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terest. The board may not make an investment in any project or enterprise in which officers of the corporation have a financial interest. All officers of the corporation in the discharge of their offices owe their duty entirely to the corporation and no other authority.

Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board of trustees and officers and staff of the corporation may not engage in partisan political activities. The resources of the corporation may not be used to finance any partisan political activities.

Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

* Sec. 4. AS 44 is amended by adding a new chapter to read:

CHAPTER 55. THE ALASKA ENTERPRISE INVESTMENT CORPORATION.

Sec. 44.55.010. CREATION OF CORPORATION; FUNDING. (a) There is created the Alaska Enterprise Investment Corporation. The corporation is a public corporation and government instrumentality in the Department of Revenue but has legal existence independent of and separate from the state. The exercise by the corporation of the powers conferred by this chapter is considered an essential governmental function of the state.

(b) One-sixth of the receipts of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses allocated to the permanent fund shall be paid by the Alaska Permanent Fund Corporation directly into the Alaska Enterprise

Investment Corporation until a total of $100,000,000 has been paid in. The amount paid into the Alaska Enterprise Investment Corporation under this subsection is the paid-in capital of the corporation.

Sec. 44.55.020. FINDINGS. The legislature finds

(1) that investment in financially sound small and medium scale (A) productive private enterprises and (B) community development projects in the state, for which sufficient capital is not available from other sources on reasonable terms, is of benefit to the citizens of the state;

(2) there is a shortage of investment capital for financially sound small and medium scale (A) productive private enterprises and, (B) for community development projects for which sufficient capital is not available from other sources on reasonable terms;

(3) that the corporation working with private financial institutions to supplement but not supplant their services can help to alleviate this shortage.

Sec. 44.55.030. PURPOSE. The purpose of the corporation is to provide capital at market rates and terms for small and medium scale (1) productive private enterprises, and (2) community development projects for which sufficient capital is not available from other sources on reasonable terms.

Sec. 44.55.040. ALASKA ENTERPRISE INVESTMENT CORPORATION POLICY BOARD. (a) There is established the Alaska Enterprise Investment Corporation Policy Board consisting of a person employed in the executive branch of state government appointed by the governor and six public members appointed by the governor with due regard for geographical representation and confirmed by a majority of the members of the legislature in joint session. At least two of the public members shall have recognized competency and wide experience in investment finance. The

board shall elect one of the public members as chairman and other officers they determine desirable.

(b) The six appointed members shall serve for four-year terms, and they may be reappointed. Terms shall be staggered. Initial terms shall be two members serving for two years, two members serving for three years, and two members serving for four years. A member continues to serve until his successor is appointed and confirmed.

(c) A majority of the policy board members constitutes a quorum for the transaction of business by the board. Decisions of the board shall be taken by a majority vote. The board shall hold at least one public meeting each year.

(d) Members of the policy board receive an honorarium of $250 for each meeting day if they attend the meeting and are entitled to per diem and travel allowances as provided by law for members of state boards and commissions.

Sec. 44.55.050. REMOVAL AND VACANCIES ON BOARD. (a) The governor may remove a policy board member from office by and with the consent of a majority of the members of the legislature in joint session. The joint session shall be held within 10 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the member was suspended. If the legislature is not in session, the governor may suspend a member of the policy board for cause. Upon suspension, a board member may not participate in policy board business and may not be counted for purposes of establishing a quorum. If the legislature refuses to consent to his removal, the member shall be reinstated to his position.

(b) A vacancy arising on the policy board shall be promptly filled by appointment by the governor and confirmation by a majority of the members of the legislature in joint session, and an appointee to fill a

vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member who shall exercise all powers of a permanent board member until such time as the legislature in joint session fails to confirm the interim member's appointment.

(c) A vacancy on the policy board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 44.55.060. DUTIES OF THE POLICY BOARD. The policy board shall

(1) select and appoint the president and other members of the Investment Committee established in sec. 80 of this chapter;

(2) annually review and approve long-range operating plans, the budget for the forthcoming year, and the financial plan for the following years;

(3) have responsibility on behalf of the corporation for relations with the general public, legislature, executive branch, local communities, and interest groups concerning all things excepting only those matters that are the responsibility of the Investment Committee;

(4) review quarterly reports from the Investment Committee concerning investment decisions and investment supervision, but the board may not impose an investment decision upon, or override an investment decision of, the Investment Committee;

(5) review, consider and approve policies;

(6) establish an audit committee which shall select independent outside auditors, and receive all audit reports.

Sec. 44.55.070. PRESIDENT. The president of the corporation is appointed by the policy board for a term of four years, may be reap-

pointed, and serves at the pleasure of the policy board. The salary of the president is set at the discretion of the policy board; but may not be set below that of the highest paid member of the Investment Committee. The president shall

(1) have sole responsibility for presenting investment proposals to the Investment Committee;

(2) be responsible for the ordinary business of the corporation and the organization, appointment, dismissal, and remuneration of the officers and staff;

(3) be responsible for making investments in investment grade securities, subject to review by the Investment Committee;

(4) establish and maintain adequate and appropriate organizational, operating and financial controls.

Sec. 44.55.080. INVESTMENT COMMITTEE. (a) There is established the Investment Committee, consisting of the president and four members appointed by the policy board. No member of the policy board may be a member of the committee. Members of the committee shall be persons of recognized competence and wide experience in investments, finance, and other business management-related fields. A member may be reappointed and continue to serve until his successor is appointed. The president and members shall serve for four-year terms. Terms shall be staggered. Initial terms shall be one member serving for one year, one member serving for two years, one member serving for three years, and one member and the president serving for four years.

(b) Three members of the committee constitute a quorum. Decisions of the committee shall be taken by majority vote.

(c) Members of the committee other than the president receive an annual salary within Range 30 in the salary schedule for state employees established by AS 39.27.011.

Sec. 44.55.090. DUTIES OF THE COMMITTEE. The committee has sole responsibility to approve all investment proposals.

Sec. 44.55.100. BUDGET. The corporation operating budget is from the general fund and is subject to the provisions of the Executive Budget Act (AS 37.07).

Sec. 44.55.110. PERSONNEL OF CORPORATION. Policy board members, committee members, and officers and staff of the corporation are in the exempt service under AS 39.25.

Sec. 44.55.120. POWERS OF THE CORPORATION. (a) In carrying out the corporate purposes of the corporation, the policy board has power to

(1) adopt, alter and use a corporate seal;

(2) prescribe, adopt, amend, and repeal bylaws;

(3) sue and be sued in the name of the corporation;

(4) borrow funds, and in that connection furnish such collateral or other security as it determines, except that corporation borrowing may not exceed its paid-in capital;

(5) guarantee obligations of another corporation or legal entity in order to facilitate their sale;

(6) enter into agreements necessary or convenient in the exercise of its powers and functions;

(7) acquire, hold, use, lease, sell or otherwise dispose of property of any kind, real, personal or mixed, or any interest in it;

(8) contract with state, federal and other agencies to develop needed information and analyses;

(9) do all acts and things necessary, convenient or desirable to carry out the powers granted or implied in this chapter.

(b) In carrying out the corporate purposes of the corporation, the committee has the power to

(1) invest, in such form and such amounts not to exceed

$100,000,000, as it considers appropriate, by purchasing the capital stock of, or lending money to, projects, except that any investment in the capital stock of or other ownership interest in a project may not exceed 25 per cent of the capital stock of, or other ownership interest in, the project, and no loan or other investment in the project by the corporation may exceed 90 per cent of the cost of the project unless, in the judgment of the committee, additional amounts must be loaned to protect the interests of the investment fund;

(2) deposit surplus funds, or invest surplus funds through the Alaska Permanent Fund Corporation in such obligations as it may determine;

(3) buy and sell securities the corporation has issued or guaranteed or in which it has invested;

(4) do all acts and things necessary, convenient or desirable to carry out the powers granted or implied in this chapter.

Sec. 44.55.125. INVESTMENTS. (a) In making investments, the committee and staff shall exercise the judgment and care under the circumstances then prevailing which a person of ordinary prudence, discretion, and intelligence exercises in the management of his own affairs taking into consideration the probable income from the investments as well as probable safety of principal.

(b) An amount equal to at least 150 per cent of all guarantees by the corporation shall be invested in investment-grade securities.

(c) The committee may invest not more than 50 per cent of the resources of the corporation to provide a reasonable proportion of longer-term investment capital for financing the establishment, improvement, and expansion of productive private enterprises which will benefit Alaskans, and for which sufficient capital is not available from other sources on reasonable terms. These investments may take the form of

equity, debt, or debt guarantees.

(d) The committee may invest not more than 50 per cent of the resources of the corporation in financing a reasonable proportion of the longer-term investment capital needs for financially sound small and medium scale community development projects of municipalities and public corporate entities and private dwellings in the state for which sufficient financing is not available from other sources on reasonable terms. These investments may take the form of equity, debt, or debt guarantees.

(e) The committee may not invest or guarantee obligations totaling more than five per cent of the resources of the bank or $2,500,000, whichever is less, in a single project unless the legislature has approved the investment by concurrent resolution.

(f) The committee may not undertake any financing for which, in its opinion, sufficient private capital could be obtained on reasonable terms.

(g) The committee may not assume responsibility for managing any enterprise or project in which it has invested and may not exercise voting rights for that purpose or for any other purpose which, in its opinion, properly is within the scope of managerial control.

(h) The committee shall only undertake its financing on terms and conditions which it considers appropriate, taking into account the terms and conditions normally obtained by private investors for similar financing, the requirements of the enterprise or project, the risks being undertaken by the corporation, and the participation of other investors unless the legislature has appropriated funds for subsidizing investments which in the opinion of the corporation are of such high priority that special terms and conditions are appropriate.

(i) The committee may seek to revolve the corporation's money by

selling its investments to other investors whenever it can appropriately do so on satisfactory terms.

(j) The committee shall seek to maintain a reasonable diversification in its investments.

(k) The committee shall only consider investment proposals after the applicant for an investment has submitted a detailed proposal to the committee's staff and the staff has prepared a written report recommending the investment after a study of its merits.

(l) The committee shall analyze the economic and other effects of an investment decision, including the effects on employment, income distribution, environment, health, social and other factors. The committee shall be sensitive to the views of affected local communities.

(m) The committee may guarantee qualifying loans made by financial intermediaries in order to facilitate investment by the intermediaries in specific enterprises or projects whose individual financing requirements are not, in the opinion of the committee, large enough to warrant its direct supervision.

(n) The committee shall provide for operational and performance evaluations (post-audits) of its investments and investment programs and report the results to the policy board.

(o) Nothing in this section prevents the committee, in the event of actual or threatened default on any of its investments, actual or threatened insolvency of the enterprise in which the investment has been made, or other situations which, in the opinion of the committee, threaten to jeopardize the investment, from taking such action and exercising such rights as it may consider necessary for the protection of its interests.

Sec. 44.55.130. CAPITAL RESERVE ACCOUNT. For the purpose of securing its obligations, the corporation shall establish a special

account called the capital reserve account. The corporation shall pay into that account the income of the corporation until the amount in the capital reserve account is equal to 25 per cent of the outstanding obligations of the corporation. Subsequently, at the beginning of each fiscal year the corporation shall withdraw from the capital reserve account any amount in the account in excess of 25 per cent of the obligations secured or, if the amount in the account is less than 25 per cent of the obligations secured, pay into the account from income the amount necessary to bring the reserve to 25 per cent. All money held in the capital reserve account may be used as required solely for (1) the payment of the principal of obligations, (2) the purchase or redemption of obligations, (3) the payment of interest on obligations, or (4) the payment of any redemption premium required to be paid when those obligations are redeemed before maturity.

Sec. 44.55.140. INITIAL DETERMINATIONS. Before beginning its financing operations, the policy board shall render a detailed report to the legislature which shall

(1) define the sectors which need financing for expansion of existing projects or the development of new projects;

(2) define the size and nature of projects which are feasible for corporation financing;

(3) determine specific projects which are feasible for corporation and private financing;

(4) determine the availability of private investment capital for the projects it determines are feasible;

(5) forecast the capital requirements of the corporation for the first three years of its operations.

Sec. 44.55.150. REPORTS AND PUBLICATIONS. The policy board shall publish an annual report in easily understandable language to the

governor, legislature and the public. Each report shall include financial statements audited by independent outside auditors, a statement of the amount of money received by the corporation from each source during the period covered, a statement of corporation investments, a description of corporation investment activity during the period covered by the report, an analysis of economic and other effects of investment decisions including, but not limited to, the effects on employment, income distribution, environment, health, social and other factors, and any other information the policy board believes would be of interest to the governor, the legislature and the public. The corporation may also publish such other reports as it considers desirable to carry out its purpose.

Sec. 44.55.160. CONFLICT OF INTEREST. (a) Members of the board of trustees are subject to the provisions of AS 39.50.

(b) Members of the board of trustees shall disclose their financial interest in an investment proposal and disqualify themselves from voting on any investment proposal in which they have a financial interest. The board may not make an investment in any project or enterprise in which officers of the corporation have a financial interest. All officers of the corporation in the discharge of their offices owe their duty entirely to the corporation and no other authority.

Sec. 44.55.170. POLITICAL ACTIVITIES. The members of the board of trustees and officers and staff of the corporation may not engage in partisan political activities. The resources of the corporation may not be used to finance any partisan political activities.

Sec. 44.55.180. PUBLIC ACCESS TO INFORMATION. Information in the possession of the corporation is a public record, except that information which discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public

record. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding. These restrictions do not prohibit the publication of statistics presented in a manner that prevents the identification of particular reports, items, persons, or enterprises.

Sec. 44.55.190. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by the corporation, their transfer, and their income are exempt from all taxes and assessments in the state.

Sec. 44.55.200. DEFINITIONS. In this chapter

(1) "board" or "policy board" means the Alaska Enterprise Investment Corporation Policy Board established by sec. 20 of this chapter;

(2) "business enterprise" means a private corporation, firm, partnership or sole proprietorship;

(3) "committee" means the Investment Committee established by sec. 60 of chis chapter;

(4) "corporation" means the Alaska Enterprise Investment Corporation.

* Sec. 5. AS 39.25.110 is amended by adding new paragraphs to read:

(21) members of the policy board and Investment Committee, and the president, officers, and staff of the Alaska Enterprise Investment Corporation;

(22) members of the board of trustees, the executive director, and staff of the Alaska Permanent Fund Corporation.

* Sec. 6. AS 39.50.200(9) is amended by adding new subparagraphs to read:

(NN) Alaska Enterprise Investment Corporation Policy Board and Investment Committee;

(OO) Alaska Permanent Fund Corporation Board of Trustees.

* Sec. 7. TRANSITION. (a) The commissioner of revenue shall transfer all funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation established by this Act within 10 days after request for transfer is made by the corporation board of trustees.

(b) The Alaska Enterprise Investment Corporation may not expend funds for any purpose other than normal operating expenses of the corporation until the paid-in capital of the corporation reaches $50,000,000. Other funds of the corporation including the funds received under AS 44.55.010 in sec. 4 of this Act shall be invested as surplus funds under AS 44.55.120(b)(3) in sec. 4 of this Act until the paid-in capital reaches $50,000,000.

* Sec. 8. AS 37.10.065 is repealed.

* Sec. 9. This Act takes effect immediately in accordance with AS 01.10.-070(c).

Introduced: 1/17/78
Referred; The Special Committee on the Alaska Permanent Fund and Finance

IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

HOUSE BILL NO. 649

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska Permanent Fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $10,000,000 is appropriated from the general fund to the Alaska Permanent Fund.

* Sec. 2. This is not a one-year appropriation, and AS 37.25.010 does not apply.

* Sec. 3. This Act takes effect July 1, 1978.

Introduced: 1/25/78
Referred: The Special Committee on the Permanent Fund and Finance

IN THE HOUSE

BY THE SPECIAL COMMITTEE ON THE ALASKA PERMANENT FUND

HOUSE BILL NO. 682

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to nonrenewable resource revenues."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 37 is amended by adding a new chapter to read:

CHAPTER 12. ALASKA RENEWABLE RESOURCES CORPORATION.

Sec. 37.12.010. DECLARATION OF POLICY. It is the policy of the state to

(1) rehabilitate, enhance, and develop its renewable resources and, insofar as is consistent with sound resource management policies, develop its human resources by providing maximum opportunities for employment and a higher standard of living for its citizens; and

(2) utilize the funds set aside under ch. 11 of this title to further the (A) development of renewable resources that will contribute to a stable self-sustaining state economy, employment opportunities, and lifestyle alternatives for its citizens, and (B) commercial, traditional, and common uses of the state's renewable resources.

Sec. 37.12.020. FINDINGS. (a) The legislature finds that Alaska has renewable resources that are not being utilized to their full potential. Many problems which confront the state, including high unemployment and unstable economy, could be mitigated by the expanded use and development of its renewable resources.

(b) It is further found that Alaska's economy has historically depended upon sporadic and non-stable development.

(c) It is further found that several key factors have contributed to the slow development of renewable resource industries, including,

(1) reductions in research and development financing and venture capital financing;

(2) a lack of knowledge within the business and financial communities about conditions affecting renewable resource industrial development in the state; and

(3) a lack of technology appropriate to Alaska.

(d) It is further found that the state's policy of assisting the development of viable industries is best accomplished by providing assistance to the private sector to identify and demonstrate new products, markets, and technologies.

Sec. 37.12.030. ALASKA RENEWABLE RESOURCES CORPORATION CREATED. There is created the Alaska Renewable Resources Corporation to carry out the purposes of this chapter. The corporation is a public corporation of the state and an instrumentality of the state within the Department of Revenue, but has a legal existence independent of and separate from the state. The exercise by the corporation of the powers conferred by this chapter is considered an essential function of the state.

Sec. 37.12.040. PURPOSES. The purposes of the corporation are to

(1) facilitate the rehabilitation, enhancement, and development of the state's renewable resources so as to strengthen the self-sustaining sectors of the state economy;

(2) sponsor research and development of technologies and innovations for the rehabilitation and enhancement of the state's renewable resources to achieve their most appropriate use;

(3) identify new products, markets, and technologies for renewable resource industries in the state; stimulate the research and development of these products, markets, and technologies; assist in the demonstration of their technical and economic feasibility; and assist in their introduction into commercial markets.

Sec. 37.12.050. ALLOCATION. (a) There shall be allocated to the corporation from the receipts described in AS 37.11.020 five per cent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land. Payments of the amount allocated by this section shall be made to the corporation by the Department of Revenue on a monthly basis.

(b) Fifty per cent of all actual receipts of the corporation, from whatever source, shall be deposited into the renewable resources investment fund (AS 37.11.050).

Sec. 37.12.060. BOARD OF TRUSTEES. A board of trustees of the corporation is established as its governing body.

Sec. 37.12.070. COMPOSITION OF THE BOARD OF TRUSTEES. The board of trustees consists of three members appointed by the governor and confirmed by a majority of the members of the legislature in joint session. The board shall annually elect a chairman from among its members. A chairman may not succeed himself.

Sec. 37.12.080. TERM OF OFFICE. The members of the board of trustees shall be appointed for terms of four years, and they may be reappointed. Terms shall be staggered. The initial terms shall be one member serving for two years, one member serving for three years, and one member serving for four years.

Sec. 37.12.090. REMOVAL AND VACANCIES. (a) The governor may remove a board member from office by and with the consent of a majority of the members of the legislature in joint session. A removal by the governor shall be in writing and state the reason for removal. If the legislature is not in session, the governor may suspend a member of the board. Upon suspension, a board member may not participate in board business and may not be counted for the purpose of establishing a quorum. A suspended member shall continue to receive his salary as a board

member until the legislature in joint session consents to his removal. The joint session shall be held within 30 days from the date of removal if the removal occurs while the legislature is in session or within 30 days of convening of the legislature if the legislature is not in session. If the legislature refuses to consent to his removal, the board member shall be reinstated to his position.

(b) A vacancy on the board shall be promptly filled by appointment by the governor and confirmation by a majority of members of the legislature in joint session. An appointee to fill a vacancy shall hold office for the balance of the term for which his predecessor on the board was appointed. If a vacancy arises on the board while the legislature is not in session, the governor may appoint an interim board member until such time as the legislature in joint session fails to confirm the interim member's appointment.

(c) A vacancy on the board does not impair the authority of a quorum of the board to exercise all the powers and perform all the duties of the board.

Sec. 37.12.100. QUALIFICATIONS OF BOARD MEMBERS. (a) No person may be appointed to the board who has not been a resident of the state for at least three years.

(b) No member of the board may hold any other state or federal office, position, or employment, whether elective or appointive, except as a member of the armed forces of the United States or the state.

Sec. 37.12.110. QUORUM. Two members of the board constitute a quorum for the transaction of business and the exercise of the powers and duties of the board.

Sec. 37.12.120. COMPENSATION OF BOARD MEMBERS. Board members are in the exempt service under AS 39.25 and receive an annual salary within Range 30 of the salary schedule for state employees established by

AS 39.27.011.

Sec. 37.12.130. EMPLOYMENT OF PERSONNEL. The board may employ and determine the salary of an executive director. The executive director may, with the approval of the board, select and employ additional staff as necessary. The executive director and all employees of the board are in the exempt service under AS 39.25.

Sec. 37.12.140. CONFLICTS OF INTEREST. (a) Members of the board of trustees are subject to the provisions of AS 39.50.

(b) No member or employee of the board may acquire an interest, direct or indirect, in a corporation, company, association, or project owned, controlled, or invested in by the corporation. If a member or employee owns or controls such an interest, he shall immediately disclose the interest in writing to the board and refrain from participating in any manner in any board activity relating to that interest.

Sec. 37.12.150. POWERS. In carrying out the corporate powers of the corporation, the board may

(1) adopt, alter, and use a corporate seal;

(2) prescribe, adopt, amend, and repeal bylaws;

(3) sue and be sued in the name of the corporation;

(4) enter into any agreements necessary to the exercise of its powers and functions;

(5) accept grants from and contract with the federal government and the state or its political subdivisions and to that end comply with the provisions of federal, state, or local programs where necessary, except that it may not enter into any agreements whereby any permanent state or local government position is funded or partially funded in connection with a project;

(6) accept grants and loans from other sources than those in (5) of this section to be held and used for the purposes of the

corporation;

(7) appear in behalf of the corporation before boards, commissions, departments, or other agencies of municipal, state, or federal government;

(8) acquire, hold, use, lease, sell, or otherwise dispose of property of any kind, real, personal, or mixed, or any interest in it;

(9) hold, as a means of securing the providing of financial assistance, patents, copyrights, trademarks, royalties, or any other evidences of protection or exclusivity issued under the laws of the United States or any state or nation;

(10) prepare, publish, and distribute technical studies, reports, bulletins and other materials it considers appropriate;

(11) make financial assistance available in the form of grants, loans, loan guarantees, or other appropriate forms to public research and development groups in the state in order to facilitate investment by the board in specific projects which do not warrant direct supervision by the corporation;

(12) invest, in such form as it considers appropriate, in projects which have income-producing potential;

(13) provide grants only for projects or demonstration of projects which do not yet have income-producing potential but which are commercially promising or have potentially broad application to the public;

(14) adopt regulations to implement this chapter;

(15) deposit funds, or invest funds through the permanent fund (AS 37.13) in such obligations as it may determine;

(16) do all acts and things necessary or desirable to carry out the purposes of the corporation.

Sec. 37.12.160. DUTIES. In carrying out the purposes of this

chapter, the board shall

(1) seek to maintain the productivity of healthy renewable resources and expand the productivity of depleted or underutilized renewable resources;

(2) provide financial assistance for projects which the board finds will accomplish the purposes of the corporation as set out in sec. 40 of this chapter;

(3) promote the utilization of the state's renewable resources in the state and the development of import substitution and export markets;

(4) annually prepare long-range operating and financial plans and the budget for the forthcoming year;

(5) monitor approved projects for compliance with this chapter and provide operational and performance evaluations (post-audits) of projects receiving financial assistance and an overall assessment, expressed in qualitative and quantitative terms, of the degree to which the purposes of the corporation, as set out in sec. 40 of this chapter, have been achieved; and

(6) attempt to fund activities which will tend to maximize returns to the state and local governments and its citizens in such forms as tax revenues and resident employment and income.

Sec. 37.12.170. FINANCIAL ASSISTANCE. (a) In providing financial assistance, the board shall

(1) consider the proposals of qualified applicants only after the applicant has submitted a detailed proposal in the form prescribed by the board; no assistance may be approved by the board unless it finds, in writing, that

(A) the proposed project, if successful, will further the purposes of the corporation as set out in sec. 40 of this

chapter;

(B) the application contains an adequate plan for project implementation, including, when applicable, a complete business, financial and marketing plan for commercial activities;

(C) private financing cannot reasonably be undertaken without aid or that financial participation is not otherwise available;

(D) the applicant has agreed that if new renewable resource industrial activity results from the proposed project, his best efforts will be employed to keep that activity in the state for a minimum period of time specified by the board;

(E) the applicant demonstrates sufficient technical and business expertise to accomplish the objectives of the proposed project;

(F) all costs associated with and ancillary to the project and future obligations generated by the project have been identified, including any necessary operating, maintenance, or other support costs for the life of the project;

(G) potential resource use conflicts that may result from the proposed project are identified and evaluated, and when necessary, plans to mitigate or resolve those conflicts and to preserve for the future options for the use of the state's renewable resources are included in the application;

(H) a proposed project involving the use of a renewable resource is an appropriate use of that resource;

(2) use the financial mechanism most appropriate to the conditions of the applicant and the proposed project and which will most effectively utilize the funds available; grants may be utilized when other mechanisms are not feasible and when the benefits of the grant

will accrue to the general public;

(3) consider regional preferences and priorities in evaluating projects.

(b) The board may not

(1) invest more than five per cent of the resources of the corporation or $1,500,000, whichever is less, in a single project or applicant unless the legislature has approved the investment by concurrent resolution;

(2) invest in more than 25 per cent of the outstanding corporate stock or other corporate obligations issued by an applicant unless the legislature has approved the investment by concurrent resolution;

(3) make a loan for a period in excess of 10 years unless the legislature has approved the loan by concurrent resolution;

(4) assume the responsibility for management of any project in which it has invested and may not exercise voting rights for that purpose or for any other purpose which is within the scope of managerial control; or

(5) provide funds to any state agency unless that expenditure is included in the corporation's annual budget.

(c) Nothing in this section prevents the board from taking such action and exercising such rights as it considers necessary for the protection of its financial interests in the event of

(1) actual or threatened default on any of the board's investments;

(2) actual or threatened insolvency of a project in which the board has made an investment; or

(3) any other immediate or actual circumstance or event which jeopardizes an investment made by the board.

(d) Projects for which financial assistance is granted shall comply with all applicable provisions of law.

Sec. 37.12.180. ELIGIBILITY FOR FINANCIAL ASSISTANCE. The board may grant financial assistance if it finds that an applicant is qualified to receive assistance. An applicant is qualified if

(1) he has submitted a proposal to the board in accordance with sec. 170(a)(1) of this chapter;

(2) he is a resident of the state or, if the applicant is a partnership, corporation, or other association, it is owned by a majority who are residents of the state; and

(3) his projects which have previously received financial assistance from the corporation, if any, have complied with all requirements of that assistance and have performed with sufficient success or promise to warrant further aid.

Sec. 37.12.190. REPORTS AND PUBLICATIONS. (a) The board shall prepare and distribute in non-technical language materials describing the purposes and activities of the corporation.

(b) The board shall publish an annual report for the governor, the legislature, and the public at the time of submitting its annual budget request. Each annual report shall include financial statements and audit reports, a statement detailing the sources from which the corporation received money, a statement detailing the investments made by the corporation, a summary and evaluation of the data required by sec. 160(5) and (6) of this chapter, and any other information that the board of trustees believes would be of interest to the recipients of the report.

Sec. 37.12.200. BUDGET AND APPROPRIATIONS. The corporation shall submit its annual budget to the legislature through the governor as provided for state agencies by the Executive Budget Act (AS 37.07). The

budget shall include the categories and amounts of proposed financial assistance broken down by financing mechanism and resource sector affected and all funds received by the corporation whether through allocations made by this chapter, appropriation, or otherwise. The corporation may expend money directly appropriated by the legislature only as authorized by the legislature. The total amount of the corporation's operating budget shall be specified as a separate item of its budget and be appropriated from the general fund.

Sec. 37.12.210. ANNUAL AUDIT. The corporation shall have its financial record audited annually by a certified public accountant. The legislative auditor may prescribe the form and content of the financial record of the corporation and shall have access to these records at any time.

Sec. 37.12.220. COOPERATION WITH OTHER AGENCIES. All departments, agencies, and public corporations of the state shall provide information, services and facilities to the corporation on its request. The corporation shall reimburse the department, agency, or corporation for expenses reasonably incurred on the corporation's behalf.

Sec. 37.12.230. DEFINITIONS. In this chapter, unless the context otherwise requires,

(1) "applicant" means a person making application to the corporation for financial assistance;

(2) "appropriate use" means (definition to be supplied by other source);

(3) "board" means the Board of Trustees of the Alaska Renewable Resources Corporation;

(4) "corporation" means the Alaska Renewable Resources Corporation;

(5) "project" means products, markets, innovation, or

technological developments for the rehabilitation, enhancement, or development of renewable resources and includes applied research for those products, markets, or technological developments;

(6) "rehabilitation, enhancement, and development" means any activity or program which improves the health and well-being of a renewable resource or renewable resource population leading to an increase in the quality or productivity of the resource and to an increase in the benefits derived from the resource to the citizens of the state;

(7) "renewable resource" means non-human living organisms; natural components of the environment, including the air, land, and water; and energy systems which are naturally recurring or replenished.

* Sec. 2. AS 37.11.040 is amended to read:

Sec. 37.11.040. FUND BALANCES. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be transferred to the Alaska renewable resources investment [PERMANENT] fund.

* Sec. 3. AS 37.11.050 is amended to read:

Sec. 37.11.050. ALASKA RENEWABLE RESOURCES INVESTMENT [PERMANENT] FUND. There is established as a separate fund the Alaska renewable resources investment [PERMANENT] fund. Funds apportioned by sec. 60 of this chapter for deposit in the investment [PERMANENT] fund are to be held perpetually in trust for the benefit of both present and future generations of Alaskans.

* Sec. 4. AS 37.11.060 is amended to read:

Sec. 37.11.060. FUND PRINCIPAL. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be deposited in the investment [PERMANENT] fund. These deposits shall be considered fund principal and shall be invested in perpetuity in accordance with

AS 37.10.070 (investment of surplus state funds).

* Sec. 5. AS 37.11.070 is amended to read:

Sec. 37.11.070. UTILIZATION OF FUND INCOME. Income received from investment of investment [PERMANENT] fund principal shall not be held in trust, but shall be used to provide funding for capital and operating appropriations for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from fund income shall be prepared in detail by the appropriate state department or agency and shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature.

* Sec. 6. AS 37.11.080 is amended to read:

Sec. 37.11.080. PROTECTION OF PRINCIPAL. A transaction involving investment [PERMANENT] fund principal which results in an actual dollar loss of principal shall be reimbursed in full from fund income before any additional income is expended.

* Sec. 7. AS 44.66.010(a) is amended by adding a new paragraph to read:

(6) Alaska Renewable Resources Corporation (AS 37.12.030) -- June 30, 1982.

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#183

Alaska State Legislature

House

[redacted]

528 W. 5th Ave., Suite 270
Anchorage, AK 99501
2 September 1977

Professor Barbara Bergman
6700 Selkirk Drive
Bethesda, Maryland 20034

Professor Donald Gordon
2201-9500 Erickson Drive
Burnaby, British Columbia V3J 1M8
Canada

Dear Professors:

We are happy that you will be able to take part in our symposium on the economic issues that arise with different investment goals for the Alaska Permanent Fund. Actually, no wide exposure of the issues has yet taken place.

I find it useful to group them under two broad headings: What is the long-run purpose(s) of the Permanent Fund and where should it be invested?

As for the first, the major argument made for the Fund as it went before the voters was that it would slow the growth of the budget, which had risen 400% since the North Slope oil lease sale in 1969. It was further argued that the Fund would be a savings account for a rainy day or, more commonly, that it would replace oil revenues as they declined. This latter aim has lead some to consider placing a ceiling on budget growth such as holding spending constant in real per capita terms, with all or part of the other revenues to go into the Permanent Fund.

It was also hoped, often by the same people, that the Fund could restructure Alaska's economy --- diversifying it, reducing its cyclical and seasonal nature, and bringing down unemployment, especially among the Native and other rural populations.

Clearly, all these purposes are consistent with the language of the constitutional amendment that principle be used for "income producing investments". Just as clearly, dividing the Fund among the public (on the basis, say, of residency) has been ruled out.

It should be noted here that Fund earnings are to be sent to the general fund "...unless otherwise provided by law..." To date, the unusual proposals have included one by the Governor to pay 50% of the earnings to residents on the basis of every five years in

Alaska, one to pledge earnings (and principle) as security for state and local debt or even the loans of rural credit unions, and one (private suggestion) to provide an annuity to Alaskans reaching age 55 based on their years in the state.

Where to invest the Permanent Fund seems to be the question of whether a developing economy (isolated, with leakage of an estimated 64¢ on the dollar, but mostly literate and skilled), based largely on a depleting resource (transfer payments from the oil and gas industry), and having few apparent options for some time should have a policy of government intervention. In short, a policy of loans at the going market rates, or subsidized loans, or even subsidized infrastructure loans (which may be possible in some cases) versus a policy of free trade.

The discussion thus far has been cast in the catch phrases listed below and not all of them are strictly economic, of course.

Invest here to:

Offer home, business, and personal loans on preferred terms

Remove gaps in the existing, especially rural, capital markets

Create jobs, diversify the economy, etc. (but at market rates)

Enlarge the private tax base

Increase Alaskan ownership and control of business

Invest Outside to:

Have greater safety of principle and higher earnings (given the failure rate of new businesses and the problems of present state loan programs)

Reduce population growth (congestion, increased demand for public services)

Avoid influence-peddling

Maintain the quality of the environment

Reduce inflationary pressures

Allow benefits for a wide cross-section of the public

With best wishes, I am,

Sincerely,

James B. Rhode
AA to Rep. Cowper, Chairman
House Finance Committee

cc: Rep. Hugh Malone, Speaker of the House
Rep. Clark Gruening, Chairman, Special House Committee on the Permanent Fund
Rep. Steve Cowper, Chairman, House Finance Committee
Mr. Mike Doogan, AA to Rep. Gruening
Dr. George Rogers
File

Symposium on Goals of the Alaska Permanent Fund

September 10, 1977
9:00 a.m.

Alaska Room, Anchorage Westward Hilton Hotel

Sponsored by: House Special Committee on the Alaska Permanent Fund
Alaska Humanities Forum

AGENDA

Introductory remarks--House Special Committee on the Permanent Fund

Presentations: Professor Barbara Bergman, University of Maryland
Professor Donald Gordon, Simon Fraser University

Opening statments, questions--Symposium Citizens' Panel:

Dr. George Rogers
Mr. John Havelock
Dr. John Lindauer
Mr. Jamie Love
Mr. Tim Bradner

Questions--members of audience

Since a record for transcription is being kept, we ask all participants to:

use the microphones;
state your name before speaking;
avoid speaking while someone else is speaking.

There will be a break for lunch around noon.

Special thanks to the National Endowment for the Humanities for Symposium funding.

Symposium

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SYMPOSIUM--September 10, 1977
Anchorage Westward Hilton

Present: Dr. Barbara Bergman, University of Maryland; Dr. Donald Gordon, Simon Fraser University; Citizens' Panel: Dr. George Rogers; John Havelock; Dr. John Lindauer; Jamie Love; Tim Bradner; Members of House Special Committee on the Permanent Fund: Clark Gruening, Chairman; Russ Meekins; Bill Miles; Mike Doogan, Administrative Assistant; Pat Rodey, Vice Chairman, Senate Special Committee on the Permanent Fund.

Introductions made by Chairman Gruening--continues:

GRUENING: I had a long statement on the Permanent Fund and my views on it, but due to a self-inflicted wound playing racket ball yesterday, I'm going to have to cut it short. I would like, before I turn it over to the Economists, to state briefly we do have a very challenging task before us. I know when I originally favored the concept establishing a Permanent Fund, I saw many goals and many objectives that the Fund could accomplish. As I get into the subject and see the complexity of it, I see that maybe our goals can be achieved by finding that which is best achieved by a special fund such as the Permanent Fund.

Today I want to explore that. I want to explore the possibility on a philosophical basis as opposed to what your pet investment may be. I know that people discuss various things the Fund can do and we, as Committee members, have received suggestions from people for investments--everything from artifacts to wheat.

What we want to explore today are the reasons why that particular investment is consistent with your philosophy or your goal that you wish the Permanent Fund to seek. With that I'd like to turn it over to Dr. Bergman.

BERGMAN: Thank you. In trying to think over what kind of a contribution I could make, what occurred to me was to try to say some things that would sort out the issues, which would try to separate one issue from another and show how they're related. What economists have to offer, I think, is rules of thumb and wisdoms of various types. I think our major expertise is trying to sort out the issues. So let me try to do that. I don't think I'm going to tell you anything you don't know. But perhaps by putting them or classifying into a little bit of light. A good way to start out would be to discuss three kinds of scenarios for the state. Let me call the three scenarios: the spend as you get scenario--dole it out as fast as you get it--that's one. The development fund approach, which is to try to take some of the oil revenues and use it to develop the state. And the third scenario, let's call the gilt edge approach, which is to take the Permanent Fund and essentially invest it, for the most part, in the lower 48, in the capital markets and use only the income.

Now, very kindly provided here was a thing with which no professor travels--that is a blackboard. Let me try to contrast these and then show what they entail in some respects. We have three panels here and measure time on the horizontal axis and dollars on the vertical axis. This is the spend as you

get approach. Let's assume, without inquiring for the moment, where the numbers come from, that at more or less a current level of services, there are certain financial needs, which the state has. Let me for the moment put those down as more or less horizontal, perhaps with a very slight, a moderate growth trend; but certainly not a big growth trend. Let's call that needs for spending. At the moment, there are some non-oil taxes, and let us assume that those also, tax breaks remaining the same, have a more or less horizontal trend. So these are non-oil related taxes. They depend on the economic state. They would presumably grow unless the tax breaks change as the days go. And then, of course, what we've got is this thump of the oil revenues which are going to exceed by some very considerable amount for some considerable time the needs for outlay of services at current levels. The spend as you get approach very simply is just to do this sort of thing; use them all up; and then when they run out, go back to that situation. Of course that is the approach the Permanent Fund presumably designed to avoid. I just put that in as a base line.

The next one represents the gilt edge approach--g-i-l-t--I suppose some of those who want to see the development of the Fund might spell gilt in another way. There again, people assume that the Fund revenues will not be used for development purposes. All of it, and this is an extreme case, will again be devoted to gilt edge investment and so that the non-oil revenues will not be any different than they would have been, but the spending will look more like this. There will be perhaps some spending out of the oil revenues for current purposes--again I'm putting needs, the same in the second panel as in the first panel. But after a while there'll be considerable income from the Permanent Fund assets and the Permanent Fund income will take over as the oil revenues come out. So there might be some excess of the Permanent Fund income over needs; but in general possibly that might be devoted to raising levels of services or sending some of the funds back, possibly lowering taxes or a variety of things.

The third approach is the development fund approach, and then the scenario is something like this. I might say, the scenario from the developmental fund approach is somewhat controversial; that is, the first two I put down naturally you can't foresee even how gilt edge investments will do. We all know that. Nevertheless, you might say, this is a conservative approach from the point of a risk--the one we're about to talk about perhaps is, at least from the standpoint of a risk persay, somewhat more risky. But the more optomistic scenario, from some points of view anyway, goes something like this. The use of the Fund for development purposes will broaden the tax base, and instead of having the non-oil revenues flat, as we do in the other two cases, they sort of take off. Here again, we have the oil revenues helping us and they peter out. It may be that some capital has also been lost because there is going to be a greater risk--the kind of loans we make--so the income from the Fund will probably not be as big as it would in Case 2; but nevertheless, there'll be some and the non-oil base in the state will have done well enough to cover the needs. Those are the three scenarios.

Now, say the third one is not as sure fire in the sense of being able to tell what will happen as the others. For example, Dr. Tussing's view is, in general, with certain rather limited exceptions, the use of the Fund as a development fund would not have this take-off effect on the economy. In general, the economy is going where it's going. It's got a dynamic of its

own; it depends largely on such an opportunity; the investment opportunities there are will be financed through private channels, which will be adequate to finance in the deserving one--the ones that will pan out. That kind of adjustment has what the private sector does well; if there is a shortage of some type in Alaska which can be remedied through capital flow and so on, so forth. This is one view. That view is that, in fact, the development fund scenario that I've drawn here wouldn't really work out. That is the non-oil revenues will not be materially effected by whether it is used this way or this way. What will mainly be effected is the amount of the capital which is left and return on it. If you ask me what I think, I would say that you need to decide whether you do believe in the efficacy of the development fund approach. I'm sure a lot of people do. I may say, that since I knew I was coming here, I did some work in Washington trying to find out what some people in Washington who are in capital markets think about closed funds to places like Alaska. The general views that I got were that the market mechanism for getting funds into places like Alaska has much improved in the last 10 years--federal infrastructure, federal howeown bank board....

So if you believe that, then one might be rather doubtful that the development fund should have been. On the other hand, I tend to be skeptical of doctrinaire pronouncements of that sort. I think there is some merit to that scenario, although I would certainly argue caution. I would say that, in general, the idea of the Permanent Fund--the thing that makes it different from the spend as you get case is a desire to perserve some of the resources for future generations. I think, in a way, the best way you could put this is comparing the people who have to manage the Fund to the trustees for a family. Suppose the trustees have been given the instruction to make sure the grandchildren are taken care of. That kind of instruction would argue to the gilt edge route. Suppose the current adults in the family come and say, 'we have a family business which is in terrible need of funds, and if we can get these funds, the grandchildren will be better off, not through the silly gilt edge securities you're going to buy but rather through the business that we are going to develop. Come on, trustee, give us the money.' Now should the trustee do that? I don't think in a doctrinaire way the answer is yes or no. I think you can say the trustee ought to watch out. I think the question the trustee has to ask is why can't the present adults in the family get commercial funding? Does the trustee know something about the family that perhaps commercial markets don't know about that family? Also, and this leads to a rather different point, is that you've got more than one grandchild, you have to worry about intra-personal equity; you have to worry about different groups in the constituent population. Let me turn to that for a minute. I'm used to a much bigger blackboard. This is the only deprivation I've suffered since coming to Alaska. You can think of the cast of characters we have that the people planning for this Fund have to take into account. Most planning models involve summary statements of this much income and that much expenditure; but the real guts of the thing are the benefits and costs to individuals or groups of this Committee. Not everybody in Alaska has the same interests and there are some opposing interests, I'm sure. For example, what interests the kinds of people we have here to consider. First of all, the people who are in business; there are people who work in those businesses; there are professional people; and there are native Americans. You can divide those into people who are here now and people who might come if you get this development fund scenario, if it goes the way this diagram says it will go. Even those people

you can then branch off into twice as many groups by talking about different values. For example, some business people are here regardless of the special characteristics of the Alaskan community and environment. They're here to make a buck. Others make a lot of bucks. And there's nothing wrong with that; it's the good old American way. Economists could find in his or her hearts to do that. Then there are the people who are here because of the special nature of the Alaskan economy; the special nature of the Alaskan environment; the special nature of the people here. And they have an interest in keeping it that way. So you classify people in three different ways: 1) by their role in the economy; 2) by their value system; and 3) by whether they're here or whether they're not here yet. It seems to me that it's very hard to do any planning for the state should, in some formal way, try to weigh costs and benefits. For example, I would weigh costs to the native American community as very high, in my calculations. I wouldn't just subtract the native American communities costs from the benefits, say to a hotel owner. Usual calculations, you subtract the cost from the benefits; or you take a ratio of the cost of the benefits. If the ratio looks good, say let's go ahead. I think there's a waiting process that has to be put in here. I would discourage any planning process due to the fact that there are the different groups and they do have different interests and different values to be taken into consideration.

GRUENING: Doctor, I just wanted to mention that this hotel is owned by native Americans.

BERGMAN: Why don't I stop here.

GRUENING: That wasn't intended to cut you off.
Incidentially, although we're elevated on this stage, it wasn't intentional. I think the audience here is just as elevated, and we want to make this informal. After the panel makes their statements and questions, I hope that people will feel free to come up here and make a statement and ask questions of either the Economists, the Panelists, or even us, for that matter. Go ahead, Dr. Gordon.

GORDON: Well, to some extent, I think I'll be overlapping with Professor Bergman, so I'll eliminate that kind of consideration. I am struck, as the Chairman said, with what I consider the awesome responsibility of those people who are to decide what is going to happen to the Permanent Fund in particular, and other oil revenues. I am struck by that because, while I find the numbers tossed around a bit confusing, there're all pretty big. If we take the kinds of figures that are in the little green pamphlet, we can talk about number like $8 billion, whether in the Permanent Fund is in some assumptions it is, or whether or it's in the Permanent Fund or not, it's a transitory income from these oil revenues. Now, it's very hard to

get people to take numbers like 8 billion and have it mean something. I find it useful to use this as a person in a family. So I got out my World Almanac and I find that there are about 400,000 Alaskans. Suppose this Fund has by 1985 about $8 billion, and suppose we can define an Alaskan, and as Professor Bergman pointed out, that may be the trickiest part of the problem--suppose we define Alaskans as people who were here when the oil was discovered, suppose we say it legally belongs to the entity, the state of Alaska--it morally belongs to those people. It's their money. Those people who are going to make the decision have to spend that money for them. If we divide the $8 billion by 400,000 people, we get $20,000 a piece. If we estimate the average family is four persons, that's $80,000 per family.

It is just as Professor Bergman suggested, it is like being in the role of a trustee. If you want to dress up the story--the father dies; his young wife and three children--but she happens to have $80,000. You are a brother or a friend or something, and you are appointed trustee. It is assumed in trustee agreements, as I've had the misfortune to read some of them, that the people who are the beneficiaries of the trust really can't be charged with spending their own money. So somebody else has to spend it, and a guess is the implication of the way the Fund is set up. Now, $80,000 will set up the average American family--it will be an enormous asset. It will make their whole way of life different than it otherwise would be. So, I think, that the most important thing is to think of this as making a decision for about 100,000 four-person families out there, each of which has $80,000 which you have been entrusted with spending.

Now, the tricky thing is going to be defining an Alaskan. For that purpose, I assume you can define an Alaskan in some limited way as consisting of a certain number of people and it's those people who, in effect, own the $20,000 a piece or the $80,000 per family. There's another thing that struck me in looking around the world in the last few years. There are countries like Kuwait, Saudi Arabia, and the press almost universally and a lot of people who should know better, go to these countries and and say, 'You know, these countries have a real problem; they can't spend that money.' These countries aren't democracies. So what they must mean is that the king and his beaucracy can't spend the money, because we all know that if you passed this money around among the average Bedouin in Saudi Arabia, that with the help of Sears Roebuck and a thousand other firms from the rest of the world, they'd have no trouble spending the money at all. But in those countries the money isn't the people's money. It's the king's money. But again, the notion that you have a problem spending the money is only appropriate for a very different kind of society than we think we have. A third question that I think is very important is what, apart from what is currently is in the Permanent Fund or what is in the Permanent Fund in the future according to different assumptions, there was a very significant question about what should be treated as income from a depleting resource and permanent income. In economics, there is a very common distinction between what you might call regular income and windfall income. Sometimes these are called permanent income and transitory income. In principal, it's just as every prudent household would treat those two things quite separately. If you have an income of $15,000 a year and you expect it to continue forever, you treat it one way. If in one particular year, an aunt dies and totally unbeknownst to you, she had some money and she left you $15,000. Now it's hard to find

one person, I think, who would say they'd treat that once and for all $15,000 in the same way as their regular $15,000. In otherwise, they wouldn't just double their spending that year because their income happened to double.

The most important thing is to think of transitory income as different from permanent income. When some oil money is going to last some 25 years, especially at the beginning, that money is partly transitory and partly permanent. For simplification, I want to think of it as transitory. One way to compare any other ways of treating this money would be to imagine a world in which we don't live and imagine just giving that $80,000 to each family--what it would do for them and what they could do with it. With that as a bench mark, consider alternative problems. In considering these other alternative policies, we have to make some critical assumptions. Perhaps we should investigate the facts. We have to make some presumption about a very critical thing and that is the flow of labor and capital into and out of Alaska. That's part of the problem defining an Alaskan. That has been already eluded to by Professor Bergman and she referred to the paper by Dr. Tussing in which he argued that, subject to further research, capital flow is very easily into and out of Alaska, and therefore, the rate of return to capital in Alaska is primarily set in the United States, or even better in the world market. Capital flow is pretty easily around quite a few countries. I would like to extend that and just for the sake of argument, subject to a lot of further research on the problem that the same is true of labor. The labor flows pretty freely from one part of the United States to another. If that's true, then there's nothing that can be done with this Fund that can change the wage of labor. Now, of course, it isn't the wage of labor, there's a whole structure of wages--from high priced brain surgeons down to busboys. But those wages will be set, not in Alaska, they'll be set in the United States; because there's free migration back and forth. I want to make those assumptions for the moment anyway. Assume that there is competitive capital market and competitive labor market. I will modify that later on. Now consider two or three alternative ways of using this money. One of them I have I asked my conservative friends. They have the assumption that giving money to the government is pouring it down the rathole to some degree--they have different rathole co-efficients, but it's significantly bigger than zero. So they say cut taxes. If we cut taxes, then we won't keep the level of government expenditures of what it would be otherwise. Cut taxes, then the money would be used by the people for sensible purposes--cut sales taxes, cut income taxes, so forth. Now if you ask yourself what that means, subject to the assumption that the flows of labor and capital between the United States and Alaska are perfectly free, then the initial effect of that would be that real wages after taxes would rise in Alaska relative to what they were in the United States. As soon as they did that, more people would come from the United States to Alaska. The final result of that would be that the real wage would be precisely the same as it was before. The real return on capital would be the same. Nothing would happen. Who would gain. Well, there'd be more people here. If you would own a local monopoly, with the economy scales such as the local newspaper, you would probably gain, because as opposed to being a barber or even a hotel owner, if more people came, then more barbers would come. If more people came, more people would set up hotels. You wouldn't rake off a big gain. On the other hand, if more people came, it is unlikely more newspapers would be set up. So that's one small way in which local would gain.

Secondly, local people would gain to the extent they own scarce resources here that can't be reproduced. Not a hotel because you can build another hotel; but the land on which the hotel is built. If you own scarce, high priced land in downtown Anchorage, you would gain.

Finally, it could very well be that you have a labor union. I guess Economists like to call that a labor monopoly. Unions don't like that word; they don't mind talking about market power, but these are all words. Let's suppose there is a labor group here which has the power to raise the wage or lower the wage to some degree. Subject to, of course, the constraint that when they raise the wage, not so many people will be hired as when they lower the wage. Now, if we imagine a cut in taxes, we abolish the competitive market for labor which we assumed; now if we imagine cutting taxes, people will come here; but the labor union can keep the wage; the people coming here won't depress the wage to make up for the taxes. The labor union can keep the wage the same way because the demand for labor will be the same as before; so that, in the case of a local monopoly in labor, and in the small bits of income that are earned by land rents in scarce areas, there might be some gain. But the overwhelming bulk of income which is the competitive wage plus capital, won't be effected in the long run. What will happen, of course, is that the $8 billion will be spread over the rest of the United States, because by some small amount, as labor leaves the rest of the United States wages will rise--higher than they otherwise would be. Let's consider another thing. Another scenario. I think this is something like developing the economy. The word development is a bit tricky. It's generally used, always used, in economics to apply to so-called underdeveloped areas, developing economies in places like Bangladesh and Peru and Zaire and so forth. But that's not true in Alaska, because clearly, even without making the rigorous assumption those countries think of trying to take an economy where the real wage rises very significantly. Nothing is going to make the real wage rise very significantly in Alaska because that's set in the United States. Just as the real wage in Seattle is set in the United States. It's not development in the same sense. I'm always a little confused about development. Sometimes people say, we want to create jobs. I see in Alaska, people talk about diversifying the economy and developing renewable as opposed to non-renewable resources. But all these things, seem to me, subsidizing local industry in some way so that there will be industries here that otherwise wouldn't exist. Dr. Tussing, in his paper, was talking about situations where you don't subsidize. He said, as Professor Bergman indicated, that he generally believed that if you don't subsidize, then you're not going to create any more industry. But he did not say, and I don't think Professor Bergman intended to imply that he did, that you couldn't subsidize industries and create industries that wouldn't otherwise exist. If you did that, there would be more people. There'd also be a bigger tax base. There'd be more services to supply those same people, presumably required. Basically, when you got all through that, just as in the, what I call, conservative case, this is the interventionist case. The people who trust government more than the rathole theory. The interesting thing is that they both come out with roughly the same conclusion. You have more people; you have more capital; the real wage is the same; the rate of return on capital is the same; and in the case of a few local monopolies, they have gained but nothing else has happened. The reasons it happens, of course, is that the benefits are flowing to Alaskans, but an Alaskan is really defined is any body who can benefit by moving here or by not moving here, for that matter.

Now, let's consider a third thing--amenities. You create amenities. The trouble is if you build a big opera house in Anchorage, I'd be much happier to come for a lower wage than I otherwise would. An amenity is a real part of the real wage. People would then have their real wage and amenities rather than lower taxes. Incidentially, when you talk about amenities and providing government expenditures, there is no difference in principal between whether the income is a renewable resource or a non-renewable resource. If income flows to the state, one question is that should always be asked is, if this income is flown directly to the people, it's their income, would they then be willing to be taxed some of that income to create the thing which they would consider building? A better university, a big opera house, play fields, golf courses--all those things. Before you build a golf course, which I'd be much in favor of, you've got to think about the fact, would the people be willing to be taxable on the course, if instead of going first to the state, it had gone to them. That's of course true whether the funds are transitory funds or permanent funds.

Now, another thing mentioned is stabalizing the economy. I thought Dr. Tussing's paper had an adequate analysis of that question. It is very easy when one has looked back on a time series of what happened to the economy. To say, if we had only put a little more money into the economy there, and then taxed a little more there, the economy would be much more stable. In fact, it is sort of inevitable to think it sensible to pour money in there and take it out there. The problem is, as anyone who tries to make money in the stock market will know, that's not nearly as simple. If you look back at the stock market over the last four years and you would say, 'gee, it was easy to make money in the stock market--all you had to do was buy here and sell here.' It may seem that the problem of stabilizing the economy is not that different. It is a problem of prediction. It is the problem of getting the spending going very rapidly relative to when you need it. As Dr. Tussing says those problems are not easy to solve.

I might add something, if you can predict the economy, then you can stabilize without any Permanent Fund. You borrow the money when you need and you pay it back other times. It's not hard to stabilize if you can predict, without having any special Permanent Fund. When I think more about this problem, here's this money, which it is said, belo[illegible] to Alaskans; but what are you going to do with it so it will make some difference in Alaska--some real difference to the average Alaskan? I come back to what I call the bench mark. The best thing would be to take it, the $80,000, and spread it around to each family. Suppose you can't do that? Is there some way you could spread around the income from that? Not by cutting taxes. The income from that goes to certain people who, as it is interpreted, own the resources. Incidentially, I think the idea of just giving the money to the people is somehow associated with conservative views, whatever conservative means. My understanding is that Milton Friedman has suggested that view. Everyone knows he's conservative enough. It must have occurred to a lot of people since the beginning of time--it certainly occurred to people in Alberta at the time oil revenues were discovered there. Whether it's conservative or not, it's profoundly egalitarian because it would take $80,000 and give it to each family. Not depending on whether they're rich or poor--exactly the same

amount. It's not egalitarian because you're soaking the rich to help the poor. That money didn't belong to the rich any more on a one for one basis to begin with. So it would have a profoundly egalitarian effect on the distribution of wealth and the distribution of income, if you can't distribute the wealth. I was intrigued by the suggestion in the green pamphlet of the Governor that you might pass out the income. I understand there's some legal problems in all this. The legal problem is again defining an Alaskan. I understand perhaps the legal problems will be solved if you think of pension for when a person's 55. There's nothing in nature that says a pension has to be distributed at 55--maybe at 45, maybe 25. Anyway, I think if you regard these resources as being morally belonging to Alaskans, you should think of some way to give it to those people you define as Alaskans. Otherwise you might as well write a check for $8 billion and send it to Jimmy Carter, because that's where it's going, for all practical purposes.

If you took $20,000 per person and put it in the stock market, would he own it--$20,000 per person; $80,000 per family. You notice that the average Alaskan, who let's suppose is like the average American now, wouldn't have $4,000 rounding out the $3900 to $4000 but he'd have $24,000. Of course, there's other wealth besides the stock market. Houses, some wealth that isn't counted, like future pension plans. But I come back to a number like that to impress, because I'm impressed, to try to impress you with the awesome nature of this responsibility. There are a lot of poor people in Alaska. I can't imagine one way that would do better for those poor people and for some people who are not so poor than to contrive some scheme whereby you can benefit them, if you believe they morally own those resources. Now you may say they shouldn't own those resources, they belong to the United States. You might even say they shouldn't own those resources, they belong to the whole world. If you believe they morally belong to Alaskans, it seems to me that the thing is to contrive some scheme where, in fact, the Alaskans will do the benefitting. Some defined body of Alaskans.

To make one final note. If you talk about future Alaskans--that's pretty confusing. You see, there's where the analogy with the family breaks down. If you think of a trustee and a family, you want to take care of the children and the grandchildren; and if Alaskans were defined that way, it would be simple. It would be the children and the grandchildren of the original 400,000. If you talk about who might live in Alaska who now lives in Alabama or New York City or Seattle, then it becomes very hard to do anything with it. Of course, if you gave the money out as a grant, which you couldn't, chances are the parents would take care of the children; and they would take care of their grandchildren, as is the normal way we treat wealth. The normal way we treat wealth in the United States we assume people are responsible and are capable of handling their own money better than the government. If we say that's not possible, then we should probably try to devise a method by Alaska, Inc. or a pension at some age, so that the people who morally own the resources get some access to them, who really do the benefitting. You might ask them if they'd rather have the income from $80,000 or some vague thing called diversifying the economy. There isn't such a thing as economy or state, there are just people there.

Anyway, I think it's a very tricky problem. It appears to be in a large respect a legal problem. The only economic aspect of it, I think, is to recognize that nothing you do with this money can change, for all practical purposes, the real wage and the rate of return of the capital, and that's the bulk of normal income.

Whether resources invested in Alaska or Toyoko, for that matter, or New York Stock Exchange, it doesn't so much matter. I think it depends more on whether you use it to deliberately subsidize income or not. Presumably, as a prudent trustee, you invest it with considerations of real earnings after allowing for inflation, which makes it more complicated, and some safety. Thank you.

GRUENING: Thank you, doctor. Thank you, Dr. Bergman and Dr. Gordon. I think you've specifically trampled on a lot of people's assumptions. I think they ought to have the opportunity to trample on yours. We have a panel that will [illegible] hopefully do that. I would like to make just one remark on the figures that are being tossed around here today. $80,000 is, of course, very hypothetical. The revenue projection includes both the Permanent Fund and the general fund, based on the pipeline presuming a full design capacity, based upon a reasonable tariff, based upon a lot of things. We are dealing with a lot of if's. I think the point is well taken.

Maybe the panel can proceed in the order in which they were introduced.

HAVELOCK: We must make a determination of how it's to be managed in the future. Both of our panelists have referred to the analogy of the family. We are trustees for a family. You can reduce this to the position of a person in a family. There are profoundly different ways in which a regional economy operates and in which a family operates. The differences, I think, need to be addressed. I think we need to get the Alaska public out of the situation of thinking about it in purely family terms--the kind of terms, which say, for instance, on the national level, that because the national debt went up last year we're worse off. Those kind of economics are very dangerous. As far as the scenarios that Barbara pointed out, they're not real--any of them. That is, the scenarios of reality are sort of a merged concept of all three. There is a tendency to confuse oil revenue with Permanent Fund revenue, when, in fact, so far, as you know, the Permanent Fund is only a committed percentage of oil revenue. I don't like little bumps like that, that sort of look like here today, gone tomorrow. We are not talking about a bump--we are talking about a very long curve. It may start high, but oil revenue isn't going to suddenly shut down. The economics of scarcity, we're the last major producer of oil on the American continent, say as the amount of oil available goes down, the value per unit will go up. The whole business of Alaska running out of money strikes me as a basic error in viewing the situation which could get tangled up in managing the fund.

The discussion of what constitutes an Alaskan has been a troublesome one in this state. I'm not sure it's very fruitful other than it provides entertainment in setting one group of Alaskans against another based upon their longevity in the state. But I think you do need in any scheme that's being set up to look at the winners and the losers under various schemes of investment.

One of the basic problems of the family analogy, of course, is that it assumes that when you put something away we aren't spending it. Particularly if you are involved in investment in Alaska--what the Permanent Fund is really doing is simply shifting the expenditure of funds from more of a tilt to the public sector, which is the effect of having a legislature the dominant controlling factor in the expenditure of funds, to having a predominantly private sector investment to the extent that Permanent Fund money is committed to profit making enterprises automatically. It's a long panel. I think one analogy I'd like to throw out for you to think about--it's a long panel so I'm just going to throw a few pot shots and then back out. There is an analogy, there are a lot of analogies to what's happened in Alaska. One of them is presumably supposing you'd had an Appalachian regional commission when they started getting into coal, would you have set up a Permanent Fund anddevoted part of Appalachian money in to that? What about the grandchildren today in Appalachia? How would they have benefitted from that fund?

BERGMAN: Stock and General Motors

HAVELOCK: Well, if the function was to keep people in Appalachia, it worked because there was such a fund in a sense insofar as the United Mine Workers took money and put it into various pension funds and so on. If we did that and helped to pin people down to going on and living in an economy which was not self-sustaining, I don't think we've done anybody's grandchildren any great favors. I think it's great to be an Alaskan, but if there are no jobs here, why the hell not move out--for those who have no employment? I don't see the public purpose served in subsidizing people who are two generations beyond me who are only marginally going to be related to me, who, if you look at the general trends of the economy of the United States, are going to be far richer than I am anyway. Those are some of the reasons why I think you have to look at the management very carefully.

GRUENING: I have one question. If you want to discourage future generations, what about present generations?

HAVELOCK: The assumption of statehood incidentally, one of the assumptions on that chart is that we have the income to sustain a moderate level of public need. The assumption of statehood was that we would use resource money in order to meet public need. All over the record of statehood hearings the basic opposition of making Alaska a state was that there was not the income from regular tax revenues to sustain the public need level. I think you can invest. I would say that we've got to meet a schedule of unmet public sector needs before we start going on with a heavy dose of private expenditure the worst risk of which is going to subsidize premature development of natural resources that we should be developing at the end of that curve.

GRUENING: Any questions here of Dr. John Havelock?

MEEKINS: Dr. Havelock, I have a couple questions. We hear a lot on this Committee that needs, you know it's very difficult to define needs, pressing needs expand to meet the amount of revenue that's available. I think that that concept is somehow inherent in the desire to have a Permanent Fund. Do you have any thoughts on that? In other words, saying that we should meet

our needs first means that we should spend all the money that we have to some people. This argument has been made to me anyway that we should spend all the money that we have simply because needs will expand infinitely.

HAVELOCK: Well, I think that the legislature can sort of define a minimum sustainable standard of living in Alaska, the kind of picture of Alaska you want and hold to it. There is some truth in what you say--that needs will go expanding indefinitely. The tendency of heavy private sector investments is going to be to spread the benefits to much more extremes. That is, losers in our society are going to go on being losers, even though you're putting all this in. Losers benefit out of public sector expenditure--some kinds of it. I'm not sure I'm ready for the opera house; there are a lot of things before that. I think that is a legislative problem and it involves taking a management approach to public sector needs in terms of establishing your base line.

MEEKINS: One more question. You were talking about what you consider to be fallacy in the analogy of the family. I'm just wondering if I have it correctly. As I understood what you said, you seemed to be implying anyway, that investments are going to be made with this money because people are going to deposit it in their bank accounts. If we did have an Alaska, Inc. of some sort, that this money would then be deposited in the private financial institutions, and they would make the relevant decisions about investments. Is that not as preferable in your view as the legislature making those decisions about how that money is invested?

HAVELOCK: Generally speaking, no. My basic point is simply you should know that's what's going on. That you are transferring the decision making process over the use of funds. I think that's obviously very healthy for a pure investment policy, for instance. I don't think you guys know what you're doing if you're giving the legislature the authority to run around money markets and decide what kind of instruments to buy and sell. Obviously, it's the kind of things you want to give to the private sector. Prejudice is the same in any form of development banking. I've seen too much development banking with heavy political control that amounted to shenanigans. I would rather see, if you are going to go into development banking, the use of banking standards of risk evaluation. I'd rather not have that muddied by politics.

GRUENING: Thank you, John. We have now next to him Dr. George Rogers. Incidentally, the two Economists, if our panel isn't going to ask you questions, you can ask them questions.

ROGERS: Clark, one of the things I'm going to do after this meeting is inquire into the nature of your racket ball inflicted injury. I think as a public spirited citizen I might suggest the state invest in racket ball courts as a means of cutting down on public discussion somewhat.

I, like John, will make a statement and then be available for questions. I'm an Economist but find it difficult to act as an Economist when I get into a political setting for obvious reasons. I, unlike John, was not opposed to the Permanent Fund but I was in favor of it for different reasons than the stated reasons. I know how the legislature acts when it gets a pot of money. I know it's going to spend every penny that comes in. I looked upon it as a curb upon legislative spending. I'm not too concerned about the intricacies of whether we call it a development bank or not. I agree with Dr. Arlon Tussing that the development bank has very limited, or will have very limited, impact upon the Alaska economy, which gets me very quickly to my statement. I would like to put the statements made by Professors Bergman and Gordon into the Alaska economic context. I think this is very important. In Jim Rhode's covering letter inviting them to attend here, he made one passing remark that, I think the statement was that of every dollar gross state product $.64 leaks out. I think this gives you an idea of the nature of our economy. It's a colonial economy in which the state product is largely exported, the value is largely exported.

BERGMAN: What do you think that statistic is for the state of Maryland?

ROGERS: It's probably something like that, but the point I want to get to quickly on that...

BERGMAN: Alaska's not that very much different from the rest of the country in that respect.

ROGERS: Okay. That's right, because we do--as states we are part of a national entity. There are these traits and so on.

First of all, the value is not an Alaskan value. It is something that goes into the national economy very definitely. Looking at the regional economy, however, you find that we generally define in the terms of such measures as per capita real income earned by residents and other measures. You find that the Alaska economy is dominantly a government economy. Very quickly, if you were to look at the basic part of our economy--the part that generates the whole thing--looking at the resource we find that before oil came along, it was very, very minimal. A fading fishing industry, a stagnant forest products industry, and then this great military establishment, construction industry that was generated by that. Then from the 1940's on, whatever measure you use of the regional economy, you find that half or more of the employment, income, and so on generated by it is in terms of state and federal government income directly.

Then the support industry in the private sector is primarily in support. These people, these programs are living off them in some way. If we were to eliminate or reduce the rat hole co-efficient on the Alaska economy back to a level that would be a more reasonable one in terms of Professor Gordon's philosophies, we would have something like the 1939 economy.

At that time, we had a thriving fisheries industry; we had mining industry, which, in terms of labor employed, was probably larger than the oil industry's going to be here. So in terms of a natural resource economy, we would be reducing ourselves to something like 75,000 people operating primarily a few natural resource extractive industries with a minimum of federal and state government services required to maintain that work force in operation.

The thing is that the state government has become the driving force in our economy. This is the reason that the scenarios by Professor Bergman are relevant. I don't agree with John that they are irrelevant because she concentrated on state revenue. Each one of these is a hypothetical projection of what the state revenues might be given three different scenarios or three different ways of managing the oil revenues--spend as you go; putting it into a development bank type operation; or working out the investment--I think the investment was the second and the development bank was the last one--because the reason we have a community like Anchorage is because of government spending. The government spending has almost assumed a life of its own. When we are talking about stabilizing the economy, we are really, in essence, talking about stabilizing the level of government spending; because if it drops off, our economy drops off; or if the private sector, for example, the oil revenue drops off, if there isn't anything else to take its place, then one way of doing it is to increase government employment. If you are talking about distributing under Professor Gordon's per capita distribution model, distributing the money to the average Alaskan, you would, in many cases, be distributing to a government bureaucrat and his family. So that the Kuwait model is a relevant one in Alaska, except that the bureaucracy is much larger and represents a much larger segment of the population.

BERGMAN: What about the privates on the base?

ROGERS: The privates on the base--yes. That's a whole sector of the economy that is generally there, they generate income in Alaska but they are only here for a couple of years on an average, depending on what their turn around is. But we consider them part of the bureaucracy too, because they are paid by the government; they perform governmental functions of safety and protection.

But what I am saying is we've got to get our talk about investment, management, talk about the use of the fund into a realistic Alaskan economic setting. When we talk about diversification, we are talking desperately about trying to get something else besides government in the picture. Not simply to proliferate a lot of little business around, which is probably what we will end up doing. But it is a tough job to find something, an alternative, to continued government spending, government employment.

Another thing, I notice the Alaska Humanities Forum is one of the sponsors of this. When I saw this, I wondered what a nice organization like that was doing in a place like this. I decided that we should make some comments on that too. Professor Gordon talked about amenities. I think this is what the Alaska Humanities Forum is interested in--making Alaska a better place to live. Now this is something that Economists can't give you advice on, except we can give you some analogies, cost benefit type of analogies, and help you in that way. This is another thing we should consider. The Permanent Fund, we have two functions: one is to manage the investment policy of it. In other words, maintain the integrity of the fund, so that, in fact, the Fund is a Permanent Fund; and that we do get the maximum income generated which we can then use for current spending. The current spending could be used for a number of purposes. We could use it for the creation of new development, or we could use it for amenities--a whole range of things we might consider. I don't want us to get caught in the development bank syndrome and just stick there. I think there are other things that we should consider as citizens when we talk about the use of the Permanent Fund.

I don't have any questions at this time. I made quite a few notes. As the discussion goes on, I think we can come back to that, Clark, I think I'll stop now.

GRUENING: Thank you very much, Dr. Rogers. Incidentially, thanks for mentioning the Humanities Forum. It is on the agenda the fact that they helped sponsor this. I should say again we're very grateful to the Alaska Humanities Forum for sharing half the cost of the room and other incidental costs we have in setting this up. Are there any questions for the Economists or this panel? As soon as we get through the panel, we're going to open this up to the audience to inquire of anybody here. Representative Meekins.

MEEKINS: Dr. Rogers, I have a question that really arose when Dr. Gordon was speaking. Perhaps I'll direct it to you, and see if you have any thoughts on it. He was indicating, I think, he felt very strongly, it seemed, that the individuals in Alaska could make better decisions regarding the spending of what is morally their money than the legislature. I think we've coined a phrase here talking about the rat hole co-efficient. I think that's the implication of that phrase that the legislature isn't as wise and can't spend the money as wisely as individuals can or least not as efficiently. One of the things that, I think, legislators are always confronted with is our system of government is representative in the sense that we are expected to know a little bit more than the general public. They are expected to vote for us, and then we are supposed to get more involved in the individual decisions. Sometimes we find that when we study something, at second thought, it's a little more complicated than it seems to the public. Even though we represent our constituents, we find ourselves voting in opposition to say a majority view. We don't have a strict case of radical democracy in the sense that the majority view does not always prevail in the legislature. This sometimes is extremely good. So if you apply that thinking to

decisions about how best to provide for the benefit of the people of the state. You sometimes maybe would have a contradiction between what the majority of the people would vote for, even allocate their own money for, and what might indeed be best for them. It's a difficult question, but as an example, in some states, the public votes upon appropriations to education. In some of the states lately, they've had a very difficult time getting any appropriations at all. They've gone for weeks and sometimes even months without any appropriation for their school system. I would think that, it seems to me to be an example, at least it's quite obvious to me--I'm very supportive of education--and I think there's a benefit distributed throughout the entire society, whether or not people have children, when we spend money on education. Using that as an example, I just wondered if you have any thoughts on that.

ROGERS: I don't have any profound thoughts on this. I think this is an extreme example of what might be done with the money. The assumption is that all spending is done by individuals. If that were so, I think this would certainly be a valid model to use. You mention education. Education is a group or a social decision. The individual may not have any children, therefore, that individual would not spend any money in education. However, society as a whole has some responsibility, whether you have children or not, so that there are a number of social decisions. We still have to have taxation. I think what Professor Gordon is talking about, I think we had better get you into the discussion, is the distribution of windfall income, incomes that are transitory. We need the distinction between permanent income and transitory income. This would be, for example, the $900 million bonus we received, which is all gone now. Would it have been better if we had handed it to Alaskans because it's going to go in three or four years anyhow and let them have a spree or invest it wisely, or set it aside in a permanent fund? We did neither. We let it dribble out into our general revenues and it was spent. The effect of that was difficult to trace. They are assigned to--how much the expansion of expenditures reflected need and how much merely reflected the availability of money to the legislature? But I am getting off the point. As I say, I think it was intended as a poll.

GRUENING: Dr. Gordon, would you like to comment?

GORDON: Well, in some questions it matters a lot whether the money coming in is transitory or permanent; and some questions, it doesn't matter much at all. Obviously, there are some things that we choose to provide collectively. There's some argument as to how many of those things we should choose to provide collectively. But there's no question of some things with the exception of very few people. Everybody agrees that some things should be provided collectively, so that when the income of the community goes up, there should be, presumably, more private goods and more public goods. I think it's important, however, to distinguish between something abstract called the economy. And the economy doing this and the economy doing that. What's happening to the individuals? Fundamentally, our whole system of government is set up on the idea that the people vote for these things. And that if the money happens to go to the state first, whether it's permanent or whether it's transitory, one always wants to keep in mind

suppose it had gone to the people first, then you could go to them and say, 'Let's have a better school.' They could allocate the money that way. If, in fact, it goes to the state first, I think really the people get a little unconscious of what's involved. In a way, I'm amazed at some of the answers that have come, because I think, if you want to use this number of 20,000, if you said, 'Would you want to dole out $80,000? Maybe you can't spend a lot of money but you want to get the income on $80,000. We'll take care of the principal. We'll give you the income.' Or do you want to diversify the economy? You put that up to them. I find that incredible that people would say, 'No, we don't want the income; we want to diversity the economy.' I think we've got a loose-- I'd like to ask Dr. Rogers another question. So the economy has expanded from 75,000 to 400,000 people--the economy has--and that's mostly from state spending. But the question is whose better off than they otherwise would be? The economy isn't somebody whose better off or worse off. It's individuals. I don't think for a moment, and I don't think Dr. Rogers thinks otherwise, it would really go back to 75,000 people. If you took this money, invested most of it outside of Alaska, invest it as a prudent trustee would invest it, and then pay the income to the population--I'd be wanting to know, not what happened to what some people call the economy, what happened to the individuals, who, I guess, morally own that money. Would it have any harmful effect on any other individuals? It's a little hard to see who would be hurt by it.

BERGMAN: I'd like to say one thing. First of all, of course, the $80,000 is not coming in an instant. It wouldn't be a check. I think that would be pretty hard to resist. On the other hand, I think realistically that the if the state of Alaska did propose to send every family a check for $80,000, I think the people of the United States would re-think the ownership of those resources. I think that the fact that it does come over a period and it is not being handed out in cash to the residents of the state, some degree maps the fact that is in part what is going to happen regardless to the scenario you adopt. I think when you talk about taking the either the capital sum and doling it out as it comes in presumably or doling out the income in cash--particularly when you talk about the capital sum--doling out the capital sum, which I think is beyond the question anyway. But I think there is a difference in what individuals might do and what they might compact as a body of politics of would do. I think that the government properly does have a longer vision, a longer horizon than individuals, certainly than many individuals. That is right and proper. I am not as devoted to consumer sovereignty as many Economists are, that is, I am not as devoted to the proposition that every citizen ought to have the right to handle, to make every decision himself, and that the government should not constrain any economic decisions. I think a lot of people would do things they would be sorry for if this money were handled that way. I don't think that's the question anyway. I think the major pratical question is the filling of public need, which governs how much goes into the Permanent Fund. Once you've got the Permanent Fund, the use of it or the investment of it, when I gave my list of different kinds of Alaskans what I was intending to do was, Professor Gordon was also calling attention to, and that is to try to get it from a gross concept called the economy down to people. I don't happen to think that the provision of amenities within reason by the public sector is a bad thing. I don't think building a very good university here, building very good sports facilities, reducing some of the problems that are inherent

in the geography of Alaska is really going to spread this benefit around to the entire United States. By the way, if it did, that wouldn't be so bad either--if some of it went that way.

GRUENING: Senator Rodey.

RODEY: I had a question for Dr. Rogers regarding the rate of contribution. The proposal has been made that we put into the Permanent Fund 100% of the royalties plus all monies coming in from the severance taxes and allow the state budget to reflect only a base year figure, population increase, inflation, and perhaps an adjustment factor. As a veteran legislative observer, this would deal with the question you mentioned previously and that was one of a budget constraint. How do you feel about proposals for this sort of input to the Permanent Fund that would essentially take all of the royalty and a good portion of the severance tax leaving only what is necessary for state expenditures on a predetermined level?

ROGERS: This would be, I don't have the figures--I don't know what size figures we're talking--and the fact I've been trying to avoid getting involved in the Permanent Fund controversies entirely--but I certainly feel that this would serve the purpose of putting a damper or rather constraining by putting some limits on state spending in the future which would be a good thing. The income, however, from that fund is still available for use. As I recall, some of the calculations made on that was that it began to become quite sizable, quite a monster in its own right. Even using a relatively low interest rate, you come up with annual income. This, then in a few years, becomes the critical thing. Not so much the principal as what is done with the income--if this is re-invested in the Permanent Fund, it then compounds the problem in a future date. I'm calling it a problem now rather than a solution. If it is then added into the general fund, then again it accelerates the level of state spending. I can't really give you an answer until I've seen the actual solid figures on that. Certainly, the very crude projections we made using our man in the arctic model and using 25 to 50%, 100%, we found that the greater the contribution made to the Permanent Fund had a general dampening effect on the level of the economic attainment in terms of employment income; and this is simply because the assumption was that the government spending would continue at the rate of the revenue increase and employment would continue at that rate. So it's a dog chasing its tail proposition. It does provide a great slowing down of the runaway process.

GRUENING: Thank you, Dr. Rogers. Next in order is Jamie Love of the Alaska research group. Go at it Jamie.

LOVE: Okay. Are the microphones working?

GRUENING: Yes. If you have a question, you can go ahead and ask it.

LOVE: Can I be heard in the back of the room? I don't want to repeat or go over a lot of the things that have been said by some of the other participants here, although there are a lot important things that have been brought out. I know that most of us can agree that the money in oil wealth and Permanent Fund basically is to improve our qualities of life and standard of living and that type of thing. I know that there's one sort of philosophical difference that's immerging right now and that is on this issue whether or not people should just be given the money so they can benefit themselves, or whether the government should spend it for them, and whether or not the main focus of the Permanent Fund ought to be some type of vehicle to get money in the people's hands--get the oil revenue in their hands. I know that's been the primary focus of the public debate that I've heard on the Permanent Fund, more than any other issue--is how you're going to disburse the earnings from the Fund. I think that's been the very main issue. For some reason, I haven't been personally concerned about that area. I've been more concerned about what I consider management issues with the Fund. I think realistically there's going to be sort of a lot of ways the oil wealth is going to be managed to help us. There's some areas, I think everyone's going to agree, that consumer sovereignity, or whatever you want to call it, probably makes a lot of sense. I don't want the government to do my grocery shopping for me or a lot of other things. But I think there are areas where some type of public actionary or adventurist is the only way that certain projects are going to get accomplished. I think it's going to be realistically, in fact as we go along, probably a mixture of those two.

I would like to make one observation relative to things like the difference between a rat hole and a pressing need for a lot of people. I don't always think it's just the project persay. There are examples, there are times when the same project can turn out to be either one. I think most of us are familar with a lot of efforts to develop housing in rural parts of Alaska. It's very difficult for people living in rural Alaska to provide housing through conventional, their own resources--people living not in a cash economy types of impact that we felt here in urban areas, I'm sure are even more dramatic in rural areas. In that area, I think if housing is going to be provided for people in rural Alaska, the government's goi.. to have to provide certain types of subsidies for financing to accomplish that. I think some people look at rural housing projects as more in the rat hole area than in the pressing needs type area--it's because they're poorly managed. I think there's a tremendous recognition by a lot of people. There's a lot of waste in mismanagement. There's probably some other reasons why the housing wasn't done properly in some areas. I think this is one of the problems the state's going to be facing as we go along and we come into a lot of wealth and we try and take a very activist role in terms of improving qualities--people's qualities of life.

We've sort of taken a big quantative jump into a new area of running the government and providing services. I think we've been very interested, at least in our organization, at looking at the ways and vehicles the state can best put together a lot of planning mechanisms and management functions to have more quality control or better evaluation system as we try to accomplish whether it's a loan program or a cash subsidy or a number of different other things.

One thing I want to note briefly before I get into some other comments is when we talk about the Permanent Fund and we talk about investments, I'm sure that everyone in his mind is thinking that we're also talking about capital spending by the government in terms of just cash--just building projects that aren't really an income producing venture like infrastructure development--roads, highways, that sort of thing--which don't produce revenue by themselves, but may help contribute revenue from another project and level of state services. I know that it's critically important. I think, that the state, when they think about managing their investments, the social investments, that they make in the state of Alaska to be coordinating the development of their capital programs and studying for services with their investment policy--and this has been elaborated in some detail by earlier consultants, Dr. Daniels and Dr. Tussing, I think touched upon this. I just wanted to bring that out. So when we talk about developing investments, we also have to be closely coordinating these policies with other types of problems we're faced with.

Other than those management issues, which, of course, we're very interested in, because, I think, our own examination of some of the state's projects in different areas including the state's existing loan program and the state's housing programs has not been good. I'm not talking about some of our absolute, right up-to-date current but I'm just saying as a general comment--in the last 10 years, for example, we've seen a lot of problems. There are other reasons why we're concerned about the development of the Permanent Fund. One area, and I'm talking primarily about social investments. Those monies that are invested domestically in Alaska, I think, it's important that there be a clear concept of equity in the benefits that people realize. Just as a very quick example: the tourism revolving loan provides loans, I think it's up to $4 million, or it's up to 3. It used to be up to $1 million. It used to be, I think 8% for developing tourism facilities. A lot of the loans went, for example, to the Captain Cook Hotel and the Baranof Hotel--they each got a million dollars a piece, as I recall, for developments--8% interest--to develop something, I'm sure would have been developed had they had to go to private credit markets for that money, probably at a higher interest rate. On the other hand, you have some student getting a $2500 loan to go to the University of Alaska for a year or maybe go Outside to school. Then you have a fisherman loan and a VA loan to buy a house. Just trying to determine the equity between all Alaskans to determine whether or not the so-called subsidy or the so-called benefit to the person with the student loan or the home loan was equal compared to the person who got a cheap to build an extension to a hotel that could have been financed anyhow. I think that's an important concept because the wealth is public wealth. When we set up the social loan programs, there's a degree of equity that's involved and the type of social loans that are made--and I think there probably will be some that will and ought to be made.

Another thing is the openness and fairness in the management of the Fund. It is not so much an economic consideration, I guess, after listening to some of the comments. But I think, everyone has talked about what a big burden this is going to be--to manage all this money--and what a mind boggling kind of a problem it is. To me, what's mind boggling is you're going to give the public confidence that the funds are being managed fairly--that the funds are being managed in a way that respects the wishes of the public, and that it's not just controlled by certain interest groups, special interest groups, whatever you want to call them--certain groups or

individuals and that they have a sense of participation and that they feel that everything is on the table. One reason we were concerned is that the administration, and I guess I sort of serve the administration in a capacity on the Advisory Board, there's a lot of discussion on making a $900 million loan to guarantee financing for the gas pipeline. I sit on the state appointed advisory committee on state investment policies, which I've served on for almost a year now. Our 21 member committee has never had a presentation from the Commissioner of Revenue or anyone else on this mere billion dollar investment that we're thinking about making for the gas pipeline.

GRUENING: You might have to defend yourself. The Commissioner of Revenue, Sterling Gallagher, is in the room. He'll get a chance.

LOVE: I've made my views already now. What struck me as a bad thing to start out with if we're talking about managing the Permanent Fund. Here we have an amount of money that is incredible. Almost four times as big as the Lockheed loan that Congress debated quite a bit before it even took action on it. To my knowledge, there has been no public presentation on the details, the official advisory board for the Governor was never consulted; negotiations went on for almost a year. We still have, as yet, to even have a memorandum mailed to us even though requests for information have been made. I'm not saying that to hop so much on Sterling, although I know it's coming across as criticism.

GRUENING: Sterling, we're going to let you respond to this if you want. You may decline if you want. Go on, Jamie.

LOVE: I'm saying it because I'm not worried--I never really thought--I thought that there was not a large likelihood that that loan would have been made, primarily because I thought that the ElPaso line would probably prevail. There may have been a couple other reasons why those offers be made. It sure is important, as we get into this area, that we force the people who manage this Fund to disclose, in as many levels as possible, the planning that is going on, the terms and types of arrangements they are making. The public should have confidence in the management of this money. Along that line, I think, we're very concerned that the public is convinced; I personally am convinced that there is integrity in the way that the money is managed. This again is not so much an economic consideration, but it is an important social consideration, and it is an important thing that we've thought about quite a bit. I know others have. I think in this area, there are two areas where we have to ensure integrity to manage the Fund. The first one I want to touch on is the integrity of the programs. In other words, are the programs doing what they're supposed to be doing? If you have a small business program, does the small business program start small businesses that otherwise would not be functioning. Is it really matching its goals? Is the money getting out to who it should get out to? It's supposed to create jobs. Is there a way to measure whether they're actually creating jobs? Because you can really see kind of a rat hole syndrome developing if you don't have

an honest way of going back and taking a look at what you've already done and seeing if actually, in fact, it accomplished your goals. Do agriculture loans stimulate or encourage agriculture. If so, how much can you quantify? I think a good way of having this program evaluation is important. Now we had a presentation from Tony Motley when he was still Commissioner of Commerce on the state loan programs that the state already manages. He could tell us what their default rate was, what their interest rate was, and everything else; but he couldn't tell us a damn thing about whether or not the programs were accomplishing what the legislature wanted them to when they first created them. He said they didn't have any way of doing that. They didn't run program audits. In a way that's not surprising, because some of those programs are very big; some of them are kind of small. But as we get into the stage where we have the Permanent Fund, and we start talking about investment programs, then I think there's a much bigger responsibility on the state to tackle this very tough issue. How do you evaluate these things.

I think the next issue is the fiscal integrity of the Fund. We don't want people stealing from the Fund. We don't people making bribes to get loans and this sort of thing. This is an area that is of concern to a lot of people. I, personally, nave spent some time taking a look at some of the other areas where we've been concerned about the fiscal integrity of some of the things that have happened in some programs. When you start talking about billions of dollars, the temptation level really increases quite a bit. I think everyone realizes this. This is a tough problem. I don't know what the solution is. This relates to this whole area--the fairness, the openness, and the integrity of the way the Fund is managed. These are areas that maybe aren't economic considerations persay; but we're really concerned about them.

I would like to say that it's been helpful to take a look at whether or not we ought to spend all the money right now or whether or not we ought to invest all the money. There hasn't been much discussion about if we invest it, the types of investments we ought to do or if there's even any need to have any kind of investments on a local level beyond this issue of whether or not there's just a subsidy involved. I'd just like to discuss a couple of areas where I think it makes sense to have what could be called sort of a subsidized loan. It makes good economic sense, good bottomline economic sense. There are simply some areas where capital markets don't work. Where they're not perfect. For example, in the area of redlining--housing in certain communities and certain areas within communities--you can't get a mortgage on homes or you can't get rehabilitation financing on homes. There's been testimony before a committee, in Anchorage, for example, in the area of Mountain View or Government Hill there is this kind of a problem. The reason I'm bringing this out is, and talking about it, from an economic point of view, the cost of not providing mortgage, rehabilitation financing in a certain community may be that there's increased cost to the housing or that valuable housing stock deteriorates. It may not be a cost to the community, that the community has to pay for. It has to pay for lost taxes if the housing stock deteriorates; the public has to pay for higher housing costs, if that housing is lost and has to be constructed at a higher cost. So there are external costs to the community that the community realizes in this area. Just as an example, the normal market test

of the sort of disinterested lender and the disinterested receiver of the money, they're not really the same. The bank doesn't have to worry about the social costs of redlining; but the state of Alaska has to worry about it. If the state of Alaska becomes the lender, I think it can make some wise, some real contributions in that area and still make good bottomline economic sense. I just used that as an area. There are other areas where it might make sense--where capital markets aren't perfect. They certainly don't function as well for rural areas in Alaska as they do for urban areas.

In other areas, in the utilities, we've had testimony that good sound financial utilities can't get long term financing because they're not big enough and, therefore, as Dr. Belden Daniels noted, poverty line starts at $200 million in sales a year. A company that's large, that's a big corporate entity, has better access to national capital markets. A smaller enterprise like some of the smaller utilities in Alaska can't get long term financing. That resolves the very high utility rates. I think that in that area that's just another example where the capital markets aren't perfect. The state can put long term capital into local utilities, invest your own utilities, as well as publically owned utilities. The result is going to be a reduction in utility rates. This is an area where it might make sense to make a so-called domestic loan without the state really incurring any higher risk than it might otherwise . Working on some problems in insurance financing where premiums are now being financed for as high as 80% by Outside insurance financing companies in almost a risk free type of occupation area. There are certain types of consumer credit that could be from people who are really frankly getting gouged. I'm not speaking in terms of providing 3% financing. There are some areas of consumer credit where the state can get a return commensurate with what they get on the market except doing it here locally in certain lines of consumer credit.

Aside from this area of imperfect capital markets, there are other reasons why the state might want to make loans domestically besides stimulating the economy or trying to encourage growth. For example, you might want to own certain large resource projects. Russ Meekins gave me a little lecture one time on how if the state had financed the gas pipeline, it would be able to control local hire through contract.

GRUENING: Jamie, you might want to know, Russ Meekins just reminded me that the legislature directed Sterling to investigate the possibility of financing the line so in fairness to him, he was following the direction of the legislature. Russ pointed that out. I thought it should be noted. Go ahead.

LOVE: Sure. It might make sense for the state to own certain types of large industry that occur. For the simple reason that (1) it may prove to be a good investment; but secondly, it may allow to implement such things as local hire and other types of social considerations. This is an area I think the state should be careful in, but certainly not something that should not be written off as not a potential type of thing to consider.

In other areas, they may want to change the ownership of something from, for example, a foreign owned fishing canneries they may want to allow fishermen to form cooperatives and become the owners of the fish processing plant. The reason for that may be that maybe the public would see some use in that. They may feel that the fishermen are presently being exploited by the present owners. They may feel this may be a vehicle of overcoming that. They may feel they want to use the money to help people capitalize and start credit unions to strengthen consumer owned credit institutions which, incidentially, are the only credit intermedia that is feasible to provide financing to very small communities in Alaska. Commercial banks simply will not ever be a feasible economic intermedia in very small towns. Credit unions are probably the only things that can function in that area. There's a lot that can be done to strengthen the effect of credit unions beyond just consumer credit and to things of actual economic development financing particularly on a small community basis. So I'm going to have to cut this short because my notes are going a lot longer than I wanted to. But I just wanted to tell you that a lot of the talk has been on the issue whether or not we should spend the money or whether we should give it back to the public and what should we do with the earnings from the Fund. Although I think that's very important, I think there's a lot of dialogue and discussion that has to take place relative to how we're going to manage the funds and what types of investments we might make. Thank you.

GRUENING: Thank you, Jamie. Do you have a comment?

DOOGAN: Just one question. Jamie, in speaking of social projects that could be financed, are you advocating then that they be financed through the Permanent Fund?

LOVE: Different types of social projects? The types of investments that I talked about--I'm suggesting that they could be financed by the state of Alaska using some other revenues we're getting from the oil industry. Whether through the so-called Permanent Fund or whether through the general fund or whether through another financial intermedia would depend upon the legal structure that the legislature sets up to management. I think it's possible to have more than one fund. I'm just talking in general about surplus revenue.

GRUENING: To follow that up you mentioned housing. There is ASHA, there's Alaska Housing Finance Corporation, there's the veteran loan program. For what reason would the Permanent Fund be doing something that the general fund could do by setting up another loan program or increasing the size? Is there any special reason why the Permanent Fund, as opposed to another general fund loan program, would be used?

LOVE: I think the idea of setting up financial intermediaries in some of these areas, like the Housing Finance Corporation specializing in a certain area, might be the best way to manage these things. It could either sell its paper either the Permanent Fund or the general fund or some body else on its credit rating. I think Dr. Daniels has done a good job of addressing

to some degree, if you're going to be involved in some of these areas, some different scenarios persay about financial areas. I, personally, don't think--I've been addressing my remarks so much to the Permanent Fund persay as I have all state loan programs because we're talking about making investments, and I think it's important that we sort of re-evaluate our entire philosophy towards investments, loans and that sort of thing at a state level.

GRUENING: Thank you, Jamie. Mr. Tim Bradner. Someone remarked that it's your money we're using.

BRADNER: Thank you, Clark. My thoughts about the Permanent Fund, and to an extent the larger question of the whole amount of excess or what some people call surplus revenues in the general fund is essentially a political problem which we're going to have to be dealing with. And I think--just a couple observations I'd like to throw out here real quick--about the next 5 or 10 years in the dialogue that's going to have to develop in Alaska about how we're going to handle these things. The Permanent Fund and the surplus wealth, the existence of excess revenues in the general fund, and some estimates go to as high as $10 billion by 1985 between the general fund and the Permanent Fund, really puts Alaska in a unique position in the United States and even in the democratic West. No state, to my knowledge, or even any Western democracy has had this kind of a problem on this kind of a scale with a small with a small population yet a large diverse state with pressing social and poverty needs among many of its people. We do have a situation we can look to in some states where they are coping with excess surplus revenues this current year. For instance, Texas right now has a $2 billion surplus, I believe, in their treasury that they're debating what to do with. Some other states have a small amounts of surplus in the treasury. But nothing quite on the magnitude of the scale we're looking to here in Alaska. Norway perhaps might be a situation in Europe that we could look at where there are large natural resource revenues and a small population. But nothing quite as extreme. There are extremes in the OPEC countries, but again you have a different political situation there. Yet our per capita income over the next 10 years is probably going to be of the magnitude of some of the OPEC countries in Alaska in terms of the annual income from natural resources per person or per family unit will probably range near what at least some of the OPEC countries are getting. We have to ask some questions about how capable our democratic institutions are going to be handled, to handle these kind of problems. For instance, governments in the United States, state and local governments, are used to the whole idea of working with the scarcity of public dollars. The fact that tax revenues come from a lot of individuals and a lot of small businesses and there's always a scarcity in priorities and the logic by which decisions are made start from the standpoint that there's a shortage of public money, and the priorities have to be sorted out from that standpoint. So in Alaska, it's always been easy for the legislator to withstand the very severe constituent pressure he gets for 'what about that bridge' or 'what about that dam' or 'what about this program or that program' by saying 'hey, there's just not enough money in the treasury this year. We just can't fund it.' However, he's not going to have that excuse next year or the year after that or years on down the road because there is going to be money in the treasury. And there's going to be money in the Permanent Fund. I am concerned about

how permanent the Permanent Fund is going to be in the face of these kind of pressures, particularly if we have a situation in Alaska where we don't have a viable, steadily growing, private economy to generate jobs and income in the state's economy. People would tend to look to the government just as they did in the years 1970 - 1975 with the $900 million for various kinds of help.

Already I hear people talking about the use of the Permanent Fund in its relation to the general fund. The Permanent Fund makes loans to income producing loans. Okay. Why can't the general fund borrow money from the Permanent Fund and promise to pay it back at 5% interest? I hear that sort of thing going on. So I worry about that. No state has been in a situation like this, and, I think, it's going to bring about some changes in some very different kind of pressures than we're used to in Alaska. I think, too, we look at why people voted for the Permanent Fund in the first place. I think the kind of dialogue that's going to go on this year where Clark's Committee and other people are going to be going out and having meetings around the state to try to re-assess why people did vote for the Permanent Fund and what they were thinking about when they voted for it, and now that it's a fact, what is going to be done with it. To a large extent, I think people voted for the Permanent Fund because they had a feeling that there was going to be an excess in the treasury and they were concerned about the legislature spending the money. So it was kind of a reflection of that traditional American, even Alaskan, hostility to government that we seem to bring along as a tradition in part of our political heritage. Okay. So you set it aside into a Fund that the legislature can't spend, but what you also do is you create another mechanism, and you create managers of that Fund, and how accountable to the people are the managers of that Fund? The legislators are really accountable to the people. If there's any fault in the system, maybe we should look to that rather than to setting up another layer for managing the Fund that might not be responsive to public needs or public desires.

Just a couple other real quick thoughts. I am concerned about the Permanent Fund and the surplus revenue question from the standpoint of its effects on dividing the state politically in the future. Already we're having problems in differences of direction between urban Alaskans, who live in Anchorage and Fairbanks and Juneau, and rural Alaskans, who live in small villages and have a different set of concerns and priorities. I think you'll find that many rural Alaskans are skeptical of the Permanent Fund and the reasons by which it's been created. This whole dialogue we're going through here today because the Permanent Fund as more of an urban orientated kind of a thing. They look at the requirement for safe investments to be made by the Permanent Fund; and yet they know that many rural loans are in the frontier high risk area. So they're concerned that a lot of those loans will wind up going to large scale development projects to benefit primarily cities and the urban areas and the urban work force. They also realize that a lot of their benefits come from the state programs, state services in rural areas. They are concerned that if more money is dedicated out of the general fund, more than 25% of royalties into the Permanent Fund, then it will tend to short change the services and the kind of programs they are getting. I worry about that.

We have no place to really look for examples on how to cope with this problem. We do have a couple examples here in Alaska. We have the case of what happened to the 900 million from 1970. Now there was a situation where there were surplus revenues, and we can look to how it was handled by the government. There's been a lot of debate and a lot of pro and con about what happened to the 900 million. To a large extent, I think, the case can be made that the money was used for things people wanted. People asked for that money to be spent. If you look at the record, you'll see that a lot of it, probably most of it, went for education, because people asked for it. I think those kind of pressures are going to happen again in the future. That's really all I have to say.

GRUENING: Thank you very much, Tim. If there are no questions at this time, we'll proceed to Dr. Lindauer.

LINDAUER: I'd like to remind everybody that we really have two aspects to this thing. We keep running them together. We have the question on how to spend the income that's going to come off this thing. And we have the question of the investments that are going into it. It seems to me that we're continually talking about the income, but as a matter of fact, it may well be that how we make the investments are going to have more impact on those people who are in Alaska today. I'm going to come to that. There's also the question of what our objectives are. I'm not so sure we've specified them. That is, how much of what we are doing is for us and how much of what we're doing should be for people in the lower 48 or for our grandchildren to make them even more richer than they're otherwise going to be richer than we are. I don't think we've really decided whether it's for us or for the future.

I think we've had many, many proposals as to what to do. But almost all of them, as far as I can see, with the exception of the Alaska, Inc. kind of distribution of income would appear to have no real benefit for the people who are in Alaska today in terms of either improving the general quality of the life of the mass of the people and their standard of living, perhaps even for future Alaskans. I think that most of them would tend to make Alaskans more numerous rather than better off. I think it would be a terrible shame if 30 years from now we looked back on the Permanent Fund and the way the income was spent. I'm primarily concerning myself now with the investments and how the capital is put together rather than the income and how it is spent. But I think it would be a terrible shame if we said that the main impact on the day to day life of the average Alaskan was he got stuck in a few more traffic jams and was three deep at the Russian River instead of shoulder to shoulder. At the present time, I'd say that we're likely to be three deep. I think that bothers me because for better or for worse, Alaska owes nothing to the New York City bond brokers. It really does not have an obligation to provide a job for everybody who wants to come up here to find one. Indeed the panelists and their comments about labor mobility are all too correct because people will come up here to take advantage of these things. The average Alaskan will, in fact, not be better off. I think the goals for both income and investment, again separating them, should be to use them

both to directly benefit and encourage today's Alaskans to have a better quality of life, more prosperity, and hopefully to do so, and I think we can, in such a way as to build a tax base so that we will be able to continue that higher quality of life and standard of living at such a time in the future for our grandchildren when the oil runs out.

What I'd like to do very briefly is throw out my comments on the major proposals that I've heard in the most summary form and tell you why I've come to these conclusions. Let's take the development bank project and let's talk about spending $1 billion for a big power plant or some huge, massive traditional development bank, because no matter what we call it, once we set up a major, highly financed development bank it's going to function like a development bank and it's going to tend to put its money into major development bank kind of projects, I think. I find it very difficult to believe that a dam that's going to take 20 or 30 years to build is going to have any great impact on the quality of life of people now living in Alaska. It's true that when the thing comes on line there'll be more electricity, and I assume that that will then generate electricity for the additional people who are in here building the things that the public development bank has promoted. The average Alaskan even then will be in no way better off. In any event, such projects, for better or for worse in today's world, would be built by Washington, if they had any sense or any merit at all. The Corps of Engineers has never been known to build a public works project if they could, in any way, be justified. So the fact that we would build those that they wouldn't suggests to me that we'd have a raffle factor there that would be monumental. Approaching infinity, I think. In any event, I think big projects like that probably ought to go in front of the voters and certainly can be bonded by the legislature and discussed at the legislature and put on a bond issue if they really have merit, and we just can't get Washington to provide them the way they would for all the other states in the Union, if for some reason Washington will start to ignore us in that fashion, then the legislature can take action. So I really don't see any need to have a development bank for major, huge subsidy projects.

There's also the possibility of gilt edge investments, maximum income. I find it hard to believe that pouring all that money into buying little white pieces of paper with IOU's from such major, first class things that we would have bought say five years as New York City bonds would really do much for us, or in a sense, do much for us in terms of income being generated. In the future, I suppose that we would have the income and thus perhaps slightly lower taxes, and then people would do to us exactly what they did to New York City, I assume; and that is they would tend to migrate in and take advantage of the services provided with the lower taxes and/or higher revenues. I'm not so sure that in some years accumulating investments through the bottom market and then in order to build a New York City is exactly what we ought to do.

There's also the suggestion that we ought to make such things as direct loans and guarantees to Alaskans and Alaskan businesses, and that has some merit on it. The trouble is that if we make them directly, there's too much chance that the loans and guarantees will be made on a political basis instead of an economic basis. Everyone who has a good loan will go to the bank; and everybody who has a bag loan will go to the Permanent

Fund. The net result of that will is going to be that we will probably lose a lot of our capital. I think the Permanent Fund will unnecessarily be saddled with a great deal of public disenchantment. Overall it's not lost and I'd like to make a suggestion which might kill the two birds that we need to have killed. And that is to provide benefits for Alaskans as well as benefits for future Alaskans without having that kind of risk involved. What I would think we should do heavily, at least with some of this money, would be to put it into the financial institutions of Alaska that are here today for the purpose of making the banks, the savings and loans, the credit unions, whatever the financial institutions are of the economy today and those that might be established for the purpose of making low interest loans in certain areas, certain socially desirable areas. The one that particularly springs to mind is housing. I think it's very important that everybody realize that financial institutions do not make their money because there's an absolutely high level of interest such as 10% or 9 5/8 or whatever the rate is. They make their money on the spread between whatever it takes and whatever they loan it at. So getting it at 7 and loaning it at 9 gives them the same profits as getting it at 2 and loaning at 4. It's the risk differential and the administrative costs that must be covered. So the Permanent Fund could definitely provide very low interest loans to the financial institutions to handle such things as making loans to the village utilities if that's socially desirable, or any other things that would be so enumerated. Housing, what have you. I would really suggest that this should be done. Because if we can improve the quality of life for Alaskans by letting them have better housing, that's something that can be done immediately and will effect the whole mass of people. It's also building a tax base. The same thing through lower utility costs. It is a form of subsidy which will get out to all the people whereas a major subsidy that just causes one or two big dams to be built or major capital projects will fundamentally benefit a handful of engineering companies that are headquartered in New York City or wherever the major engineering companies are headquartered. I submit to you again that our responsibility is to Alaskans and to improve the quality of their life. It is not to provide jobs and incomes for people who do not live in Alaska. If we can do both build the tax base for the future through such investments and subsidies, and that's what they are, and simultaneously provide an access to a better quality of life, and the one thing that everybody has a concern in is housing. The one thing we see right now in the economy of Alaska is a massive move toward the upgrading of housing. I would submit that that is an area in which the legislature and everyone else needs to take a very serious look. The only other thing I would say is please notice that I'm talking about the investments in the principal in the Permanent Fund. I am not talking about how we ought to spend however the income comes. I think we should seriously consider such things as Alaska, Inc. or variations of that if that is politically impossible which would get the benefits back to the people directly and not send them into a few large projects that are oriented towards outside the state and very delayed benefits.

This economy is growing and our grandchildren, no matter happens, are going to be richer than we are. I'm not so sure we need to starve everybody in order to make them even richer.

GRUENING: Thank you for that optomistic outlook. Barbara.

BERGMAN: Okay, I'd like to say a few things about Dr. Lindauer's remarks. I think there's a little confusion on whether present day Alaskans are too well off or not well enough off. Here you've got the oil revenues coming in. One sort of rationale, we're segregating them in the Permanent Fund is in some sense we're too well off. That is the present day Alaskans are too well off. Certainly in some sense they would be too well off or too lavishly provided for in terms of public service if the money were not put into the Permanent Fund. What that would argue is that some of the money should go into the Permanent Fund again primarily for the benefit of future generations of Alaskans. But some of it should not go into the Permanent Fund but some of the revenue should be used to lower taxes for example. That's what that would argue.

Now I think that Dr. Lindauer shouldn't be allowed to get away with this implication that if the money were invested in the gilt edge type of program, New York City bonds would have been bought with it.

LINDAUER: Five years ago they would have.

BERGMAN: That would not have occurred because they are tax exempt. It would make absolutely no sense for the Permanent Fund to buy them. But more seriously I think what he's suggesting is that somehow or other the managers of the Permanent Fund would be poor in terms of that kind of investment. Even I'm smart enough not to have bought any New York City bonds. My record in the market is not too great.

LINDAUER: That's not what I suggested.

BERGMAN: I don't think that's a fair implication.

LINDAUER: I didn't mean that implication. Let me tell you what I meant. I meant that if we send billions of dollars out of this state and get back little white pieces of paper that 30 years hence are going to give us some income when they mature, we're going to have little white pieces of paper here and damn little else. We have people who might rather have a better housing situation. We don't need to have additional spending to have local citizens make investments of their own in housing. There are a lot of people who apparently would like to have better housing. I see no reason why they should be denied that.

BERGMAN: That relates to the issue of how well off the present day Alaskans are. Do they have needs that ought to be met out of the present day oil revenues. What you're saying is yes. I think that's something that is essentially a political question that has to be determined. Now there's sort of a subrosa question here which hasn't come out explicitly, perhaps it has, but I think it ought to be out and discussed a little more and that is the problem - do you want to give benefits to the present

citizens of Alaska and positively avoid giving benefits to people who will migrate subsequently or people who have migrated recently? There are pros and cons on this. I think, even if you restrict the present benefits of people who are citizens of Alaska now, and by the way, I am thinking of renting an apartment and moving my voting residence here before the grandfather's clause takes effect; but seriously, if you do that, you are going to create a two class economy. Some people are going to move here subsequently anyway. I think there are social problems with that, that would have to be faced. If, on the other hand, as has been said and said correctly many times, you provide the benefits to whoever is to come here that will to some degree encourage inmigration. That might be bad because it would spread the benefits more thinly, but also because it could be said that those people have no moral right to it in some sense. I think that as a practical matter you are going to end up having to give benefits to whoever is here. Even if some of them have been brought in because of the generosity of these programs. I don't think you will want to, or can afford to, set up a two tier system where some people of privileged nobility and other people are pariahs.

LINDAUER: I think you have misinterpreted. I think what you've done is you've gone back and you're confusing the discussion of how to spend the income with the question of how to invest the principal.

BERGMAN: No. Those are two different comments. Perhaps I should have said I'm now moving from the area of how to invest the principal to the area of how to spend the income.

LINDAUER: Well I didn't really discuss how to spend the income. I have my own value judgment would be, without thinking it through, I would use it to have a form of property tax relief to encourage, again, the average citizen, who is in Alaska, to benefit by being able to afford a better class of housing, if that's what that person wants. Or to be able to expand a business, if that's what that person wants. I was discussing the question of how to make the investments of the principal of the capital of the Permanent Fund and suggesting that we would be better off, if the principal, wherever possible, was invested in Alaska in such a way as to build a tax base and in such a way as to benefit Alaskans. And I still believe that we owe nothing to bond brokers in New York and we owe nothing to a handful of engineering companies who would come up here to make major capital projects and bring in itinerate laborers who would come in and out, and we would get little, if any, benefit from this. I'd rather see everybody living in a better house, if that's what they want or having decent utilities in their villages, if that's what they want.

BERGMAN: Well, some of that itinerate labor is going to be required to build those better houses.

LINDAUER: That's right.

GRUENING: I would like to ask one question and that is how hungry is the audience? I think we're getting to the more important part of this symposium and that is letting the very patient audience get into the fray here and ask questions of whomever. We can go another half an hour and then break for lunch and come back if there are still questions to be asked. Or we can break right now. I'm asking for the Quaker sense. What do you say sir?

MAN (UNIDENTIFIED): I'd like to make a comment and ask a couple questions, but considering the time-now that he's had a cooling off period, I'd like to refer to Mr. Gallagher and let him make a comment in response.

GRUENING: Okay. That's fair enough, but I want to hear how hungry the rest of the group is. Representative Carpenter.

CARPENTER: We may not necessarily be hungry, but there may be other reasons to leave the room.

GRUENING: We don't have a sign out sheet. Anyone can leave. Okay. Sterling, you can make a remark if you want. We'll be back at 1:00 o'clock sharp. We have some people who need to catch planes. We can maybe wrap it up earlier this afternoon. Thank you. I urge you all to come back because I think it will the more interesting portion this afternoon.

LUNCH BREAK

GRUENING: We'll try to wrap this thing up in a time that's appropriate; we won't drag it out. Dr. George Rogers has to return to Juneau tonight and the last plane leaves at 3:00 so if you have any questions of him specifically, you should ask them first. I think before we open it up to general quetions, Dr. Lindauer wanted to clarify a statement he made and from that point on you can ask any questions you want of the two Economists, the panelists, or the legislature, for that matter. If you have specific proposals for investments, I think we're also interested in mostly in your philosophy for why that is a good thing for the Permanent Fund to do and why the Permanent Fund as opposed to maybe the general fund or the revolving loan funds that are created from the general fund could not do it as well. I only have one comment on what's transpired so far and that is it appears to the extent that the Permanent Fund becomes active in the Alaska economy, intervening in the Alaska economy we have increasing problems with how to fairly distribute the subsidy, if there is one applied in the loan and how to manage it in a way that it's accountable to changing desires in needs of the people. It doesn't mean that we shouldn't do it; it just means the problem is a little more difficult as the Permanent Fund becomes active in the economy. You may want to have a comment or a question on that. But as long as the panelists are here, you might as well get your questions out first. Dr. Lindauer.

LINDAUER: Somebody asked me a question which led me to think that something I had said had been misunderstood. It had to do with development banks and development bank projects. My concern is not with the establishment of a development bank persay and particularly not with the establishment of a development bank kind of analysis of projects. My concern is with the kind of big project that one finds the World Bank engaging in. Something that would be a $5 billion hydro project that would have overruns to $8 billion. Something that would be a single project or a handful of projects which would be an all or nothing kind of use of the Permanent Fund monies. I am particularly opposed to putting all the money into a big project such as a major dam. I am certainly opposed in any way to the establishment of a development bank concept to analyze various and sundry projects.

GRUENING: Thank you for clarifying that. When you come to ask questions, please come to the microphone. The lights now are provided and the cameras are provided by Media Services, which is producing a program that may be used on channel 7. It'll be put together so you may see yourself on T.V. We also plan to do a transcript on this hearing. So when you come to the microphone, please identify yourself. If you wish to do so, tell us your occupation. Yes, sir.

GERSTENFELD: My name is Sol Gerstenfeld. I've been in this neck of the woods about 30 years, so I've done this, that, and the other thing. I've done some visiting Outside and kept coming back. Along the lines that Jamie raised, the thing that concerns me the most is not just how much we spend and how much we take in, but what we get for our money. I would like someone to explain to me how come criminal justice is a better investment than consumer protection?

GRUENING: Anyone want to take a stab at that?

HAVELOCK: I don't think that they're mutually exclusive objectives. It's a historically, over the last few years, there's has been more...(cut off) If I understand the question, my comment is simply that the trend in the direction of the question is addressing.

GERSTENFELD: Trends don't happen; they're made.

GRUENING: Okay. Trends don't happen, they're made. Now if you have any comment with which to follow-up your questions, I'd invite the audience to do that. As long as no one's making a long speech, there's time to follow your own questions. Are you satisfied? Does anyone wish to comment further on that? Okay. Does anyone else have any questions from the audience?

CUC: Two questions. First, just a general information question.

GRUENING: Identify yourself please.

CUC: Okay. Dennis Cuc. Specifically with the oncoming gas production and new discoveries that will be found in Prudhoe Bay, how much extra are we going to have in the Permanent Fund? Does the Permanent Fund just anticipate Prudhoe oil and gas or does it anticipate other discoveries at all?

GRUENING: I think I can answer that. The amendment applies to all oil revenue produced through royalties and leases and bonuses on state land, so that if the Beaufort Sea, for example, were sold next year for a bonus payment, 25% of that bonus payment would go into the Permanent Fund; and if it were sold under the same arrangement where the state gets 12 1/2% of the oil or the value of it, then 25% of that would also go into the Permanent Fund. But, I think the impetus for the Permanent Fund was the vast wealth that people saw coming out of Prudhoe, although other revenues are subject to contribution. The projections that you see in that little green book that some of you picked up, and there are more out there, if you want them, are based strictly on Prudhoe Bay.

CUC: My second question is for Dr. Lindauer. Do you think the banks are willing to enter into some kind of arrangement with the state whereby the state does provide monies? Do you think the banks, as a private capital resource, would be interested in this proposition?

LINDAUER: I would think yes. By the very definition of what you just said. They tend to be private, profit-making corporations. They make their money on the difference between what they pay for it and what they charge for it, not on the absolute rate. So that it would be very profitable to a bank to make low-interest loans if it can get the money at an even lower interest loan. Then again, let me tell you, I'm not just talking about banks, I'm talking about all financial institutions including state mortgage agencies and all related, anything that is presently acting as a financial institution could conceivably take money and put it into whatever the legislature thought was a good idea.

CUC: I haven't done any research on this and the only reason I ask the question is because the Commissioner of Revenue seemed to indicate he is a banker, of course he was a banker. He seemed to believe it wouldn't fly. You haven't talked to him about it to find out the reason? I haven't either at length.

LINDAUER: I did speak very briefly with him during the lunch hour about that, and I think one of the things that was discussed was the capital requirements of banks. It may well be that there would have to enough profits involved in the break to generate additional capital so that they could continue to expand. I think that we're really talking about a conceptual thing here. The question of whether the money should flow through the Alaskan financial institutions or should it flow through a bond brokerage house in New York City. Other things equal, I'd

just as soon let the Alaskan institutions make the money.

GRUENING: Thank you Doctor. That's a worthy objective, although I'm told and I don't have the information before me, that when the $900 million was deposited in local banks, most of it went Outside. Somebody may wish to comment on that.

BERGMAN: Let me say that when money is deposited in banks, the first thing they do is buy government bills with it.

GRUENING: Why is that?

BERGMAN: They don't want to expand their loans very quickly. Because very prudently they want to take care to see that they're good loans. So when they get a sudden big deposit, what they will do is put the money to work in a relatively riskless way, which is the government bill market, where the funds are liquid and they get a rate of return. Of course, it's open to the Alaskan government to buy its own bills instead of putting large sums in interest free accounts, even temporarily. With large sums so that even putting them in interest free accounts for relatively short periods can lose a lot of money. Now you know, I hear sort of contradictory things. In one ear, I hear that you're so rich it doesn't matter, and with the other ear, I hear that you have a lot of slums that need attention and so on. No matter how rich you are, it's foolish to unnecessarily enrich bankers even Alaskan bankers.

GRUENING: Any bankers in the crowd?

BERGMAN: I must say with respect to brokerage houses that Dr. Lindauer is warning us against, they now do negotiate down commission rates. So I'm sure, that for an account like the State of Alaska, one would get a rather low rate.

LOVE: I think what we are getting into is sort of technical discussion as to whether or not the Permanent Fund working through the banks buy CD's or whether they buy loans or whether they sell CD's or buy loans. I think what Clark was talking about, at one point they take the certificates of deposit down to the banks, hoping they'd make some local loans. Sterling Gallagher, I think, was quoted once as saying they put the money Outside into treasury bills outside the state to make a profit. I think they could also accomplish what Dr. Lindauer wanted to do by purchasing loans on the secondary money market, thereby ensuring that the loans were properly qualified Alaska investments under certain criteria. I'm not speaking so much to his proposal, but I think we're getting into a technical area, and I'm not sure how helpful that is for the general audience in terms of discussing some of this stuff. And I think there's probably different ways of accomplishing what Dr. Lindauer was talking about other than putting money in CD's.

LINDAUER: I never advocated putting money in CD's. In fact, quite the contrary. My whole point is that if you channel it through regular institutions in a regular way, it will, just as in the past, not benefit Alaska all that much. But if you can channel it through some restricted beneficial way to limit the loans not by CD's but let them draw on money they're willing to loan out at some lower rate of interest. The loans that they would otherwise would not make--it could benefit Alaska. The whole thing is to keep the benefits and orient the loans within Alaska--not just throw them in the national economy.

MEEKINS: I think there's a precedent to that in terms of link deposits that, I understand, Colorado did that with their state deposits. They give them under the condition that they're used for certain purposes. I think that's one vehicle.

GRUENING: Sir, did you have a comment on that? It's open to the audience. Just come to the microphone.

FISKE: I am Roy Fiske. I'm a retired Lieutenant Colonel and a 15 year Alaskan. I think that what you've just been saying here on restricting where you make your investments can be legislated, and the money we're talking about could be put in the hands of Alaskan institutions with restrictions on it that it be invested in Alaska only and at specific rates. And that that specific amount of money, while it's in the bank, would not necessarily be handled the same as the other funds of the bank. I would like to later on make some further comments, if I may.

GRUENING: Sure, you may. Thank you very much. Mike, do you have a comment?

DOOGAN: Yes, I'd like to get back to a slightly more general question. This is directed more or less to Dr. Lindauer, but just generally to stated goals of the Fund. When you discussed making loan interest loans to Alaskans using the principal that way, taking the earnings and distributing them to Alaskans in some sort of direct manner, you raised the question of trade-offs. You have two goals and they can, on this scenario, be accomplished; but you have to decide what your first goal is. If it's to put the most possible money in the pockets of Alaskans, and obviously you don't make low interest loans, you try to make as much interest as you can, because you can put more money in. If it's to build houses, then you have to sacrifice the goal somewhat of putting money in the pockets of Alaskans. So the question is when you made that sort of proposal, what was your primary goal?

LINDAUER: When I first spoke, I said that we really had things divided into two separate parts--the question of how to spend whatever income came and the question of how to take the principal and how to build up the principal. I don't think the goals should be maximum. I don't think that was what the voters voted on. The voters voted on putting it into income earning things. You can earn an income at 3 or 4%; you can earn an income at 6 or 7%. Whatever the managers of the Fund decide is the socially responsible thing to do should be what we do. I would, personally, not think

that we should go for the high risk investments that would conceivably yield the highest incomes. I think that we should consider that how we invest that money is going to be as important, in my view even more important, than whether we get an extra one percent on the top by taking some risks for the money. Last time we took some risks I understand there were some big losses. You get more interest when you take a risk as a risk premium. Should we really be risking it? I think there should be something in between the final recipient and the state as a guarantor of the repayment of that money, so there is a guaranteed income. That's one reason I like financial institutions, because if the loan goes sour, it's their loan that went sour. They would owe the state whatever they paid to get that money.

BRADNER: I have just a more general question. What is the status of the definition of income producing? Are you going to try to do this through your statute? What's your present thinking about it? What are the words of the initiative? I can't quite remember.

GRUENING: Income producing. We've had Attorneys General's opinions, for what they're worth, and other legal opinions--no offense, John, you're being an ex-Attorney General. It's been the consensus...

HAVELOCK: Some currency depreciates very rapidly.

GRUENING: Down to zero? It means some interest. In other words, you couldn't do it, say, argue indirectly, give it as a grant and say, "well, that's incoming producing because there'll be side benefits." It has to produce some income, but it doesn't say how much. It could be anywhere from 1% to 10%. As a legal matter, I don't think you could argue it could produce no income and be income producing, based on kind of a spent off benefit thing. The interest range is wide.

BERGMAN: I'd like to say just two words about the trade-offs. Say you take a million dollars and you subsidize loans in Alaska, or you take a million dollars and you invest it in treasury bonds and make a better return on it. You're giving up something in each case. Presumably the benefit is to the person who gets the consessional loan, and that, very frankly, tends to be middle class people. They're the ones who qualify even for consessional loans. What you're doing, in effect, is you are giving a benefit to a middle class person and sacrificing a benefit, as a result, for the beneficiaries of the income, which is the whole population. I don't say you should never do it. There may be very good reasons to do it. But you have to be clear that whatever track you take, there are going to be costs and there are going to be benefits. You have to see who gets the benefits and who bears the costs. They're generally not the same people.

MC CUTCHEON: I'd like to ask Dr. Rogers a question before he leaves.

GRUENING: And you're Jerry McCutcheon.

MC CUTCHEON: Yes. Dr. Rogers, you raised a question of the philosophy of the Permanent Fund, and you never stated what your opinion was. Why do you believe there should be a Permanent Fund? And divorce it from whether or not political tricks were played in the voting process, or who introduced bills, and aside from all that stuff, strike all of that and get down to why there should be a Permanent Fund.

ROGERS: The purpose of the Permanent Fund--we're faced with an unusual situation, or what seems to be an unusual situation in which we have for a period of time the prospect of drawing upon resources that belong to Alaska in this case, they're state lands, that will be depleted over a period of 20 to 30 years. The benefits of these, if they are not put into a Permanent Fund, would be used for current expenditures, current benefits. One of the underlining things, I think of the whole idea was that this was a way of creating a nest egg, which would be available, which would share some of the benefits with future generations. The other thing was because Alaska has been through boom and bust cycles in the past, we have this fear of there being a let down right after a particular period of prosperity comes to an end. Most of our past development has been gold, defense, construction, the Alaska earthquake briefly, and then oil development. Each of these had had different cycles. So the idea of creating this Fund as a cushion at the end to give us a basis for moving on...

MC CUTCHEON: I'd like to ask my next question.

GRUENING: Let him finish. Are you finished, Dr. Rogers?

ROGERS: I think that's one of the underlining points of creating a Permanent Fund. The other is, of course then we get into the use of the money. I think we've all talked about it this morning. But you asked me what the basic idea was. You had another question.

MC CUTCHEON: As to your anticipated number of years, I would suggest you get the State of Alaska's report of January 1976 having to do with the production of sandy schist formation of Prudhoe Bay oil. So I guess I've got to go one question, so why do you think this anomaly, this variation, or this large income occurred? Why is it occurring?

ROGERS: It's occurring because the oil industry is coming up to Alaska because of the energy shortage. Is that the sort of question you're asking?

MC CUTCHEON: Well, you're getting close. Why has it occurred? Tell us why it has occurred. Why couldn't it be level?

ROGERS: Why couldn't the income be level? Because there's an immediate

national need for the resource, the energy resource. It's being developed. During this period...

MC CUTCHEON: I understand the need for the resource will be greater in 1985 than it is today. If that is the case, will we not need it worse in the future than we do today.

ROGERS: You see, these are decisions over which we have no control.

MC CUTCHEON: I see, you say we have no control. Who does control those decisions?

ROGERS: If I understand your deep question which is emerging, is why do we develop oil today? Is that the question?

MC CUTCHEON: That could be one of them.

ROGERS: That is a good question. We had an alternative. As a state, we could've withheld those lands. But the decision was made to develop them.

MC CUTCHEON: So in relation to the Permanent Fund, where does this fit with the philosophy that apparently we could not control?

ROGERS: The control of the timing of the income generation is what you're getting at, isn't it?

MC CUTCHEON: Correct.

ROGERS: We had a voice in that. It's a political decision that was made. I don't think that, if put to a vote, the people would have come up with an answer different than the decision made, but that's a speculation. But you're correct. The income is being generated now because the decision was made to develop the oil or to put the state lands up for lease.

MC CUTCHEON: Would you think then it might be prudent as far as the state is concerned not to have any further lease sales? In other words, not to enhance the Permanent Fund?

ROGERS: Yes. I think it might very well be prudent to do that.

MC CUTCHEON: Then the Permanent Fund can be considered in two ways. That

which is resources you own, and that which is postponed?

ROGERS: That's right. Yes. It's one way of giving the resources that you're giving up now a life after death.

MC CUTCHEON: Thank you.

GRUENING: Thank you, Jerry. Are there any further questions from the audience?

MC GINNIS: I'm not clever enough to turn all these into questions, so I'd just like to make a couple of statements. My name is Tim McGinnis. I'm a citizen of the state of Alaska.

My first comment is that I believe that the Permanent Fund arose more in response to a political situation than an economic one. Here in Alaska since 1969, the question has been most often left by the outs wishing to get in in the political structure. What has happened to the $900 million? If they had devoted as much research or as much to research as they did to rhetoric, they could have found out what happened to the $900 million. But again and again and again, we hear, 'what has happened to the $900 million?' Even though everybody knows. I think in response to that, a lot of political people, generally liberals afraid of a conservative challenge, said, 'let's make a Permanent Fund.' A lot of the questions we're addressing today are the results of that kind of dichotomy between political need, which may or may not have reflected a true economic need.

My second point, from what I've heard today and what I, as an Alaskan, have been coming around to in the last couple of years, is that we really don't want the money. What is it going to bring us? More people. We've heard that from every edge of the room today. What is it going to bring us? But there's an important qualification on that, which is we don't want the money now; but we do want it later. So that's one of the things that has to be worked around. Something which hovers in the background of the entire Permanent Fund discussion up to now is the question of what percentage of those monies subject to the Permanent Fund are actually going to end up being used by the Permanent Fund. Will it be 25; will it be 50; will it be 75; will it be 100? I think that it's absolutely the most important decision to be made right at the outset. There are numerous arguments about which is cart, which is horse; but the principal first effect of the Permanent Fund will be these visavis the general fund. There's been a lot of talk in this room today about how we don't need any more government growth. Obviously making 100% Permanent Fund would have quite an effect on slowing government growth. And that may or may not be a worthy goal, but to bring all these comments to a head. There's one kind of quality, we've been talking all day about social quality, we've been talking about economic values and investments. But no one has really touched on the subject of environmental quality. I would like to suggest to

you people today that the Permanent Fund could be used to buy back Alaska. And to buy environmental quality for this state. We all heard about trade-offs. It's a favorite economic word. We've heard about externalities. I'm not going to tell economists about externalities; they all know about it. But the fact remains that our resources are not being developed by the same people who hope to profit by them or by the same people who would hope to keep a reasonable level of environmental quality while those resources are being developed. BP Alaska or the Alyeska Pipeline Service -- they have their own, very rightly so, idea of what trade-offs are going to be and what they consider to be a wise trade-off. The Alaskan people are in almost a hypocritical stance because they want the values that come with oil development but they are screaming to high heaven about the environmental trade-offs. Once in a film a fellow made the comment that Alaskans want wilderness at the back door and civilization at the front door. When someone moves in behind them, they've got a problem. That's one of the best comments I've ever heard on that matter. But to continue with the idea of environmental quality and trade-offs, I'd like to suggest some concrete things which have been brought up by the conversation of our last speaker, one of which is that the state of Alaska could buy leases, oil leases, with the Permanent Fund. It could've bought the entire northeast gulf for half a billion dollars, that's one sixteenth of an $8 billion Permanent Fund. We could've held it off the market. We could've particularly held off the market those tracks that were environmentally sensitive; and, when the time arose when we needed more development in the state, we could then have begun to develop.

The second thing, and this has been brought up before, Russ and I have talked about this before, is we could have decided unilaterally two years ago that we were going to build the Alaska gas line. Would Congress have told us not to build it? If we said we were going to invest $4 billion building a state owned pipeline to Alaskan tidewater, would there be an Alcan line now? I think when the most dramatic results of the Permanent Fund could be controlled over how those resources are developed. That to me is more the essence than the money which might conceivably come from those resources. We could control the environmental stipulations to a much greater degree, not only in terms of the letter of the law, but carrying out that intent if we were ourselves the owners and controllers, not of the resources but also of their extraction. We could also, in line with the conversation that was just here, control the sequence and the timing of development of resources if we do truly own them. A lot of our problem right now is the federal government can't control that; but we could form ourselves an oil company and bid against anyone who wanted to develop our resources before we did if we were lucky enough to calculate what they thought they were worth and put ten more dollars on top of it, we would have control of it.

One of the conflicts here is that if we set up 100% Permanent Fund in order to try to keep state government from growing, we may unfortunately put into higher gear the mechanism of development, which has been the need for state revenues, that is by putting 100% in the Permanent Fund we might make the

Beaufort Sea be sold 15 years earlier. That's a conflict, I recognize that. But in many, many cases, we con't control that development or its speed or its tempo. We haven't even really wanted to, we've been so greedy. We want it all right now. We've got a long time to go in this state. A couple thousand years. Oil is going to get more valuable, everybody knows that. We're holding it as a national trust. It's nice that the Carter administration has the moderate views it has about development. But we had better, after Carter, get ready for another Nixon. Somebody who, you know, doesn't care about what's in the northeast gulf--somebody who doesn't know anything about, well, this wasn't federal, but somebody who doesn't know anything about Kachemak Bay and why not to put an oil rig there. My faith in Alaska is the faith that we can control our own destiny, but in order to do that we may have to remodify our idea of what is income producing or when it becomes income producing or when we would like it to become income producing. To me that is one of the outstanding possibilities of the Permanent Fund, which so far, has not been touched.

One more comment, which is simply that if it's really an $8 billion Permanent Fund or $10 billion or even $6 billion, the impact on the state is going to be as incredible as if we were creating an entirely new state government. The last time we created a state government, we had a constitutional convention, a couple years of debate. This time we're creating a Permanent Fund with an audience of about 25. I would hope that by the time we actually come to making those decisions about the Permanent Fund, that something of the scale of inquiry of a new constitutional convention will be attempted because it's going to be that important to the state. Those are my comments.

GRUENING: Tim, could you stick around for some questions? That was a very thought provoking statement. I think Mike has one question. We'll open it to the audience themselves. If the audience has questions of the participant without getting into an argument, they can ask them.

DOOGAN: It seems to me that your statement hasn't really so much given us a solution to the problem of what to do with the Permanent Fund, but rather re-capped, like many people who live in the state, you have a tendency to speak of Alaskans as though they were a homogeneous group. The Committee's goal is to try to get some sort of an idea of what Alaskans in general would like to see done with the money. If you postpone that just by saying we'll use the money to buy oil leases, then we'll have to have another committee with a different name trying to figure out when people want the oil leases sold.

MC GINNIS: That seems to be the nature of government--a committee about a committee about a committee.

GRUENING: Tim, I had one question. I agree that the question of the increased contribution to the Permanent Fund whether you're going to raise it above the mandatory 25% set in the constitution is important. I think you implied this in your statement, but I'm checking. Shouldn't we decide

basically what the goal of the Fund should be or what we think it should be before we decide to increase the contribution. If in fact a lot of these goals can be achieved through the general fund, why put it into the Permanent Fund unless that has a special goal? And shouldn't we determine that first before we increase the contribution?

MC GINNIS: I'm going a little bit backwards from your deduction, which is I'm saying that it might better be put into the Permanent Fund as a place to put it when we don't know what to do with it, rather than to put it in the general fund when we don't know what to do with it. What I'm saying is that one of our big problems here--we spent all morning talking about how to keep people from coming to Alaska because we've got so much money. To my mind, that's the vital question about the Permanent Fund vs. the general fund.

MEEKINS: Tim, you mentioned, and I think it was a very good point, that one of the effects of putting 100% into the Permanent Fund may be, at some point, and thereby reducing the surplus in the general fund to force development, or at least to speed up the development of other areas by leasing oil leases or other mineral leases or any other resources the state owns. I think that's a good point. I'm wondering what you'd think about it in terms of, if I could remember my question now that I've said that. I'll come back to it.

GRUENING: Tim, you had a question, why don't you ask it?

BRADNER: I just had a question, Clark. The way the thing is now written, is it possible for the legislature to annually increase the amount of money into the Permanent Fund or does it have to be done by legislation. For instance, if the Finance Committee were to find that they bent the budget for one year and there was X amount left over, could they, by resolution, put what was left over of the excess revenue that year into the Permanent Fund? Or does it have to be a set percentage?

GRUENING: Not by resolution or at least that's debatable, but by a bill which could be a budget bill, it could put additional amounts. In the constitutional amendment it does say at least 25%, which has interpreted to allow the legislature to make a higher contribution.

MEEKINS: I remember what I was going to say fortunately. I'm wondering if you find that same logic to Alaska, Inc.? Do you think that having an Alaska, Inc. proposal that you distributed money from the Permanent Fund investments to the public would have the same effect of generating an enthusiasm for selling the Beaufort lease sale so that 25% of those monies or 50%, whatever the contribution rate, would then go into the Permanent Fund and their shares would increase in value and that that would generate its own? I'm just trying to follow that logic out as applied to Alaska, Inc.

MC GINNIS: It's a definite possibility. Whether it's Alaska, Inc. or any of a number of other things we've got in mind. It all goes back to whether we really want the money.

GRUENING: Any further questions? Jerry.

MC CUTCHEON: You raised the question of investing $4 billion in gas line. I keep hearing about Alaska putting money in the gas line. Are you aware that the state of Alaska is--it would cost $16 billion for the gas line? And there'd probably be an additional $3 billion. And what would the cost of gas be and why when at Tidewater?

MC GINNIS: 19 billion.

MC CUTCHEON: inaudible

MC GINNIS: I'm not sure that they have. El Paso--I guess they're not an oil company, they're a gas company, but they sure wanted it.

MC CUTCHEON: inaudible

GRUENING: As I understood the proposal was illustrative only of the type of resource investment that could be gotten into. I have had enough of royalty gas right now. I hope we don't get into that debate again.

MC GINNIS: One variant on the proposal--we don't have to own 100%; we may not, in order to exercise effective control, even have to own 51%. We might do it with 40. We might be just a greater among many equals. I'm talking about co-venture as well as outright ownership. But I don't feel that you're ever going to get a company from outside Alaska, wherever it's from, and however many ads or dog races or whatever it is they sponsor to tell us they're Alaskans, I don't think you're ever going to get them to care the way the Alaskan public is going to care. If the Alaskan public doesn't care, then we might as well bag it.

GRUENING: Thank you. Panelists or anybody can come up.

BRADNER: I just had a question I wanted to address to you and Russ. What are the pros and cons more or less of money going into the Permanent Fund? Do you think it's a good idea to increase it to 50% or 75%? What do you see as disadvantages or advantages of that?

GRUENING: I'm not dodging the question, but one of the things we're trying to find out...I personally think you have to find out what you feel basically are the major goals. I have some opinions on that. But I haven't concluded yet to what the percentage ought to be--increased or remain the same. It's something I want to wait on frankly. That's my answer to it. I think I'd like to hear more from the public as to if they think it should be increased, why they do.

MEEKINS: I think one of the purposes of these types of things is to get some input on that question. We, of course, have spent a lot time thinking about it. It's sort of funny because at the same time we need to make that decision up front, because a lot of things depend on it, we have very little information upon which to base it. We don't know what the prices of the oil and the tariff and all those things are going to be so we can't really project what our revenues are going to be. At the same time, we don't know what our population increases and our expenditures are going to be, or even our needs. So we don't know what our budget is going to be. Really our judgment on how much extra we're going to have to put one place or another is not very accurate at this point. So it's very difficult to say put 100% of it in. I guess we could always change it, but we're sort of in a dichotomy of wanting to do it up front and not having all the information we need to do it.

HAVELOCK: I just want to say since you don't know what you're going to use the money for, it's absolutely insane to raise the percentage of money you're going to dedicate to the Fund. Supposing you assume the purpose of the Fund was to control random government spending of windfall funds, but you don't want a fixed percentage anyway. That is, what you need is some sort of a floating percentage that takes excess cream off the top. I assume since you feel that the legislature doesn't trust itself to do this on an annual basis, you need some sort of a formula system for doing that. I would not care to broach on how you put that formula together, but I'm sure that the Economists in the room could do it.

GRUENING: We are looking at that, John. It's a complicated problem, but I happen to agree that a formula approach makes more sense than a fix of 50, 75, 80.

HAVELOCK: I'm also concerned. This is something that George and I talked over at lunch. The importance of perserving the distinction in whatever you do between investment policy and spending policy. As you've got all kinds of potential subsidy operations going on if just have a floating category of anything that makes a profit. The fact that you are, in fact, spending money to support housing, or rural facilities, or whatever it may be, it becomes disguised. It seems to me from the accountability perspective you want to have some sort of standard as to what you would do in investment policy, that is what do you do with money that you don't have a purpose for using to spend on something that would encourage some social end. Establish yourself some sort of an interest rate on that and appropriate the money that

is necessary to fulfill social objectives on money which may be loaned beyond that to special purpose programs.

LOVE: I'd like to ask Dr. Gordon a question to briefly respond to some of the comments that Tim McGinnis, the fellow who was just up here talking. He was giving the description of the state using surplus money to invest in the resource industry to gain more control over a lot of management decisions or development decisions. I'd just like to hear you comment on that.

GORDON: I don't understand exactly what people mean by the word 'control.' By in large, I think it would be a bad thing to invest oil money back in oil. The very simple proposition about diversification, you don't want to have all your eggs in one basket. If you had a little money to put in the stock market, would you want to put all of it in one industry, the future of which you could not predict. By taking oil money, which you are already getting, and reinvesting in oil, you are increasing the risk.

He made the statement that the price of oil, everyone knows, is going to rise. There's one thing that is clear--everyone doesn't know what is going to happen to the price of things in general. It may be that oil is a very good investment, maybe it isn't. If you look at the price of oil company stock, it doesn't look all that good. But I would think that it would be a more desirable thing to invest it widely in a diverse set of things and protect the income and distribute it, as I say, equally. It'll do more for the poor. It'll do more for equality in the state of Alaska than any other proposal I've heard, and I think by a large margin.

BERGMAN: Let me add a footnote to this. I think that Mr. McGinnis is right. I think the environmental problems have been given rather short shrift in the discussion. Then again, I think it's quite reasonable for Alaska to, in some sense, trade-off environmental benefits for either Permanent Fund capital or Permanent Fund income. It's, of course, up to Alaskans to decide what a reasonable rate of trade-off is. But if, as I think I hear, the environment is something that is of great concern to everybody, then I don't think it's unreasonable to pay great attention to it, to sacrifice some income, possibly there's even some safety to it. I certainly think in terms of future leases, that perhaps environmental impact ought to be given greater stress than they have in the past. For example, insistence be made that people who exploit these resources ought to finance the clean-up or ought to use possibly high cost methods, which do the least damage. I'm a little confused by the discussion as to whether Alaska's really very poor, or very rich. If we take the view that there is a lot of leeway here, then certainly saving the environment, creating environmental amenities, or not destroying those that exist, should have a very prominent place in the planning.

ROGERS: Clark, I'm going to have to leave.

GRUENING: Okay. Russ wanted to ask Dr. Rogers one question before he left.

MEEKINS: My question is if we are assuming that Alaska, Inc. proposal finally won out and that we were distributing a thousand or two thousand dollars a year to the share holders of the Alaska, Inc. proposal, my question is what do you think about the possibility of that feeling inflation and then that increase in income would just drive up prices and thereby the real income would stay the same.

ROGERS: This is one of the things when you ask an Economist that question, you get all sorts of answers. We have of, first of all, put this into a total context. The distribution of income to Alaska--we have to have the total model of the economy we could relate that to--what would be driven up? It would mean that more money would be spent in Alaska possibly. Whether or not this creates inflation, I can't tell you off-hand because my experience with Alaska has been when more money was spent in Alaska, prices tend to go down because the scale of the market's increased and a lot of offsetting things came into effect. I can't give you an answer off the top of my head. We'd have to relate it to what is going to be going on. But we would have to consider those things when we're talking about the effect on the economy. I'm going to have to catch a plane so I'll have to make this short.

One point I just wanted to repeat what John said and what Professor Gordon mentioned. We've got to separate in our thinking the Permanent Fund, the management of the Fund itself, the investments of the money in the Fund to create income--separate that from doing good providing loans and providing subsidies. If we do that, it's true we can do it, we can manage it. It puts upon the management of the Fund an impossible task of accountability. If it's just a simple matter of preserving the capital, maximizing the income from that, then the annual income would be available for doing all sorts of things. We could throw it out the window; we could build a power plant; we could do a lot of things on an annual basis. That should be left flexible, because what we perceive is our needs are going to change. What Alaskans want will be changing. The whole scene will be changing. But the management of the Fund, as a financial entity, should be subject to straight forward attempt to get the most prudent management possible as a financial transaction. Don't clutter it up with a lot of other ends, no matter how valuable these might be. That's my final point.

GRUENING: Thank you, Dr. Rogers. I know you had a busy schedule. There'll probably be some disagreement with that closing statement. But you can escape.

ROGERS: I'm sure. I'll escape on that one.

GRUENING: Mr. Paul Foose---I think had a statement or a question.

FOOSE: I'm a laborer and I'm a part time student out here at the University. What I want to say speaks to the philosophy of the Fund. I think that we have to get away from looking at it as some way to maximize profit. And we have to see how the Fund can be used to help stabilize the Alaskan economy. The tool that's usually used by Economists in looking at this, I haven't heard much about it, looking at the multiplier effects of different kinds of industries and what kind of re-circulation we get -- money spent in certain ways. I think the Department of Economic Development comes out with those figures. They show some industries, like tourism, to be one point something. In other words, that money turns around and goes straight back out.

What I'm talking about the Permanent Fund being used for is to fund projects, let's say, we look not just at housing, but look more at a total system. Let's look at providing development funds. Going in with a native regional corporation to develop a sawmill in southeast Alaska.

(portion not taped)....where people could be sold these houses, giving the savings out along the line. Where now we have all these sponges called businessmen, which are raising capital along the line. I think we need to look at the needs of Alaskans and not at the needs of these companies. They don't care about our people, only as much as they can make off us. Not just the small industries either. I think we ought to look at some of the large industries, as has been said, so we can control the rate of development more so we don't end up not only with a high unemployment rate because so many workers have flooded in, but we have such high population influx completely tears our cities apart. Where crime is just you know. Anchorage is not anything like it used to be. And that's a reflection of that. That's a social cost that means something to Alaskans.

Another thing I'd say is that you can't trust the current banking structure to manage these loans and just turn the money over to them, because what they've done is they have not used it in rural Alaska which needs the money more. Sure the bankers in Anchorage are rich. But when you go to the villages, any of them, even the ones that are better off, I think the living conditions that people just wouldn't believe, if they actually saw it. I think we can't leave it to them. If they manage it to make the most money or if the Permanent Fund is managed to make the most money, the money is not going to be put into projects where it's needed most--like fishing cooperatives and things like that.

The other point I want to make is that, I think some of the forms of economic organization that we have seen here lately, like the development of some cooperative, is an important concept for the Permanent Fund to look in to especially in giving preference to funding those types of enterprises, especially in the native villages, where it more lends itself to the cooperative culture that is already among the native people and also among non-natives. I think it's an important concept that we start, just as a matter of economic justice, to promote economic democracy, where the people work at a place; they elect their management; and they decide on the work process, rather than having it shoved down their throats. People

who are working on the line live with this every day. I think if you could look towards that, nearly the whole social picture of what it means to live in Alaska, I think, perhaps, the Permanent Fund could be used towards this end.

GRUENING: Thank you, Mr. Foose. Could you stay for a few questions. Mr. Doogan.

DOOGAN: It's not so much a question. I just would like to again restate my comment that I made after Tim McGinnis finished. We have a tendency to talk about Alaskans as though they were one thing. Let's put it like this. Bankers, who live in Alaska not matter how greedy or conspiratorial they might be, are also Alaskans. The appeal is not an appeal that you can deal with unless you can define Alaskans not to include conspiratorial bankers. Do you see the point? Granted everybody wants to make Alaska a better place to live for Alaskans. The question is how do you do that?

FOOSE I guess I'm talking about if you have to you set up a non-profit banking service of the Permanent Fund. Why should we guarantee their profits? What are they doing besides shuffling the paper and doing the accounting? And sitting between us and our money?

DOOGAN: So you' repared to trade that off against the benefit to bankers and stoc of banks in Alaska?

FOOSE: I'd say so es.

DOOGAN: The existing financial structure?

FOOSE: At least to have some alternative to that, which there is not at this point.

RHODE: Do you believe that the kind of purposes you talked about, a non-profit cooperative fisheries, canneries, related small scale business--- do you think there's $8 billion worth of such ventures? And secondly, how are you to get into those ventures without attracting new people, crime, all the other things?

FOOSE: That's a problem that's a little bit bigger issue in terms of more people coming in. I was just reading in a Manpower report that there's more unemployed workers in Detroit than we have in our total work force. That's the kind of magnitude in a lot of the economic problems down in the United States that are forcing people up here into an area that's expanding. I don't know how to deal with that but I think any kind of immigration controls are unconstitutional. I agree with what the woman said here, I can't remember your name, about having two classes of citizens. I would never believe in

anything like that. Yet somehow we have to protect ourselves.

BERGMAN: The only way you can protect yourself from new people coming is by being poor and unattractive.

FOOSE: It's a constant loss, how can we gain?

BERGMAN: I think, for example, if a lot of the revenue is put into environmental improvements, that will attract less, shall we be frank and say undesirables, than if every Alaskan lives tax-free or if everybody can get a loan at exceptional rates. So you can't have it both ways. As I say, you really cannot, I don't see how you could, ennoble the people here and make pariahs of the people to come. But the only way you can get them not to come is by staying poor.

FOOSE: Okay. Well that's a political question we have to face. In terms of our relationship with the United States, but I think that's beyond the scope of this. Another thing about the $8 billion, there probably would not be that much of a need for that much money. But we could look towards oil development. Even if, in the beginning, going a little slow, even if we are a little more inefficient, we'd have to be really inefficient to not be able to make money. If the oil companies are going to make $98 1/2 billion out of Prudhoe Bay field, if we even recovered half of that by developing these resources ourselves, we'd be far ahead.

One other thing I wanted to mention, I think, just in terms of having control of our resources, that we could look more towards our oil resource, I think it's wrong to turn it over to an oil company, that's going to turn it into gasoline to drive the third cadillac to the country club for some guy down in Arizona. I think, since we know petrochemicals are such important industries that people need, we should look more towards putting our resources like into argiculture inputs in countries where they have fire machinery standing idle because they can't get petroleum. Yet they have people starving in our country. I think, if no one else will look at that, they maybe we Alaskans ought to be looking towards that also.

GORDON: I would like to question the figure about the 98 and wonder where it comes from.

FOOSE: It comes from Wainwright Security Industries. It was a report made to the legislature.

GORDON: Let me say this year all the corporations in the United States, all over the world, in oil and everywhere else, and mostly outside of Alaska are going to make about that much in after tax profits. That's all.

FOOSE: That's before taxes.