

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672604

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just barely surviving. Certainly, we're aware of one major one in Southeast, probably two or three, that could very easily leave the state unless we have some strategy to have money available in a fairly fluid form to get those things purchased at the time they're available. If we have to wait for the legislature to appropriate the money with all the appropriate politics, our chances are gone. I think Kluckwan is a very good example of that. I think the history of that case is not unique and that it has been going on for many years. Some place in the middle of all of this, I think there is a string of logic that somehow we can attach to something. All I wanted to do was raise the issue with you.

GRUENING: Thank you. I always think there's more than one way to skin a cat. The Permanent Fund may not be the most appropriate institution to do it, but you could either do it through the use of the Permanent Fund income directly purchase these materials or set up a special grant fund in the General Fund to do that or again maybe the Renewable Resources Development Fund---which doesn't have to make loans, it can make grants---could do it. I think maybe you could write under the tourism loan, maybe have a grant system and have some entity administer, be able to administer quickly enough, so it can, at an appropriate time, step in and prevent the loss of these priceless items. You might give some thought to how that might be administered in terms of---if

you're not going to have it directly run by, let's say, Commerce or a special department, how you might have it structured and who would serve on it.

INOUE: I wanted to make clear too that there are many manuscript collections that I think would equally fit into that area. For instance, there are many things in the University Archives that are really invaluable; but I have a feeling there are a lot of other things that should probably have been deposited there, that unfortunately we don't have now.

MEEKINS: Ron, one other thing. I serve on the sub-committee that is looking into the Renewable Resource Development Fund. If it's alright with you, I'll send a copy of your comments to this committee to the chairman of that sub-committee, Terry Gardiner.

INOUE: I'd be pleased if you would do that. Thank you.

GRFUNG: Thank you very much, Ron. Yes please.

MATSON: My name is George Matson, the Executive Director of the Fairbanks Environmental Center. I don't have any prepared testimony, but I would like to make an appeal to you

that the money from the Permanent Fund be invested in environmental research, environmental baseline studies, fish and game, fish and wildlife and habitat. These are renewable resources, and I know the question you're going to ask, how do they produce income? Well, I think, you can look at this in a number of ways. If you look in your booklet here, it refers to the origin of the Permanent Fund, and it says that the fund evolved as a means of preserving the Alaska lifestyle. I think fish and wildlife and the habitat are very much a part of this. So I think some of the statements and some of the reasons why the Permanent Fund evolved are very much in support of why a broad definition of income should be applied to how the Permanent Fund is spent.

I think, also, we're all familiar with the environmental impact state requirements and things like that. You can directly relate the quality of the baseline study to the potential for resource development. If the baseline data isn't there, the resource development is jeopardized. The resource developments produce the royalties and the leases and everything else from which the Permanent Fund feeds off of. So there's a relationship there.

Also, I think, you can relate the protection of the fish and wildlife and habitat to social costs. One thing I would like to point out to you, maybe you're not too familiar with it, I just came back from Barrow. I spent a few days up there, involved with the Inupiat in terms of the bowhead whale situation.

They're faced with a decision by the International Whaling Commission to, well, in fact, the decision has already been made, not to allow any bowhead whaling starting the spring of this year---next year.

It doesn't appear that the justified position on the International Whaling Commission's part, and in response to it, the people, the Eskimos in the North Slope area, have put together what I consider to be a very excellent proposal to look into the population dynamics and habitat of the bowhead whale, in fact the whole habitat, which you might define as the Arctic Ocean. They're very sincere about this. They want to protect the whale; they want to protect their culture, the two are related, but this proposal they have, which is sophisticated, uses an inventory as well as combines the knowledge of the whalers is a pretty extensive effort.

They're concerned enough that they have taken their dividends from the North Slope Borough---30 some hundred dollars and applied it towards the start of the study. However, the study is going to be about \$13 million and they don't have the money to do this. I think it would be very appropriate if the Permanent Fund were to put some money into this five year study that's being proposed. You can, here again, you have to, if you take the rigid interpretation of

what is income producing, you might not be able to justify it. But if you look at the alternatives and apply a little flexibility, you'll see the social costs, if the study doesn't go forward.

Without hunting of the whale in the Artic Slope, there's going to be all kinds of social costs in terms of welfare and transporting food up there and everything else. It's not desirable, I don't think, from the state's viewpoint or the people that live there. Like I mentioned, I don't have a prepared statement. I just wanted to point out that I think this is a legitimate need, and right now, I just came back from a very intense exposure to a very legitimate situation.

GRUENING: Thank you very much, George. I attended the Inuit Circumpolar Conference, and I remember when that was discussed, the people were very concerned about it.

I think the question facing this committee with your suggestion and that that was just made on artifacts is one of dealing with all the proposals with the appropriate tool.

One point we tried to raise in the brochure, and I don't know whether we made it clear, is that there are two funds that the legislature deals with. One is the General Fund, which in terms of revenue projections, is going to be probably larger than the Permanent Fund to the extent that we've derived money from

our oil wealth, the larger portion of it, as the constitutional amendment now stands, will go into the General Fund. There are no restrictions on the General Fund as to how it can be used. We could spend it to study peanut farming in Alaska or we could use it for, say, baseline data for the bowhead whale situation. That's one thing we have to address--- which is the most appropriate tool for it. I'm saying that your proposal, your suggestion that we look into it is a good one, I know, I think, I hope the governor, at least, who has been up there for that and has expressed some concern, will have a suggestion as to where the money should come from.

MATSON: He expressed concern but he didn't express any solutions or absolve the state from being a part of the solution. I think the state could be, they could exert some leadership here and say the state is just as concerned and is going to chip in to this \$13 million or whatever it's going to be to do this study.

In terms of income producing, you might point out that what they want to do is develop a sophisticated monitoring system to measure a number of different types of signals from whales, acoustical signals and everything else. This type of monitoring system has all kinds of applications in other OCS areas. So attached to this, you could have a license.

The license would generate income because it would be bought, you know the concept or maybe even the whole package, the hardware and the software could be bought by someone else to monitor some other species or maybe even by the Defense Department to monitor submarines for all that matter. But basically, the mix of sensors they want to put into this, I think, has a lot of potential in other areas, and so, like I say, if you use a little imagination, you can find out how it would produce income. Just having a license would be one way. Patent, I should say.

MEEKINS: Just to define terms here---we have, of course, as we've mentioned, there are several funds. We have the Renewable Resource Fund, which your suggestion would probably fit under that definition---it does not need to be income producing.

Then we have the General Fund, which is used for budget purposes, but there is, at this point, projected to be a surplus of revenue over and above what we spend on the operating expense for government in the General Fund, so there'll be a surplus in the General Fund.

There'll also be a surplus revenue in the Permanent Fund. The Permanent Fund is the only one that's limited to income-producing investments.

In fact, the revenue from the Permanent Fund is not limited.

If we make 5% or 10% return on a billion dollars in the Permanent Fund, that's quite a substantial amount of money in itself. That money is not limited and not subject to the same constraint. So you have of the four vehicles there, you've got three of them that are not limited.

MATSON: One reason I wanted to point this out is that time is of the essence here. This whole system would have to be operating sometime next spring. Now if money comes from the General Fund, the legislature would have to be in session first. I'm under the impression, it may be wrong, that you have the ability right now to commit money from the Permanent Fund.

GRUENING: No. That is one impression I want to clear up. The Commissioner of Revenue---there's about \$7 million that has collected in the Permanent Fund now. That's a total amount because the pipeline hasn't been in operation very long---the Commissioner of Revenue is authorized to put that into essentially a savings account. He wouldn't be authorized to do anything else with it. We'd have to change the law to authorize him to do other things with it.

Because of the constitutional requirement, I doubt whether we could change the law to allow grants or investments to be

made that didn't produce direct income. Now this doesn't mean we couldn't use the income from the Permanent Fund to do what you're doing, or these other loan funds. Actually, your problem probably is only addressable by the Permanent Fund in terms of the time frame you're talking---I mean the General Fund---in terms of the time frame you're talking about, because the General Fund has right now, it's got a cash turnover of close to a billion dollars. That's the only fund that has the kind of money you're talking about. I don't know how much you're suggesting the state kick in, but...

MATSON: Well, the Department of, they're approaching the Department of the Interior. They're using their own money as much as they can. I think it's a significant commitment to take all the dividends from last year from the North Slope Borough and apply it towards this study.

MEEKINS: Of course, if time is your problem, the Renewable Resource Fund has no money in it yet. It doesn't even start collecting till 1978. The Permanent Fund has just a few million dollars and there's no income of any great amount being produced by it yet. That income is going to be reinvested anyway under the current law. So nothing could happen till the legislature meets. Your most likely vehicle, in fact I think, your only one

if you want it within---by next spring is the legislature. Out of the General Fund, just a regular appropriation.

MATSON: Well, I think there's another point I'm alluding to, I haven't brought out is very much in accord with what Bob Weeden mentioned. I'd hate to see the Permanent Fund be defined according to what's acceptable to bankers. I think the tone of how this whole thing started was it's for the basis of the people; it's not for the basis of feeding more money to the bigger and better for fewer and fewer. I think, unlike our rate structures and some of the other things, it should be structured so it benefits the smaller person more so than the bigger person, the bigger corporation. I appreciate what you're saying but taking a rigid interpretation to me comes across as it's going to favor those who are higher up in the power structure to tap into this.

GRUENING: We're trying to avoid that. I'd hate to see it, like Mr. Weeden, benefit the bankers. They need it least.

CARPENTER: I was just going to elaborate a little, George. We have to keep a clear focus, I think, on the principal and then the income from that principal. One of the basic thoughts here is that if we adhere as we are mandated to a strict fi-

nancial interpretation of the income producing for the investment of the principal of the Permanent Fund, then the types of projects you involve to speak of, the research that's necessary and so forth will ensure us of monies down the road income for which these restrictions are not placed. I think, though, that if we try to depart in the investment of the fund from a strict and literal interpretation of income producing will be, in fact, defeating your interests and Bob's in the future. We don't want to dissipate, cannot dissipate the fund.

MATSON: I'm not sure the best way to address these needs that I mention, but I want to be sure that in the mix of all the tools you have to work with it does get its fair share.

GRUEING: You don't fall between the cracks.

MEEKINS: I might just say something too. I think that the points you make are very good ones, and the committee, I feel, is in agreement with your attitude essentially. We see it---what we're trying to find out and what I don't think we do have any great consensus on in the committee or in the legislature is how to go about getting benefits to Alaskans and Alaska society. We certainly don't want to benefit just the economic part of the state, just the bankers and other people who are involved in

financial dealings. The question is, is it better to do that by investing that money in very high yield activities or investments and then using the income from that for social benefits or whether we should use the principal and directly invest the principal in things that might be socially beneficial? That's the only question.

MATSON: There is a potential for high yield on these things, I think the availability of fish and game in Alaska has a very dispersed high yield to a lot of people. To Rich Seifert, it was asked how you quantify this. I think it's not easy to quantify, but it's clear how you quantify these things. It's difficult because the benefits are dispersed. Its not the same as if some corporation has their income coming in and selling products all over and they can work at their bottom line. The benefits don't channel into one area---channels to the whole public and what you have to do is do some economic research and breakdown of who benefits by this and who loses by that and through the EIS process, I've seen other areas where there are quantified things like recreational benefits. In fact the Corps of Engineers has become pretty good at saying, "Well, so many user days is worth this much to the economy." I think you can do the same thing here. It's just not as obvious because the benefits are dispersed.

GRUENING: Thank you. Any further questions? Thank you very much. Do you think it's quiet enough to open the door now? Sandra, love to hear from you.

STRINGER: My name is Sandra Stringer, and I'm here speaking for myself.

First of all, I would like to thank you for coming to Fairbanks to ask for opinions. I think that this is certainly a step in the right direction in terms of getting public input and also spreading knowledge on what the Permanent Fund is and what it can and cannot do. I think it's evident from some of the people who spoke earlier today and certainly from myself, from my own lack of knowledge as to what are the real specifics in terms of what the Permanent Fund was designed for. I found myself, a little earlier, in listening to George and agreeing with a portion of what he said and listening to Rich and to Bob Weeden. I also found that I agreed, a little bit to my surprise, with Representative Carpenter. I think that I really do agree that money is a means of transaction. Therefore, we must be extremely careful that the principal is invested in such a way that we are going to continue to get money from it, that the interest from the principal is going to continue to come to the state.

However, it seems to me that there must be a way, there should be a way in which to invest this money so that the money could

perhaps be invested in the state itself, in various enterprises within the state hopefully or at least a portion of the money, and that there would be spin-off, good spin-off on that, and that the interest drawn from this investment can be used to subsidize such things as research and as projects, various projects which have been mentioned, which have no source of funding right now and which could bring great benefit to the entire state, even though that benefit could not necessarily be quantified in the monetary fashion.

I wish I were able to suggest some way of doing this; I really can't. I'm quite ignorant in terms of investment, in general, and certainly don't have any specific suggestions to offer you as to how to invest the Permanent Fund. However, I do feel, as Bob Weeden also stated earlier, it would be a very good idea to be sure that there is some general citizen input along with your money managers, along with your bankers and your investment brokers that there are some ordinary citizens whose opinion is asked, not, of course, for the technical end of things, but just to get an idea. Some people who have lived in Alaska for awhile and who plan to live in Alaska and who want to see the state prosper and grow however prosper and grow is defined by the individual. That's really about all I have to say. Thank you for coming. I hope you come again.

GRUENING: Thank you, Sandra. Any questions? I am glad that you got up and didn't feel intimidated by the seemingly technical nature of it because none of us know any more about investment banking than you do. That's not what we're interested in. We're really interested in how people think the Permanent Fund could help Alaska. I'm glad that you came up here and gave us your philosophy. That's really where we're at, at this point. We hope to come back to Fairbanks too when we have a proposal and hear some more.

STRINGER: Thank you. I think that certainly the people in this room are reflective of a vocal portion of the community. I think they'll have a lot of good ideas.

However, I know that there are many others in the community who might have come today if they felt they had something to offer. Many people that I've talked to felt that because of their lack of technical expertise, they really didn't have anything to offer to the committee and were reluctant to take up your time and their own coming down and offering some sort of general comment. Please be assured that there are a lot of people in the community who are concerned and who will continue to try to become informed. I think that the Alaska Forum last spring, for instance, there was a discussion of the Permanent Fund at that; and a lot of people started thinking at that time about the subject.

Most people don't have the technical background, as we've already gone over, to offer firm suggestions; but I think they shouldn't be discounted as being, say, disinterested. They are interested; it's just that they don't have the background.

MEEKINS: Sandra, do you think that there is a need for more information about the Permanent Fund to be distributed in some way or another to the public?

STRINGER: I think it's not so much---certainly there is an amount of information available. I think it's not so much lack of information, as most people in our society, which is already so highly specialized in so many areas, most people who know nothing about oil, for instance are somewhat reluctant to talk about oil policy. Most people who don't know much about mechanics are reluctant to offer their suggestions about mechanical things. I think it's generally just, not so much lack of information as a lack of, I don't know what, an assurance on the part of the people on what they're speaking about.

I think you should continue to attempt to get word out to people that there is a Permanent Fund because, often in the

rush of every day life, people tend to forget---"oh, yes, I remember reading something about that or hearing something about that a month ago or two years ago or whatever." Since it's something that will continue to affect us, and far more so than right now, in a few years, that a continual stream of information must be put out and also you must always assume that when you put out that particular piece of information, that no one knows anything and start from point one recapitulating, if necessary, because people do tend to forget, even those who are interested.

PARR: Sandra, you mentioned that you would like to see at least some of the money invested in the state. If the state could get, and I'll take figures out of the thin air here, if the state could get, let's say, 7% in New York in some kind of investment and could only get 6% in the state of Alaska by investing it in the state or 5% or something, does that seem like a good trade-off to you? In other words, not those specific figures, but would you think it would be desirable to accept perhaps a lower rate of return by investing in Alaska? Do you think the benefits would outweigh the loss of interest dollars?

STRINGER: I think probably that it would depend a great deal on the projects that you know what the two projects were that were being invested in, and the exact amount of loss being

experienced and also whether you're talking about investing 100% of the money this way or maybe 50% or 10%, it would vary a lot. But it seems to me that under certain given circumstances, the loss of financial return to the principal, if it were not too great and the project were sufficiently worthwhile---of course this is all a very subjective evaluation---that it would indeed be a trade-off that could be acceptable. Because after all, the money should be benefitting Alaska.

PARR: Thank you.

GRUENING: Sally.

SMITH: Sandra, if I may just add for the benefit of anybody else who lacks self-confidence to come and speak as you have, I know of one person sitting on this panel that's in the dark in a lot of it and that's me. This is where we need to get some of the people out to learn about it. Perhaps, some of the fault with all of us is when we send information out, it's already too technical for anyone to understand. There again, I can fall under that category on more than one subject. When I pick up background information, I have to sit there with a dictionary. We need to really, all of us, kind of re-evaluate how to present information to the public,

so that it's short and concise and does bring about their interests and let's them feel that they have something to say too. I'm really glad you said that.

STRINGER: Well, thank you, Sally. I think that a lot of times people are so caught up in the general business of living, sending the kids to school, getting to work on time, bringing in the pay check, and maybe taking off an evening for fishing, that they don't have time to read the legal page or they've seen an advertisement on television about something, but it's real hard to follow up. A brochure of the nature which we picked up today is most informative but sitting here, trying to scan it while the meeting was going on, I found that I should have probably gone home and gotten a dictionary and come back too. But you can only make a certain amount of effort in that direction, I'm sure.

DOOGAN: Unfortunately, this is a rather technical question.

STRINGER: You probably shouldn't ask it of me then.

DOOGAN: Those sorts of things have to be answered. Really the purpose of my comment is to say that the committee has been cooperating with the Public Forum and one of their four main sets of questions is going to be Permanent Fund questions. I believe they're scheduled into Fairbanks sometime later this month.

GRUENING: September?

DOOGAN: I think so. I don't have the schedule with me.

GRUENING: It's after October. I think the first one is in October.

DOOGAN: Yeah. What I am talking about? It would be later in October. I'm sorry. But the purpose of that comment is simply to say that we hope to derive some information for the committee's benefit as well as for the general benefit of the public through the Public Forum. So we would hope that everyone here would participate.

STRINGER: Well, it was well advertised last time. Hopefully, it'll be equally as well advertised this time.

GRUENING: Thank you, Sandra. Allen Bloom.

BLOOM: Thank you, Mr. Chairman. My name is Allen Bloom. I'm here also just as an interested spectator more than anything else. Originally, I hadn't planned on testifying but I was going to use this as an opportunity to familiarize myself as well with the technical mechanism of the Permanent Fund. I'd like to point out I'm not an economist, but I

do have two recommendations for long term utilization of the principal for the Permanent Fund.

The first is that after we've solved, to a great extent, the investment problems that are facing the state of Alaska, and we've funnelled whatever principal into the programs that may be funnelled in, 25 years from now or 50 years from now, it may be advantageous to take the principal of the Permanent Fund and make a quantum jump on the part of the state of Alaska investing the Permanent Fund monies in the emerging nations around the world, the lesser developed countries of the third and fourth world so that we can tie them to a certain extent to our own economic well-being and potentially act as brokers for more stable economic systems in other parts of the world. This goes on beyond just a simple step of perhaps investing in growth bonds and proposals of other states. I'm talking in this case of going to the poor countries such as Chile or Malaysia or such areas as that with the idea that we act as the broker both as a multi-national corporation, called Alaska, and we do it along the lines of the principal of the Japanese superstate in dealing with Korea, Taiwan, the Soviet Union. I think we have that potential in terms of the long-term net effect the accumulation of principal capital in the Permanent Fund.

I don't have any mechanisms for how to set this in motion. I don't have any real strong recommendations on how to manage it

and how you allow the taxpayers in this state to make the decision to make that kind of an investment. But I think it should be explored at this stage, so that when we've solved our own problems and, so to speak, fed our own poor, then we can extend out to that particular level as a stabilizing economic interest, possibly a competitor to the International Monetary Fund, I don't know.

My second point, and it's sort of a composite of what Mr. Matson, Mr. Seifert, and Mr. Inouye were talking about in terms of the research component. Perhaps one of the ways that the principal from the Permanent Fund can be used in a research component is to create a maximum learning center on the north through the University of Alaska system. The attendant return to the Permanent Fund could be in the form of jobs, just the whole potential of employment through the creative and intellectual exercise in the state of Alaska, broadening of the cultural experience and an acceleration of the cultural experience by using some of that principal to actually create a new category of professional employment for the people of the state of Alaska. This is a potential mechanism, and again, I don't have the details worked out.

My last point is---and this concerns just the structure of fund management---we hear a lot here of the difficulties of the constitutional amendment that was passed in creating the

Permanent Fund and then the management device itself. One of the things that I fear is that we may end up creating a constitutional mechanism that is as rigidified and as autocratic as the Federal Reserve System. I would hope that in creating the management tools for the Permanent Fund that we do not create an autocratic empire for another Arthur Burns. We may have to make a concession in form to the general politics of the people of the State of Alaska. We may have to rely very much on the urban or Fairbanks against Anchorage, when it comes down to that, to managing the fund in such a manner that everybody really has a chance to play in it. Thank you.

GRUENING: Thank you, Allen. Any questions from the committee?

The thing that strikes me, you know you hear two suggestions that were very innovative. I've never heard them before for potential use of the fund. But since it's something that might take place down the road quite a ways, it would seem to me that whatever the fund did between that and the time your proposals, let's say, looked good, it would have to be left flexible for the fund to be able to change directions.

BLOOM: I see that as being absolutely essential. What we cast in concrete could turn out to be a real Catch 22 for the taxpayers, for the consumer in the State of Alaska. We're going to

have to develop a mechanism, I think, to encourage people not to come to Alaska; but at the same time, we've got to develop that same mechanism to give the people that are here a decent lifestyle and employment.

One of the things I'm referring to in this structure is the AFL-CIO national position that was developed last year. Do we develop the concept that business and investment will be the whole purpose of the use of the Permanent Fund or do we use what organized labor calls the most important priority, which is jobs, period? I think that has to be addressed in the context of how we use the money in the Permanent Fund.

DOOGAN: The obvious difficulty with that scenario is that jobs is sort of a neuter word. Since we cannot close our borders if we create jobs, we create jobs equally for people that are here and people who may come up to take the jobs. If you were to attempt to develop a mechanism to sort that out, we would be very interested, at least I would, because it's a question that does not seem to be soluble.

BLOOM: The wisdom of Job I don't have. Again the problem is tossed sort of in your laps for consideration. We've got 20 to 25 years to begin addressing this. I think it should be addressed now.

GRUENING: I think it's the patience of Job; the wisdom of Solomon.

BLOOM: Something like that.

PARR: I'd like to say I'm glad that Allen brought that up because everybody who's been around Fairbanks for any length of time knows that one of the problems has always been we've had a seasonal economy. In the past, we've only had really one major, year-round payroll, and that was the military bases. In the last decade, perhaps, the University of Alaska started to offer us a second one. But that's been it. We definitely could use some sources of year-round jobs in this area---no question about it.

The second point that Allen mentioned, perhaps Mike, how do we keep from being flooded by people from the Lower 48 if we do this. I don't have any good answers but I would hope that we may have learned something from our fiasco with Alaska hire on the pipeline that would permit us to do something, at least, to give a preference to Alaska residents.

BLOOM: Perhaps, we use the interest to pay people not to come to Alaska.

PARR: With bodyguards every hundred yards.

SMITH: Send the Alaska, Inc. money Outside.

GRUENING: The dividend money to stay out.

MEEKINS: Allen, I think you pointed up a problem that continually seems to flare up in front of us and that is that if we do assume that our labor supply in Alaska is essentially the United States labor force, that if we increase jobs up here or the real wage up there that it's just going to increase immigration into Alaska to fill those jobs. The attendant social costs, so that if we create a lot of jobs, we're talking about more people coming up and the real wage is, therefore---the equilibrium wage, therefore---remains the same after that influx; but the only difference is that the demand for government services is vastly increased, so that we'd spend more of our surpluses on normal revenue-sharing and building roads and those types of things.

That seems to be sort of a vicious cycle that we get into. Along that line, I've sort of been, by the discussion we had this morning, I'm sort of toying with an idea and that you sort of touched on when you talked about research. Research does really seem to be within the limits of the Permanent Fund. But we're trying to invest the Permanent Fund we get some sort of social benefit out of it. We may, in-

deed, find a way---somebody may find a way for us to do this without all these attendant problems; but one of the things is that real wages are based upon productivity---that if you increase jobs, if you just increase the number of jobs or if you increase the supply by producing things that are not supplied now, and therefore increase jobs, you're really not increasing the wage. You're not increasing the wage until you increase productivity. You can have a differential wage if productivity in Alaska is increased.

BLOOM: This is what leads me to the concept of investing through the lesser developed countries, but also just by extension, we could also extend into the Pacific Rim, and we can also conceivably grab onto the concept that Mayor Hobson has been talking about, which is circumpolar investment as well. That means if we are funnelling the money into the human employable markets, that are market specific perhaps, then we're in a position to run that money out, manage it well, and not encourage an influx of people at the same time that we're putting people to work in a productive manner.

I'd like to see the idea, say 50 years or 100 years into the future, that the State of Alaska becomes a significant economic force as a stabilizing and pacifying force among other nations, other geographic centers of power around the

the world. This is not an Alaska separatist argument; it's just that I think we can start exercising the economy of the United States, in general North America and other parts of the world. Thank you.

GRUENING: Step right up.

HAKKILA: Thank you. I'm Jack Hakkila. I am an economist. I had the good fortune of spending a great deal of my early adult life studying the field of economics. Most recently, I've had the good fortune of spending the last eight years most of it in business development here in the interior of Alaska. I'd like to, first of all, commend the panel for the conduct of the meeting. The proceedings here, unlike hearings I went to two and a half weeks ago, we are speaking equally.

For a non-economist, I think, the last statement we heard was an excellent beginning. I think we should be looking forward to 50 years. I have run some of my own calculations on some of these figures, and I have seen figures of up to a trillion and a half dollars that could be returned just from oil revenues in 50 years time. Alaska could, indeed, be a stabilizing influence in the worldly, economic community.

I have a short, prepared statement here that I'd like to read.

The Alaska Permanent Fund, through its creation, has two immediate, important connotations. It is permanent and it is for Alaskans. I'd like to footnote a non-economic comment here---I don't know how we're going to limit Alaskans with what we define as Alaskans as people who are here as a state of the 50 states. It reminds me some of Representative, former Representative Bradner's comments I overheard on the radio interview one night before the pipeline, him stating that we should keep the people in Seattle at the airport unless they had a job in Alaska. The interviewer asked Representative Bradner what job he had when he came to Alaska, and his reply was that he was looking for a job. I think that the United States of America was built on Ellis Island, the Statue of Liberty---this was the home that welcomed the tired, the hungry, the poor. I think for Alaskans to suddenly realize that we're coming into great wealth and to limit this wealth to that particular group that happens to be here at the time, is going to be a very difficult thing.

It is important, as a Permanent Fund for development purposes, it is important that long term goals for development of the state be established concurrently. If we're talking about accumulating wealth over a period of 50 years, we must, ourselves, set long-term goals. I had the good fortune of working with some of the native communities over the last year in trying to implement, develop long term goals and objectives for them. I would

hate for us to be guilty of stepping into a long-term venture such as the Permanent Fund without establishing our own long term goals. I think this is one of the things that should definitely come out of these hearings and out of the legislation establishing it. Having as its objective the assistance to Alaskan business development, it is important that the goals be achieved through the administration of the fund by Alaskans.

I read in the papers here about Outside consultant roles being handled by Outside economists, and again, we're doing the same kind of talk that we had using the oil lease money in 1969, the great opportunities for Outside investment. Meanwhile, Alaskan businessmen starve, go broke, and die. I'd hate for us to not remember the lessons of the investment of the funds in 1969.

The basic factors of economic production for several hundred years have been recognized as land, labor, and capital. Land is an all-inclusive term in macroeconomic usage for natural resources. We're all aware that Alaska is abundantly endowed with this one economic factor of production. Similarly, in recent years, human capital has become the all-inclusive term for labor and the other human factors in economic production. In much of our discussion here today, we've recognized this term implicitly through our ventures as such things as research, development, human ingenuity

through invention. Human capitalist today, in textbook term which is all-inclusive for the old traditional term of labor.

While the Permanent Fund considers the disposition of that third fundamental item for economic production, capital, it must be remembered that effectively capital can only be used with the other two resources. We are abundantly endowed with natural resources.

Nowhere can capital be more effectively combined with natural resources and human capital than in Alaska itself. The construction of a single pipeline, which will carry 20% of our nation's energy in oil is testimony to that fact.

Now let us examine where lower 48 investment banking firms, insurance companies, and banks were during the eight years from 1969 to '77, from oil lease sale to oil flow.

I speak from personal experience.

On December 31, 1973, after spending three and half years with New York Life Insurance Company, one of the largest of the American insurance companies, and having submitted for consideration investment proposals on shopping centers, apartment projects, and other projects such as a medical clinic here in Fairbanks, at no cost to the company (I was doing this as a service for my company and my clients), I was told that New York Life would rather invest its money in projects associated with another pipeline to Texas. Alaska is too speculative. When the vice president making this statement was asked which is more speculative, investing

where the oil is running out or where the largest resources on the continent are being tapped, a blank stare was the reply. The mortgage department convened its annual meeting and Alaska was not on the agenda.

Having learned from three and one half years of experience with the leading insurance investor in Alaska that investment in interior Alaska included the 1967 power plant at the University of Alaska and no more, that New York Life simply was not the vehicle and neither were any of the other insurance companies. At that time, New York Life was the leading insurance company in interior Alaska. In 1974, I entered a partnership to find investment funds for Alaskans.

At the Bank of America, one of America's leading banks, a vice president admitted in August 1974 that the company had twenty billion dollars in loans it would like to consider in its own backyard. They did not have time to consider investments in Alaska. Once again, sound economics could not justify business decisions.

In 1975, I worked with the firms of Merrill, Lynch, Pierce, Fenner & Smith in their California Street office in San Francisco. I worked closely with the investment banking division there in San Francisco and with the bond offices in New York. In May of 1975, the head of this firm's office doing business in Alaska told me that if anyone comes from

New York to underwrite energy related issues out of the North Pacific region, they would first come to the Seattle area and underwrite issues related to nuclear power plant construction there.

Personal experience in securing investors for the greatest investment experience in history through lower 48 institutions has not been good. Alaskans should not be asked to commit their development funds to these institutions for their decisions, but the decisions should be retained right here in Alaska.

As far as what could be done immediately at the present, turning back to our world of reality today, Alaskans are being asked to transmit the most fundamental resources to lower 48 markets without processing. An immediate opportunity exists right now for investment in petrochemicals. Five million dollars would provide a pilot petrochemical plant. Within a matter of months or a year, we could all be carrying around little samples of petrochemicals. We could be marketing them to other countries. People could take some pride in developing the petrochemical industry domestically here, just as we did a few years ago carrying these little vials of oil from Prudhoe Bay before the oil pipeline went on stream.

Of course, this is a gigantic industry. I've been told by one of the, well, by Ed Hayes of the Northwest Pipeline Corporation that we could foresee a one billion dollar plant per year in the Tanana Valley for the first ten years of the functioning of the Alcan pipeline. This is the economics of it. It remains for us to do it

here in Alaska.

At that point, I'd like to take exception to some of the statements in your study right here. Arlon Tussing is quoted as saying that usually it makes more sense to invest the major portion of the fund outside the state. One of the major threats of Dr. Tussing's testimony was that there is no function for Permanent Fund investments in major industrial or commercial enterprise in Alaska, unless special reasons to subsidize them. Our petrochemical industry doesn't need a subsidy; it's a very profitable industry. And we do have in Alaska the last great domestic resources in these petrochemical basic factors, ethylene. I'm sure many of you are aware of this. The discussion has been rather prominent in the last several months.

The development fund could provide the basic financing for a myriad of projects which leveraged---we heard some testimony on this this morning---would multiply its value. Those projects planned for the oil pipeline and never built such as airplane hangars, hotels, and apartments might be built through adequate mortgage financing. This financing has not been available to Alaskans because past experience has been too short to justify lending based on traditional banking evaluation.

Over and over a couple years ago, we met the answer when

we brought the best Alaskans to bankers in the lower 48. We met the question they don't have three years business experience. Yet we were asked to build the largest project in history here. We have the largest airlift going off the airport here in Fairbanks during the pipeline construction and we couldn't get hangars financed. We couldn't get helicopters financed for Alaskans because they did not have the business experience, although they had the flying and the Alaskan experience that it took for these projects. So traditional banking evaluations are not necessarily sufficient.

Now let's turn for a moment to creative financing. I'd like to enter some of my own thinking here. Where can the greatest return be secured for society through the operation of the private enterprise system?

It was mentioned above that the basic factors of economic production are natural resources, human capital and capital. Alaska will now have both natural resources and, through the creation of the Permanent Fund, capital. How then might the Permanent Fund be used to create human capital?

I am proposing here the formation of an exchange for patentable ideas.

Our system of economic enterprise operates through a system of organized markets. Stock and bond markets and commodity markets operate by bringing investor and speculator together in an organized fashion to bid on tangible and intangible products, such as

coffee, sugar, or wheat---tangible items and intangible such as stock certificates, representing the value of their particular company.

The only provision made today to capitalize on that most fundamental of economic resources, inventive ingenuity, and we heard reference to that this morning, can be made through the incorporation of its value in the price of stock in existing companies. Research and development is generally thought of as being a function of the universities or private companies. Yet ingenuity, ideas come also to the people who are outside the mainstream of organized production. Necessarily so, to be a creative person, he must be outside or have time to think and come up with the ideas. Fortunately, we in Alaska here, especially in the Interior are endowed with a number of these types of individuals; because we have the time here to think and do these things. A Wall Street Journal article about a year and a half ago documented a television program called "The Inventors in Australia"---this, by the way, was a most popular program in Australia. Each week a family of four inventors would be brought on with their inventions, and the best one was selected. More often than not, the best inventions came from the outback, from the outlying regions; because these people had the time to think.

The inventor today is afforded patented protection for a period of 17 years by the U.S. Government but his patents have no exchange value on an organized exchange unless their value is incorporated into the value of stock of a company, which is traded through the stock exchanges. In the case of a patent whose value lies further down the road than 17 years, no incentive lies in its disclosure.

I'd just like to comment here---I think with more testimony in all of these hearings this summer on D-2 hearings here---we hear considerable amount of testimony on preserving traditional values. While I think that it's deplorable the bowhead whale, for example, will not be allowed to be hunted out here, there are many people in society who like to go to the stars. The picture "Star Wars" and its reception in Anchorage, I think is adequate testimony to this. People love to think about 50 years down the road, 100 years down the road, when we're travelling not just to the planets but interstellar travel. If an inventor were to have such an invention today, he has no incentive for its disclosure. It's very difficult to uphold the patent protection of 17 years on an invention to have something that's utilized 50 years down the road to want to disclose it. In many cases, he may be laughed at.

I mentioned earlier, the most creative of our inventors are in Alaska. The Alaska Permanent Fund could establish a provision to form an exchange for patentable ideas. Going back to the type

of thing that we were talking about earlier in commodity exchanges, the stock and bond exchanges, a system of speculative houses could be established that would bring investor and speculator together and purchase the ideas of the inventor, whereby he then would have immediately funds at his disposal to go out and get another idea on the market. That's the idea of organization of dependable ideas.

In conclusion, creation of the Alaskan Permanent Fund for development connotes the long term goal of the economic development of the State of Alaska, most importantly, the people of the state. This goal can be achieved best by using the capital of that fund and combining it with the abundant natural resources and the creativity of the human resources of the residents of the State of Alaska. Thank you.

GRUENING: Thank you very much. Could you stay for a few questions?

HAKKILA: Sure.

CARPENTER: Thank you. I missed your name.

HAKKILA: Jack Hakkila.

CARPENTER: Sure. Do you have a present affiliation?

HAKKILA: Presently I'm consulting. I just concluded---I came in the day before yesterday from Galena. I've been working with the Tanana Chiefs and the University of Alaska. We established an agricultural experiment station there this summer and one in Ruby. I'm also consulting on some other ventures in Alaska and internationally.

GRUENING: Charlie.

PARR: Mr. Hakkila, you mentioned something early in your testimony about, if I understood you correctly, about perhaps using Permanent Fund investment to get petrochemical off the ground. My understanding is that right now, in any kind of energy market, that it is seller's market. We have a worldwide shortage of energy. Those people who have energy are in the drivers's seat. It's not a buyer's market, but a seller's market. If that is true, is there any reason that state money, whether it's Permanent Fund or any other kind, should be used? If it is a seller's market, shouldn't the private companies be jumping at the chance to put their own money into it?

HAKKILA: My point is that we should be jumping at the chance to put our own money into it.

PARR: In other words, the state would be the one who would

be selling this and not the private company? It would be running the petrochemical complex, for example, and selling the product.

HAKKILA: No. I am speaking of state support for private enterprise, domestically created private enterprise here in Alaska. Let our own people create the industry.

PARR: You are saying, in other words, instead of letting Dow Chemical or somebody come in here and set up one, that the state could furnish the money so that local Alaskans then could establish this, instead of having a company from Maryland or Texas or somewhere.

HAKKILA: That's right. Let us take the lead, and let them participate to whatever extent they would like. For example, about three weeks ago, I was told by a representative of El Paso Gas that if we were to go into this type of an arrangement, they would be more than happy to provide us with all of the expertise in petrochemicals. On the other hand, at such time as we wanted to, they would enter into an agreement to finance some or be a participant in it. They would show us the way and help us create our own industry here.

PARR: In other words, the main thrust of what you are saying, and this is what I missed, I guess, is that the principle ownership would be Alaskan ownership and not out to the state ownership.

HAKKILA: That's right. It could be through the Permanent Fund, and then, when I mentioned, you know these figures generate and they are tremendous figures, because nowhere in the United States, have we had these types of resources before. These investments will also generate income or could generate income for the Permanent Fund. Nobody is going to get these projects off the ground like Alaskans, because we'll have our own interests in running it.

PARR: You are not suggesting in any way a subsidy of the petrochemical.....

HAKKILA: No, sir. This is where I take exception to Arlon Tussing's statement.

MEEKINS: I guess what you are getting at there is that those projects are financable, but not to the people in Alaska. The banks, because of their requirements, you're talking about three years of experience and different other kinds of requirements that the banking industry has.

HAKKILA: That's right.

MEEKINS: That those projects are financable, they don't need to be subsidized or anything, not finance them for the people that you think...

HAKKILA: That's right. An Outside financial institution will not finance projects for Alaskans who have no experience. But the experience can be brought in. For example, a venture with El Paso Gas---they have an El Paso Petrochemical Division, and they will provide us with the assistance right here in building a domestic petrochemical industry.

MEEKINS: I find that to be an extremely interesting comment or a point because, as you noted, one of our consultants, Arlon Tussing, said in his memo to the committee that in his view there really isn't a capital gap in the sense that he said that he felt that all sound, in most cases, sound projects could find financing. But what you're doing is making a distinction between financing for whom.

HAKKILA: What I am saying is that Alaskans can do these projects. It's the same thing I was saying three years ago.

We couldn't get our projects financed up here because we did not have the experience. Then I'm saying we can start small---just like this agriculture experiment station we started in Galena and Ruby this summer.

The state can develop projects. You start out with a small plant. A five million dollar plant could produce a lot of petrochemicals and give us experience.

MEEKINS: How would a development bank protect itself? Certainly they could say that the project itself was a sound one. I know there was a reason for the requirement of business experience, and that's to be sure that the people know how to run that type of business. How would the development bank protect itself, if it were trying to develop things in Alaska that otherwise would be done by multi-national corporations?

HAKKILA: My point is that they may not be done by multi-national corporations. They just may simply not come here. They may go to Saudi Arabia or some other place. This has been our experience, because we have not taken the lead in petrochemicals to this point. I think there has been some testimony that several of the large multi-nationals came to Juneau, wanting to work with the state, and found no encouragement. I think if we had the lead here that that problem would be solved. I think you could be assured

that with the cooperation of other companies that have expertise that the projects could be built.

CARPENTER: I guess I am puzzled by something. If we don't go outside with any of the investment, for whatever reasons, whether it's because we weren't treated properly, historically by outside banking institutions or because we want to simply use the money inside Alaska, for whatever reasons, if we were going to invest it all in Alaska, can---do you think that our very small economy in Alaska can absorb that kind of money? I picture a guy somewhere in the management structure of the Permanent Fund with a desk full of two feet of applications and analyses trying to pick winners and form ventures and projects fast enough to keep absorbing the money. Do you think really we can...?

HAKKILA: You think it would be a problem to dispose of the money?

GRUENING: Prudently.

CARPENTER: Not dispose of it prudently.

HAKKILA: Prudently. I don't think so. This is what I am saying. There exists a need right now to finance, or pos-

sibility financing a world scale petrochemical plant of a one billion dollar investment per year for the first ten years of the gas line in the Tanana Valley. I don't think you'll have that kind of money in the Permanent Fund.

GRUENING: Probably not. Mike.

DOOGAN: Excuse me. A couple of questions. At one point, you said that Alaska businessmen starved, went broke, and died--do you mean by that that there have been failures of Alaskan businesses that have been caused strictly by a lack of being able to get capital?

HAKKILA: Yes, sir. And I could document the cases that I have worked with and individuals. I don't care to do so publicly, But I'd be glad to discuss this with you.

DOOGAN: That's fine. I just wanted to make sure that I understood that. Would your---the second question is would your characterization of the outside banking community extend to the Alaska banking community as well?

HAKKILA: No. Not necessarily. The Alaskan banking community traditionally has had a very small amount of capital for its dis-

posals. Perhaps, they could be a part of the solution in this case. The Outside banking community has suffered from a lack of education on economic opportunities in Alaska. They just cannot comprehend or have not traditionally been able to comprehend the economics as it exists within the State of Alaska.

MEEKINS: One more question. Are your comments, your disagreements with Arlon's remarks only limited to large scale projects or does it apply to small projects also?

HAKKILA: No. No. Small projects also. There's a great need for the small things. I'm speaking of hotels, airport hangars, apartment projects. We were not able to get the projects financed. Fairbanks is living testimony. When the pipeline came, we did not have adequate projects. Prior to the pipeline, even after Senator Gravel pushed it through the Senate, in July of 1973, we were not able to get financing for capable individuals.

MEEKINS: Was that the same reason, I'm assuming that the projects fit the format that the banks wanted in the sense that the projects themselves looked like they were sound, and that they might produce a handsome profit, but there were

some other structural deficiency, like they weren't--people didn't have quite the right background or something like that. Was that the problem?

HAKKILA: Alright, it's practically a problem, as I mentioned earlier, of the individuals themselves, not having had sufficient background to do project work on the scale being asked of them for the pipeline. What was the other question?

MEEKINS: Well, that's sort of what I'm getting at. I'm trying to think of, comparing your remarks with what I remember from what Arlon's remarks were and trying to see whether or not they're--you see he makes a good case for the fact that if we invest money in small businesses, that we're just displacing capital that would otherwise go there because we would limit ourselves to the same types of investments the banks would.

HAKKILA: We don't have the capital available within the state for those types of ventures in the economy that we have here today. We just don't have it.

MEEKINS: You see, your comments sort of jive pretty well with my intuitive feeling and what a lot of businessmen tell

me that that's, they claim, of course, they're turned down by banks and they claim that it's not true---there's capital available for good investments.

HAKKILA: It is not true. You could study the amount of public capital, capitalization in Alaska's banks. In comparison with the funds that you will have available through the Permanent Fund, the capitalization of Alaskan banks is very small.

GRUENING: I just want to remark that I'm glad you analyzed the report and had a comment on Arlon's report, because the consultants' testimony or their views are not necessarily those of the committee. We do hire consultants to toss ideas out there, but in the end, it's the people on the committee who have to decide.

I have one question. You mentioned that the tremendous capital needs that, say, petrochemical would have like a billion dollars annually. At the same time, you mentioned the fact that there are needs for smaller scale investments, hangars and so forth. Given the fact that, as you pointed out, the Permanent Fund probably isn't large enough to even take care of the petrochemical capital needs. Where would you place emphasis? It occurs to me that you can't do both

HAKKILA: I would place emphasis on leveraging the money by taking and using that as guaranteed money and getting Outside participation in the ventures. I'm sure that participation would be willing participation, if Alaskans took the lead and went after it.

DOOGAN: I would assume that one of the reasons behind banks' refusal to make a loan in Alaska to somebody who didn't have two years business experience was that they would consider it an unacceptable level of risk. Now that may just reflect their lack of knowledge of Alaska, but would you---what would your opinion be to a statement that it would be relatively riskier, in terms of risking the money, to make investments in Alaska as opposed to Outside investments?

HAKKILA: Well, I'm referring specifically to the pipeline community set in '73 and '74 and some of this personal experience. It just isn't, was not, good banking. They did not understand what we had here. They were looking at 20 year loans that paid themselves off in five years, but they couldn't understand what was going to happen here. I would venture to guess that if time goes by, we'll have greater participation from Outside investors here certainly. But we can take the lead is the only point I'm trying to make here. To be in control of our own destiny.

GRUENING: Any further questions. I'd like to take a short break here. Representative Carpenter reminded me in Anchorage that I'm sometimes neglectful of that. About a short five minute break. Then we'll come right back.

BREAK

GRUENING: I think we can start now. We have return reservations at 5:30. I'd rather stay here in Fairbanks tonight but we have a hearing tomorrow in Anchorage. Either that or we've got to catch a later plane.

PARR: They have a 7 o'clock in the morning flight.

GRUENING: Thank you, Charlie. We're running this kind of like a Quaker meeting. If anyone has anything to say, they can get up and walk to the podium. Yes, sir.

HOPKINS: My name is Donn Hopkins and I reside at 5.3 mile Chena Pump Road, just out of town.

Mr. Chairman and members, I do believe that the policy of distributing natural resource income directly to Alaskans, as proposed in the Alaska, Inc. concept, is far superior to the current policy of allowing the state government agencies

to spend that income. However, there is a third alternative for the use of non-renewable natural resource income, which I favor over the Alaska, Inc. concept. That third alternative is to use such income as a loan insurance fund to encourage Alaskan ownership of new buildings and other land improvements in Alaska.

I have a specific proposal to make in this regard:

1. The Permanent Fund (and preferably the entire non-renewable natural resource state land income) would be invested in U. S. Government securities, with the income therefrom being added to the fund to help compensate for the reduced real value of the fund over time due to inflation.
2. These securities would be used to guarantee 100% of the value of loans made to Alaskans for constructing and equipping new industrial and commercial enterprises and residential facilities in Alaska.
3. The loans would be made through normal banking procedures and could pay for up to 95% of the value of the project used as collateral.
4. A fee would be charged the borrowers, sufficient to cover the losses due to loan defaults plus any loss in real value of the Permanent Fund due to inflation, beyond that covered by the U. S. securities income.

5. Annually or biannually the uncommitted balance in the fund would be divided equally among all persons who vote in the general election to use as guarantees for loans.
6. Such amounts could be saved for a five-year period, but if not used within that period, would be returned to the uncommitted balance for reallocation.
7. The loan guarantee amounts allotted to each voter would be non-transferable, except upon the death of the owner and then only if they had been used.
8. As loans are repaid, the guarantee amounts would be reduced proportionately and the reductions returned to the uncommitted balance.

The general policy and specific proposal, which I favor, has two major advantages over the Alaska, Inc. concept:

1. It does not establish what in effect is a guaranteed annual income precedence. It does not pay people just to live in and endure Alaska.
2. It does help all Alaskans, forever, not just while the natural resource income lasts, to invest in the progress of our state, and through such investments, improve their own lives and the state as a whole.

This policy and proposal discourages dependency and encourages creative thought and constructive action by all

Alaskans forever. It encourages Alaskans to join together in the promotion of projects to improve their state, their communities, and their lives. Thank you.

GRUENING: Thank you. That was an intriguing proposal. Any questions? I have one.

First of all, do you have investment banking experience?

HOPKINS: No.

GRUENING: What is your occupation, if I may ask?

HOPKINS: I have some log cabins that I rent out. Before that, I used to work in government planning offices, including I was director of Planning and Research for the State of Alaska in their State Department of Economic Development and Planning. I worked as planning director here in the borough, and I've done planning consulting for the City of Fairbanks. I have an educational background in planning.

GRUENING: Could you explain what you mean by loan guarantees and how they would work?

HOPKINS: Well, in the event that the collateral was used by

the borrower was insufficient to cover any loss that might result from its default, then the state would have to pick up the difference, and that's what would be guaranteed with that difference. So that any person who wanted to loan money in Alaska would be guaranteed that he would get that money back no matter what happened. That would encourage Outside money to come into Alaska. We would be able to get a great deal of capital up here that we do need. Ever since I've come to this state, it's been a problem to get Outside investors to bring their money up here where they don't know what's happening, instead of loaning it out down in California or New York, where they do know what is happening. By guaranteeing their loans 100%, they would be better off than they are at home. Therefore, we would be able to get all of the money up here, I think that we'd be able to guarantee. We'd be able to guarantee quite a lot. I don't know what the leverage would be on something like that. But if you could get five times the amount of money that was in the Permanent Fund, that's a lot better than just loaning out the Permanent Fund. You could probably do better than that.

GRUENING: To the extent that these loans weren't paid back, you'd have to sell the securities or hand them over to the people that make loans...

HOPKINS: Well, in theory, you would have the securities there to sell. But if you operated this program on sound banking principles and didn't make a lot of irresponsible loans and if you did charge a fee to cover the default, just as the Federal Housing Administration to cover defaults on their house loan insurance program---it's the same idea as FHA, the only difference being that it's extended to commercial and industrial loans as well as housing loans---but this fee should cover all of the losses, so that the Permanent Fund would remain intact. But it's there to give a feeling of security to people who would loan money up here.

GRUENING: Who gets charged the fee?

HOPKINS: The borrower---just as the borrower is charged the fee on an FHA insured loan.

GRUENING: Who makes the decision as to whether the loan that this individual Alaskan or group of them wants---is it a good one?

HOPKINS: It would have to be done, I think, as far as just what I would say, just normal good banking procedures. I would hope that it could be worked out with the existing banking industry in Alaska for them to handle, to do all the paperwork, all the investigations of these loans.

GRUENING: If the Permanent Fund, in essence, guarantees all the loans, what incentive does the bank have to make sure it's a good loan? If the deep pocket, the one who has to ultimately pay it back if the borrower doesn't, is the Permanent Fund, why wouldn't they loan it to a guy who has---wants to grow watermelons on Mount McKinley?

HOPKINS: Well, I suggested that the loan be good up to 95% of the value. If the bank wanted to pick up a little extra on these loans and loan beyond whatever was appropriate for the state to guarantee, they would have that to lose.

GRUENING: So the borrower would have to put in some equity.

HOPKINS: Either the borrower would have to put in some equity or the bank would have to take a second mortgage. I suppose if you found one bank that was doing a bad job, that had a lot of defaults, you would have to cut that bank out and not use them any more. Or you may want to set up a special arm of government that was separate from the banking industry, but I don't favor that. I would think that the banking industry would be responsible.

GRUENING: Okay. Do you have a written statement?

HOPKINS: Do I what?

GRUENING: Do you have a written statement?

HOPKINS: Yes. I do. I'd be glad to give you a copy of it.

GRUENING: Incidentally, the last gentleman, Jack Hakkila, I think, did you give us a copy of that? Or could you?

HAKKILA: I don't have a copy, but I'd be glad to run one off for you.

GRUENING: Thank you very much. Are there questions of the witness? Russ.

MEEKINS: You, as I understand it, you limited this proposal to people who voted in the general election---

HOPKINS: Yes.

MEEKINS: Why did you do that? Which election are you talking about?

HOPKINS: The biannual elections.

MEEKINS: The one coming up then?

HOPKINS: Every two years.

MEEKINS: It would change as the elections change.

HOPKINS: Right. But the, I don't know, the amounts might be allocated annually rather than biannually. Either way it would work.

MEEKINS: Why did you happen to choose that as a....?

HOPKINS: As a vehicle?

MEEKINS: Yeah.

HOPKINS: It's just an easy way to identify an Alaskan. This business of having people have to come in and justify their residency here seems to me like it's going to be very difficult to do. To provide evidence---because I've seen so much of these people coming in from Outside to work on the pipeline getting these residency cards, even foreigners, who don't even have a work visa in the country, work up there.

MEEKINS: On the other hand, we have the problem in Kodiak,

people in other areas of the state, people that have fished for or have claimed to have fished anyway, for 15, 20, 30 years up here, whole families, were not eligible to receive, to get limited entry permits. So we find that whatever, however we try to define who is eligible for something, there is always a tremendous problem.

HOPKINS: I think, once a person established residence up here and becomes a voter, he can maintain that residence even if he doesn't stay up here all the time. One thing that's important about this program is that all of the money would be invested in Alaska. You wouldn't take any of it Outside. It would be invested in permanent facilities. It wouldn't be spent for ongoing operations. So it would actually increase the total capital investment in Alaska. It would be done without decreasing the Permanent Fund.

GRUENING: But the primary investment, the investment in, say, government securities would be Outside.

HOPKINS: That is just so you get a little interest on it. The U. S. securities because they go down, we all go down. Some of these so-called blue chip securities aren't so blue sometimes.

GRUENING: Charlie.

PARR: Maybe I misunderstood something, Donn. If I understood you rightly, you would in initial investment would all be---the complete thing would be U. S. Government securities. That would not be simply this 25%?

HOPKINS: Well, I don't think any of the non-renewable natural resource income should be spent on ongoing programs. I think that should all come out of tax---or other current revenues. However...

PARR: All the money would go into this.

HOPKONS: However, since you are addressing yourself to the Permanent Fund, I'm saying that all of the Permanent Fund should be used as support for this loan program.

PARR: Well I thought, I understood what you were saying was that we should take that Permanent Fund and put into it all of the money that comes from the non-renewable resource areas.

HOPKINS: Yes. I'm in favor of that too.

PARR: Then, the second point, but...so what we'd really

be using in the state would be the income from the Permanent Fund. The income from these government securities. Is that right?

HOPKINS: In a way, but not directly. We'd be using the income from the securities to offset the loss of the value of the money due to inflation. We want to maintain the same purchasing power of the fund. We don't want to lose the purchasing power of the fund over time, which we would do if we only maintained the dollar value.

PARR: Then the, instead of using the income as a loan fund, what you'd be doing is simply the securities themselves would be pledged as collateral.

HOPKINS: That's correct.

PARR: Where would the money come as actual cash?

HOPKINS: The actual cash would come from private investors from anywhere in the world. Whoever wanted to come up here and be sure that they would get their money back, because we guarantee their loan by 100%. There'd be no chance of loss.

PARR: So the state itself would not need to, say, appropriate money every year to put into that loan?

HOPKINS: No. There'd be no appropriation at all. No tax cost at all. The whole operation would be self-sustaining, and as the Permanent Fund grew from, you know, additional income from non-renewable resources, there'd be more loans that could be guaranteed. Of course, there'd be more demand too as the state grew.

PARR: Thank you. I'm clearer now than I was initially.

GRUENING: Mike.

DOOGAN: I just want to get this straight. I think you said that at some point, you would decide whatever money hadn't been used to offset inflation would be divided up equally among current residents based on their voter registration, but that if they did nothing but save it for five years, they'd have to give it back?

HOPKINS: No. I didn't suggest that they get any cash out of this fund at all. All I suggested was that they get a loan guarantee that they could use. If they wanted

to borrow money in the private sector. That's all they're getting is the guarantee of these loans.

DOOGAN: I see.

HOPKINS: An equal share, a guarantee that's available.

DOOGAN: Well, then anybody who got a loan guarantee and didn't use it in five years, he'd have to give it back to the fund.

HOPKINS: Well, it would just revert. If he didn't use it, if there's no point in having it just hang fire indefinitely. You want to put it to some use.

On the other hand, maybe a person would like to think about what he's going to invest in for awhile, whether it's a house or some business or a share of an industry or something like that. But that way, you'd find all Alaskans trying to figure out how they could get into business in Alaska and get their own homes. It would, I think, really would stimulate our economy tremendously up here.

GRUENING: I think one problem might be is not everyone is going to have some collateral. I guess it's finding the collateral for the loan.

HOPKINS: Well, that 5%. You've got to be able to save a little bit on your own. But you know, you can start out small. It doesn't have to be a big investment.

GREUNING: Any further questions?

MEEKINS: If people over 18, I guess it is, can vote in the general election, it seems to me, of course these are very small parts of what you are saying, I suppose, but just in regards to that five years, I'm not sure that by somebody knowing when they're 18, that they'd know what they want to do by the time they're 23 really.

HOPKINS: I think there are a lot of people who start out at an early age and, you know, have made it by the time they're in their early twenties. It depends on the individual. Maybe all their investing in is a home or in shares in an apartment house or something, just they can get started building up some capital of their own. This is the important thing. They'd have some more incentive to save part of their income than to just spend it on consumptive items.

GRUENING: Any further questions? Thank you very much.

HOPKINS: Thank you.

GRUENING: You next? Great.

COLLETTE: My name is John Collette. I live in Fairbanks on 3 Mile Sheep Creek Road. That's just out of town. It's not often that we get invited to speak on things that we know nothing about. So I'll take full advantage of it.

GRUENING: We're invited to that all the time. That's a prerequisite for the job.

COLLETTE: Like everyone else, everyone I've talked to has very loose ideas about everything and because it's governmentally orientied, we're hesitant to bring this up. A lot of the ideas I have emerged from what I do every day. I'll run through a few of those ideas that I've just been kicking around.

I'm a life long Alaskan and I'm proud of it and all this. This precedes everthing I'm going to say. What I'd like to see for the Parmanent Fund generally is us not to relinquish our responsibilities. We shouldn't give our responsibilities, meaning our money, to other people to invest. The good and the bad that they do with the money is not their moral burden; it's ours because we made it. It's our money. I don't think that an investment banker on Wall Street is going to be taking that kind of morality in mind and while we may here. How to enact that is a very diff-

icult thing. I don't have any conclusions there.

Also I'd like to see Alaska remain somewhat as it is, encouraging the same virtues that Alaska has encouraged. I enjoy them because I embody some of them. One of the things that allows me to do this is the land, of course. When we have another 5 or 6 million people in Alaska, that land isn't going to be available and these virtues won't be encouraged. So I think anything that's done with the Permanent Fund should encourage as small population growth as possible. The petrochemical industry in Fairbanks is anathema to that.

One of the ideas I have about investments is in the tourist industry. Now, right now, as we're told from the federal government that they're going to be making all sorts of national parks in Alaska. Well they'll also be taking a lot of the tourist dollars from the private industries, I think they'll be encouraging private industries to produce capital things in order to compete with national parks. They'll be apart from metropolitan areas. We won't have transportation systems to them; we won't have gas stations along the way or eating places. They'll be flying in and flying out or maybe by boats.

I think that the state of Alaska should go in with some of the Permanent Fund money and invest it in the tourist industry. One of the things I have, an idea I have, is building

a sternwheeler for the Yukon River, a huge, huge boat painted white and make it very grand and charge an exorbitant amount for tourists.

GRUENING: I'd like to join the venture.

COLLETTE: Keep people on the boat; they'll only dock in certain areas. Places like Tanana will obviously change, but they're not so good right now. There are other things too. But that's the only specific answer I have for the tourist investment.

Again we're generally, health in Alaska is really a big problem. I think with our Permanent Fund, we've got a chance to affect that positively. Another thing we can do is create a preventive structure in medicine. A structure of preventive medicine alongside the existing medical facilities. The existing people, the doctors, the clinics have grieved themselves to a crisis situation in medicine and have put very little of their energy in preventive medicine. We can, as a state, do this on an educational level, in schools and in colleges, and just create a healthier environment.

Let's see. Also too, I just recently got back from Europe. One of the things I saw there that I was most impressed with was the economy of Denmark. The Danish I've always responded to really well. I love their architecture; I love the products that they produce; I like the people too. But they've got a country there

which is poor in natural resources yet they have a fantastic standard of living through the exportation of their talents and their brains. Their people are very energetic and inventive. I'd like to see Alaska create an educational structure, through the Permanent Fund, which would create a net exportable talent.

Another thing I'd like to see too is, an interest I've had for years is in housing, and I'm teaching a course at the Community College in cold weather design in housing. I see a huge area there where we don't have the expertise available, because no one has bothered to look at Alaska, when they design houses. I have, and other people I know have, and we're going to try to be teaching these things to the community.

But there are a lot of other areas within technology, which Alaska gets ignored. The United States is temperate and all the resources temperate...their research is temperate. We get overlooked in our automobiles, our houses, our clothing, everything else. I'd like to see more research being done to create an Alaskan technology, which we may be able to export too.

I guess in conclusion I can say that I'd like to see an Alaska, Inc. being made. I'd like to see a more socialist

state. I'd like to see a socialist state investing in people and hopefully we can take this investment and find out a few answers about what to do with our Permanent Fund. We can actually invest in wisdom. That's all I have to say.

GRUENING: Thank you. Are there any questions from the committee? You just mentioned one thing about investment bankers. I think Bob Weeden probably touched on it when he said he'd hire a mechanic to fix your car but you don't necessarily ask him where you're going, where you should go with your car.

VOICE: Talk into your mike, will you? We can't hear you.

GRUENING: I'm sorry. Okay. I was commenting on an earlier testimony that it was pointed out that you have a mechanic fix your car but you don't ask a mechanic where you want to drive it. It may be that the institution would use expert advice in terms of investment counselling. But I think your point was that they shouldn't be necessarily fixing the directions of the Permanent Fund.

COLLETTE: Definitely. Right. We have at our disposal much power. I can see a lot of destructive power there.

GRUENING: Any other questions? Thank you very much. Yes sir.

DESPAIN: My name is Glen DeSpain. My address is Box 1255, Fairbanks. I live at 2 1/8 mile Chena Pump Station Road.

In December of 1969 or January of 1970, before our local legislators went to Juneau after the windfall that we got on Prudhoe Bay bonus lease sale, a group of people, a large number of Fairbanksans met with the legislators in the Chamber of Commerce log cabin in the basement. It was a packed house. To the man, everybody agreed that we had no right to spend this money from the non-renewable resources that we were taking out of Alaska. We should live off the income from it. Well, I don't---between the time that we met with them and the time that they got out of Juneau, they had taken pretty much care of the \$900 million.

I don't know how many billion we're in the hole now with the type of bookkeeping that our government uses. They sell oil in the ground and they'll take it off---in a few years from now when they take the oil out and, of course, according to our state constitution, it's against the law for the state to go in debt. However, there are ways of getting around that. They have certainly found all of them, I believe.

As far as the Permanent Fund is concerned, I think that every penny that comes into the state from the sale or the bonus or the lease of non-renewable resources should go into a permanent fund. And I mean a permanent fund. I don't think

it should be distributed to everybody that's lived here for 30 days and went down and registered to vote. That is really a socialist concept.

I, as you probably know, am not a socialist by any stretch of the imagination. I think that the government should be forced to live within the income off of this. The interest or whatever is derived from this Permanent Fund is what our government, that along with whatever taxes or levies they decide---the legislators decide to put on things is what the state should live on. I don't think that we have any right to spend the money that comes in from these non-renewable resources.

It'd be just the same thing as taking Southeastern Alaska and selling it to some other country or some other entity other than the state. Lose all control of it; I mean we don't own it any more; we sell it; and we live off the money that we get from it. I think that future Alaskans have every right to these resources that we are exploiting today. The only way that I can see that this can be done is to keep that money intact and live off the income from it. It's just like a fellow that has a tree farm; he doesn't just cut down every tree he's got and spend all the money. He harvests what he can and lives off some of the income, but he plows some of it back. In this way, we wouldn't be plowing it back but we would be keeping it intact. I'm very much opposed to the tremendous growth of our state government since 1969.

As far as giving the money back to the people, any time the government takes from whatever source and gives it back to the people, the people get very little of it. I mean very little---just crumbs. The bureaucracy eats up the money. I can foresee a tremendous amount of people working for the state figuring out who's eligible and who isn't eligible for this bonus or Alaska, Inc. or whatever you want to call it.

An example I'll give you, as I had a discussion with the governor, two or three of them, while he was in town here a couple, three weeks ago. One particular day I went down to the license bureau to get a driver's license. It had expired some time before I became aware of it. I was the seventh person in line. There were six people ahead of me. I was number seven. There were six people working in the driver's license section of the state building down here. They had four of these big computer consoles and desks and everything. It was 50 minutes before they issued the seventh driver's license. I was the seventh one. Fifty minutes for six people to issue seven driver's license. Now the state took in \$35 on those seven driver's licenses. As I pointed out to the governor, there's no way that we can afford to issue driver's licenses under that program. I also told the governor, I said, "I've seen glaciers move faster than some of

those people back there." A couple of them, I was a little surprised that they were still alive. But I guess they must have been because they left at 5 o'clock. But the point I'm trying to make and I'm trying to put a little humor into it is that the state can't do anything, even give back money, without losing money on it.

I think there's a drive afoot here to lock up this money into an area where the legislators can't get all of their little pet social projects going. I would hope that we can do that, and when you're considering this Permanent Fund, I would like to have you consider the total income from non-renewable resources that are sold or leased or royalty or whatever we get off of it, put it into a fund and then get some kind of a thing into the framework of our government, the constitutional amendment or whatever, that that money cannot be spent. It has to remain intact.

The interest or the income from that money is the only thing that should be used to live off, if you will, to maintain our government. That and whatever money that they take in in taxes---income taxes or whatever.

I'm not in favor of doing away with the income tax. If we do away with the personal income tax in the state---man, what a haven this will be for the deadbeats who want to come up here and live off of our income. I'm not in favor of that in any way.

This revenue sharing is another thing I'm not real happy with

at all. All it does is encourage local governments to build up a huge bureaucracy like we have here in the North Star Borough, and I suppose Anchorage has got the same thing. Then pretty soon the state gets everybody hooked on spending lots of money in the local government. Revenue sharing sounds awful good. But boy, it's sure an awful headache the next morning.

I think that pretty much covers what I have to say, I didn't write anything out but my main point is that I think all of the money from all of sale or lease of non-renewable resources should go into the Permanent Fund. The Permanent Fund should be absolutely inviolate. I don't think it should be given back to the people in the form that I've heard of here while I've been here, in loan guarantees or anything else. Boy that could get to be an awful kettle of worms.

Some bank for whatever reason makes a bunch of loans and the state has to pick it up. There's nothing in there to ensure that those loans are going to be sound investments. The state government should be forced to live within the income they get off of this Permanent Fund.

If they had kept that \$900 million intact at the time it was producing \$53 or \$54 million a year. That was more than the state budget was the previous year. But of course, it isn't any more, because they spent that plus income off it and everything they could hock from in the future. I think, regardless

of what kind of administration we have in Juneau or who we seem to send down there for legislators, they just can't resist that giving somebody something for nothing. There isn't any free lunch, as we all know. Thank you.

GRUENING: Thank you. I think we got your point loud and clear. I wanted to ask you about you say you want it invested and none of it spent. What would you invest it in?

DESPAIN: Well, of course, I don't invest in government bonds. I think they're one of the poorest investments there are. Everybody seems they're pretty safe, but we talk about keeping up with inflation. I invest most of my money in precious metals; it's done real well. I've invested---I'm a coin collector---and I've invested in rare coins. I have several coins I've paid just like five or six dollars for that are worth fifty dollars or more.

Now I don't suggest that the state go into the rare coin business, but there are other investments that beat the federal bonds all to heck. At one time, I had part control of a fairly large sum of money here in one of the banks and we invested in some short term securities in Bank of America, which paid more in interest than the federal bonds were paying at that time, treasury notes or whatever.

GRUENING: Thank you. Russ.

MEEKINS: I think the point you're making is one that, in general, is supported by many people in the legislature. I think that's where the generation of the Permanent Fund concept has come from. The idea of taking money from the day-to-day operation of government. I think, implicit in that is the assumption that spending will increase to the amount of money available for spending.

DESPAIN: It certainly has.

MEEKINS: But there, of course you know, the Permanent Fund can't really be spent on operation of government unless you---well, it could in a sense---but it can't be spent....

DESPAIN: It will be. It can't be, but it will be. One way or another, it will be.

MEEKINS: The other point, I think is important to make, just for the record, is that, although it is true in many people's view, the money from the \$900 million was wasted, because it was spent on the operation of government and the increase of the number of people employed by the state. Not all of that money has been spent. In fact, there are hundreds of millions of that \$900 million left.

DESPAIN: But it is committed though. It may not have been drawn out of the bank, but there's been money borrowed against it and spent.

MEEKINS: Well, it went into such programs as Veteran's Administration loans to Alaskans. The purchase of those loans...

DESPAIN: Do you have any idea of what percentage of the money went into the veteran's loan fund?

MEEKINS: The point is that there are hundreds of millions that aren't spent, that are indeed earning a return. I think that's important, just for accuracy, that while three years, \$500 million may have been wasted, in your view, not all \$900 million.

DESPAIN: Well, if it wasn't spent, why did we sell the oil in the ground up here a couple of years ago?

MEEKINS: It was invested, just like you're advocating the money in the Permanent Fund be invested. Invested where the principals return plus interest. Of course, one side the principal is committed, it can't be used for the day-to-day operation of government. So in that case, that was a good use of that money.

DESPAIN: That's a good use of the money, yes. Loan out with fairly secure loans. That's fine. But we're talking about tremendous amounts of money.

I've seen some of the shenanigans that went on here after the flood, where there were tremendous amounts of money loaned to different people here through the SBA. Then they went out to Arizona or wherever and bought huge tracts of land with this money. Believe me, these things happen. That's what I see is going to happen to the Permanent Fund. The right people are going to get their hands on it, or big portions of it. I've only lived in Alaska for about 36 years. But there's some of them that have been here a long time. Believe me, I've seen some pretty fine shenanigans go on.

MEEKINS: That's a good point. I think, one of the problems with loan programs that we've had in the state is not so much that they're operated in a poor manner or even an inefficient or corrupt manner, but that, generally speaking, the people are aware of those kind of programs and have enough knowledge of---enough financial background to work the paperwork and apply for them are only people who don't need those funds. So you end up in a situation where the general public, or a group of people you've designed for---the loan program

for---don't really get those funds, because they're limited to people that are already dealing in high financed things in the state and banks Outside.

DISPAIN: In my experience here in Fairbanks, I've borrowed from the veteran's loan fund several times; have always paid it back with the interest on it. I don't owe anything now; haven't for 10 or 15 years. But it certainly was a boon to me to be able to borrow money at a reasonable rate of interest and---I was in the plumbing business here from 1950 on my own. I mean I went into business for myself in 1950 and I'm not retired---lately, I just quit working.

But the veteran loan was a wonderful thing. There's no question about it. I saw very little abuse of the veteran loan fund. If something like that could be worked out in the state government, that's fine. But letting the banker make the loan, then guaranteeing to pay it back---I think we're asking for lots of trouble.

GRUENING: Mike.

DOOGAN: Mr. DeSpain, the governor makes a great point of telling us, and I don't---haven't seen anything to disprove this--- that roughly 60% of the current state operating and capital budget

I believe, is financed through some sort of revenue from petroleum production. If you advocate putting all of the money from all resource development in the Permanent Fund, then I assume you're not...

DESPAIN: Non-renewable resource.

DOOGAN: Okay. A broadened definition. I assume you're prepared to live with 60 cents less on every dollar for every state program that now exists?

DESPAIN: I'd like to see about 20 cents on every dollar state program right now. I lived under a situation like that here in Alaska for a good many years when the state wasn't trying to wipe my nose and everything else for me. I don't think that the people in Alaska--I'm not talking about these 30-day voters, but I'm talking about these Alaskans that have lived here for any length of time---want or need the state to provide all of these things that they are providing for them.

I would suggest that some of you people might get an education if you would go out here to the highway department and just go in there and sit down and observe what goes on out there.

I went out there one time to see a party. I spend about 50 minutes in that office. There was three in the office. I

waited for somebody to come in the office, was what I was waiting for. I just sat down and didn't bother anybody. For 50 minutes and there was three women in the office, secretaries, I assume, or something. Anyway, they had desks and typewriters. Maybe they were the kind that couldn't type, I don't know. Anyway, one girl was sitting there reading a book. One was sitting looking out the window. The other was just sitting, just with her arms folded. She had a piece of paper in the typewriter, but she never hit it. And for 50 minutes there wasn't one of those girls did a thing. Now that's why our highway department spends so much money. Because they hire people to sit around over there in that office and do nothing.

I mean literally do nothing. So if the money that goes into the highway department was spent on maintenance crews and people working out on the highways and doing some work, we could have a tremendous road system and probably 20 cents or 25 cents on the dollar would do it.

You name any division of government and, I think, the same thing applies to it. When I talked to the governor about this deal over at the license bureau, he said, "Well, I don't know what to do about that." I said, "Well, pay them by the licenses they issue." I said, "well, contract it out and let somebody else do it." Do away with the license bureau as far as the state's concerned and contract it out and let somebody do it on a bus'el basis.

Pay them so much per license. Give them all five bucks. It would save lots of money. Give them the whole five bucks. Okay.

GRUENING: Thank you. I have one question. I asked you about the investment. You suggested that one investment that would at least look good was an Outside one in the Bank of America short term.

DESPAIN: Well, no. I used that as an example of one that we had used one time on a large loan for a year. We got a CD from the Bank of America and it paid one and a half percent more than the treasury notes were paying at that time. There are other investments, other than treasury notes, federal mortgages that pay more money. Maybe they're riskier, I don't know, but anybody who thinks that the interest on the treasury notes keeps up with inflation, they're just not very well versed, because inflation is always 4 or 5, at least 5 points higher than they're paying on treasury notes.

GRUENING: My point was did you infer that it might be that some of the Permanent Fund money or at least the majority of it might be invested Outside if there were no sufficient programs for investments in the state?

DESPAIN: I think that the---absolutely, I don't think that

the state has enough industrial wealth or capitalization to absorb that kind of money. I think it would have to be---the majority of it would have to be invested some place Outside but the income from it is what the state government should be living on. I think it should be invested where it does the most good.

Now I'll tell you. It would be a tremendous boon to business and private enterprise in the state of Alaska if the state lived off that kind of income, rather than keep raising the taxes and raising the taxes on gasoline, raising the taxes---business license tax and these things---that hasn't been raised recently, but---if the government would just leave private enterprise alone and not keep taxing them to death. Of course, I know these socialists, they think that the big business is the one that is hurting the working man and the people in the lower income bracket. But believe me, without big business, these people in the lower income brackets are going to be way down the line along with the business. Because when you knock the businesses out, people don't have the money, they don't have a job. Maybe they work for the government and don't produce anything, but they don't have anything that really sets them up and they don't have a chance to go into business for themselves when government gets so oppressive as we're getting right now.

GRUENING: Okay. Thank you. Are there any other questions

from the committee? Thank you very much. Have we exhausted everyone? Please.

BRAVARNEY: My name is Stanley Bravarney. I'm a citizen of the United States, who's lived in Alaska since about 1954. I work as a surveyor, construction surveyor. I notice that Mr. Collette teaches how to build things. I build things. I don't teach people how to do it. I just do it. If you don't know how to build things, you teach other people. If you do know how, you get a job building.

I have some small investments in market stocks. I've had them since 1957. They're very modest. I make some modest returns on those things. I like to think that I beat inflation out. There are a few rules about investing. One is you got to win. All's fine---you wheel and deal and buy this and buy that. You do all those things. But you still want to win, you have to make money.

When you get guys like Arlon Tussing and Rex Fisher and people like that handling the money---these people are socialist, Communists. They think that government, big business is immoral. They're born losers because they feel that money, making money is wrong. You give them the money, they'll lose it.

GRUENING: I want to put your mind at rest. We're not going to give it to anybody.

BRAVARNEY: Well, you have been giving Tussing millions of dollars for programs which he hands money to people to have these study programs. These people of socialistic government in Alaska gets very, very large funding. They don't give us anything out of it. Incidentally, Mr. Parr might tell us how much the University of Alaska got this year because I haven't been able to get that from anybody. How much is the total budget for the University this year?

PARR: I'm sorry I can't tell you.

BRAVARNEY: It's a state secret---either that or the evasion of rights. You can't give a budget total for the University of Alaska.

PARR: Well, there are two reasons. First the total funding is not available because a good amount of the money was held back by the finance division pending application by the Board of Regents. Until the regents have applied for it and showed they have a genuine need for it, they won't ge it.

BRAVARNEY: Very interesting. With our million dollar