

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

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

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

HAKKILA: Sure.

CARPENTER: Thank you. I missed your name.

HAKKILA: Jack Hakkila.

CARPENTER: Sure. Do you have a present affiliation?

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

GRUENING: Charlie.

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

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

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

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

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

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

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

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

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

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

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

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

HAKKILA: That's right.

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

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

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

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

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

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

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

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

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

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

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

GRUENING: Prudently.

CARPENTER: Not dispose of it prudently.

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

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

GRUENING: Probably not. Mike.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BREAK

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

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

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

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

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

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

I have a specific proposal to make in this regard:

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

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

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

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

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

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

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

First of all, do you have investment banking experience?

HOPKINS: No.

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

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

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

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

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

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

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

GRUENING: Who gets charged the fee?

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

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

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

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

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

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

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

GRUENING: Okay. Do you have a written statement?

HOPKINS: Do I what?

GRUENING: Do you have a written statement?

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

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

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

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

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

HOPKINS: Yes.

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

HOPKINS: The biannual elections.

MEEKINS: The one coming up then?

HOPKINS: Every two years.

MEEKINS: It would change as the elections change.

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

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

HOPKINS: As a vehicle?

MEEKINS: Yeah.

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

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

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

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

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

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

GRUENING: Charlie.

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

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

PARR: All the money would go into this.

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

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

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

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

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

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

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

HOPKINS: That's correct.

PARR: Where would the money come as actual cash?

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

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

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

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

GRUENING: Mike.

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

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

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

DOOGAN: I see.

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

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

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

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

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

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

GREUNING: Any further questions?

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

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

GRUENING: Any further questions? Thank you very much.

HOPKINS: Thank you.

GRUENING: You next? Great.

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

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

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

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

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

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

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

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

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

GRUENING: I'd like to join the venture.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GRUENING: Thank you. Russ.

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

DESPAIN: It certainly has.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GRUENING: Mike.

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

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

DESPAIN: Non-renewable resource.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BRAVARNEY: Very interesting. With our million dollar

computer we threw it away and we got a three million dollar computer. So now we don't know about this computer enough to tell us how much money we're spending. This is one of the situations.

The second situation is again like if you're investing money as a private investor, you can be eaten up by commissions if you're buying and selling and again having lots of fun. But after five or six years, you find out that the commissions will have eaten up all your profits.

It's the same way. We have spent tremendous amounts of money for all kinds of expert advice. The only thing we got out of this was a bunch of expert advice that didn't give us any money.

Okay. So those are the things that we shouldn't do, but what should we do? As far as I'm concerned, I'm speaking as a non-Alaskan---here for 20 years. I've got maybe \$35 or \$40,000 and I can invest it in something. I can buy some land in California or Oregon or Washington. I can buy land in Alaska. I find land in Alaska is about five times the cost of comparable land in California. If I can find land say in Washington for \$2 or \$300 an acre, you can't induce me to invest my money in land in say Delta, if anybody is looking to buy it.

So my idea is I don't want to invest in me; I want to

invest in you, young people in Alaska. I work as a surveyor, I said, and all the people that I work with they're the young. Some of them have more talent and more education than I. Some of the best surveyors are some women that survey for me. They're real hot shots. When they're not surveying, they're not sitting around here doing this. They're taking courses. For the young people in Alaska, are we going to have roads, are we going to have acres that we can let them develop, that we can let them build on? Are we going to let the young people use the resources, their minds, their talent, or are we going to let people like Dr. Walden, Dr. Drew and all the rest of those people decide what we are going to do? Are we going to say have 150 acres or 250 in Big Delta, that you can squat on, do anything you want with it?

If I want to invest in anything, I don't want to invest in government. I don't want to invest in the University. I think that our university has a very, very bad program. We got this because it's ours. I'm saying we got to make our own minds. Thank you.

GRUENING: Thank you. Any questions? Next. Thank you very much. You're the first woman to testify today. I'm glad. No. Wait. Sandra was the first.

WESTCOTT: Well, I wasn't going to testify today but I am one of the young people in Alaska that would like to do something.

First of all, I think I've heard inflation here today.

GRUENING: What is your name?

WESTCOTT: Excuse me, Rynniva Westcott. I live at
6 1/2 mile Richardson Highway.

I've heard inflation, I've heard a lot of ideas of what we shouldn't do with our money and what we should do with it. I think I'd just like to bring forth a few thoughts. I think the only way that Alaska is ever going to fight inflation is to develop a manufacturing economic base utilizing our renewable resources in a way that is beneficial in several aspects to our cash flow and our destinies. I think we should be re-circulating money in Alaska instead of seeing the money spent in our current flow system where the money eventually, through the economic chain, ends up in the coffers of an industrial corporation on the East Coast. By establishing an industry with our renewable resources, we also decrease the liability on our less than desirable transportation systems from the West Coast.

I think also, by establishing an economic base revolving around our renewable resources, is that we establish once and for all, a stable economy that is composed of production and processing within Alaska versus our current system and our past system of being reliant on the government and on our

boom and bust cycles.

In Kansas this year, farmers are getting \$1.85 per bushel for their wheat. But going back to the cycle that we are living in, by the time it gets here, we're paying a dollar a loaf for our bread. This is what we've got to get rid of or we'll never eliminate inflation.

Of course, the other question is why do we need agriculture here? That question is always brought up. Well, in the lower 48 right now, we're losing prime agricultural land at the daily rate of 5,500 acres per day and while technology increases production, the multiplying factors of population increases kind of pours water on the fire.

Now this land is being lost because of population increases. You have higher home demand. New industry comes in. New services area businesses come in so you're losing land.

Regardless of what our likes are in the way of recreation or any other aspect of life, food is one of the basic requirements of life. Alaska is already in the position where we are highly dependent on importing our foods. I think we should be producing our foods, not only growing our food, but producing---processing the by-products of the initial crops, and taking care of Alaskans. Once we've taken care of Alaskans, then we can use it as an export commodity. Of course, what I'm condoning here is for Permanent Fund monies to be used for low interest loans for agricultural

development. Not just farming, but the actual processing of the products. When I say this, I'm talking about canned goods, frozen goods, lunch meats, the red meat industry, etc., so that we do have the food here. I don't know what the current statistics are, but a year ago we had a seven-day supply of food in the state at any one time. I think it's essential that we have more than that, because with a major strike of our transportation system, most Alaskans would get very hungry. The Alaskans that wouldn't get hungry are going to cause others to starve, because they're out in the stores as soon as they get a hint that there's going to be a strike, buying up all the food products in the stores, and the shelves are empty. Any questions?

GRUENING: Thank you for your statement. Any questions? When you mentioned agriculture, I thought of Charlie's bill and his work to promote it. A question comes to mind of you know, why it hasn't really flown in the past? Maybe you have some insight into that.

WESTCOTT: I don't think our state administration has ever supported agriculture. The federal...

GRUENING: The present one?

WESTCOTT: I'm talking about present and past. The federal

government has never encouraged agriculture development. In fact, there was a team of so-called experts sent here in the 1930's to explore the possibilities of utilizing agriculture lands in Alaska. At that time, they documented that it was unfeasible to utilize the agriculture lands in Alaska because they didn't need it.

Well, basic composition of this panel that came up here were farmers from the Midwest. Naturally, they're not going to want the competition that could be incurred from farming in Alaska. This brings up another point that's probably very far-fetched, but one possible utilization of Permanent Funds money, if the right set-up could be established, would be to buy some of the agriculture lands from the federal government.

GRUENING: You mean some of the D-2 lands that are proposed?

WESTCOTT: Not specifically D-2. There are lands in the D-2 that could be utilized for agriculture that are class 2 and class 3 soils. Of course, the federal government has told us that we don't have class 1 soils because of the climatic limitations within Alaska.

PARR: I'd like to reinforce what Ms. Westcott said. Of course, the bill which Governor Hammond vetoed would have been, at least, a start, first step in the direction of agriculture in

the Interior.

But I know that Dr. Burton from the university has published a series of studies on agriculture in Alaska. He may be a little optimistic but his figures indicate that we would eventually have about a \$4.4 billion agricultural sales in the state at an investment cost of about \$3 point something billion per year. So about a billion dollar's profit a year in agriculture alone. It may be a little optimistic but they are big numbers. It does require a big investment.

I think, those of us in the Interior, certainly look at agriculture as being one of the prime sources, prime targets for investment in the Permanent Fund.

WESTCOTT: I think there's a few aspects of the legislation, although I endorse the concept of it, that I have certain problems with. One is agriculture rights. These rights have never been clarified in documentation as to exactly what agriculture rights will be.

First of all, agricultural rights are going to have to be a bankable commodity that the farmer has. The other thing is, of course, that people do not invest their lives in something they don't own. What I mean by that, say a farmer lives on his land and farms it for 25 years and through circumstances that are beyond his control, he becomes vitally ill. He is the bread winner in the family, and he is going to be forced to

sell his property to pay for his medical bills and support his family. This is one thing that should be taken into consideration on agricultural rights. The way it was defined in the Delta land use study, if the land was not farmed, it would revert back to state ownership. This is not owning land.

GRUENING: If I may just comment, I appreciate your testimony on that. One of the problems around the Anchorage and the Mat Valley is that land is rapidly eaten up by subdivisions. Now I think, one of the points to try to restrict it to farming was to prevent the Mat Valley situation. Maybe that's not the way to do it, but I am too concerned with the fact that more and more farmland is irreversibly converted to other purposes. Once you get a subdivision on it, it's not going back to farming.

WESTCOTT: Well, this is correct. You shouldn't be able to subdivide farmland, but the other thing is, of course, that the farmer can sell the land to another farmer. But the way it's written up, if you can't farm the land, it reverts back to the state ownership.

I'm not saying this is the way that agricultural rights will be defined, but they haven't defined it yet. No one is going to go in and purchase land from the state until they know what they have. This would be the same circumstance with Permanent Funds. How can

you take money that has been raised through revenues of non-renewable resources and loan it to someone without clarification that he does have control on the land? Of course with your state system, it's fine and great because it's the state's money; it's the state's land if it's reverted back to the state. Nobody loses. It loses some of the personal property appreciation that individuals have.

GRUENING: Okay. I understand that. Any other questions from the committee? Thank you very much.

VOICE: Could I make another comment?

GRUENING: I'd much...we have a plane to catch. I'd like to hear from you if we have time. But I'd like to hear if anybody else who hasn't testified would like to. Is there anybody out there who would like to make a comment? That hasn't testified. Mr. Murphy.

MURPHY: Like most of the people, Representative Gruening, I didn't plan to testify, so the gist of the...

GRUENING: Could you give your name, just for the record?

MURPHY: My name is Frank Murphy. I live at 308 Noyes Street. The gist of the testimony seems to be as how we might invest the Permanent Fund. I was wondering, my understanding of the Permanent Fund was a safety valve against the day when our declining oil revenues no longer supports the state's budget. I was wondering, if that was the case, perhaps the paramount criteria for how we spend the money is the amount of return we get on it. Is that a correct view of the Permanent Fund or...I guess that's a philosophical question.

GRUENING: That's what we're asking you. That is one philosophical stand that I've heard a number of people state. But there are others, if you sat through today, you'll see there are other goals that people are interested in.

MURPHY: The General Fund is probably more flexible than the, and possibly larger in dollars and cents than the amount of money in the Permanent Fund. It would address itself to most of these investment names which I thought I would agree with, as far as developing Alaska.

But in terms of, and I don't know whether we are going to have people project this situation that the state might be in 10, 20 years down the line, of not being able to support its operating expenditures due to a decline in oil revenues. If we are

faced with that, the Permanent Fund then would be our guarantee against being in that embarrassing situation and should be defended as such would be. And that's all I really wanted to say.

GRUENING: Thank you, Frank. Any questions from the committee? Thank you very much. Is there anybody out there who hasn't had a chance to testify? Yes, sir.

MORGAN: I guess somebody's got to be last. I'm Ray Morgan. I live at 2½ mile Farmer's Loop Road sometimes and sometimes on a homestead across the river in Delta Junction, which I'm still trying to improve upon. I'd like to take off probably where Rynniva left off and say a little bit about what I'd like to see about the Permanent Fund and also zero in a little bit on the agricultural possibilities in Alaska.

First, it's been my impression since we've been talking about, what I've read in the news media about the Permanent Fund and it was supposed to have been a Permanent Fund for the development of renewable resources in Alaska taken from the non-renewable resources. I guess in the last few months or a year or so we've changed that, so now, also including non-renewable resource development in this, and this I would not argue with. I think we need the non-renewable resource development along with the renewable resource.

I would like to see about half of the non-renewable resource funds put into the Permanent Fund. Just using the interest on this money for the development of non-renewable resources.

There are four non-renewable resources as I see it in Alaska that should be a part of this development. I'd put on the bottom of the list, I think, tourism. I think tourism is a renewable resource, whereby funds can be used to help support this industry.

I think the third one I'd put would be the fisheries industry. Fisheries have certainly not been explored very much in Interior Alaska, but is one of the biggest incomes we have in the state. Probably the second one outside of all our mineral industry today probably I'd say would be the timber industry. This is not again in Interior Alaska, has not been talked about, has not been explored very much at all.

The first one, I think, the top priority I'd put would be agricultural development. Last year we exported from Alaska about \$100 million to buy food that we can produce here in the state. If you take this, carry this out over another 10 year period, you can see this is going to master quite a few hundreds of millions of dollars that we're going to send down to Seattle and to California and other states to buy the food that we can produce here. I'm not talking about food that we can't produce here, just the food that we can produce, the red meat and about 35 different kinds of vegetables.

What I'd like to see us do is to provide funds for two phases

of an agriculture program that we don't have.

One is for the infrasturcture to help support an agriculture program. Without an infrastructure to help support it, we will never succeed in agricultural program. I think the 5,000 acres the state is going to sell in the Tanana Loop area down to Delta Junction will never become an agriculture supporting program. It will become a lifestyle where people want to live in the rural area and will become a kind of a rural homesite, the kind of area that I like to live in too, but I can't afford to do it. Suppose the infrastructure means the machinery dealers, the repair stations, the warehouses--- this is the kind of infrastructure I'm talking about. You can imagine now we don't have that in Alaska. It's almost comparing a railroad to a---what do you have if you have a railroad without tracks or without a railroad yard? You have to have an infrastructure to support the railroad. You also got to have this to support an agriculture program.

The second thing we don't have in agriculture program goes along with infrastructures and marketing system. Until we get a marketing system developed to market within the state and outside the state, the things that we can produce and program jobs for the unemployed and the underemployed, we will again be doomed for failure in any kind of an agriculture program.

So I'm talking about---think I've said this---use the

Permanent Fund, the interest from the Permanent Fund and allow it to be controlled by the people in the state, as some other people have said, let's keep control of that 50% of the non-renewable money that we have and let's spend the interest on it and save it for, the principal part of it for the children that's coming along. I've got three that'll probably be in the state for quite a long time after I'm gone. I'd like to see them have a part of this. But the agriculture program, I think the marketing system and the infrastructure that it takes to support an agriculture program---without those we're going to see some more Matanuska Valley, like you folks have seen in Anchorage, happen right here in the Tanana Valley too. Thank you.

GRUENING: Thank you, Mr. Morgan. Are there any questions?
Mike.

DOOGAN: I'd like to make a statement for the record. There is nothing in the law right now that stipulates that the Permanent Fund will be used for development in Alaska; there is, however, nothing in the law that stipulates that it will not. One of the purposes of these hearings is to find out what people think about that proposition.

GRUENING: I had one question. You know, I know so little about agriculture that I hate to make any statements, but I have

a question in my own mind of why it hasn't flown in Alaska. I've heard this has been suggested that in the Outside agriculture business, called the agribusiness, it's huge, through its massive size and efficiency, can out-compete anything we do up here. Now does that mean to compete we have to get on the same scale? What advantages do we have that would enable us to, say, produce food as cheaply without, say, heavy subsidy as is done Outside?

MORGAN: I think I'd include agribusiness enterprise in this infrastructure as a part of it. And yes, there is a volume that has to be produced before you can do it economically an agriculture program. Some of the folks at the university have said---it's the best information they have---that about a barley development project, the minimum is needed to support the infrastructure, the marketing system to be able to go in the state.

This, of course, is what the governor's planning for the 70,000 acres in Delta Junction. I think we have never had that volume to be able to support the infrastructure, the machinery dealers, the kind of equipment that is needed to be able to supply the market for our own use, and this is why today we're importing about 96% of the food we consume.

GRUENING: Do I understand your proposal that the interest

from the Permanent Fund earnings would be used to help agriculture or was it that actual investment of the principal of the Permanent Fund would be used? Or both?

MORGAN: No. I think I'd like to see just the interest used for the promotions of the non-renewable resources as well as some other kind of economic developments like a phosphorus mining operation, a petrochemical operation which would supply the state, other kinds of nitrogen for agricultural programs. I think these too would need to come along with---to support the non-renewable resources too. Using just the interest, right, not the principal.

GRUENING: Now what about---agriculture would receive loans or grants from the interest---is that the thrust?

MORGAN: I would not say grants. I would say we would receive loans. Yes. I'm not too much in favor of grants.

GRUENING: Okay. Any other questions? Charlie.

PARR: Only one. I might comment, of course, as it was pointed out by somebody, must have been a few minutes ago---there will also be money available in the General Fund, which can be used for some of these things. It wouldn't necessarily have to come---all of the agriculture help wouldn't have to come out of the Permanent Fund monies.

GRUENING: There was a newspaper article, I think it was in the Anchorage papers---it may have been statewide---about some of the defaults in the agriculture loan program, the state agriculture loan program. In other words, the loans are in default and the state isn't getting paid back on some of them. I think we want to try to avoid that. Any suggestions we can have, and maybe it's the fault of the way it's administered. But I think we want to, if we're going to put more money into it, we want to discover what went wrong.

MORGAN: I think this is true. And again, I'd say any of the reasons for the defaults has been just a lack of volume. You just cannot operate an agriculture program in the state of Alaska unless you have the volume to support the infrastructure and the marketing system, those two things. Until you're willing to invest in those, I think it's doomed for failure. I'm sure the agriculture program in 5,000 acres in Delta Junction will never succeed as an agriculture program. It'll be a lifestyle, that some people who buy the land, have agriculture rights, will be living there. That'll be about basically it.

GRUENING: Okay. Since our time is limited, we're only going to have one or two witnesses. We may try to make that

plane. Is there anyone who hasn't testified yet who would like to?
Yes, ma'am, why don't you comment on that?

WESCOTT: Can I just speak from here?

GRUENING: Why don't you speak in the microphone? We're recording this. We'd like to preserve it.

WESTCOTT: You are referring to the agricultural revolving loan fund---correct? I think one of your basic problems with that program is that it's very political and very isolated. You have a recommending board, that is made up---the majority is made up from the Palmer area, residents of the Palmer area. I have seen case after case where a loan is approved through that program more on who knows who than the actual economic basis of it. That would be my only comment on it.

GRUENING: Well, I appreciate that, because you can see that same problem facing the fund. We can have it all go out in bad loans, depending on who Permanent Fund managers are. We have a real problem.

WESTCOTT: In fact, I think you may be aware of the fact that Bill Lewis, who is director of agriculture, was dismissed three

months prior to a new director being put into the office basically because he was going against one loan on the basis it was not backed up properly with collateral; it was not an economic venture that he thought was a good banking loan. It was approved after he was dismissed from his office.

GRUENING: Do you have any comments, suggestions on how these loans might be administered differently?

WESTCOTT: I don't have any suggestions. I have suggestions of what not to do, and that's to set it up the way the revolving loan fund, is, with just a geographical board sitting in Palmer making the decisions for a statewide development program.

GRUENING: I sense also that you feel too many of the loans aren't getting up in this area. Not enough of the money is getting to this area.

WESTCOTT: I think that would be a legitimate complaint. Yeah.

GRUENING: Okay. You, Mr. Bravarney, is that it? Could you make it short, because there's one other comment in the back? Thank you.

BRAVARNEY: Very short. I want to briefly state a couple

other things. I'm from Pennsylvania originally. We folks are Polish people, many of them were farmers. I've seen exceedingly skillful, dedicated people with small farms. My attitude about farming and growing things---you can grow on two acres; you can grow on two million acres. You got to be a farmer. That's all there is. I have a degree in forestry from the University of California, 1954. We didn't know economics. We had chemistry, physics, mathematics, botany, and all those things. We didn't know too much about economics. (inaudible)...a hell of a successful forester. Wouldn't mind seeing (inaudible)...farmers for, if they think they've succeeded (inaudible)...It's the same with farmers (inaudible)...I could perhaps go to an area and maybe have (inaudible)...sort of thing. I could put the type of energy that it would need into developing something, young people can. Right now this (inaudible) business, but everything comes to Alaska late. (inaudible)...the university is notorious for that. They get the (inaudible)...There's a nice thing about this great, big (inaudible) Marxist Socialism. If it's succeeding here, (inaudible) is falling in other places. (inaudible)...but in many cases, it isn't. It (inaudible). There are lots of...the state is (inaudible)...We can't plow the ground with (inaudible)...

GRUENING: I think there'll be a hearing some other time on the university.

BRAVARNEY: We're not developing students; we're developing PhDs. Thank you very much.

GRUENING: Thank you. I saw Mr. Spencer enter the room, and since everyone has testified, did you want to say something, Jerry? We're trying to catch a plane out, not because we want to get out of town, but because we have another hearing tomorrow.

SPENCER: Okay. Thank you, Mr. Chairman. I just had a couple thoughts. I'll try to be brief. I appreciate very much your coming to Fairbanks and collecting opinions on this Permanent Fund idea, which I don't really know much about, but it seems to me it's got some extraordinary possibilities.

GRUENING: Excuse me. Could you identify yourself please, for the record?

SPENCER: I'm sorry. Yes. Jerry Spencer. I'm a 17-year resident of Fairbanks and director presently of the Fairbanks Town and Village Association. We're a regional, non-profit development organization.

I think the only thought I had to offer to you, I'm sure you've heard some very good testimony this morning---when I was here. I'd like to second many of Mr. Wallis' and Mayor Carlson's thoughts on the nature of the Permanent Fund and these

types of investments and so forth. Some of my concerns, though, have to do with, you know, just the whole idea of how you deal with a billion dollars or two billion dollars in a state this size with 400,000 people in it.

The state's budget this year---and Mr. Gruening, I think you and I would probably find a great deal in common on how the state spends its money---but the idea of a billion, one hundred million dollar budget is just overwhelming to me. The idea of the Permanent Fund having, you know, what are we talking about, two billion dollars in it a few years down the line. This is just mind boggling as far as I'm concerned.

As you deliberate how to manage this thing I would hope that there'd be not only decisions on how the fund is to be allocated in terms of what kinds of things are financed, but you spend a great deal of time on how, you know, the general public is going to be able to keep in contact with the managers of the fund.

As far as I'm concerned, the general public doesn't have much to do at all of the expenditure of that---talking about how you accept policies, how you set up administrative practices in the spending of the billion dollar state budget. I think it's causing some serious problems. That may be an unfair statement, but I feel that people just don't feel like we have the management tools to manage that kind of money. I feel it often myself.

Now you're contemplating something of this sort, which is really

going to make Alaska, I would assume a force in the international money markets. People of Alaska are going to want to watch that very closely. They're going to want to feel they've got good communication with the evolution of the fund. You can't set up administrative mechanism at the front end and just sort of say that's all we need to do with it. This thing is going to evolve day by day in terms of the theory, the thinking about it, how the money's going to be spent, how you're going to allocate parts of it, whether you're going to spend a bunch on rural communities, whether you're going to dump a bunch in the banking system, whether you're going to get involved in investments in Saudi Arabia, or whatever.

The public, you know, that device for making sure the public is constantly in tune with the evolution of the fund, I think is equally as important as deciding how to spend the money---more important, because without that, you're going to be---distance I'm afraid is going to be so great that you're going to have a serious credibility problem and a constant political hassle. We've had enough of those. I'd like to see less of them in the future. As long as we've got this immense gap between the people and their understanding of how to spend or even consider a billion dollars, I think that's where I would recommend the committee and other interested in the development of this fund---I hope they would spend a good deal of time on that.

GRUENING: Thank you, Mr. Spencer. You just mentioned one of the more difficult problems and that is how you make the funds responsible to public need yet not, let's say, acceptable to a lot of political maneuverings where you have bad loans made because your friends are asking for loans. Any suggestions you have along that line would be helpful.

I only can say that the General Fund is managed by, of course, the executive; but the budget is made up by the legislature. If you don't like the way the legislature does it, you can always vote the legislator out of office. With the Permanent Fund, if you have a structure that doesn't have elected officials, I don't know how you would directly respond. So we have a difficult problem.

SPENCER: These comments that I am making now, by the way, have no parties in cast to them at all. I think it's a problem both Democrats and Republicans are going to have to address themselves to.

You know, you're quite right. The legislature, there's a term for it---the legislature appropriates, the administration spends. The nature of the spending is a problem for both branches. I think it's a serious problem and it's going to get worse, I suspect, because I don't see that the people are that concerned about the mechanism for managing all of this money. You know. And I'm not talking about the services people receive. I'm talking about how you actually put the policy together with the administrative mechanisms and the

communication with the people that, I think, is necessary constantly. I just don't see that. I don't see much movement towards trying to develop those things. That's my concern. I appreciate your...

GRUENING: Any questions? Thank you very much. Has anyone not testified who would like to? Yes, sir.

LAUESEN: My name is Elstun Lauesen. I live at 2416 Gillam. I assume that you're after some broad, general ideas. You're just here to get people's feelings.

GRUENING: To get a nutshell. What's your philosophy on the Permanent Fund?

LAUESEN: Alright. In a nutshell, I feel that the Permanent Fund should keep a...let me read from my notes here, because I have a lot of ideas and I want to get them out systematically. Alright.

I want you first to consider this---that public equity and private equity are fundamentally different, because the definition of value changes as one moves from consideration of the public good to concern for the private profit picture.

I feel that, as much as the Permanent Fund is capable of

doing so, that it should be considered a public trust. While remaining secure, it must have the flexibility to penetrate the thick overlay of corporations and institutions that exist in the state and be able to reach the individual and the group who have a legitimate and reasonable need for funding.

The question is what defines reasonable.

I would like to suggest then that the major criteria for the reasonable kind of development to be encouraged by the Permanent Fund and also for the Renewable Resources Fund is principal of economic self-sufficiency for the Alaskan People. That is a real public equity, but that would be an investment nightmare.

I envision the development of both production and distribution co-operatives in this area as large numbers of individuals undertake programs of resource-pooling in order to deal with long-term unemployment which exists here, either by circumstance because of the seasonal nature of a lot of the work here, or by choice, by those individuals who seek to be de-intensify the economic future of their lives. I see nothing subversive or wrong with this. There's a lot of people who are trying to approach that kind of style of living. Now obviously these are not the kinds of conditions that traditional money-managers would enthusiastically embrace, but they are on the horizon. I see them increasing. They will require servicing.

Excuse me for breathing into this microphone, but...I would

like to see two additions, therefore, created within the Permanent Fund and Renewable Resources Fund. First I would suggest a generous allotment of capital for risk, what I call risk capital or venture capital based upon the assumption that the public equity derived from programs and projects designed to foster self-sufficiency are worth the more liberal risk structure.

And number two---the uses of the fund be monitored by public agencies as well as the Permanent Fund committee because of the range and the special condition of these investments will require an understanding kind of review and analysis. For instance, the Cooperative Extension Agency might be the review agency for family and small group investments dealing with commodity production, such as small agricultural cooperatives. Risk capital is review analysis. The latter is important because in some cases the only public equity would be the knowledge derived from the risk taken. This would include individual excursions and alternative energy resources in the building of their homes or whatever.

I'm of the conviction that the existence of risk capital might ignite success in community terms. For each enterprise it successfully interfaces with community need and lending, thereby, a greater self-sufficiency to the community as a whole, represents a public equity and not measurable in dollars.

I wanted to bring this thing, but I didn't get a chance to type it up, that is illustrating this whole point through the development of food cooperatives. In an attempt to quickly establish a source of local economic developments infrastructuralization, where there is a cooperative arrangement between producers and consumers to avoid what, in the future, is going to be a spiralling cost in macro-economic factors affecting Safeway stores and that kind of thing. We have to localize our production and localize our development.

GRUENING: You can submit a written testimony any time later on.

LAUESEN: Okay. I have just one final thing before you off to the airplane.

I would like to end this part of my testimony by questioning the advisability of what may have called the tools of the money managers. By encouraging large scale investment, you create an elite class of borrowers. Unlike that gentleman, I think either loan guarantees or syndicated loan arrangements should be de-emphasized because it is the internalization of the Alaskan economy, that I believe, ought to be encouraged, along with, I'd like to add, stabilization of the economy.

Even if these conditions weren't such huge blocks of capital unless it is a sizable project, which I would submit, might be more efficiently and effectively funded co-ventured or owned by

the state directly rather than having to launder it through private enterprise in order to give a patriotic or traditional appearance to your undertakings. This is precisely the condition that I fear the Hammond administration recently proposed to \$750 million loan guarantee to El Paso's gas lines.

In any case, I realize that the Permanent Fund will represent a considerable sum, but we're not under any gun to invest it as fast as we can. If the business community is worried about the Permanent Fund maintaining parity with the eroding value of the dollar and thus urge us to "put our dollars to work" I would suggest that the logical thing would be to ignore the advice of the so-called Alaskan business community and convert the holdings of our Permanent Fund from the all-American dollar to the Canadian dollar and sit on it. Thank you.

VOICE: Could I ask the gentleman a question?

GRUENING: I would like to let this go into debate, but I saw Mr. Dempsey come into the room. We are debating whether we're trying to catch the plane. If you...

VOICE: No. That's okay. Thanks.

GRUENING: If anyone has a written statement that they want to make later, please feel free to submit it to the committee. Is there anyone who hasn't testified who would like to? I want to thank everyone for turning out. I've enjoyed this. I really have. And I plan to come back to Fairbanks before we recommend anything final to the legislature. Thank you.

Fairbanks - 9-14-77

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Testimony presented to House Permanent Fund Committee
by Elstun W. Lauesen. Fairbanks/ 9/14/77.

Let me begin by stating that if the library won't let me copy this statement on their machine because of the policy imposed that does not allow the facility to 'compete with private enterprise', my cost to copy this thing will increase three to five times.

Now, while you are assuming a perplexed and dubious look, consider this: Public equity and private equity are fundamentally different because the definition of VALUE changes as one moves from consideration of the public good to concern with private profit.

I feel that the Permanent Fund should continue to be considered a public trust but one which should have the flexibility to penetrate the thick overlayer of corporations and institutions and reach the individual or small group with a reasonable need for funding.

But what is to define 'reasonable'?

I wish to suggest that a major criteria be to encourage

the developement of economic self-sufficiency for the alaskan people--a real public equity although a potential investment nightmare for traditional money management standards.

I forsee the development of production and distribution co-operatives in this area as large numbers of individuals undertake programs of resource-pooling in order to deal with long-term unemployment which will always be with us wither through choice (among those citizens who choose to de-intensify their economic lives) or through circumstance in the form of the seasonal nature of much of the work available in the interior.

Obviously these are not conditions that traditional money-managers would enthusiastically embrace, but they are increasingly on the horizon and they will require servicing.

I would like to see the Permanent Fund incorporate two conditions¹:
Risk Capital and Review/Analysis.

I would like to see a generous allotment of capital for 'risk' or venture capital based upon the assumption that the public equity derived from programs and projects designed to foster self-sufficiency is worth the more liberal risk structure.

It would also be worthwhile to require that the uses of the

1. As well as the Renewable Resources Fund.

fund be monitored by public agencies along with the Permanent Fund committee because the range and the special condition of these investments will require intelligent review and analysis. This condition is especially important since, in some cases, the only public equity derived from the risk taken will be the knowledge derived from the experience.

I believe that the existence of sufficient risk capital might ignite success in community terms--each enterprise that successfully interfaces with community need and lending, thereby, a greater self-sufficiency to the community as a whole, represents a public equity that cannot be measured in dollars.

I would like to end this part of my testimony by questioning the advisability of what one speaker earlier referred to as the 'tools of the money managers'. While the 'tools' might be provided to the committee as discretionary instruments, the use of loan guarantees and syndicated loan arrangements should be de-emphasized. By encouraging large-scale investment, the Permanent Fund committee would merely create an elite class of borrowers without necessarily assuring the self-sufficient infrastructuring of the state economy. Moreover, large-sized investments made within the State might be made more efficiently through direct funding and public ownership rather than laundering large chunks of the public

fund through the private sector merely to appear patriotic or 'sound' or politically acceptable to the Chamber of Commerce. The loan guarantee 'tool' is precisely the instrument recently wielded by the Hammond administration in its suggestion to guarantee loans of \$750 Million for El Paso's gas line.

In any case, I realize that the Permanent Fund will represent a considerable sum, but we are not under any gun to invest it as fast as we can. If the business community is worried about the Permanent Fund maintaining parity with the eroding value of the dollar and therefore urge us to 'put our dollars to work', I would suggest that we ignore that advice of the so-called 'alaskan business community' and convert the holdings of our Permanent Fund from the all-american dollar to the Canadian Dollar and sit on it.

Thank you.

Testimony of
Don Hyskin
P.O. Box 5068
College Alaska 99708
Before the

House Special Committee on the Permanent Fund
Alaska State Legislature
in
Fairbanks, Alaska
September 14, 1977

Mr. Chairman and Members:

I do believe that the policy of distributing natural resource income directly to Alaskans, as proposed in the Alaska, Inc. concept, is far superior to the current policy of allowing the state government agencies to spend that income. However, there is a third alternative for the use of non-renewable natural resource income which I favor over the Alaska, Inc. concept. That third alternative is to use such income as a loan insurance

fund to encourage Alaskan ownership of new buildings and other land improvements in Alaska.

I have a specific proposal to make in this regard:

1. The Permanent Fund (and, preferably the entire non-renewable natural resource state land income) would be invested in U.S. Government securities, with the income therefrom being added to the Fund to help compensate for the reduced real value of the Fund over time due to inflation.

2. These securities would be used to guarantee 100% of the value of loans made to Alaskans for constructing and equipping new industrial and commercial enterprises and residential facilities in Alaska.

3. The loans would be