

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

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1 Richards, who will give us a status report on the Alaska
2 economy. Mr. Bob Richards, you all know, is Senior Officer,
3 Alaska Pacific Bank, as well as our leading economist.

4 By the way, if the sheet with names on it is still
5 circulating, keep it circulating so we will know who all is
6 here.

7 MR. RICHARDS: Thank you, Mr. Chairman, I appreciate
8 the invitation to be here and, out of a sense of awareness
9 and of a sensitivity to the Alaska Transportation System at
10 the present time, my outline was hand carried this morning.

11 The discussion will take three parts -- well, four
12 parts, as I understood kind of our directive to you. One,
13 a discussion of kind of what the Alaska economy looks like to-
14 day, particularly as related to some sort of a Permanent Fund
15 activity, what the Alaska economy looks like today. The second
16 part will include a discussion of where the Alaska economy
17 seems to be headed. The third part will include a brief
18 examination of what sort of policy implications seem to
19 naturally flow from the first two, and the fourth is simply
20 a little bit of regional observations, we might say.

21 I think I inadvertently sent around my copy, and I apologize
22 that I didn't prepare a sufficient number of copies. I'll do
23 that next time. If anybody would like any further copies
24 I'd be happy to supply them if you'll just give me your
25 business card or address.

1 There's really not too many surprises at all in this
2 first look-see at the structure of the Alaska economy, but
3 perhaps it does serve a purpose to verify what we kind of
4 felt intuitively anyway. The first couple of charts are to
5 take a look at the cyclical behavior of Alaska's economy,
6 and particularly the first one, civilian employment. The
7 first chart is just charting historical development of
8 employment. The second one is charting the historical develop-
9 ment of population.

10 I think that subsequent to the bust following the
11 gold rush Alaska has lived with an image which is really not
12 an accurate description of its economic history. Alaska's
13 economic history has not been plagued with booms and busts,
14 at least in the sense what the term "bust" implies to me.
15 Certainly following the gold rush there was a bust of mammoth
16 proportions, but other than that Alaska has not had a series
17 of booms and busts. Alaska has had cyclical fluctuations
18 and from time to time rather disruptive cyclical fluctuations.
19 But I would submit that most states in the nation, indeed
20 the nation, has had cyclical fluctuations. We'll come back
21 to this.

22 But at any rate, I don't see anything on the charts
23 on Tables 3 and 4 that describe to me, at least over the
24 period for which they were charted, any sort of boom and
25 bust behavior. We'll come back to the significance of this

1 later on. All we're really doing right now is going through
2 some descriptive material.

3 Turning to the chart on page 5, what we did here was
4 to take the average annual employment in the State of Alaska,
5 the average level of employment at any given day, the average
6 level of employment in the State of Alaska, and that we just
7 arbitrarily stated was 100%. In other words, this chart here
8 is an index. Then we simply took every other month as a per-
9 centage of the average. It's not indicated on this chart.
10 It should have been, but it's not. This is based on 1972 and
11 1973 data purposely to omit the distortion of the pipeline
12 activity. Granted, any future years will never again resemble
13 what '72 and '73 were, but I have a strong intuitive feeling
14 that the seasonality of future years will probably resemble
15 '72 and '73 more than they're going to resemble '74 and '75.
16 I thought that was more valid.

17 Frankly, this chart was surprising to me, because
18 although I understood that we have a seasonal economy, I'll
19 have to confess to you this is rather dramatic in my opinion,
20 this degree of seasonality. As you see, we peak in August and
21 we trough in January. Okay.

22 The other tables, Table 6, on pages 6, 7 and 8 and 9,
23 take a look at the diversification of Alaska's economy, and
24 the diversification in two dimensions. One, the industry
25 diversification, and the other is the geographic diversifica-
tion.

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1 Again, there is not anything surprising on here at all.
2 But I think there are some highlights that should be noted.
3 As you can see, we have a pretty small basic sector relative
4 to the United States, the U. S. average of these things on
5 the right. I'm looking on page 6 now. I put the U. S. average
6 there just to put Alaska's mix more in perspective and make
7 it more meaningful to you. As we all know, we have a large
8 government sector. By the way, this excludes military.

9 MR. MOTLEY: I'm looking across the chart, government
10 and then it's manufacturing; were those words swapped there?

11 MR. RICHARDS: No, that's because each is listed in
12 descending order of magnitude.

13 MR. RHODE: Since this is 1975, doesn't it tend to
14 over-state construction relative to government?

15 MR. RICHARDS: Yes, it tends to over-state construc-
16 tion.

17 MR. RHODE: Usually for government it's crowding 40.

18 MR. RICHARDS: Jim, it's at 40 because that's what
19 occurs when you add in military.

20 MR. RHODE: Oh, I see.

21 MR. RICHARDS: This excludes military, and the reason
22 I excluded military is the U. S. data that I had. I could
23 find no U. S. data that included military at all.

24 MR. RHODE: This is also '75 data.

25 MR. RICHARDS: That's right.

1 MR. GALLAGHER: And '72 data would show government,
2 including military, right up on 50 percent.

3 MR. RICHARDS: That's right. It's been decreasing
4 though.

5 MR. EDENSO: What are the industries most affected
6 by seasonality?

7 MR. RICHARDS: Well, that's interesting that you
8 raised that question. You can turn to page eleven and then
9 we'll come back. Excuse me, this was getting at the labor
10 intensity rather than the seasonality. These are our major --
11 our major sectors are listed here and, of course, the industries
12 most affected by seasonality are tourism and fishing, secondly
13 would be forest products and construction, and third would be
14 trade and services only because they play off the first four
15 and, therefore, would be affected somewhat by it.

16 MR. GRUENING: What does the hundred percent line
17 on seasonality represent, one hundred percent of what?

18 MR. RICHARDS: Well, that's a term, when you refer
19 to this as an index. Another word for that line is the
20 average.

21 MR. GRUENING: How is it derived? What does that
22 represent?

23 MR. RICHARDS: I took the average employment for each
24 month of the year. The employment in January was this, in
25 February it was this, in March it was this, in April it was

1 this. I added them all up, divided by twelve, and that's
2 the average month. In other words, it just so happens that
3 March, as you can see here, March and November turn out to be
4 average months of employment.

5 MR. GRUENING: What is the average month of employment?
6 How many people unemployed and how many people employed of
7 the total work force?

8 MR. RICHARDS: I don't have the absolute numbers here
9 with me. But what this tells you is that there are fourteen
10 percent more people employed in August than there are in
11 November, and there are about twelve percent less employed
12 in January than there are in March.

13 MR. GALLAGHER: The reason that January doesn't
14 reach down there, or December doesn't meet the January dog
15 is because you're going to have a higher base, you see, by
16 January; is that not right?

17 MR. RICHARDS: No. I understand the point you made,
18 but that doesn't emerge in this graph here. If you charted
19 this, then January just happens to be a -- I mean December
20 happens to be a higher employment month.

21 MR. GALLAGHER: The line goes down?

22 MR. RICHARDS: Pardon me?

23 MR. GALLAGHER: The line goes straight down?

24 MR. RICHARDS: Yes, it would. You're still having
25 the outflow, you're still having the holiday season impact.

1 MR. GALLAGHER: Are you sure it isn't a statistical
2 aberration and that if you've got a higher base ---

3 MR. RICHARDS: No, it isn't because your base is the
4 same. For every month your base is the same, and that is the
5 average month.

6 MR. GALLAGHER: That's pretty dramatic between January
7 and December.

8 MR. RICHARDS: Yes, it is. This was the most surprising
9 of all the graphs. This one was the most surprising to me.

10 MR. LOGSDON: That doesn't surprise me. After
11 Christmas everything shuts down. This has been typical in
12 Alaska, and it shuts down ---

13 MR. RICHARDS: I knew the pattern would exist, I
14 knew this pattern would exist, but the magnitude, you know!

15 MR. EDENSO: What you're saying is that there is more
16 stability and seasonality in employment in trades, services
17 and finances, government, possibly transportation, communi-
18 cations and utilities than there is in construction,
19 manufacturing and mining; in other words, your productive
20 industries plus your limited service industry of tourism
21 is largely seasonality affected.

22 MR. RICHARDS: That's right.

23 MR. EDENSO: Your mainstay for employment in the State
24 is not affected by seasonality.

25 MR. RICHARDS: Well, government is the mainstay, and

1 it is not. Keep in mind distributive is a function of, over
2 the long run. Now, certainly not in some short run cases, but
3 over the long run distributive is a function of government
4 and basic. Government and basic is the only thing that
5 causes, you know -- they result from autonomous investment
6 decisions.

7 Distributive is an induced investment decision. Some-
8 body constructs a service station on a corner up here because
9 he thinks there is going to be population, or there is, or
10 there is going to be population to support the service station.
11 Somebody invests in an oil well up here because he feels
12 there is oil in the ground. It has nothing whatsoever to do
13 with any internal characteristics of the Alaska economy.
14 Distributives are a function of what's going on in Alaska
15 economy, and government partially is, and the basic is not
16 at all, and government is partially not.

17 I sense we're not on the same wave length yet.

18 MR. EDENSO: I'm not sure I really understand what
19 your breakdown here is and basic and distributive; I'm not
20 sure I understand what basic is.

21 MR. RICHARDS: Basic is mining, manufacturing, now
22 in Alaska tourism, forest products, fishing, petroleum,
23 hardrock mining, and we also toss some construction -- we
24 toss construction in there. That could be argued.

25 MR. EDENSO: Those aren't really affected by

1 seasonality then.

2 MR. RICHARDS: No, we're talking about two different
3 things here, peaches and pears. Some of them are seasonal,
4 some of them are not. I'm not suggesting that all basics
5 are seasonal. Basics are basic. They're autonomously
6 induced. Distributive is internally induced. Now, to the
7 extent of whether or not some basics are seasonal and some
8 basics are non-seasonal, that's another dimension.

9 MR. EDENSO: That's what I'm trying to get at. What
10 are those basics that are in fact seasonal, and what percentage
11 or proportion of the economy, and what is the importance of
12 their role in the economy?

13 MR. RICHARDS: Well, you can see. You can see how
14 they affect the total severe unemployment on the previous
15 chart. Tourism, the most seasonal, or tourism and fishing;
16 the second ---

17 MR. EDENSO: From your previous chart I can't tell,
18 by looking at it.

19 MR. RICHARDS: Well, I'm giving you the answer.

20 MR. EDENSO: I'm looking at employment numbers. You
21 give us an average per month but you don't give us breaking
22 down employment-wise, labor intensive-wise, what each one
23 of these industries represents.

24 MR. RICHARDS: Representative in what respect, the
25 seasonality of each industry?

1 MR. GALLAGHER: I think he wants another chart like this
2 for each industry.

3 MR. RICHARDS: For each industry. Good, we'll do it.

4 MR. EDENSO: I think it's important in considering
5 what industries are seasonality, what percentage of the work
6 force they represent.

7 MR. RICHARDS: You bet it is, Jim.

8 MR. PIHL: Bob, do you have any data on resident and
9 non-resident employment, and I would judge that the peak is
10 greatly increased by non-resident employment?

11 MR. RICHARDS: Yes, we do have data on that and I
12 can develop that for you, if you'd like, as well.

13 MR. WOHLFORTH: It was Mr. Pihl that spoke, for the
14 benefit of the stenographer, and I ask you again to identify
15 yourselves before you speak. There is a lot of money going
16 into a written transcript of this meeting, and it just doesn't
17 make sense to have all the names spelled wrong or missed
18 altogether. Mr. Love.

19 MR. LOVE: Mr. Richards, as I go through these charts
20 I notice some of them have dates and some of them don't have
21 dates insofar as the source. Are we to assume that the data
22 is for 1975 unless otherwise indicated?

23 MR. RICHARDS: No, I'll tell you. I fully intended
24 to walk through this with you.

25 MR. LOVE: I'll just hold off then.

1 MR. RICHARDS: Okay. We were on page six. When you
2 take a look at construction, again although it's officially
3 classified as a basic industry, you must recognize the
4 nature of it, and that is it's mostly internally induced as
5 well. There are some exceptions, Federal highway funds, etc.
6 But it's mostly internally induced. So, when you separate
7 out what is external and autonomous from what is internally
8 induced, you see that Alaska's economy is highly a function
9 of what is external and autonomous.

10 Also another element that comes out of this, as indi-
11 cated, the disproportionate role played by the public sector
12 in Alaska relative to the national average.

13 On page seven I give you the employment mix by
14 state, and the two largest population centers, and they follow
15 the same general pattern as the state, varying just slightly
16 and, as one would imagine, Anchorage, the commercial and
17 financial center, and the population center, has a lower
18 basic sector and a higher distributive sector, and I think
19 this is something you would find in every state in the nation.
20 I'm sure this situation exists in Seattle relative to the
21 State of Washington, Portland relative to Oregon, etc.
22 There's nothing here that is cause for any sort of undue
23 concern in that regard.

24 MR. LOVE: 1975?

25 MR. RICHARDS: Yes, this is 1975, thank you. Jamie,

1 I'm sorry, you're going to end up being right. These three
2 are 1975, seven, eight and nine, 1975.

3 The next graph, however, I think is cause for some
4 concern, and it definitely has some investment implications,
5 it seems to me, in terms of a Permanent Fund, and that is
6 the disproportionately great amount of the source of the
7 gross state product. Excuse me, this is 1973 data -- I'm
8 sorry, 1973 data. Excuse me.

9 Almost two-thirds of our gross state product comes
10 from the South Central region, and the table on page nine
11 indicates the South Central region has 54.5 percent of the
12 population, so the gross state product per capita is con-
13 siderably higher in South Central than elsewhere. Again,
14 intuitively, what this says is the non South Central is
15 poorer than South Central in terms of productive wealth
16 you might say. Southeastern also has a higher than propor-
17 tionate share of gross state product relative to population.
18 So, again, all this is verifying things we already knew
19 anyway, and that is Southeastern and South Central are
20 relatively wealthy, the rest of the state is relatively
21 less wealthy in terms of output of goods and services, in
22 the economic sense of wealth, not in the income sense.

23 However, an editorial aside, I would imagine that
24 would be true for income as well. But you just don't impute
25 something from the data here that doesn't exist.

1 As we know, Alaska is a highly labor intensive state.
2 Labor costs have been of concern to all of us. The table on
3 page ten shows per capita personal income by states for 1974.
4 As one would be willing to bet anywhere, Alaska heads the
5 list, and it so happens that Alaska is 30 percent -- it's
6 29.6 percent to be exact -- higher than the U. S. average.
7 Now, the major source, 90 percent of personal income in
8 Alaska is from wages and salaries as distinguished from other
9 sources of personal income being proprietors' income, Social
10 Security payments, retirement benefits and so forth.

11 MR. MOTLEY: What was that, 90?

12 MR. RICHARDS: Over 90 percent comes from wages and
13 salaries. So this 30 percent differential would reflect
14 somewhat the wage and salary differentials.

15 MR. GALLAGHER: Has there ever been one of these
16 charts done correlating it back to inflation or real dollars?

17 MR. RICHARDS: The change in real over time?

18 MR. GALLAGHER: No. Take inflation.

19 MR. RICHARDS: Yes.

20 MR. GALLAGHER: In this state in comparison to the
21 national economy.

22 MR. RICHARDS: Yes.

23 MR. GALLAGHER: And I would like to see this chart
24 reposed over the real, discounted, for instance.

25 MR. RICHARDS: Okay, what do you want to use as the

1 base period? This is a balance sheet, if you will, and
2 inflation is an income state. Inflation is a function that
3 occurs over time. What would you like me to use as the
4 base year? 1960 or ---

5 MR. GALLAGHER: I would like you to use -- can you
6 somehow get the cost of living index for each state and then
7 repose it on here?

8 MR. RICHARDS: Yes, I can, Sterling. But as I indicated,
9 that is a function of time. This is a function of a moment,
10 of an instant. The cost of living is a function of changes
11 over time, so you'd want to take a look at these also as
12 changes over time.

13 MR. LOVE: He's just saying that if the cost of living
14 in Alaska is 50 percent higher than the cost of living in
15 the District of Columbia it wouldn't make sense to say that,
16 you know, in real dollars our income is higher than that
17 of a person living in the District. Our standard may be, in
18 fact, lower in some instances.

19 MR. RICHARDS: So it's not inflation you want to take
20 a look at. You want to take a look at cost of living dif-
21 ferential at a moment in time.

22 MR. REED: Sterling, Frank Reed. Bob, I was wondering
23 if you have done anywhere in the study, and I don't have a
24 copy of it -- but have done a study in there of the disposable
25 income because I think that is, of course, a critical factor

1 involved which integrates in the cost of living and how much
2 of a percentage of our income we spend for housing, etc.,
3 and it would be a very interesting figure; has our disposable
4 income percentage-wise increased. That's something that
5 I've always believed to be true up here, but I've never really
6 seen it, you know, in a proven fact.

7 MR. RICHARDS: Okay. Back on the point that you
8 brought up, Commissioner Gallagher, I can give you some
9 general reflection of the situation right now, that in terms
10 of based on 1974 data the cost of living between Anchorage,
11 and Anchorage is the only place in Alaska for which the cost
12 of living is measured, the cost of living differential between
13 Anchorage and the U. S. average was 25 percent. So, dis-
14 counting this, it would bring it down to close to the U. S.
15 average.

16 MR. GALLAGHER: Right, but I think it will also show
17 us slightly ahead of the U. S. average. One was 30 percent
18 ahead and the other was only 25.

19 MR. RICHARDS: That's right, we'd be slightly ahead,
20 but pretty darn close to, and I'll do that, I'll correlate --
21 I'll adjust all of these for cost of living differentials.

22 The next chart is one we looked at a few minutes
23 ago, but this kind of arrays the sectors of our economy on
24 the basis of the extent of their labor intensity, and as you
25 can see here, we're a highly labor intensive economy.

1 MR. GALLAGHER: One of those things that shows, if you
2 want to raise that basis, take out the seasonality, you invest
3 more in government?

4 MR. MALONE: Sterling, looking at the breakdown on
5 per capita incomes across the United States and relating Alaska
6 to Washington, D.C., it looks like government might be the
7 best investment if we just made a simple assumption.

8 MR. RICHARDS: Apropos to that, I've got an article
9 in here I'm going to pass out to you people. It appears in
10 the last Business Week, October 18, 1976. Everybody in this
11 room should read this article. October 18, 1976 Business
12 Week, page 138, and it talks about the effect of an imbalance
13 between growth in the public sector and the private sector.
14 It's an absolutely fascinating article and it's the result of
15 a study by the European arm of the Hudson Institute. I'll
16 pass out copies when it's over. It's interesting nighttime
17 reading.

18 This chart on page 12 really kind of results from an
19 interest, I don't know, an avocation of mine of always taking
20 a look at conventional wisdoms that seem to exist, and one
21 interesting notion here is that in terms of although the
22 two terms, union and Alaska seem to be synonymous in some
23 circles, I think this data is kind of interesting.

24 MR. LOVE: Except we just got one union.

25 MR. RICHARDS: Notice, this is based on 1972 data,

1 which this proportion would be considerably higher today
2 because of the distortion of the pipeline.

3 MS. FLEISCHER: Why is that?

4 MR. RICHARDS: This I had to get out of the national
5 publications.

6 MS. FLEISCHER: There must be a drastic change between
7 '72 and '76.

8 MR. RICHARDS: Oh, yes, there has been. Yes.

9 MR. LOVE: On this we're about the lowest of all the
10 states that don't have right to work laws. That's interesting.

11 MR. RICHARDS: Yeah. Well, it's also a function --
12 it goes back -- it's a function of the complexion of our
13 industry mix.

14 MR. URION: Bob, this wouldn't have included state
15 employees as union members?

16 MR. RICHARDS: No, not in '72.

17 MS. FLEISCHER: So it's really not right on the chart.

18 MR. RICHARDS: I'll consider my hand slapped on that
19 one and come up with more current data. I don't like to do
20 that.

21 The last two charts reflect the disproportionate role
22 played by the petroleum industry in terms of the public
23 sector and, indeed, the eggs of the public sector, or an awful
24 lot of the eggs are in that petroleum industry basket and,
25 of course, as we all well know, this problem is going to

1 become more intense.

2 MR. GALLAGHER: This problem?

3 MR. RICHARDS: Well, the potential problem is going
4 to become more intense.

5 MR. GALLAGHER: Your data on this page doesn't cor-
6 relate with my data, and I'm the keeper of the books.

7 MR. RICHARDS: Okay, you're right. I was very, very
8 conservative, super-conservative. Even when you get super-
9 conservative you come up with rather startling conclusions.

10 MR. GALLAGHER: That's right. Every one of the
11 numbers are higher.

12 MR. RICHARDS: Yeah.

13 MR. LOVE: I'd just like to make a point on this.
14 You said it's a problem and a large percentage of our revenue
15 comes from petroleum related industries, but one of the
16 advantages of that is that you have to raise less revenue
17 through things like personal income taxes and state application
18 of sales taxes and things like this. So I think you've got
19 to look at this in terms of, you know, what you may perceive
20 as a problem because it's a centralization of our revenue
21 source in a single industry, it may be interpreted by others
22 as an overall benefit because it allows us a tax relief off
23 other groups that otherwise would be carrying the burden.

24 MR. URION: It doesn't work out that way.

25 MR. RICHARDS: I think the point you made is a valid

1 one, but nevertheless I still hold the notion that severe
2 lack of diversification in any regard is ipso facto a problem.

3 MR. LOVE: I'm accepting that.

4 MR. RICHARDS: Okay. And the final discussion is a
5 further elaboration of the role of the public sector in
6 Alaska, which in this elaboration results simply from the fact
7 of the major role that it does play in the state. It has,
8 in fact, been by far -- there's not even a close second --
9 it's been by far the major cause of population growth in the
10 State of Alaska.

11 MS. FLEISCHER: Bob, could I ask you again, you do
12 not include the military?

13 MR. RICHARDS: No, and furthermore this discussion,
14 this simply is an examination of state and local government.
15 Federal is left out of here, and military is left out.

16 MS. FLEISCHER: Oh, it doesn't include federal
17 government employees?

18 MR. RICHARDS: No.

19 MS. FLEISCHER: That must be a rather large ---

20 MR. RICHARDS: Federal is larger than state and local.

21 MS. FLEISCHER: I was going to say.

22 MR. RICHARDS: Federal is larger than state and
23 local. Federal ---

24 MR. MOTLEY: But it's been stable.

25 MR. RICHARDS: As a proportion it's been diminishing

1 over time. It's stable.

2 MS. FLEISCHER: You don't include it because it's
3 not relevant?

4 MR. RICHARDS: No, I did not include it because it's
5 not relevant. It's relevant but the area of expansion, as
6 Commissioner Motley just pointed out, it's been stable,
7 essentially stable, over the past decade.

8 MS. FLEISCHER: You're looking at growth?

9 MR. RICHARDS: Yes.

10 MR. WOHLFORTH: I think probably it would be best now,
11 just to keep in orderly discussion, if we went around the
12 table with the members and had a chance to ask questions.
13 I know this is probably the most fascinating part of the whole
14 presentation today, and we do have some time if the schedule
15 here is right.

16 And if you could, the members who have a question
17 could just go around, starting with Representative Malone,
18 and we could just come right around back again and there's
19 probably time for questions from the audience. I think it
20 would be useful if we try not to get into third party colloquy
21 when somebody is addressing Mr. Richards. Let's leave it at
22 that and then when your turn comes you can bring up your own
23 points. So, if you have anything ---

24 MR. RICHARDS: Mr. Chairman, do you want me to finish?

25 MR. WOHLFORTH: I thought you had, excuse me, sir.

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MR. RICHARDS: That's all right, I've finished. The others were very, very brief. I don't mean to imply I'm going to belabor this. In fact, I'll hold these here so you don't fall into the normal human trait of pawing through them as I summarize. These two have to do with the ---

MR. EDENSO: Before you get into that I have some questions.

MR. RICHARDS: Okay.

MR. EDENSO: Your last page, 15, shows an increase in state and local government employees as nearly 15,000. For a specific period of time within that time frame have you had a larger increase than at some other time?

MR. RICHARDS: Yes, the latter years the increase was greater than the former years.

MR. EDENSO: Is that something that you assume is just going to appear as a bump on an overall average line?

MR. RICHARDS: The answer to that, Mr. Edenso, lies not with me and thee.

MR. EDENSO: Right, this is my point. We don't know, looking at this, where we see a tremendous amount of growth taking place. I assume it occurred after 1971 or 1972. Maybe that's an erroneous assumption.

MR. RICHARDS: I'll get you the specific pattern on that.

MR. MALONE: Mr. Chairman.

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MR. WOHLFORTH: Yes.

MR. MALONE: I had one question which I don't know if it's fair to ask Bob, but maybe the data could be obtained somewhere, and that is the increase in employment, particularly in the government sector in Alaska is very large; are there any statistics available or information available that might indicate to us where these people came from who went to work for state government, whether they came from the state itself, or whether they came from outside the state. Maybe we could sort of round that up.

MR. WOHLFORTH: Mr. Rhode says he has something on that.

MR. RHODE: Yes, I checked with Kent Dawson, who gets budget matters from the Governor's office, and was formerly the head of Budget and Management. They did one quick survey and found about 55 percent of those hired as state employees had been physically resident in the state less than one year at the time of their hire.

MS. FLEISCHER: Does that include students who had been outside and were coming back?

MR. RHODE: Sorry.

MS. FLEISCHER: Does that include students who had been living outside in college for four years and were coming back?

MR. RHODE: No, those would count as full bona fide

1 residents. This was done for the year 1975.

2 MR. WOHLFORTH: Do you have any reply to that?

3 MR. RICHARDS: No, I don't. Okay, to capsulize in
4 not more than seven minutes where the Alaska economy seems
5 to be headed, the next two or three years will be periods of
6 rather severe slowdown in growth, and then commencing three
7 or four years out we will enter a period of reacceleration.
8 The reasons for the forthcoming slowdown in the rate of growth
9 are threefold: (1) the decrease of employment on the pipeline
10 project, (2) more modest state spending increases, which seems
11 to be reasonable to assume based on the posture the legislature
12 seems to be taking and (3) a holding back in the private
13 sector, because I think the private sector anticipates the
14 slowdown and just like in any business cycle anywhere, they
15 help to contribute to the very thing they anticipate.

16 The slowdown is not going to be a bust for three
17 reasons: (1) this huge stable underlayment of government
18 providing 40 percent of total jobs, 30 percent of civilian
19 jobs, (2) the fact that the pipeline is not contributing as
20 much of the boom as is normally believed and, therefore, the
21 absence of it is not going to contribute as much to the bust
22 as normally believed. My study showed that 40 percent of those
23 workers send their payroll checks directly outside. Frank
24 Murkowski's study showed that 60 percent of the workers send
25 their payroll checks directly outside. And the third factor

1 is that although I just asserted that businessmen are going
2 to kind of start to play it close to the vest, they're not
3 going to squelch their expansion plans and investment plans
4 completely because they're too much aware of what is coming
5 in the 1980's, and so investment in the private sector will
6 continue, there's no doubt about that; I'm just saying at a
7 slower rate than it has in the past two or three years.
8 That's the short run outlook.

9 The long run outlook -- again, I don't want to belabor
10 points that we all are already aware of, but just to summarize,
11 in my opinion the three most rapidly growing sectors of
12 Alaska's economy over the next ten years will be petroleum
13 (this is in the private sector, by the way) -- petroleum,
14 construction and the visitor industry. I think by the end
15 of the next decade these three industries will surpass fishing
16 in their importance as sources of employment. I think the
17 fishing industry will grow moderately, kind of like it has
18 in the past. The hardrock mining and forest products industries
19 are impossible to predict and, hopefully, they'll experience
20 some growth, but probably at slightly more erratic patterns
21 and uncertain rates. And finally, I think agriculture con-
22 tinues to remain a long shot, though a tremendous potential;
23 there's no doubt about that.

24 In the public sector, state and local government in
25 ten years will replace the federal government as the dominant

1 employer in the State of Alaska. Anchorage, I think, will
2 continue to serve as the state's commercial and financial
3 center -- and that is that.

4 Now, what sort of policy implications seem to flow
5 from all of this, and there is nothing particularly astute
6 or insightful in these policy implications. They just seem
7 to kind of naturally come up out of this material that's gone
8 before. The first is, I don't think we have to get hung up
9 on doing something drastic to counteract the booms and
10 busts that have plagued Alaska's history. As I've asserted,
11 I don't think that's a true statement. However, if we had
12 the rest of the week to examine the events that are likely
13 to occur over the next decade and kind of get the investment
14 function (if you will) for Alaska over the next decade, we would
15 find, I would think, that this function is discreet as dis-
16 tinguished from continuous. It seems to me that Alaska's
17 economic growth over the next decade is going to come from a
18 series of relatively major additions to our economy as dis-
19 tinguished from just normal expansions of what is already
20 here. Therefore, I think we can look forward to periods of
21 hyper-inflation, periods of unemployment, on the down side,
22 etc.

23 The dams, the gas pipelines, the major oil discoveries,
24 etc. So it seems to me that one policy implication of this
25 notion of cyclicity, I've indicated here -- one is an effort

1 to go after the relatively less cyclical industries. But
2 another one would be, and I didn't mention it here, but I
3 think it's really more relevant in terms of the actual manage-
4 ment of the Fund, and that is to utilize the investments by
5 the funds somewhat as a counter-cyclical device, i.e., to
6 dramatize the point, if we're building a second oil pipeline,
7 if private industry is building a second oil pipeline,
8 maybe the time for the State Permanent Fund to invest in a
9 dam is not coinciding with the construction of the second
10 pipeline but, indeed, following it.

11 And it's interesting to observe that state spending
12 policy was doing a beautiful counter-cyclical job in the
13 early '70's, i.e., it did pump money into the economy in the
14 early '70's and kept things better than they otherwise would
15 have been. But they didn't turn off the spicket. This is
16 not a state phenomenon, this also happens to be a national
17 phenomenon. They didn't reduce the spicket so the state, in
18 fact, has contributed to the intensity of the upswing
19 cycle and all the problems related thereto that we're
20 experiencing.

21 But at any rate, this notion refers not so much to
22 the type of investments that the Permanent Fund would be
23 making, but it would be the timing of the investments, and
24 perhaps the location as well, the geographic location as well.

25 The next one, seasonality, is very easy to say and

1 very difficult to do. Obviously we need more jobs in the
2 wintertime, but coming up with something is a horse of a
3 different color.

4 Diversification, again we're going to have an awful
5 lot of our eggs in that petroleum industry basket, and it
6 seems to me that -- and also the geographical diversification
7 concern is equal to the industry -- and that is a heck of a
8 lot of the chickens that hatch from that egg are found here
9 in the Anchorage area, South Central area. You know, one
10 could argue for the case that perhaps the entire state would
11 be better off, the whole would be better off if the parts,
12 if the geographical parts had a more equal share in the
13 generation of the whole.

14 Again, as I've pointed out, our economy is highly
15 labor intensive. This is one blessing of the petroleum
16 industry, it's extreme capital intensity. There's another
17 thing about labor intensive -- the most critical element of
18 labor intensive industries is really they tend to be low
19 wage industries. Although bank tellers and hotel clerks
20 are paid more in Anchorage than they are in the Lower '48, yes,
21 that's true, but bank tellers and hotel clerks are paid
22 considerably less than roustabouts on drilling rigs and
23 bookkeepers for petroleum firms, and there's only one thing
24 that explains that, one and only one thing. That is the
25 differing degree of labor intensity and capital intensity.

1 In terms of the policy implications of the outlook,
2 I don't think that there's any reason for the state to panic
3 about going into a bust and, therefore, to go into some major
4 explicit counter-cyclical spending spree. It seems to me
5 that the normal increases that simply flow from social con-
6 cerns will be enough to keep a sufficient amount of spending
7 injected into the economy, and the implication of the long-
8 range outlook is that the fund -- that because of the type of
9 growth we're going to have, is going to be principally capital
10 intensive, and it's likely that public revenues will increase
11 to a considerably greater degree than the demand for public
12 services. Therefore, it seems to me that the managers of
13 the fund are going to have more latitude for investment
14 decisions because, even of that 75 percent, I'm asserting that
15 a heck of a lot of it is going to be available for going into
16 public works projects and this sort of thing as distinguished
17 from simply hiring more automobile license clerks and that
18 sort of thing.

19 As I indicated, this is just a rough pass, and I've
20 got a little item here that I won't even talk so much about.
21 This is simply a current statement of how the Alaskan economy
22 seems to be doing today on a regional basis, and I'll pass it
23 out to you. I'd just like to give you a -- we can discuss
24 the regional element in depth at some time later. And, just
25 for the fun of it, I was so intrigued by this article that

1 I'll pass it out to you and you can do with it what you'd
2 like to.

3 MR. WOHLFORTH: Thank you. We'll go around the table
4 with questions as we started to. Representative Malone has
5 one. You can lead off, and then Mr. Waldock and so on.
6 There's an awful lot to digest here, and we can digest some
7 of it.

8 MR. MALONE: Thank you, Mr. Chairman. This isn't
9 actually a question; maybe it's a comment, Bob. The concept
10 of using the fund balance or the fund investment as a counter-
11 cyclical device, as you described it in the Alaska economy,
12 poses a very difficult political question in that when you
13 have a great amount of activity in the economy, when you have
14 something going on, say, like the Trans-Alaska Pipeline,
15 there's considerable demand for capital at that time, and
16 when the business community perceives things may be slacking
17 off, then they're not going to go on the hook for the debt.
18 So then probably those types of investments or expenditures,
19 whatever it would be, an injection of money, may it not more
20 normally come from the state budget in terms of, say, a public
21 works project rather than an investment that is in the
22 private sector per se, construction of a new plant, a new
23 service industry?

24 MR. RICHARDS: Hugh, I think that's a very valid
25 observation in terms of looking at the Alaska economy by itself.

1 It's true that in periods of down-turn counter-cyclical
2 either fiscal or monetary policy is kind of like trying to
3 push a boat out in the water by pushing on the rope. You
4 can make it available but the extent to which -- I agree
5 with your observation. Perhaps the fund, however, could be
6 utilized to enter into this kind of autonomous investment.
7 Perhaps this is the time for the fund to construct its
8 methanol plant or -- I mean to buy the bonds to permit some-
9 body to construct a methanol plant, or somebody from outside
10 relative to the resource development. But I concur with your
11 observation.

12 MR. MALONE: Then that implies a very active regressive
13 management policy on the fund itself. In other words, we're
14 going to find these projects and identify them and to some
15 extent promote them in order to accomplish them.

16 MR. RICHARDS: Yes. I think rather than really
17 utilize the fund as a counter-cyclical device; I think you're
18 opening up a can of worms and you're probably getting the
19 focus of the management of the fund in the wrong direction.
20 Rather than using it as a counter-cyclical device in an
21 active sense, in an aggressive sense, more look at it on the
22 negative side and just in terms of those investments you're
23 going to do, just be sensitive to the cyclical implications
24 of them and, you know, say, "Hey, maybe we should wait a year
25 before we do this."

1 MR. MALONE: I follow what you're saying.

2 MR. RICHARDS: That sort of orientation rather than
3 the other.

4 MR. MALONE: Thank you.

5 MR. WOHLFORTH: I just have to interject, under my
6 prerogative to interject, a point here. I think that it's
7 the public sector's experience in the last six years -- it
8 seems to be intensely interesting when you mention, of course,
9 that after the oil lease sale in 1969 and '70 we expedientially
10 expanded state spending, not only for current expenses but
11 for capital improvements. Then with the pipeline finally on
12 the horizon and a real burst in potential economic growth
13 for the state, we again expanded our state's spending and
14 in a capital improvement sector of it which, of course, means
15 anywhere from 80 to 90 Million Dollars in bonds per year.

16 Now, why did that happen? I feel because there was
17 a perceived requirement in construction of necessities in the
18 state. We wanted schools, rural schools, we wanted roads and
19 all these things that were, you know, necessary, and really
20 continued to be necessary, notwithstanding there was a tremen-
21 dous burst in economic growth related to the pipeline.

22 I come to no conclusions on the subject matter, except
23 to say that it is a very difficult mix of public, private,
24 perception of what is needed in the state and at the same time
25 observing what's happening to your economy, and observing the

1 possible inflationary effect of the two sectors going along
2 at the same time at their almost hyper-level they did in the
3 mid 1970's. I would love to see some studies. Maybe ISEGAR
4 (sic) has done some on just that phenomena, and whether we've
5 learned any lessons from it, whether we can learn any lessons,
6 it's just a comment.

7 MR. WOHLFORTH: Thank you. Jim, you've got something
8 to say, I think.

9 MR. RHODE: Mr. Chairman, I was just going to observe
10 that sometimes the various agencies and those who are reviewing
11 capital works proposals will argue that since we had 18 to
12 25 percent inflation last year in the construction sector
13 we had better get moving on this because the longer you wait
14 the worse it's going to be when, in fact, you're causing
15 that very rate of inflation.

16 MR. WOHLFORTH: Dennis, I guess it's your turn. Go
17 ahead.

18 MR. WALDOCK: Mr. Chairman, Dennis Waldock. Bob,
19 speaking from an economist's point of view and not an individual
20 resident of Alaska, have you begun to develop charts on what
21 ratio of monies should be applied towards the economic invest-
22 ments rather than social investments? At the last Investment
23 Advisory meeting I was left with the feeling that you had
24 strongly felt that the majority of the money should be directed
25 towards economic investments rather than social investments,

1 and I was wondering if you had the opportunity to work up
2 charts on the ratio that you might suggest.

3 MR. RICHARDS: No, I haven't, because I don't think
4 that -- I just don't think you can avoid the value judgment
5 at least implicit in that exercise. You even used the word
6 "should" and you said to separate my economist side from my
7 personal resident side. My economist side is only concerned
8 with what will or what is likely to, as distinguished from
9 what should. However, an interesting first step in that
10 exercise is included in this report from the Hudson Institute
11 that correlates public investment and private investment, and
12 it gets at the point that I was making last time, and that is
13 when public investment and private investment get out of
14 balance the public investment tends to become counter produc-
15 tive to its social objectives and there are some numbers in
16 there. They've got some numbers in there and, Dennis, in
17 response to what you just stated, I will give some thought
18 to this matter and see how we might come up with some numbers
19 on it.

20 MR. WOHLFORTH: Thank you. Dr. Logsdon.

21 MR. LOGSDON: Yes, in relation to Mr. Reed's comment
22 a while ago on spendable income, Alaska with over 90 percent
23 income from wage and salaries, how does this compare with the
24 U. S. average? Do you have that figure?

25 MR. RICHARDS: I don't have it, but I think it's

1 somewhere in the high 70's, 76, 78.

2 MR. LOGSDON: It just happens, you know, of course,
3 the wage and salaries, you can't hide those from taxes.
4 I think this could be a significant figure, about 70 percent?

5 MR. RICHARDS: 76, 78 percent. We just have a fewer
6 proportion of retired people, of welfare recipients ---

7 MR. WOHLFORTH: Representative Gruening.

8 MR. GRUENING: Clark Gruening. Bob, in this first
9 paper you're talking about the population growth related to
10 state spending. It seems to me that money was generated by
11 the bonus lease sale. So, in a sense, what other alternative ---
12 let's put it this way: the money was there. Now, could it
13 be that the Permanent Fund was an alternative as a savings
14 to prevent the spending that generated the population growth?
15 If you were to conclude that that is not a worthy goal or
16 that was not good to have that growth in government at the
17 time, what's the alternative? I mean, the money itself was
18 generated by the lease sale, not by the government. Maybe
19 this comes later, but what is the policy implication?

20 MR. RICHARDS: Clark, I don't think it's my role to
21 make any sort of political observation or political recom-
22 mendation. As an economist, I can look you in the eye and
23 state to you that what 90 percent of Alaskans two years ago
24 believed to be the case, i.e., oil has brought people to
25 Alaska, is not the case. That's all I'm stating. I'm not

1 saying whether it's right or wrong. I'm just laying the facts
2 out there for you and, of course, you, God bless you and Hugh
3 and Rick, have the challenge of coming to grips with what's
4 right and what's wrong. I have the luxury of just sitting
5 back and taking a look at what is. That's all I'm saying,
6 is what is. And I kind of make a point of editorializing
7 here a bit. I kind of make a point out of it because public
8 impression has been so much the opposite. That's why I've
9 kind of made a point out of this.

10 MR. GRUENING: I know you thoroughly objected, Bob.
11 What I'm getting at, let's say the government decided not to
12 hire any new state employees, instead they injected into the
13 private sector. It seems to me you encourage the same popu-
14 lation growth. It's the function of spending to generate
15 that, not the fact that it was spent in government, per se,
16 that brought the people here; isn't that right?

17 MR. RICHARDS: Well, it depends whether you invest
18 it in a highly labor intensive sector, which government is,
19 or a highly capital intensive sector. You know, granted
20 if you spend it -- you're right, a job will be created.
21 A job will be created, but you can spend it in ways so that
22 more jobs or fewer jobs, fewer people come, more people or
23 fewer people; you can affect that.

24 MR. GRUENING: I have one other question, Mr. Chairman.
25 Your graph shows an unequal distribution of economic wealth,

1 and as it relates to, say, the Permanent Fund, would you say
2 that that would be relevant to the structure of the Fund as
3 far as looking to the future. Let's say if that were one
4 of the goals of the fund, to somehow even out the economic
5 distribution to the state; in other words, bolster regional
6 economies so that you don't have this uneven high cut.

7 MR. RICHARDS: I think so, very much, but we have to
8 be sure to distinguish here between what is form and what is
9 substance, and it should be invested regionally on the basis
10 of something that will be sustainable and activity that will
11 be sustainable in that industry, in that region, and that will
12 in fact contribute to a real long run sustainable change in
13 these proportions, as distinguished from simply -- and by
14 that I mean a basic alteration of the geographic mix of
15 Alaska's economy as distinguished from some kind of window
16 dressing injection of funds to the present people who happen
17 to reside there. There is a very real distinction there.
18 Otherwise we'd just end up with this same pie chart ten years
19 from now.

20 MR. GRUENING: Along that line I'd kind of like some
21 information -- maybe Tony can provide it -- on where state
22 loans have generally gone geographically.

23 MR. RICHARDS: I don't think the state is involved in
24 any kind of a loan program now that would do the job that I
25 just asserted ought to be done.

1 MR. GRUENING: Yeah, I think that will be borne out
2 by the ---

3 MR. RICHARDS: No, not because of where they're
4 placing the funds, because of the type of loan program.
5 I don't think it exists.

6 MR. GRUENING: Right, what I'd like to see is a
7 matter -- I'm relating to structure now -- I'd like to see
8 where the loans have gone.

9 MR. MOTLEY: Mr. Chairman.

10 MR. WOHLFORTH: Mr. Motley.

11 MR. MOTLEY: I'd be happy to provide that, Mr.
12 Gruening. We happen to keep it by election districts.

13 MR. EDENSO: Mr. Chairman, I'd like to ask Mr. Motley
14 to present it to the Committee, not just to Mr. Gruening.

15 MR. MOTLEY: I'm sorry, it's in the public domain.

16 MR. WOHLFORTH: Next is Robert Barnes, the President
17 of Alaska State Bank.

18 MR. BARNES: I notice in Alaska everyone is really
19 enamored at the cost of living today, and use it as a juncture
20 for higher salaries, and wonder why it's so high. I think
21 the request of you was to make that chart to show the cost
22 of living index ranking. Do you think that would show Alaska
23 at the top and Mississippi at the bottom of all the states?

24 MR. RICHARDS: Yes, it will.

25 MR. MOTLEY: Where will it put Georgia?

1 MR. RICHARDS: Maybe we'd better get this out right
2 now, and I think one of the things you're getting at, Bob, is
3 something with which I concur, and in a certain respect the
4 Bureau of Labor Statistics measurement of cost of living
5 gives as much misinformation as information. It does not
6 sufficiently take into consideration life style differentials.
7 We all know that a gallon of gasoline costs more in Anchorage
8 than it does in Seattle, and we all know that people in
9 Anchorage spend less on gasoline than people in Seattle.
10 So there is a very important -- but I don't think it should
11 be thrown out. It's as good a -- it's the only thing we've
12 got and I think it's a good rough estimate. But users of it
13 have to respect it and accept it for nothing more than what
14 it is, and that is kind of a rough guesstimate.

15 MR. BARNES: A second question, Bob: do you think
16 that our situation is similar to Venezuela in that if we
17 take these funds that have been projected, put them into the
18 economy as Representative Gruening said, the money was there,
19 what alternative was there to spending it? I would think
20 the alternative is what Venezuela did, put it in a fund that
21 is not used in the economy on a short term basis and only
22 brought back into the economy diversified over a much longer
23 period of time, until our situation is similar to that.
24 In other words, can we absorb these funds into our economy,
25 can we build dams and other projects?

1 MR. RICHARDS: You know, that's a fascinating question,
2 the whole question of absorption, and it's the key question.
3 It's a key type question, and one to which I'll have to admit
4 I've not addressed any attention; but it's a key question.
5 Yes, I agree with you.

6 MR. McNEIL: Art McNeil of Ketchikan Pulp. I'd like
7 to compliment Bob Richards on all of this data and report.
8 I think, as usual, he has taken a mass of data and drawn out
9 the report, practical aspects of it. I think it's very
10 helpful and has identified a number of things that the
11 investment policy should be directed at, such as seasonality.
12 I think the aspect of resident versus non-resident employment
13 is an important one to the state. I do notice the projection
14 of growth and other income of the state that Bob has of
15 285 million for fiscal year '77, growing to 800 million in
16 '85; it's a pretty substantial rate of growth. I don't have
17 a calculator here, but I guess that's up around a 20 percent
18 rate of growth per year to get there. I think all this is
19 very, very helpful.

20 MR. WOHLFORTH: Thank you. Jim Edenso.

21 MR. EDENSO: On this aspect of the point of the
22 growth in other income, Bob, could you elaborate on that a
23 little of that, 285 going to 800?

24 MR. RICHARDS: Almost all of that is induced by the
25 growth of the petroleum industry and the growth of state

1 government, and almost all of it is personal income -- I
2 mean not almost all of it, but the majority of it is personal
3 and corporate income taxes. Maybe Commissioner Gallagher
4 wants to make some observations.

5 MR. GALLAGHER: I have a chart that will be of interest
6 to you that I have on a speech on Saturday. One of the things
7 it shows is that government spending made a huge climb in
8 1970, and since that time all we've bought with government
9 is inflation, the bigger population base. All those big
10 leaps in numbers are just inflation and population base.
11 This is boiling government spending down to a real per capita
12 dollar, and the times when we were going through 20 percent
13 population gains we were also going through 10 percent infla-
14 tion. So when the budget went up by 30 percent it shouldn't
15 be that much of a surprise. When we go back and look at a lot
16 of government programs like the School Foundation Program,
17 they're really a function of per capita spending.

18 MR. RICHARDS: But you realize that's somewhat
19 dangerous because you have a circular effect here, that is,
20 the major factor causing the per capita to expand has been
21 the government spending and the multiplier effect thereof.

22 MR. GALLAGER: I agree. It was the year 1970 when
23 we built the base and we've been building the same base.

24 MR. RICHARDS: To dramatize the point, if you only
25 had government employees and you had 50 of them, and you

1 doubled spending and hired 50 more, your spending per capita
2 would not have increased at all, and there's definitely that
3 phenomena to work in there.

4 MR. GALLAGHER: Of course, in defense of next year's
5 budget ---

6 MR. RICHARDS: Excuse me.

7 MR. GALLAGHER: We have a little pudding bandaided
8 on the federal government which will increase per capita
9 spending by 10 percent which is called the Native Claims
10 Settlement Act, and that will be an increase of 58 Million
11 Dollars in just that category.

12 MR. MCNEIL: Mr. Chairman, I do think there should
13 be a thing known as efficiency in numbers, however.

14 MR. GALLAGHER: Everyone has got to prove his own case.

15 MR. WOHLFORTH: Jim, do you have anything?

16 MR. EDENSO: Yes, I do, Mr. Chairman. Bob, on your
17 first working paper number two, on page eight, you give us
18 "Gross State Product by Region." I can speculate on why
19 you made your comments concerning the disproportionate
20 distribution of that product by the South Central and
21 Southeastern. I wonder if you might be able to elaborate
22 a little more on why we do have a concentration of gross
23 state product in the South Central region and the Southeastern
24 region disproportionately on population versus the Interior
25 and other areas.

1 MR. RICHARDS: Well, the reason why is precisely the
2 reason why this is going to change dramatically over the next
3 few years, and that is that's where, in terms of Southeastern,
4 that's where the resource has been, the fishing and the forest
5 products have been, you know. That's where our industry has
6 been. The primary factor underlying South Central has been
7 that this is the hub of the largest sector, the distributive
8 sector, and it's the hub of the second largest sector, the
9 public sector, and it's also the financial sector, but that's
10 included in the distributive sector.

11 MR. EDENSO: So where there are different types of
12 development or potential investment opportunities, a very
13 prime consideration will be the ability of that particular
14 region to support an industry of any kind.

15 MR. RICHARDS: I think it's a very good point.

16 MR. EDENSO: So you're talking on the front end on
17 large capital outlays for in construction development.

18 MR. RICHARDS: Yes. Excuse me, I didn't understand
19 the point you were getting to, but I do now and I concur with
20 it, yes.

21 MR. WCNLFORTH: Thank you. Mr. Love, do you have
22 anything?

23 MR. LOVE: Yes. First I would select to say that
24 I share some of the concerns that Mr. Waldock has expressed
25 in terms of wanting to have something more objective in front

1 of us in terms of evaluating, I think, your basic orientation
2 in terms of where you think the direction of the Permanent
3 Fund is. In your first, Number One paper, you gave what I
4 considered a very short and subjective paper on what you con-
5 sidered to be the different investment possibilities and in
6 terms of how we would maximize benefits to the Alaskan public.
7 There's very strong indications for a development banking
8 type approach and, as I expressed to you, there's a lot of
9 questions that I have on some of the basic assumptions you
10 made. I tend to agree with a lot of your assumptions but
11 I'm reluctant to see this Commission submit itself to that
12 course unless some more objective data comes out, that we
13 can have other people look at, so the bait will not just be
14 the fact that Bob Richards authoritatively says that this
15 is the route to go. I want to be able to quantify this as
16 much as possible in the future. I think there's a lot of
17 support for that position on this board, and I would suggest
18 that we try to develop something so I can feel responsible
19 in my job, to be more quantifiable, more objective.

20 MR. RICHARDS: I concur with everything you've just
21 stated and I will endeavor to do that task for Alaska. We
22 face a practical problem of simply data.

23 MR. LOVE: Yours is the problem. We're unanimous, that
24 is that the discussion has been reduced to a level of, "Do
25 you believe Bob Richards," or something like that, and it

1 really shouldn't be.

2 MR. RICHARDS: I hope the Commission hasn't degenerated
3 to that point. At any rate, I would strongly urge you to --
4 I think you should get a copy of this Hudson Institute report
5 that's outlined. I didn't just frivolously pass that out.

6 MR. LOVE: I understand that. Frankly, the Hudson
7 Report, there's a lot of other things involved in potential
8 choices for investment, Bob, and I'm not talking about comparing
9 any of these investment and development banks in Alaska
10 of the private sector versus adding on more government
11 employees in "X" agencies. I'm sure you would agree there's
12 many other choices to be considered.

13 MR. RICHARDS: I think I outlined about eight or
14 nine of them.

15 MR. LOVE: Right. To compare them all I think we're
16 going to need some more stuff.

17 MR. RICHARDS: Are you suggesting I'm supposed to be
18 the staff to the Commissioner?

19 MR. LOVE: No, I'm just saying in the absence of this
20 position, as a Committee member I'm just pointing out some
21 of my reactions. Secondly, Mr. Wohlforth brought up earlier
22 the point that there are times when there is a relationship
23 between government spending and providing intra-structures
24 to development industries, and I'm wondering if we can get
25 into this a little more in the future so we better understand.

1 You made some bold and sweeping assertions that government
2 spending is the main fuel to inflation and we're all ---

3 MR. RICHARDS: Wait a minute, hold it! Hold it!
4 Did anybody hear me say that? I have stated that government,
5 the State of Alaska, the state and local government in Alaska
6 have been by far the major contributors to the population
7 growth of the state. I've said all of that and I've said
8 only that. Now go ahead.

9 MR. LOVE: Okay. I think what I'm interested in as a
10 member of this Committee and as concerns anyone about the
11 increase in government spending and the increase in the amount
12 and size of the bureaucracy, I want to know more about the
13 cause and effect relationship between the development of a
14 capital against other industry and the needs that creates
15 in terms of more intra-structure. So I think there may be
16 cases when you might point to government and say government
17 spending is actually what is adding the fuel to the economy
18 but you may also be able to point to a situation where a
19 particular kind of development created that need. Would you
20 agree that there are situations where development creates
21 needs for government spending, government services?

22 MR. RICHARDS: Absolutely! I think what we're talking
23 about here, I think we share the very same concern, and I hope
24 the Commission shares the same concern, is that you want to
25 conduct this enterprise known as implementation of the

1 Permanent Fund so as to maximize social benefits in the long
2 run. I happen to be a great follower of Adam Smith, and
3 there is only one sector of the economy that's sacred, and
4 that is the consumer. To say it in economical terms, in
5 political terms, the individual, and the benefits, the total
6 way of real and psychic benefits that he achieves; that's
7 what we're going after.

8 MR. LOVE: So you would agree then that it's important
9 for us to not just look at what might be a symptom in some
10 cases may be the real cause of some of this increase may be,
11 in fact, there's needs for government created by certain
12 kinds of development. I think that's something that at least
13 I would like to have more information on in terms of under-
14 standing how those two factors inter-relate because I'm
15 sure that it's not fair to just assume government just
16 grows out of nowhere. I'm sure there is some cause for
17 the relationship that ---

18 MR. RICHARDS: I think if you imputed that inference
19 on my part you're being unfair to me.

20 MR. LOVE: I'm not. You know, I'm just saying that
21 we agree that there's a relationship. But what that relation-
22 ship is I don't know and I'm not clear. So if you're talking
23 about a concern for more government employees and yet you're
24 also advocating a real development banking approach which
25 may, in fact, create the need for additional state employees,

1 something that I may be definitely opposed to -- so to really
2 put the lid on this state spending and increasing the
3 bureaucracy, you may be advocating us to go in the wrong
4 direction. That's why I say I'm interested in seeing some
5 more information before making a choice.

6 A third point I want to make is, and it's interesting
7 to me, you know, you say, yourself, that you're a follower of
8 Adam Smith, and it strikes me that your approach to this
9 whole investment strategy of the state is not that of a
10 marked economist, but I see you advocating that we make a
11 very definite -- I think the point is as we go through the
12 first paper we see a number of things. We're talking about
13 subsidies concerning the quality of life, or subsidies to
14 income, subsidies to low income families, investment policies,
15 and then we get into the area of diversifying the economy,
16 and I assume the only reason for the state to get involved
17 in those type of loans is because the private market, itself,
18 is not servicing those areas. In other words, if there is
19 something that's a sub-market, marketability involved in those
20 loans, then it imputes to me that there's some type of sub-
21 sidy. My concern is, if that's what we're getting into, that
22 all those subsidies be on the table so that the public
23 understands exactly what the difference between the income
24 we can gain through development loans versus highest return
25 on whatever the market would provide.

1 Now, I tend to actually probably favor your position
2 more, which is opposed to a straight market approach because
3 I believe that there's a lot of cases where the market
4 doesn't properly serve the needs of the state. But I just
5 find it interesting that you find yourself describing your-
6 self as an avid follower of Adam Smith who idolizes -- you
7 know, I don't understand economics as much, but it has always
8 been my impression that he has always advocated a rather
9 classic market approach instead of this social orientation
10 towards development banking that you've been discussing.

11 MR. RICHARDS: Well, I don't think you completely
12 understand Adam Smith, but I don't think anybody is advocating
13 laissez-faire or that sort of thing. That went by the
14 boards a long time ago. We got into a discussion of sub-
15 sidies at the last session, which was a very good discussion,
16 and many of us contributed to presenting various definitions
17 of it. My definition of a subsidy happens to be when the
18 social cost is less than the social benefit of any enterprise.

19 MR. LOVE: I tend to agree with you, and that's why
20 I say I align myself more with your point of view than that
21 of a classic, what I would consider a market approach.

22 MR. RICHARDS: I don't know of anybody, even Milton
23 Freedman, that you can say is an advocate of laissez-faire, and
24 I think the way you're using this term market approach, which
25 I really don't quite understand, implies that.

1 MR. LOVE: I use the term market approach to describe
2 the philosophy that the state's funds should apply to the
3 highest and best return and should not necessarily be
4 investments in development banking.

5 The second point you made about, you know, you think
6 that a good development bank would be, along with the net
7 benefit would be in excess of the net cost.

8 MR. RICHARDS: The net social benefit would be in
9 excess of the net social cost.

10 MR. LOVE: Well, I think this is a very good approach
11 and one thing I'd like us to explore as we go into this further
12 is some way to see who receives the benefit, who pays the
13 costs, so we can identify which income groups, broken down
14 maybe by minority groups, in which communities, geographical
15 locations, skills levels, resident, non-resident, who
16 actually benefits by these particular projects and who bears
17 the cost, to see if they're the same people. I wonder if
18 you advocate, not maybe by yourself but by some of the
19 other consultants, by more of a micro-analysis or a dis-
20 aggregation of these items for us.

21 MR. RICHARDS: Well, Jamie, the way I would summarize
22 the discussion you just held is that we've got to have facts
23 before we make an investment decision, and I concur with that
24 completely. You bet you do.

25 MR. LOVE: That concludes my remarks.

1 MR. WOHLFORTH: Thank you very much. Lanie Fleischer.

2 MS. FLEISCHER: A lot of my questions have been answered
3 by the time you've gotten this far. I had a couple smaller
4 questions such as, on the assumption you've made on
5 seasonality, for instance, I was just wondering if you have
6 data or if we need some data that would show us whether we
7 know that we want to provide jobs in the wintertime. For
8 instance, in Alaska a lot of the jobs are seasonal, and a
9 lot of those are by choice because of the fishing being the
10 way it is, and a lot of people do make their income for the
11 whole year in one short season and then they lay off the rest
12 of the year and do other things by choice.

13 MR. RICHARDS: Lanie, I think it's a very valid
14 observation, I really do. I agree with you. You know, that
15 ipso facto is not necessarily bad.

16 MS. FLEISCHER: That's what I was wondering, if we
17 made the determination or if we can make the determination.
18 Seasonality by itself, in other words, may not be a crime.

19 MR. RICHARDS: Mr. Edenso asked me to do it by
20 industry and by region, and maybe that will help to get toward
21 it, and I'll give some more thought to the matter.

22 MS. FLEISCHER: Okay, I had another question which
23 isn't exactly your place to answer because I think this is
24 for the Committee, but in the cyclicalilty of our economy
25 I also wonder, as did Hugh Malone, I wonder if we'd want to

1 sustain a high population here or to continue doing things
2 that attract people from outside. Obviously we want to
3 employ people who live here and probably on a continuing,
4 steady rate, but do we want to attract large numbers of
5 people from the outside and do we necessarily want to sustain
6 them.

7 MR. RICHARDS: Do you want my value judgment response
8 to that?

9 MS. FLEISCHER: Yes, you can give your value judgment
10 on that, but I realize it's not necessarily your responsibility.

11 MR. RICHARDS: I'll give you my value judgment response
12 to that, and it may surprise you. We are going to get a
13 certain amount of economic growth in Alaska whether you, I
14 or anybody else in the state wants it or not; it's beyond
15 our control. I have a strong intuitive feeling that that is
16 going to be a pretty darn healthy rate of growth. So my own
17 personal value judgment is, given that, let's do things that
18 minimize the population growth of the state -- for what it's
19 worth.

20 MS. FLEISCHER: That was all.

21 MR. GALLAGHER: Minimize the population growth, change
22 the pattern.

23 MS. FLEISCHER: Okay, I also had questions about
24 whether or not the rest of the state outside of Southeast
25 is really out of balance, per se.

1 MR. RICHARDS: Whether they're out of balance in a
2 sense?

3 MS. FLEISCHER: Yes.

4 MR. RICHARDS: The gross state product per capita?

5 MS. FLEISCHER: But there is a lot of movement in the
6 state. People tend to live in two places, a lot of them.

7 MR. RICHARDS: Yes. Furthermore, these whole
8 estimates of gross state product, I suspect, as well.

9 MR. WOHLFORTH: Thank you. Mr. Thorstenson.

10 MR. THORSTENSON: Bob Thorstenson. Being from South-
11 east, while I was interested in your long term opinion or
12 outlook on minerals, forest and fisheries -- the first two
13 were almost pessimistic, a rather slower growth. Fisheries you
14 seemed to have a little more optimism on. I'm wondering
15 if you can back that a little bit more. We in the industry
16 have had a recent bit of optimism with our extended juris-
17 diction, with higher prices for fish and world consumption
18 of protein and higher standard of living. So I feel quite
19 a bit more optimism than you do, apparently, in the immediate
20 growth ---

21 MR. RICHARDS: Well, I'm speaking in relative terms
22 now. You know, when you compare it with the petroleum
23 industry -- go ahead.

24 MR. THORSTENSON: Yes, I realize the relative position.
25 I think though my question was, do you see any immediate

1 injection of capital that will change this term of growth,
2 either domestic or foreign?

3 MR. RICHARDS: In the fishing industry?

4 MR. THORSTENSON: Production of capital in the fishing
5 industry.

6 MR. RICHARDS: Bob, I don't mean to hedge or not
7 arise to a responsibility, but you have a considerable -- I
8 put a heck of a lot more weight on your opinion on that matter
9 than on mine, and I would like to know what your opinion on
10 the matter is.

11 MR. THORSTENSON: Well, I think that I was fishing a
12 bit. I know there's a lot more investment coming into the
13 industry, and this recent crisis created in the foreign
14 countries by our extended jurisdiction, we see a lot more
15 injection of capital into the industry. I think that this
16 group will have to weigh that situation, whether that's
17 something we want to see or we should see it or attempt to
18 encourage the capital from domestic sources such as this one.

19 MR. RICHARDS: I certainly concur with your line of
20 reasoning.

21 MR. THORSTENSON: That's all.

22 MR. WOHLFORTH: Thank you. Representative Urion.

23 MR. URION: Bob, earlier in your presentation (I
24 haven't been able to find it) you said something about at
25 some point in time the state and local government employment

1 was going to overtake the federal government. Do you have a
2 point in time?

3 MR. RICHARDS: Yes, I said within ten years.

4 MR. URION: Within ten years. You're assuming that we
5 continue the rate of growth that we have set in the growth
6 pattern?

7 MR. RICHARDS: That's right, I assumed that the state
8 government would grow over the next ten years as it has over
9 the past ten years, which is probably not even a reasonable
10 assumption. But the other sector, which Commissioner Motley
11 has pointed out, and it should be underlined here, is really
12 the more intense participant in this deal than state govern-
13 ment is the local government. I'm just pointing that out
14 to say that we're not just making assumptions regarding
15 one sector, but what's Fairbanks going to do or Anchorage.

16 MR. URION: But your statistics here show that if we
17 want to discourage population growth we should discourage
18 public employment growth; is that right?

19 MR. RICHARDS: Well, yes. Certainly, yes.

20 MR. URION: If you use this mu'tiplier here, or whatever
21 you used.

22 MR. RICHARDS: Yes.

23 MR. WOHLFORTH: Commissioner Motley.

24 MR. MOTLEY: In the interest of time, Mr. Chairman,
25 I know you have a real heavy gavel over there, I just want to

1 thank Mr. Richards. In his usual manner I think he has been
2 able to take some very dull figures and numbers and make
3 them meaningful to us.

4 The only one other comment I would like to make, and
5 I think, Jamie, when you think back when you started on the
6 Medical Malpractice Commission -- what we've done here this
7 morning is, we've gone all the way around the barn with a
8 lot of things other than just the Permanent Fund, and I'm
9 not suggesting that you isolate it as such, because one of
10 the problems I think we're going to face as we discuss the
11 Permanent Fund, what is the object of this exercise. These
12 other things do inject into it, but I, for one, am going to
13 finish out my thirty seconds with an attempt to put some self-
14 discipline to keep the prime objective in mind in regards to
15 creation of the Permanent Fund. I think a lot of the other
16 things we've talked about happen in different governmental
17 circles all the time anyway, be it in legislative committees
18 or others. Thank you.

19 MR. WOHLFORTH: If I may say, we're creating a
20 unique environment a sociopolitical economic environment
21 if, indeed, the voters pass the Permanent Fund. Mr. LeResche.

22 MR. LERESCHE: I have two or three, Bob. One is not
23 directly relevant to the subject at hand, but you made a big
24 point at the beginning of saying we're not going to have a
25 bust, we've never had a boom/bust economy. You said that very

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strongly. Then you went on to say ---

MR. RICHARDS: Well, I didn't quite exactly put it that way. We did have a bust after the gold rush.

MR. LeRESCHE: Did you say that you don't expect a bust any time soon?

MR. RICHARDS: Yes.

Mr. LeRESCHE: Okay. I'm confused. Then you said our growth will be discreet rather than continuous, that we'll go through periods of unemployment and inflation, that we should perhaps use the Permanent Fund at least passively as a counter-cyclical device. How do you define this bust that we're not going to have?

MR. RICHARDS: Okay, to a certain extent there's a semantic issue here, yes, which I've created, and maybe I've reacted too much to the term "bust". But I'll have to confess I've been -- my attitude toward the term "bust" has been influenced substantially by outsiders coming to Alaska and inquiring about this post pipeline bust, and it's bankers, it's journalists, it's a whole array of people who traipse through here with whom I've come in contact, and the way they ask this question, the way they bring up the question and then talk about it, using the term "bust" implies that when the oil pipeline is going to be over that's all she wrote and we might as well all pack it in and there's going to be an economic collapse, something that approaches the depression,

1 the great depression. I'm asserting that that's what we're
2 not going to have, and I apologize for that if I've kind
3 of over-reacted to this notion which I've sensed in certain
4 circles.

5 MR. MOTLEY: That's a very valid point, you're right.
6 There are enough people talking about it. I think it has
7 to be quantified.

8 MR. LeRESCHE: It's a matter of degree.

9 MR. RICHARDS: That's right, exactly. Yes, we are
10 going to have cyclical fluctuations and probably rather
11 severe from time to time.

12 MR. LeRESCHE: Okay, that clarifies it. Secondly,
13 you said a lot of things about the petroleum industry and
14 related industries, that they hold a disproportionate number
15 of our eggs right now. They're certainly highly capital
16 intensive, they're destined to grow probably fastest of all
17 the industries in the next ten years and various other things.
18 This implies to me in kind of a simplistic sense that because
19 of these reasons we shouldn't use the Permanent Fund to
20 invest in petroleum related industries because it's going
21 to take care of itself and we already have too much in it.
22 Is that a fair conclusion to draw from what you said?

23 MR. RICHARDS: Or unless you invested it in such a
24 way that the cyclical behavior of that industry is mitigated,
25 and by that I mean perhaps some vertical or horizontal

1 diversification. But I haven't really thought through the
2 matter that much myself.

3 MR. LeRESCHE: It's interesting to me that the
4 relationship between the fact that we have so much of our
5 income coming from that industry, that would seem, per se,
6 to argue against getting any more of our income tied into
7 that industry or its ancillary industries. But I see why
8 there is another reason we might want to do it.

9 Finally, this is just kind of a basic question of an
10 assumption -- you've said that regionally our economy is
11 very unbalanced. Just as an economist, what are the virtues
12 of having our economy balanced regionally?

13 MR. RICHARDS: I'm glad you raised that, because an
14 awful lot of people have really imputed some value judgments
15 here and, of course, I have to accept responsibility for that
16 in tones of voice and so forth. You're right, I don't know
17 of any state in the Union that is regionally balanced,
18 California certainly not, Washington, Oregon, Utah, Colorado.
19 So, no, I don't mean to imply that if all those sectors were
20 equal that would be better than what it is now. I don't
21 mean to imply that at all.

22 MR. LeRESCHE: And there's no basic economic reason
23 that would imply that then that you know of?

24 MR. RICHARDS: No, other than I just have an intuitive
25 feeling that this is a bit startling. Furthermore, this data

1 tends to coincide (more important) with something we kind of
2 intuitively feel anyway, and that is in the Interior and the
3 Western region and the North, there are not sufficiently
4 sustainable economy so as to enable the people residing there
5 to do some of the things they apparently want to do in terms
6 of their standard of living.

7 MR. MOTLEY: Bob, isn't there one further distortion
8 in there, one further distortion in there that distorts that
9 regional because the bean counting that goes on as the gross
10 state product doesn't necessarily apply to the Northwest
11 region?

12 MR. RICHARDS: Very, very good.

13 MR. MOTLEY: Isn't that one of the things that
14 distorts it?

15 MR. RICHARDS: Yes, absolutely.

16 MR. MOTLEY: It's not cash oriented.

17 MR. RICHARDS: Right.

18 MR. LeRESCHÉ: I'd like to make one more comment.
19 This morning we've talked a lot about growth and I think
20 several of us have fallen without trying to into the trap of
21 lying with statistics. The best way to structure your
22 statistics is to pick a base year that's going to end up
23 proving what you want to prove and assume that somehow
24 magically things were perfect in that base year, and then
25 we'll change up or down from that and it's either good or bad.

1 Now, that's just an observation. A lot of our discussion of
2 changes over time has been based on implicit and perhaps poor
3 assumptions of the fact that 1960 was just perfect in terms
4 of wages, state employment, per capita and things like that.
5 I make no value judgment, but we ought to think in terms of
6 the fact that maybe that wasn't necessarily perfect.

7 MR. RICHARDS: This data -- you know, you're free to
8 draw your own value judgments from this data.

9 MR. LeRESCHÉ: That wasn't directed at you, Bob.

10 MR. RICHARDS: It could be.

11 MR. WOHLFORTH: There is about ten minutes left before
12 the noon break, and if any of you members of the audience have
13 any particular questions that they want to just give Mr.
14 Richards, if he doesn't mind, it might be valuable (non-
15 governmental types) maybe. If not, we can go back and ask
16 some more. I know that Mr. Edenso has one last point he wants
17 to fire off here.

18 MR. EDENSO: Thank you. Bob, your first paper, first
19 part of your presentation this morning, you're talking about
20 distribution of labor between the various sectors of the
21 economy. You didn't describe the labor as skilled or unskilled
22 and such, or how that was distributed, or how that was
23 affected generally by the fact of seasonality which influences
24 Alaska's employment. I was wondering if we do have any numbers
25 which do reflect that or if you do have any statistics like

1 that or any comments concerning it.

2 MR. RICHARDS: The skill level of the labor?

3 MR. EDENSO: Yes.

4 MR. RICHARDS: The State Department of Labor does and
5 we can get them.

6 MR. EDENSO: We know that there is a distribution of
7 skilled and unskilled and that also has a major effect
8 within the economy.

9 MR. RICHARDS: Okay.

10 MR. WOHLFORTH: How about questions from the audience
11 that may have been sparked by any of the comments that were
12 made or the presentation here? I'm inviting any questions
13 from the audience to Mr. Richards in the few moments we have
14 before the lunch break. If there are none, any more questions
15 from the members?

16 MR. MOTLEY: I have just one comment. It appears
17 to me that the quest of the search for data is in evidence
18 here, and I think it's a valid one. Probably, by its nature,
19 it determines our first investment, and that appears to be the
20 Full Employment Act for Consultants.

21 MR. WOHLFORTH: On that subject, this afternoon, for
22 those of you who don't have the agenda, at 1:30 there will be
23 a report on current Permanent Funds, characteristics of
24 management, legal structure, etc. by Mr. Ken Butler of
25 White, Weld and Company; 2:30, report on the organization

1 management and control of development banks by Peter McDowell
2 of Price, Waterhouse; 3:30 is new business. That's just
3 what's on the agenda this afternoon.

4 Without objection then we'll adjourn till 1:30.

5 (Whereupon the meeting recessed at 11:55 a.m.
6 and reconvened at 1:30 p.m.)

7 MR. WOHLFORTH: Although we're missing a few members,
8 some people have a time schedule they want to keep, so we'll
9 resume the session now. I have had a request for a very
10 brief opportunity to present observations by Mrs. Fleischer.
11 If the Committee has no objection I would propose putting
12 her on the agenda at this time and then go immediately to
13 the White, Weld report which is scheduled for 1:30.
14 Go ahead, Mrs. Fleischer.

15 MS. FLEISCHER: Thank you I made some notes on what
16 I wanted to say so I could confine myself to the subject and
17 keep it brief, but I do have a lot to say. But I find myself
18 sitting here thinking we are putting too many carts before
19 the horse and that all of the information being presented here
20 may or may not be relevant to what we really need to do, and
21 that's why I wanted to make a remark now and say to the
22 Committee that what I would like to see us, after these
23 reports have been finished, is to focus on the thing we have
24 to do first, and that is establish the goals and objectives
25 for this Committee or for this Permanent Fund. We need to have

1 a discussion, an open discussion on what we see the Fund, the
2 purpose of the Fund and what we think it should be for
3 before we really know what questions to ask our consultants.
4 I know they can give us some information that's useful, but
5 the whole world is full of information and we don't know what
6 charts we want, what information we want, until we've
7 established our goals.

8 I think we need to include the people in the state
9 in the decision making process in regard to the goals and
10 objectives. I know that that's probably an unpopular thought
11 because of our time constraints, but I think it is a necessary
12 thing to be done, and I do believe that if the voters of the
13 state are shown that this is the way it's devised they won't
14 oppose it. I don't think they'll defeat the amendment on
15 the Permanent Fund because I believe that whatever Permanent
16 Fund means to the people, it does mean something positive, and
17 I think it's up to the Committee to see that the goals and
18 objectives set do reflect what the people of the state want
19 to do with the Permanent Fund, that they are established, and
20 I think we have to do that.

21 You know, I'm a little bit concerned that maybe some
22 goals have already been established, or maybe some people
23 somewhere have established goals. But as a committee we
24 haven't done that, and I see that as one of our first jobs,
25 and I want to see that we do that. That's not something we can

1 ask our consultants to do; that's something we have to
2 decide as people of this state, what goals we have for the
3 state and, therefore, for the Permanent Fund itself. I
4 would request that we do that job before we do anything else.

5 MR. WOHLFORTH: Thank you very much. I think, for
6 however it fits in with your request, that we should have
7 some enlightening information on at least what others have
8 done this afternoon and that is, of course, the purpose for the
9 two firms who are about to make a presentation. The first
10 firm, as I understand, is the investment banking firm of
11 White, Weld and Company of New York City. Mr. Ken Butler
12 is indicated as making the presentation, but there are other
13 gentlemen there. If you will introduce yourselves and after
14 you do so, if you'd go right into your presentation.

15 MR. BUTLER: Thank you, Mr. Chairman. I am Ken
16 Butler from the San Francisco office of White, Weld and
17 Company. On my left is Mr. Pat Oden of the Public Finance
18 Department of the firm in New York, and on my right is
19 Mr. Charles Fuhrmann of the corporate finance department
20 of the firm in New York.

21 In accordance with the request of the Committee, we
22 have provided you with a survey of domestic, foreign and
23 international development banks, funds and development pro-
24 grams for your use in determining the future structure and
25 objectives of the Alaska Permanent Fund. In performing our

1 survey we have selected those banks, funds or development
2 programs which are of major importance, as well as those
3 which are particularly relevant to Alaska's situation in that
4 they are either based upon natural resource revenues or
5 confined to a limited geographic area.

6 Mr. Fuhmann and Mr. Oden are here as representatives
7 of a larger group of White, Weld people who are involved in
8 advising you on the Permanent Fund within the state. Our
9 analysis of domestic permanent and development type funds
10 was headed by Mr. Pat Oden.

11 MR. ODEN: Basically, in analyzing the domestic
12 permanent funds we took a look at two categories which are
13 represented in Exhibit "1" and Exhibit "2". Exhibit "1"
14 focused on those states which receive income from a finite
15 natural resource and the manner that they use that income.
16 The majority of the states receiving income from finite
17 natural resources spend that income on a current basis.
18 Those states and the application of the income that put those
19 incomes in trust are set forth in Exhibit "1" of the report
20 you have.

21 Exhibit "2" is a little more amorphous. That is two
22 states -- well, not two states, one commonwealth and one state,
23 which have economic development programs, formal economic
24 development programs. We've requested from every state their
25 particular assistance programs and aid programs to industry,

1 and they vary from property tax forgiveness to income tax
2 foregiveness to outright guarantees.

3 We are in the process of accumulating a substantial
4 file on complete information from each state on their economic
5 development program. Therefore, seen in this report today
6 is not the entire spectrum of economic development programs
7 in the United States; it's only two, and the additional
8 information will be coming. I think it will provide a tremen-
9 dous data source for the Permanent Fund, to give them an
10 excellent handle on what approaches every other state has taken.

11 That's essentially the sum.

12 MR. BUTLER: Because, as Jim mentioned earlier, Mr.
13 Chairman, I might check. Do all members of the Committee have
14 a copy of the report presently, since we're referring to it
15 heavily? Good.

16 With respect to the international and foreign develop-
17 ment banks, funds, and development programs, Charles Fuhrmann
18 headed the firm's effort in that area, and he would like to
19 make comments concerning that aspect.

20 MR. FUHRMANN: Substantially all of the less developed
21 nations of the world, and a certain number of the more developed
22 nations, have government owned or controlled entities whose
23 purpose is to participate in the financing of local economic
24 development projects. In most of the small nations, these
25 entities function principally as the vehicle through which

1 the major world-wide institutions provide funds, i.e., the
2 World Bank, through them, etc. These are also the vehicles
3 through which the nations' development funds are dispersed
4 into the economy by the government, and they are very heavily
5 involved with political process. These entities also act
6 as the conduit, as I said, for World Bank funds and other
7 development funds provided by the larger international
8 institutions, and are invested in smaller projects in the
9 country concerned through these development banks, the
10 World Bank considered not being interested in smaller projects
11 themselves, so they make larger loans to these development
12 banks who, in turn, make smaller loans for smaller projects
13 in their area.

14 One of the advantages of the latter process is that
15 the use of a local bank as a vehicle permits the larger
16 institution's loan to receive a government guarantee, which
17 is commonly a prerequisite for the extension, or the initial
18 extension, of credit to that country. In most countries the
19 development banks and funds that perform these functions also
20 serve as the means through which internal economic growth is
21 directed and channeled in accordance with national economic
22 policies and are, in effect, extensions of the local economic
23 ministry.

24 Our report covers three of these, the Swedish Invest-
25 ment Bank, Japanese Development Bank and National Financiera,

1 which is the Mexican Development Bank. You will not have
2 page two of the National Financiera summary, but I brought
3 adequate numbers with us for everyone to have one. For some
4 reason they got left out in assemblation. In each case these
5 institutions are responsible for carrying out the national
6 economic policy through their activities and they enjoy
7 various degrees of autonomy from the national political pro-
8 cess. The most independent is the Swedish Investment Bank
9 and the least is National Financiera. National Financiera
10 and the Japan Development Bank are heavily involved in the
11 political process in their respective countries. National
12 Financiera is also the conduit for World Bank lending in
13 Mexico, both for corporate borrowings and public agency
14 borrowings.

15 That summarizes the group that is in Exhibit "3".

16 Exhibit "4" is the larger development banks and funds
17 which are international institutions whose memberships consist
18 of several countries and whose purpose is to foster the
19 economic growth and development of a particular region or
20 its members. In general, these entities represent potent
21 world-scale economic forces and tend to be both non-political
22 and commercial in their operations. The financial strength
23 of these entities is typically based on the uncalled capital
24 subscriptions of their members, and virtually all of them
25 borrow heavily, both locally and in the international capital

1 markets. Substantially all of the activities of these
2 institutions consist of direct lending for specific projects
3 in the various countries, and lending policies appear to be
4 determined on social benefits as well as economic grounds.
5 As a result, and to the extent that many major industrial
6 nations are commonly among the larger contributing members
7 of these institutions and receive no benefits, they can be
8 viewed as quasi foreign aid banks.

9 Among such international and regional development
10 institutions covered by our survey (and Price, Waterhouse
11 has taken a much further step into the management and
12 organization structure of most of these entities) the most
13 significant is the International Bank for Reconstruction and
14 Development, the World Bank, both in terms of its world-wide
15 membership and the international scope and significance of
16 its lending activities. Importantly, all of the other
17 international institutions included in our survey, whether the
18 Inter-American Development Bank, Asian Development Bank, the
19 African Development Bank, these have been created with the
20 assistance of and modeled after the World Bank, both opera-
21 tionally and in financial structure.

22 Of these three derivative institutions, only the
23 African Development Bank is not a significant international
24 borrower and depends heavily on loans from other institutions,
25 such as the World Bank. This characteristic results from the

1 fact that there is no local capital market in Africa large
2 enough to support the program of that bank, and neither are
3 the countries involved in the credit of that bank substantial
4 enough to merit good credit ratings in the international
5 markets. So they are dependent upon, almost completely,
6 borrowing from the World Bank, etc.

7 Two other institutions which fall somewhat into this
8 category of large international institutions in that their
9 activities are regionalized rather than localized are the
10 European Investment Bank and the European Coal and Steel
11 Community, both of which are related to the Common Market.
12 Significantly, both of these borrow in various capital
13 markets and relend for projects consistent with their purpose.
14 The credit strength of the European Coal and Steel Community
15 is based fundamentally on the strength of the private steel
16 industry in Europe, while the European Investment Bank is
17 modeled along the lines of the World Bank and depends on the
18 credit of the Common Market member states.

19 The remaining type of institution is one which functions
20 in a limited geographic area or within a particular industry
21 to promote economic growth and development, or to achieve a
22 social objective, and is based on local or regional resources.
23 This is Exhibit "5" groups of companies, of institutions.

24 Of the three basic groups of international development
25 institutions, this group contains the smallest number of

1 entities and is, perhaps, the most analagous to the situation
2 in Alaska. These development institutions or funds are new
3 and, to a large degree, based on natural resource revenues.
4 Significantly, only two are international in scope; others are
5 modeled after the World Bank but limited in their activities
6 to a defined geographic region, ethnic grouping or social
7 purpose. The remainder are national investment funds.

8 The majority of these funds are based in the Middle
9 East and dependent upon oil related revenues. Those that have
10 an international scope are the Saudi Development Fund and the
11 Arab Bank for Economic Development in Africa, both of which
12 were created after the increase in world oil prices in recog-
13 nition of the balance of payments and development problems
14 created in the developing states by such increase. The
15 remaining funds, the Arab Fund for Economic and Social
16 Development, the Abu Dhabi Fund for Arab Economic Development,
17 the Islamic Development Bank, and the Kuwait Fund for Arab
18 Economic Development, although created at approximately the
19 same time as the others, reflect in both the source of their
20 capital, which is member states' subscriptions or allocation
21 of national revenues, and their purpose, the Arab nationalism
22 which emerged after the Mid-East wars. Importantly, most of
23 these funds have yet to become fully operational, and it is
24 too early to judge their potential significance. The two
25 national investment funds, the two which you may find are the

1 most directly related to the proposed Alaska Permanent Fund,
2 are the Fondo de Inversiones de Venezuela and the Alberta
3 Heritage Savings Trust Fund. The similarities here extend
4 both to the source, which is non-resource revenues or non-
5 recurring resource revenues (I should say) and the purposes
6 which can be seen in our summary studies.

7 We have not undertaken, nor have we been asked by
8 this Committee, to recommend to the Committee certain key
9 features of any one of these bank's funds or development
10 programs of the others. What we have done in the study is
11 try to provide you with information regarding the various
12 alternative purposes, alternative income policies, investment
13 criteria, etc., so that you could have a feel for what the
14 world-wide scope, or environment, or whatever, what the
15 alternatives are, and be able to focus on them and just
16 from among them, and also create those of your own more
17 particular to your situation.

18 The purposes in these 30 odd studies cover a pretty
19 wide range. Some are developed to encourage economic nationali-
20 zation and structural adaptation and development, some are
21 to create employment, improve personal income, expand
22 regional development, centralize industry, promote exports,
23 stimulate capital formation, foster economic independence,
24 urban redevelopment programs, supplement private investment,
25 not be the sole investor, improve land use and settlement,

1 subsidize low income housing; some deal only with the intra-
2 structure projects, roads, utilities, water, sanitation.
3 Education is the main emphasis of many of the programs.
4 Some are to develop conversion areas, replacing judicial
5 activities with new industries; some are geared strictly
6 toward better living and working standards; many of the funds
7 are involved not only in providing monies but also in pro-
8 viding technical and financial services. Some of them are
9 policemen and police the operations in which they invest,
10 and others take a back seat position. There are those that
11 are a reservoir only at the present time for public funds
12 to keep them out of the current economy and avoid inflation,
13 waiting for the time when the monies are needed. Some are
14 geared for redistributing income, encouraging technical
15 independence, and some are meant to assure rational and
16 diversified internal investment which may not be taken care
17 of in the normal course of general programs.

18 These are a variety of the purposes, and there are
19 many more, and they will come rather obvious to you as you
20 look through those pages, and we've structured them in a way
21 to try to be most useful. They're each in the same format
22 so that you can look in the same spot and see what their
23 purposes are or income policy is.

24 With respect to income policy, many of them have
25 the income of the fund retained by the fund. Others have it

1 put into a statutory reserve, representing a percentage of
2 their investments or as a reserve against bad investments,
3 or some of them have it limited to a percentage of their
4 equity investments to protect against those going sour, or
5 a percentage of their soft loans, or a percentage of their
6 total portfolio. Various kinds of reserve have been estab-
7 lished by some, by others none at all. In almost every case
8 the fund is involved in covering its own operating costs.
9 Some are taxed by their national authorities, others are
10 untaxed. Some, the income goes direct to the state or
11 national treasury, the general funds, but the capital is
12 left untouched. Others, there's access to the capital. Some
13 dividend their income to the stockholders, if you will.
14 Some have structures with common and preferred stockholders,
15 which brings in additional capital. Some have the income
16 transferred to related funds. In other words, they may set
17 aside certain more risky ventures, or whatever, and have
18 those funds available for that be limited to the income of
19 the Permanent Fund or Permanent Capital, you know, whether
20 it's a fund or a development bank. And some have the funds,
21 the national ones, some of the ones involving member states,
22 as subscribers to the capital, have the funds allocated to
23 the members' capital accounts which, in some cases, has a
24 tendency to increase that nation's participation or voice
25 in the management decisions of the fund. Others have them

1 transferred to specific purposes, the income transferred to
2 university funds, public schools, or ilio-mosinary (sic)
3 institutions or the enhancement or care of the environment,
4 or some special cause the income goes to which is divorced
5 from the investment policy of the fund.

6 Criteria that are used in making investment decisions
7 range all over the lot as well. A large number of these funds
8 have, among their criteria, that the funds not be generally
9 available from other sources so that the fund is not competing
10 with local sources. Some don't have that at all. Some demand
11 that the projects that are invested in are commerically
12 viable, that they have an impact on the economy, that the
13 terms reflect a satisfactory return on investment, that the
14 terms are consistent with the risk and actually apply tradi-
15 tional credit standards to the project they are considering
16 investing in. Some demand that they only participate in
17 loans as a participant, not be the sole lender. Many have
18 floating rates, some have fixed rates. Those that have these,
19 some have limitations on what the interest rate can be, that
20 it can be no higher than is available in the private market
21 or it can be no lower than "blank" percent. Some have criteria,
22 they can only lend to government agencies or other governments.
23 Some say they can only be for productive purposes, they must
24 be prudent investments, that they can only be used to supple-
25 ment private capital, or to make private capital available

1 by putting in subordinated monies. Some structure their
2 investments in a fashion that is appropriate to the project
3 or the project will even pay, both in terms of interest rates
4 and amortization schedules. Others say that they will only
5 structure them in good business terms and if the project can't
6 stand it the project doesn't get the money.

7 Some only support projects that are for the local use.
8 Others invest both in their own environment or geographical
9 environment, others invest all over the world and their pur-
10 pose is to make money, build credit behind something. For
11 example, it could be considered a potential objective here to
12 purely maintain capital in this fund, build it to provide
13 a credit standing for the state as it puts its own issues
14 out. Some of these funds exist for that purpose, or the funds
15 are kept in house and only guarantees are used, and they're
16 able to leverage the funds by putting out more guarantees
17 against the capital that is in the fund.

18 Some insist that the projects being financed encourage
19 savings in their community or are constructed to the balance
20 of payments of the nation involved. Employment is a big issue
21 in many of these funds to stimulate employment or to diversify
22 geographically employment, or industrially employment, or
23 develop skills, talents or technical expertise that they
24 don't have. Many of them are only interested in larger
25 projects, they do not want to have a widespread dispersal

1 of their funds and limit themselves only to major, huge
2 projects that take place.

3 Some insist on security on all loans and others take
4 the social good and social benefit route and don't really care
5 whether they're going to lose all their money in terms of
6 investments but, to quote from this morning, the social
7 benefit is determined to outweigh the social cost. Many
8 of the funds have limitations on the percentage that they
9 will have go to risky loans or government oriented loans,
10 or certain industry kinds of loans, or various levels that
11 control that are shown by the funds, guidelines of investments,
12 how much can go here, there, etc. Many have limits on how
13 much can go to any given project; they will only put up five
14 percent, or 50 percent of the capital, the balance must come
15 from private sources, other sources.

16 Some have requirements regarding diversification of
17 equity; that they're going to participate in equity at all
18 or whether it must be diversified by industry and they can't
19 become the sole owner of the oil industry or whatever comes
20 to my mind -- but that particular group that have that as
21 one of their criteria happen to own the oil industry.

22 So, there are a variety of criteria, and we hope that
23 as you review these that you will have available to you a
24 wide variety of things other people have done and be able
25 to judge on your own the merits or demerits of any of these

1 alternatives in putting together your own.

2 We have, as Pat suggested, in addition to providing
3 these summaries, have begun to compile a file of source
4 materials which are essentially background materials on each
5 of these funds, and our work here is no way complete. We
6 are continuing to collect information on additional funds,
7 both domestic and international. There are a few more
8 Canadian entities that we are in contact with in discussing
9 their programs with, who for some reason or other we are not
10 at the present moment completely complete on the information
11 we would need to either provide a summary or provide the
12 information on. But we are preparing for you, and have
13 brought with us, the initial version of what we would call
14 a resource file so that members of the Committee and members
15 ultimately of the Permanent Fund management, etc. will have
16 the beginnings of a resource file on what other people are
17 doing around the world. This file includes annual reports,
18 prospectuses for those that leverage themselves, copies of
19 their charters, and the legislation that was necessary to
20 implement them originally, and just about anything else we can
21 get our hands on. So we will be leaving that with you today.

22 At this point we feel, as we have indicated in our
23 cover letter to this report, that it would be most helpful
24 to have certain representatives of the Fund meet with the
25 Alberta Heritage Fund people and the State of New Mexico

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1 people to assess their programs and to better understand the
2 philosophy of their decisions. We have discussed this
3 internally and with the Alberta and New Mexico people, and they
4 are interested in such discussions.

5 We would also suggest that it could be helpful to
6 have certain representatives of the Committee visit with
7 us in New York to discuss first-hand with various members
8 of our firm their experiences with the various international
9 foreign and domestic funds and development programs. I think
10 we've indicated that we are advisors to Abu Dhabi, we are
11 administrators of the Saudi Arabian Monetary Association and
12 have worked closely with the Fondo de Inversiones de Venezuela
13 and many other programs.

14 A lot of the information that we would normally put
15 out on those we would prefer not to necessarily in writing
16 because of our relationships with them, and we feel that also
17 the opportunity to discuss face-to-face with the people that
18 have been involved directly in those could be most helpful
19 and also save trips to various spots in remote corners of
20 the earth. We would also suggest that a visit to the credit
21 agencies would be most helpful to understand what they look
22 for, because I think it's hard to divorce this project com-
23 pletely from the whole financibility of the State of Alaska
24 and its many programs.

25 But also to understand what they would be looking at

1 with respect to the fund should you decide that leverage
2 or raising debt against your equity here was an objective
3 or goal, we think that could be most useful.

4 MR. BUTLER: That's a brief overview of the domestic
5 and international techniques we've used and ground we've
6 covered and all. Maybe at this time it would be appropriate,
7 Mr. Chairman, to answer questions or anything else that's
8 of concern. We do have the data that Mr. Furhrmann referred
9 to sitting over there that we'll be happy to leave with Mr.
10 Edenso or whoever would be the appropriate person, for
11 further evaluation.

12 MR. WOHLFORTH: Thank you very much. There's about
13 25 minutes available for questions on the agenda, and I
14 suggest that we start with this side of the table now to be
15 fair, and remember many people want to have an opportunity
16 to talk, and that this report is basically on permanent
17 funds and the like; development bank structure and organization
18 is dealt with in the next report. So with that, I would turn
19 it over to Mr. LeResche.

20 MR. LERESCHE: Okay, I just have one fairly simple
21 question, but which is basic to my use of the report. The
22 first page of the letter in your report which you read to
23 us, you allege that certain funds are more relevant to Alaska
24 than others for two reasons, first because the source of funds
25 is natural resources and secondly, because they're confined

1 to a limited geographic area. I don't understand that.
2 Two questions: why is the source a matter at all and,
3 secondly, how is our fund limited to a geographic area?
4 We're not obliged to invest it only in the state.

5 MR. BUTLER: That wasn't the implication. One, the
6 first meeting of this group whenever it was, some six weeks
7 ago, it was mentioned by several members that they thought
8 it would be most fruitful to concentrate on places north
9 of 60 degrees latitude and with non-renewable natural resources
10 as the main source of funds and this sort of thing, and we're
11 taking predominantly our direction from comments of that type.
12 Secondly, we didn't think it was as applicable where somebody,
13 like Development Bank of Puerto Rico or the World Bank, where
14 their sole source of funds is borrowing in the international
15 capital markets -- not that there's nothing particularly in
16 there, but it's not as applicable as if you have the resource
17 picture. So those two. Mainly we took our lead from members
18 of the Committee that expressed this.

19 MR. LERESCHE: Maybe you could help me by telling me
20 whether that makes any more sense than I think it does.

21 MR. FUHRMANN: I don't think it makes any sense at all
22 when it comes to what the objectives are, and the opportunity
23 to see what other people have done, like in structure.
24 In structure it makes some difference because the member
25 states are not going to be represented here. They're not a

1 series of names who are involved in this environment or in
2 this fund as contributors, but with respect to what they do
3 with their income and what their objectives are and the kinds
4 of projects they necessarily invest in, I don't think it's
5 fair to say they're irrelevant.

6 MR. LeRESCHÉ: Then one other related question,
7 an important thing to me as I read through this is going to be
8 to look at each fund's objectives, and then at their manage-
9 ment structures, and it's hard for me to make a general
10 statement I'm sure, but generally speaking, do the management
11 structures follow logically from the objectives in all cases
12 here?

13 MR. BUTLER: Maybe Mr. Oden could speak briefly
14 from the domestic funds we've looked at and Mr. Fuhrmann a
15 little bit from the international aspect.

16 MR. LeRESCHÉ: And if the answer is no, maybe which
17 ones make more sense to you.

18 MR. ODEN: In most of the states, the states that
19 we've reviewed with respect to permanent funds, they fall
20 into a couple of broad categories. One is one of the grand-
21 daddies of permanent funds, which is Texas. Those monies are
22 all applied by the University of Texas system. They're on
23 state-owned lands. The second is New Mexico, the same
24 sort of situation. Those were set up the previous decade,
25 and the rationale on where those should fit within the

1 governmental structure would certainly not be, I think,
2 relevant today. The objectives of the currently, the newly
3 developed permanent funds, I think they're set up as far
4 as their populace is concerned to serve those objectives.

5 MR. FURHMANN: On the international ones, obviously
6 the ones that involve member nations are going to be structured
7 on an organization, and management and policy level to
8 reflect the membership of international bodies. The national
9 ones, or the ones that relate to a particular area often
10 reflect either the political environment from which they've
11 come, whether it's more democratic or less democratic. Some
12 of them have recognized for their own purposes the advantages
13 of independence, and others have felt the advantages were having
14 it be less independent. So I don't believe that you will find
15 the correlation you're looking for, that the objectives of the
16 fund are directly reflected in the management, how it's
17 organized. Perhaps it should be, but I don't think that
18 you'll find that.

19 MR. LERESCHE: Okay, that's helpful, thank you.

20 MR. WOHLFORTH: Thank you. Commissioner Motley.

21 MR. MOTLEY: In going through this report, I was looking
22 for the common thread that we have here, that is, a restriction
23 according to the big income producing investments, and I
24 haven't found it. Is that true or not?

25 MR. FUHRMANN: No, you missed some, because there are

1 a lot that have, as I stated, in the criteria -- some of them
2 insist upon the commercial viability of the project, yes.
3 Some of them insist, as I said earlier, upon a satisfactory
4 return on their investment, and coupling that with the
5 ability of the project to meet those terms. An enormous
6 number of them, almost the bulk, other than the foreign aid
7 banks, which are dependent upon the taxing authority, etc.
8 of the nations involved, they're not worried. Almost all
9 of them are involved, more involved in income producing and
10 less socially good loans than the opposite.

11 MR. MOTLEY: Are they as restrictive as just the one
12 liner that the people decide on; that's my question.

13 MR. FUHRMANN: I think that one liner has got a lot
14 of flexibility.

15 MR. WORHLFORTH: Has anyone used that terminology in
16 the charter?

17 MR. FUHRMANN: You will find in the charter, I
18 believe -- I'm sorry, I can't in my mind figure out which
19 ones there are. You've got the charters of the Islamic Bank
20 and the Kuwait Fund, and I think in both of them it's insisted
21 they be income producing, and the words themselves are used.

22 MR. MOTLEY: The reason I raised that question is
23 because it appears to me that the Permanent Fund is attractive
24 to some people because, in essence, it will be a negation
25 of use for public building and so on. You know, be that

1 valid judgment or not.

2 MR. FUHRMANN: Who knows?

3 MR. MOTLEY: That's right, but I'm just wondering
4 whether there are any as restrictive as that, because to say
5 it has a lot of latitude, I think there are a lot of people
6 out there that would say they've been had if they thought
7 that latitude was written into it -- they may not have voted.
8 And that's just a value judgment on my part.

9 MR. FUHRMANN: I don't think it's my position to make
10 an enormous number of comments on your question because I'm
11 not involved in the political decisions of Alaska, and I'm
12 not voting on this, nor have we been asked to recommend.
13 But if I were to view the language that you're voting on
14 on November 2, 3, whatever day it is, that language leaves
15 a lot of flexibility for people between now and the legis-
16 lation that we would anticipate you're working toward early
17 in 1977 to more greatly define what income producing means,
18 and I think at the last meeting there were discussions about
19 the fact that income producing can be one-tenth of one percent
20 or twenty percent.

21 MR. MOTLEY: My basic question was, how many speci-
22 fically restricted to income producing.

23 MR. FUHRMANN: I don't know how many, but I think if
24 you read through there you will find that it is specific
25 about about that.