposed a lower severance tax on oil wells which would be discovered in the next two years and brought into production within 10 years. This would provide a strong incentive to keep our number one revenue-producing industry exploring so that when oil prices increase we will be able to take advantage of the full benefits."

Wally Hickel, Republican: "Prior to the time oil prices began to fall, revenue forecasts indicated that, to sustain anything approaching current budget levels, Alaska would have to reinstate the state income tax within about six years. If new sources of revenue are not developed, and if the budget is not reduced to sustainable levels, it may become necessary before then.

"I do not believe that the state should levy a sales tax. The sales tax can be an effective local government option for developing revenue.

"... We must maintain a stable tax policy towards private industries, especially now when the economy is down."

Bob McGrane, Republican: "If we get industry going in this state as I'm proposing, we won't need additional taxes at this time. The only need I can see for income tax would be to get financial support from the out-of-state workers on the Slope and those taking our summer jobs all over Alaska. Alaskans would get deductions for all their taxes, housing, auto, etc., and out of state people would have none. Sales taxes should be on a local support basis."

Dick Randolph, Republican: "Absolutely not. I will veto any attempt to reimpose the state income tax or impose a sales tax. In 1979, I led the fight to repeal the state income tax, and I'm still opposed to it. Under the Randolph administration, there will be no tax increases for anyone.

"We must increase economic activity to provide more jobs. That is not done by increasing taxes. We can create a vibrant, stable, sustainable economy if we allow private development of our resources, keep regulations reasonable and taxes stable."

Bob Richards, Republican: "There is no need for any tax increases, assuming no further calamitous fall in the price of oil. It would be irresponsible for any public official to ask the people of Alaska to come forth with more money to finance a larger bureaucratic state government. Additionally, if the state of Alaska is going to have any hope of stimulating economic development through investment by private firms, it must once and for all establish itself as a stable place in which to invest.

"Accordingly, under the Richards administration there will be no changes in the tax level or structure of firms doing business in Alaska."

Bill Sheffield, Democrat: "I don't think we should tinker with Alaska's tax laws without a long-term plan in mind."

Ron Somerville, Republican: "No, not at this time."

Arliss Sturgulewski, Republican: "I would not consider reinstating the personal income tax unless revenue declines are severe enough to jeopardize essential state services. Short of that, I believe that the dollars earned by Alaskans do the state's economy more good if they are spent in the marketplace than if they are paid into the state treasury.

"I am opposed to changing the way we tax the oil and gas industry. State government must adopt a stable and predictable tax policy as part of its effort to create a business environment that is receptive, not hostile, to the private sector."

Joe Vogler, Alaskan Independence Party: "First, I would seek reinstatement of the separate accounting method recently upheld by the United States Supreme Court. I would seek to have a constitutional amendment submitted to the people to prohibit, abolish and outlaw all taxation of real property. To replace this, I would submit a plan for a fixed percentage gross revenue tax of approximately 3 percent. To secure our proper share of oil revenue I would suggest an increase of the royalty on oil and gas to 25 percent with no economic limiting factor."

Ryal White, Libertarian: "Individual income taxes must be reinstated to reduce property taxes and cut or eliminate sales taxes which hurt people on fixed incomes. It will also be a simple and effective way to assure resident or local hire. I think oil taxes are fair."

Bering Straits buys Klukwan stock in Arizona firm to escape tax losses

Juneau Empire 7-31-86

THE ASSOCIATED PRESS

ANCHORAGE – A complicated stock purchase is being hailed as salvation for a financially troubled Native corporation and a tax write-off for an Arizona development company.

According to federal bankruptcy court records, Bering Straits Native Corp. paid $1.25 million for 850 shares of Sun City West Development Inc., a partnership formed by Del E. Webb Co.

The stock was purchased from Klukwan Inc., the Haines village native corporation.

The sale is designed to allow Webb to write off Bering Straits' operating losses, the court records say. Bering Straits has lost $50 million since its founding in 1972 as part of the Alaska Native Claims Settlement Act.

An estimated $7 million to $10 million in tax savings are expected to be paid back to Bering Straits to help pay off creditors, according to the court records.

The Nome-based native corporation filed for protection from creditors under Chapter 11 of the federal bankruptcy code in March. It owes creditors more than $20 million.

As part of its repayment plan, Bering Straits says it will pay off all creditors owed less than $9,000. That would take care of the vast majority of the corporation's 102 creditors.

The corporation will use up to 90 percent of the remaining Sun City income to pay off other creditors, including Fairbanks investors Ralph Whitmore and others who say they are owed more than $3 million from Bering Straits' failure to pay fully for the purchase of 112,000 shares of stock in Alaska Bank of the North.

"It's not something guaranteed," said Dick Rosston, an Anchorage attorney for Bering Straits. "There are projections. If tax laws change, there may be some variation."

The stock purchase gives Bering Straits a 1 percent equity ownership and 85 percent voting control in Sun City West, which is developing a large retirement community near Phoenix.

William Acton, a Webb spokesman, said Wednesday he's not sure why the modest purchase brought such a large chunk of voting power, but he stressed that Bering Straits won't be in charge of Sun City.

"There's been absolutely no change in control...of the Sun City operation," he said. "And there won't be."

Rosston described the stock purchase as a "business transaction for business purposes."

He said Bering Straits hopes to gain experience in real estate investment, diversify its holdings and make further investments in Del Webb real estate. According to the court documents, Bering Straits also would like to build a casino in Nome if state law is changed to allow gambling.

Webb operates three casinos in Nevada and one in New Jersey.

Acton said Webb will not lobby for legalized gambling in Alaska. Webb would consider managing, but not owning, a casino in Nome, Acton said.

Timber, oil industries seek shelter in tax reform

Editor's Note: Everyone has a stake at the table when congressional negotiators sit down to iron out differences in the tax revision bills passed by the House and the Senate. What emerges will make major changes in the way citizens and business pay their federal taxes. This story, looking at key tax proposals and how they're treated in the Senate and House bills, discusses the battles being waged by the oil, gas and timber industries.

By JILL LAWRENCE
THE ASSOCIATED PRESS

WASHINGTON – Oil, gas and timber interests managed to protect most of their tax breaks from the Senate's reformist zeal. But they'll have their work cut out for them later this month when House negotiators sit down with the intention of reducing taxes for the middle class by clamping down on corporations.

"We know as sure as the sun comes up in the morning, we'll have to defend ourselves," said Bud Scoggins, general counsel for the Independent Petroleum Association of America.

"That TV show 'Dallas' has been the worst thing," he added, only half-kidding. "People look at 'Dallas' and get the idea that everyone in the petroleum industry is like J.R. Ewing – money falling out of their pockets, evil as snakes. And they say, 'We got to DO something to these people.'"

House and Senate negotiators are expected to start meeting next week to resolve differences between their tax overhaul bills. In the case of petroleum and timber, those differences are critical.

The Senate bill retains most benefits for oil and gas and exempts the industry from a new anti-tax shelter rule affecting losses from passive investments. The House measure would cut oil and gas industry benefits by 20 percent or $4 billion over five years by phasing out the percentage depletion allowance and restricting the deduction for intangible drilling costs.

As for timber, the House bill eliminates special incentives for reforestation and quick deduction of expenses. The Senate bill retains those breaks, although special treatment of individual capital gains, a major benefit to timber, would be lost.

"The House attempted to halt the steady shift of tax burden from the corporate to the individual," House Ways and Means Chairman Dan Rostenkowski, D-Ill., said in a June 27 speech. "To the quiet American whose taxes are withheld on payday, nothing grates more than to read about corporate moguls, and the companies they run, heavily sheltered by their lawyers and accountants from federal taxes."

But spokesmen for the petroleum and timber industries say they deserve to keep their tax breaks – oil and gas because it is ailing, timber because no one will grow trees without them.

In 1944, Congress enacted special tax breaks for tree growers and "we have a clear history of what happened before 1944," said Luke Popovich, vice president of the National Forest Products Association. "There was a terrible scarcity of timber and an overharvesting – a cut-and-run management ethic that prevailed. There was simply no incentive to put money from the harvest back into the ground to grow the next crop. Since 1944, that has not been the case."

Popovich also said the timber industry is particularly deserving because it has not – like some companies – used its 1981 tax breaks to diversify into other industries and minimize its tax bill.

"We built new mills. We haven't bought into other businesses. We're not in the oil business, we're not in the consumer electronics business, we're not into software. We stick to our knitting," said Popovich, whose association represents tree growers and most of the major firms involved in paper, packaging and wood products.

Scoggins, whose group's members account for 85 percent of all wells drilled, contends oil and gas interests did not receive any exemptions in the Senate bill and they are already hit hard enough by its general provisions.

"We simply can't afford any further negative tax treatment of any kind. The industry is on the verge of collapse," he said.

Since the House bill was passed last December, Scoggins said, the drilling rate has fallen 60 percent; prices are down 50 percent; drilling permits are down 65 percent; and unemployment in Texas, Louisiana and Oklahoma is up 10 percent. "The House bill is obsolete," he said.

Robert McIntyre, director of federal tax policy for a coalition called Citizens for Tax Justice, said no one wants to make oil companies pay taxes when they don't make money.

"All the income tax breaks in the world didn't do them any good when the price of oil went down," McIntyre said.

Junction Eagle 7-15-86

LETTERS

Tax amendment would retain people's power

Dear Editor:

We are members of Congress, Democrat and Republican, liberal and conservative. We are writing to seek your help. First, however, we would like to ask a question.

Do you think we – and other members of the House and Senate – should become more dependent on special interest PAC money to finance our campaigns?

We doubt that you do. But that is exactly what will occur under the Senate tax reform bill which repeals the current tax credit for small contributions (50 percent of all contributions, up to a maximum credit of $50 per individual or $100 per couple).

The Senate bill is a major step forward for tax reform. However, unlike many of the provisions repealed by the Senate bill, the small contributions credit is neither a tax shelter nor a loophole that benefits the rich. Instead, it is designed to encourage the average citizen to participate in the electoral process.

Repealing this credit, therefore, will clearly make it more difficult to raise small contributions, and that will drive candidates to seek more money from PACs. Limiting the amount of PAC money a candidate could accept would help, of course, but the chances of enacting such a limit are not good.

Moreover, even with the 50 percent credit, small contributions have not kept pace with PAC contributions over the past decade.

From 1974 to 1984, PAC contributions to House candidates rose from 17 percent to 37 percent of total receipts. In contrast, small contributions dropped from 46 percent to only 15 percent of total funds.

Senate trends are less dramatic, but similar: PAC money increased from 11 percent to 18 percent of total receipts, while small contributions decreased from 38 percent to 18 percent.

Simply put, special interest PAC money is displacing small contributions from the average citizen.

The decline in small contributions is particularly disturbing because such contributions have no strings attached, because they are almost totally from constituents, and because they reflect citizen interest and involvement in the political process.

In an effort to halt this decline in small contributions and, at the same time, enable candidates to reduce their dependence on PAC money, we joined together last year to support a new credit specifically designed to encourage more small contributions from citizens at the grassroots.

Our proposal – 100 percent credit up to $100 per individual or $200 per couple, but only for home state contributions to House and Senate candidates – would make it easier for the average person to contribute to the candidate of his or her choice. This would not only increase the role of small contributions in funding congressional campaigns, it would also increase the number of people actively participating in the political process.

The proposed 100 percent credit was approved as a floor amendment to the House version of tax reform last December. The Senate, on the other hand, simply repeals the existing credit without enacting a replacement.

Thus, it is up to the House-Senate conference on tax reform to decide: Either the 100 percent credit for home state contributors, as proposed by the House, or no credit whatsoever, as proposed by the Senate.

We believe it would be tragic were the Senate position to prevail because the 100 percent tax credit is the best – and perhaps only – way to strengthen the role of the average citizen in funding congressional campaigns.

Moreover, the main arguments against the 100 percent credit have little merit. For example, some reform-oriented Senators oppose the credit because it does not address other problems such as excessive spending. Realistically, there is no chance whatsoever of enacting and spending limit in the near future, and it makes no sense to delay other reforms until everything can be done at the same time.

Others members – both Democrats and Republicans – oppose the credit because they think it will be more beneficial to the opposition party. In truth, the credit will not benefit either party over the other. Instead, its effectiveness will depend on the quality of the candidates who use it to help raise small contributions.

Finally, some opponents argue that it would be self-serving for members of Congress to enact such a credit.

Please think about this for a moment, because the exact opposite is true. What would be self-serving for incumbents would be to have no credit whatsoever for small contributions, because that would hurt non-incumbents more. Incumbents already get 75 percent of all PAC contributions, and they can get more, if needed, to replace a further decline in small contributions.

Thus, if any group of candidates would benefit from the 100 percent credit, it would be our opponents -- i.e., non-incumbent candidates. The real beneficiaries, however, will be the American people, because a 100 percent credit will give the average American a greater voice in the political process.

The 100 percent credit has no hooks. It is workable. It is uncomplicated. It required no new bureaucracy. It is a proven concept which already exists in law. It does not require the taxpayer to itemize. And it would cost far less than the current credit because it would only apply to home state congressional candidate contributions.

So if you agree with our concerns about the decline in small contributions and growing dependence on PAC money, please urge the Senators from your state to persuade the Senate conferees to accept the House provision for 100 percent credit for home state contributions.

Thank you for your consideration.

Sincerely,

Hon. Thomas J. Tauke (R-Iowa)
Hon. Ralph Regula (R-Ohio)
Hon. Jerry Lewis (R-Calif.)
Hon. Carl D. Pursell (R-Mich.)
Hon. John R. Miller (R-Wash.)
Hon. Matthew F. McHugh (D-N.Y.)
Hon. James L. Oberstar (D-Minn.)
Hon. Robert T. Matsui (D-Calif.)
Hon. Morris K. Udall (D-Ariz.)
Hon. Ed Jenkins (D-Ga.)

There's gold in tax reform

As conferees from the House and Senate meet to work out the differences in their separate bills to revise taxes, members of both houses and both parties are congratulating themselves on a job well done.

That may indeed be the case. But when politicians engage self-praise, it is healthy to be skeptical, which is the stance taken by Richard L. Doernberg, law professor at Emory University, who notes that tax overhaul is lucrative – for tax-writers.

Rummaging through the records, Doernberg found that in 1985, the year that the current effort began in earnest, nearly 8,000 lobbyists paid $49 million to advance their interests in Congress.

By no funny coincidence, according to reports filed with the Federal Election Commission, the 56 members of the two main tax-writing committees took in $19.8 million in campaign contributions in 1985. The figure compares with only $9.9 million in 1983, a comparable non-election year when tax revision was not on the agenda.

Doernberg is unsurprised that the more powerful committee members received the most in 1985. Chairman Bob Packwood of the Senate Finance Committee had total receipts of $5,137,569, with $965,517 coming from political action committees.

At the House Ways and Means Committee, Chairman Dan Rostenkowski, who faces no re-election threat, raised over $375,000. Fourteen of the 36 committee members each garnered more than $100,000 from PACs. This led Rep. Andrew Jacobs, D-Ind., who took no PAC funds, to say the "only reason it isn't considered bribery is that Congress gets to define bribery."

Did the lobbyists get value for their money? Doernberg thinks so, calculating that the tax bill "is littered with special-interest legislation – more than $5.5 billion worth."

Although the present exercise is touted as the most sweeping change in the tax code in three decades, Doernberg is sure it will be followed by more of the same. Tax revision, he says, "pays the politicians too well to give it up."

He predicts that next year we will get another major bill, described as technical corrections, that will be thicker than the Manhattan phone book. And within five years, Congress will pass another tax reform act, called "the most sweeping and forward-looking" ever.

It will be instructive to see how those predictions pan out.

–Scripps Howard News Service

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Fiscal Systems Musgrave
HJ 141 .M79

Fiscal Federalism & Taxation
of Natl Resources McClure
HJ 275 F557

Ideologies of Taxation
HJ 2381 Eisenstein

What Should be Taxed
Income or Expend.
Brookings Inst. Pechman
HJ4652 .W5

Old Term Has New Meaning

Seeing themselves as independent economic entities, many states are mustering their resources to try to compete successfully in the world marketplace.

By Dan Pilcher

The average man or woman on the street would probably describe state "economic development" as the effort to recruit companies in other states (or nations) to come into the home state and set up shop.

Within the last few years, national media attention has spotlighted interstate competition to snare Japanese auto manufacturing plants and, most notably, General Motor's $5 billion Saturn facility, to be built in Tennessee. Persuasion plus a host of state incentives—usually involving tax credits and exemptions—provide the armament for this competition.

"Industrial recruitment" has been the central strategy for state economic development ever since Mississippi invented the concept in 1936 with tax incentives, including industrial development bonds and national advertising to attract companies.

During the last 10 years, however, actions taken by states have broadened the term "economic development" to such an extent that it would boggle the minds of the 1936 Mississippi legislators. Consider the economic development package enacted this spring by the Kansas Legislature in reaction to that state's sagging energy, aviation and agriculture sectors. The nine-bill package reorganized the state economic department into a state commerce department; created special economic development committees in the Legislature; established a public-private venture capital program called Kansas Venture Capital Inc.; granted tax credits for venture capital companies; and created Kansas Inc., a private-sector group to coordinate and advise on economic development.

The package also provided a tax credit for research and development; created the Kansas Technology Enterprise Corp. to speed research and development from universities and colleges to the private sector; approved a proposed constitutional amendment that requires voter endorsement in November to allow the state to participate in projects that benefit economic development; and approved another proposed constitutional amendment to allow city and county officials to lower or eliminate local property taxes for up to 10 years for expanding of new plants.

In addition, the Legislature endorsed a proposed constitutional amendment for a state-run lottery. If approved by the voters, 60 percent of the estimated $30 million to $35 million in annual revenues will be spent on economic development programs during the first three years of operation. Beginning with the fourth year and thereafter, 90 percent of the annual revenues will be put into economic development programs. (Two other states—Iowa and Oregon—have also turned to a state-run lottery to fund economic development programs.)

What is noteworthy about the Kansas case is that it represents a concerted effort by the public and private sectors, on a bipartisan basis, to first study a state's economy and then enact a legislative package. Other states, of course, have adopted major economic development packages in recent years. Indiana, for example, enacted in 1981-83 a three-phase, $120 million program entailing 53 bills that covered job training, business assistance and promotion, research, infrastructure, investment capital and tax incentives. Many others, however, have adopted programs piecemeal and not as part of a grand package.

In response to the economic problems of the last 15 years, states have implemented a complex array of programs under the label of "economic development."

Different regions and different states within the regions, depending on the major industries, have suffered economic woes at different times during this period. The unusual and uneven nature of the economic recovery since the 1981-82 recession has further spurred states to address their economic difficulties. Consumer pollster Albert Sindlinger says in the *Wall Street Journal* that there are local recessions in 30 states this year in such sectors as agriculture, oil, timber, textiles, steel and mining.

In Oklahoma before the fall of 1982, says Representative Bill Brewster, there was "no concept of economic development." The state didn't have to "hustle"—there was no need to, according to Brewster—but since that time, because of the collapse in oil prices, economic development has become the byword.

The newest strategies in economic

Dan Pilcher is a senior staff associate in NCSL's Legislative Management Program. For more information on state trade promotion, see The States and International Trade: New Roles in Export Development, *published last spring by NCSL.*

development are entrepreneurial development and industrial competitiveness. With the former, states take a neutral role, fostering business start-ups and expansion and with the latter, they play a more active role, giving assistance to specific industries.

Other economic development tactics used over the last decade include industrial recruiting from other states; investing public funds in education, job training and infrastructure; and securing foreign investment and helping firms export.

At times, of course, these strategies may overlap but they are essentially different and require different policies and programs. In addition, the emphasis an individual state puts on each strategy may vary according to its economic base, the problems facing its major economic sectors, its political and cultural outlook, and its strengths (climate, access to markets, educational system, skills and attitudes of the labor force, "quality of life," and so forth).

Behind state economic development in the 1980s are a couple of major developments. The first is that the federal government is playing a decreasing role, both because of the deficit-induced cutbacks and because of the Reagan administration view that economic development is a state and local government responsibility. The second is that individual states, in addition to competing against each other for jobs and investment, are now competing against foreign nations because of the growing interdependence of the world economy. And intense international competition characterizes many troubled industries such as steel, textiles, shoes and timber.

The conclusion many states have reached is that they are independent economic entities and must marshal all their resources to compete in today's global economy. Some significant themes have emerged in state economic development, including:

- **Public-private partnership.** "Partnership" between the public and private sectors aptly describes the close, working relationship on economic development problems that has emerged in many states among state and local governments, business, universities and labor.
- **Investment.** Policy-makers have come to regard public expenditures for infrastructure, education and job training as an "investment" in the state's future economic well-being. Much of the state educational reform of the 1980s was predicated on using education to improve a state's labor force and economic competitiveness. The same rationale has applied to job training and retraining.
- **Effects of government.** Over the last six years, a growing number of states have examined and changed their tax systems and regulatory mechanisms with an eye to improving their business climate. Reform of workers' compensation and unemployment insurance systems can be included in this category.
- **Government as catalyst.** In many states, opposition to various economic development proposals has been based on the view that it's not an "appropriate" role for state government. In most cases, however, closer examination reveals that the role of the state has been that of a catalyst to bring together businessmen, academicians, labor leaders, citizens and government officials to address the challenges of economic development.
- **Diversification.** For states dependent on one or two major industries that are subject to economic ups and downs or to the threat of foreign competition, diversification of the eco-

Photo: Kenneth Friedman, Science Communications Associat

With their innovative research, scientists at Polar Materials Inc. are helping small businesses.

nomic base has become a major objective.

• **Building on strengths.** A state's strengths have sometimes been overlooked by state policy-makers in the rush to embrace high technology. In Michigan, however, the state sought to build on both its economic and educational strengths by creating "high tech" institutes that emphasize robotics in the auto industry and manufacturing process (Wayne State University), biomedical technologies (University of Michigan) and forest products (Michigan State University).

By 1984-85, "entrepreneurial development" had become a hot topic. This strategy had its roots in the late 1970s in a few Mid-western and Northeastern states that, in the face of worsening economic conditions, attempted to stem the loss of manufacturing plants to the Sunbelt or abroad. States began to pay closer attention to how they could retain existing businesses, help them expand, and also encourage the start-up of new firms.

These efforts seek to offset perceived imperfections in the market, with special attention to the labor, capital and managerial markets. The idea is to use state funds to correct the imperfections and encourage the "home-grown" economy.

In the wake of research by David Birch of the Massachusetts Institute of Technology that showed small firms create 50 to 80 percent of new jobs (although some dispute his figures as too high), many states targeted small and medium-sized firms with economic development programs. Because a high proportion of new businesses fail, states have sought to increase the odds for their survival with tax incentives, special financing and managerial and technical advice while reforming existing rules and statutes to lessen the burden of government. Special attention was also paid to minority-owned and women-owned small businesses. The federal Small Business Administration played an active role in espousing the importance of small companies to the nation's economy.

During the late 1970s and early 1980s, another important strategy was evolving: "industrial competitiveness." The significant aspect of an industrial competitiveness policy is that it targets selected industries that both public and private sectors believe will be important to a state's economy in the future. Advocates of an industrial competitiveness policy argue that states should go beyond the "neutral" role of an entrepreneurial strategy, targeting a state's comparative advantages to promote economic growth aggressively.

In the early to mid-1970s, a few states began to intervene in selected industries to improve economic competitiveness. A regional flavor was evident in New England where the declining base in shoes, textiles and other industries prompted action in Connecticut and Massachusetts.

Connecticut launched its Product Development Corp. in 1972 to invest in innovative products. The non-profit corporation is repaid through a royalty agreement of 5 percent of the sales of the product. To date, it has invested $14.2 million and may soon become self-sustaining. A few years later, Massachusetts adopted four innovative capital financing programs to help businesses with long-term expansion, encourage fledgling high-tech firms and provide financing for firms unable to obtain it elsewhere. To address the problem of a skilled labor supply, the state created the Bay State Skills Corp., a semi-public entity to foster job training and employment by blending public and private interests and funds.

Since then, many states have adopted a range of policies that can be placed in the industrial competitiveness category, including financial incentives and assistance, small business incubators, state-sponsored venture capital programs, high technology business parks, product development programs, advanced technology innovation centers affiliated with research universities, as well as managerial advice and technical assistance.

Photo: Kenneth Friedman, Science Communication Associates

In a robotics lab at Lehigh University, students develop ways to help firms modernize.

In the early 1980s, "high tech" became the buzzword of economic development. Since then, there has been a growing recognition that the focus should be on "technology innovation" and its application to existing industry and to the service sector. In addition, a state's high-tech programs should be integrated with its other economic development programs, according to Paul Phelps of the congressional Office of Technology Assessment.

States are generally aiming at two types of firms with this strategy: mature industries and new, technology-intensive start-up companies. In the case of mature industries, the goal is to use new technologies to modernize manufacturing processes and to help them introduce new products. Among other things, Pennsylvania's Ben Franklin Partnership is encouraging the use of robotics in the steel industry and automation in the metals processing industry.

Ohio implemented the Thomas Alva Edison Partnership, a $32.4 million program to encourage technological innovation by using advanced technology application centers, innovative research financing and high-tech business incubators.

Although it is apparent that states are looking out for themselves, there are examples of cooperation. Ten governors have formed the Midwest Technology Development Institute, to increase cooperation among the region's universities. The purposes are to hasten commercialization of research results, to promote technological cooperation with foreign universities and to influence the transfer of Midwestern technology abroad in a way to enhance job creation and economic welfare in those states.

How a state structures itself to deal with economic development is a major concern to policy-makers. In some states, the new policies and programs have been adopted in bits and pieces over a period of several years and added to existing agencies' responsibilities. In other states, legislatures that adopted major economic development packages also reorganized the executive agency or agencies responsible for economic development.

Economic development has been given a greater political prominence in some states by legislatures that have created economic development committees. In the late 1970s, Oregon created the Joint Trade and Economic Development Committee.

Another concern is whether a state possesses a long-term view of its economic future. Kansas is a recent example where a major study preceded proposal of a legislative package. Other states that have first studied economic development and then enacted major programs include Iowa, Nevada and Oregon.

In Washington state, the newly-created Economic Development Board, composed of public and private members, has been charged by the legislature with creating a long-term economic development strategy for the state. Michigan, Wisconsin and Wyoming have recently engaged in long-range strategic thinking on economic development.

Photo: Kenneth Friedman, Science Communication Associates

A computer-integrated manufacturing system will soon aid this Bell & Howell plant.

In the face of state economic development activity in the last decade, a major question remains to be addressed: What works? Pennsylvania has "done it all," says House Majority Whip Robert O'Donnell, but it's hard to "distinguish between those [policies] that don't work and those that do."

Systematic and methodologically rigorous evaluation of economic development agencies and programs by legislatures does not seem to be widespread yet, perhaps because so much has been implemented only in recent years. However, there have been some attempts. Last year in Minnesota, the Legislature's program evaluation staff released a massive study of all of the state's economic development programs. Economic development agencies have been evaluated in Arizona and Maryland.

The challenge now facing many states is to evaluate the performance of economic development programs as well as to examine how executive branch agencies may best be structured to operate them. The states now have the opportunity to learn from each other's experiences and then refine their programs to achieve greater effectiveness.

The end result should be economic development strategies, tailored to each state's own conditions, that help the state adapt to the changing competitive conditions of an uncertain global economy.

Tax overhaul bill may play role in where Alaska legislators look for new revenues

By DEAN FOSDICK
THE ASSOCIATED PRESS

ANCHORAGE – The massive federal tax overhaul awaiting final Congressional approval may play a role in determining where Alaska legislators look for new revenues next session, a state official says.

Dick Monkman, the state Revenue Department's deputy commissioner, taxation, said Tuesday the federal tax bill comes at a time when Alaska is looking for new money to bolster the state's oil-fueled treasury.

World oil prices have been on the skids for several years. Because crude oil provides 85 percent of the state's revenues, Alaska policy-makers are faced with cutting spending and finding new money if they're to maintain services during the next few years.

"I haven't seen the complete bill yet. I've only gone over it in pieces," Monkman said. "But a point of future interest is that the (federal) deduction for state sales taxes is gone. But the deduction for state income taxes remains.

"That may make a difference next year when the legislature considers taxes," he said. "They may want to go with a tax that would keep the money in Alaska – in this case an individual income tax – rather than one like a state sales tax that under this bill would send the money to Washington."

Alaska's oil and gas industry doesn't appear favorably impressed with the bill's provisions.

Hugh Motley, assistant tax officer for ARCO Alaska Inc., said the tax overhaul will put a squeeze on all capital intensive industries.

"The loss of investment tax credits is unfavorable," Motley said. "Deferral of 30 percent of intangible drilling costs, IDCs, over a five-year period also is detrimental.

"And the tax depreciation schedule again has been slowed down," he said.

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Committee to review Alaska's oil tax breaks

The Associated Press

Proposals to limit tax breaks for oil companies operating in Alaska are getting their first official review today, as lawmakers anticipate new legislation to bolster the state's oil-based income.

The Alaska Legislature's 12-person interim committee on taxation were to begin briefings today on proposals to eliminate a floor on the amount of oil severance taxes the state can collect and to extend the time period during which the taxes can be collected.

Both issues are connected to the economic limit factor, or ELF, a law intended to encourage oil companies to keep pumping oil from marginal wells.

The ELF clause lets oil companies apply for breaks in state severance taxes after a specified number of years after the opening of an oil field. For Prudhoe Bay, the ELF was to go into effect automatically 10 years after oil began flowing there in June 1977.

Unless the ELF clause for Prudhoe Bay is delayed or repealed, Alaska will lose an estimated $70 million in fiscal year 1988, and $141.5 million the following year, said Tom Chester, an analyst for the Office of Management and Budget.

The clause also could trigger reductions in the taxes Alaska collects from smaller North Slope oil fields: Kuparuk, Lisburne and Milne Point.

If the ELF is repealed for Prudhoe Bay only, Alaska will collect $875 million by the year 2000, or $1.55 billion in taxes if it is repealed for all the oil fields, Chester said.

Mary Halloran, an aide to House Speaker Ben Grussendorf, D-Sitka, said the committee is being briefed on the future of ELF, and is likely to focus on the issue when it makes recommendations to the full Alaska legislature next session. Grussendorf is the House chairman of the joint House-Senate committee.

"The question is whether the oil companies really need economic incentives to continue to pump the main Prudhoe Bay oil field. Given the state's revenue situation, do you give the oil companies a tax break now or wait?" Halloran said.

The second target of the committee is what Grussendorf calls a "trap door" in the floor placed on oil severance taxes.

When legislators passed the oil tax law in 1976, they placed a minimum tax of 80 cents per barrel on North Slope crude. But later, state officials discovered what the legislators apparently overlooked, that the floor was tied to the ELF, which is pegged to company profits.

Oil companies that could show a zero well-head value on their production — meaning they collected no profit after paying the cost of getting the oil to market — might be able to argue under the ELF that they owe no severance taxes, said state oil economist Roger Marks.

The Department of Revenue has proposed a tax law amendment to sever the tie between ELF and the tax floor.

Chester said at current oil prices of $12 to $13 per barrel, such an amendment could garner the state $753 million in revenues by

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2000. It otherwise will not get that money.

The tax committee also is slated to hear what the revenue and law departments are doing to collect an estimated $800 million in back taxes. ARCO Alaska Inc. paid a $243 million back tax settlement in January, the first major oil producer to reach a tax agreement with the state.

Grussendorf is joined on the committee by Sens. Frank Ferguson, D-Kotzebue, the Senate chairman; Dick Eliason, R-Sitka; and Mitch Abood, R-Anchorage; and Reps. John Sund, D-Ketchikan; and Terry Martin, R-Anchorage.

Public members are Dave Rasley, Operating Engineers Local 302, Fairbanks; Bart Garber, University of Alaska-Fairbanks; George Nelson, Standard Alaska Production Co.; and ex-officio members Dick Monkman, Department of Revenue; Gordon Harrison, Office of Management of Budget; and Barbara Herman, Department of Law.