

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 86/2

286 SCOMM 9: HOUSE SPEC. COMM. ON PERMANENT FUND 1977-78

made through normal banking
~~procedures~~ ~~facilities~~ 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
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 re-
allocation.

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 reduction 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 presidency. 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 pro-
motion of projects to improve
their State, their communities,
and their lives.

OVERVIEW FOR PERMANENT FUND

HEARING

FAIRBANKS, SEPTEMBER 14, 1977

SUBMITTED BY RICHARD D. SEIFERT, LEROY E. LEONARD

UNIVERSITY OF ALASKA

- I. Purpose: In view of the future inevitable depletion of fossil fuel resources, even with Alaska's comparative wealth, it seems very prudent to begin to assess an alternative renewable energy future for Alaska and begin a program to allow Alaska's transition to a clean, renewable, environmentally sound, resource economy to be a painless one. This proposal seeks to use or establish the mechanisms for use of the Renewable Resources Development Fund, the Permanent Fund earnings, and any additional new oil and gas money which may become available to establish continuous funding for an ongoing program in renewable energy research, development and demonstration.

A. The proposal in specifics:

It is proposed to use the permanent and other available fund earnings for a continuing energy research, development and demonstration program in Alaska. Use would be specifically limited to those research projects which relate to renewable natural resources relevant for use in any or all regions of Alaska. The prospective types of energy resources which qualify for the proposed permanent fund program include:

1. hydroelectric power, including low head, low-gradient, water power applications,
2. solar heating and agricultural applications,

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3. wood burning research for heating,
4. wood lot management,
5. wind power applications,
6. certain geothermal applications,
7. tidal applications,
8. earth heat and geothermal gradient systems,
9. bioconversion systems and waste conversion,
10. ocean currents,
11. any other naturally available energy source which can be shown to benefit Alaska and is demonstrated to be renewable.

B. Legislative review

1. Renewable resources development act of 1974. (Attached)



LAWS OF ALASKA

1974

Source

CSHB 673 (Finance) am S

Chapter No.

130

AN ACT

Relating to renewable resources funds; and providing for an effective date.

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

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

CHAPTER 11. RENEWABLE RESOURCES FUNDS.

Sec. 37.11.010. ALASKA RENEWABLE RESOURCES DEVELOPMENT FUND. There is established as a separate fund the Alaska renewable resources development fund. Funds apportioned by sec. 20 of this chapter for deposit in the Alaska renewable resources development fund are to guarantee the enhancement and development of the state's renewable resources.

Sec. 37.11.020. FUND AUTHORIZATION LEVEL. Not less than five per cent of the receipts paid the state from mineral lease bonuses and rentals for state land and royalties derived from minerals produced on state land shall be deposited in the Alaska renewable resources development fund. These deposits shall be invested in accordance with AS 37.10.070 (investment of surplus state funds) and the resulting interest shall accrue to the fund.

Sec. 37.11.030. FUND UTILIZATION. Appropriations from this fund shall provide funding for capital and operating expenditures for the rehabilitation, enhancement and development of renewable resources programs. Plans for expenditures from this fund shall be submitted by the governor in accordance with the Executive Budget Act (AS 37.07) as part of his annual budget presentation to the legislature.

Sec. 37.11.040. FUND BALANCES. Unappropriated or otherwise unencumbered balances remaining in the Alaska re-

newable resources development fund at the close of each fiscal year shall be transferred to the Alaska renewable resources permanent fund.

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

Sec. 37.11.060. FUND PRINCIPAL. Unappropriated or otherwise unencumbered balances remaining in the Alaska renewable resources development fund at the close of each fiscal year shall be deposited in the permanent fund. These deposits shall be considered fund principal and shall be invested in perpetuity in accordance with AS 37.10.070 (investment of surplus state funds).

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

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

* Sec. 2. On June 30 of the fiscal year in which the balance in the Alaska renewable resources permanent fund (AS 37.11.050) reaches the sum of \$250,000,000, AS 37.11.010 - 37.11.040 are repealed and the unexpended and unobligated balance in the Alaska renewable resources development fund (AS 37.11.010) lapses into the general fund.

* Sec. 3. This Act takes effect July 1, 1978 with respect to rentals and royalties, and July 1, 1975 with respect to lease bonuses.

Approved by governor: May 18, 1974
Actual effective date: July 1, 1975 (lease bonuses); July 1, 1978 (rentals and royalties)



LAWS OF ALASKA

1974

Source

SCS CSHB 635

Chapter No.

131

AN ACT

Relating to the postponement of civil proceedings when a party or attorney is a member of the legislature; and changing Rule 40(f) of the Alaska Rules of Civil Procedure.

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

* Section 1. AS 24.40 is amended by adding a new section to read:

Sec. 24.40.031. POSTPONEMENT OF CIVIL PROCEEDINGS WHEN A PARTY OR ATTORNEY IS A MEMBER OF THE LEGISLATURE. When it appears that a party or an attorney of record of a party to a civil action is a member of the legislature of this state, and that the legislature is in session, the action shall be continued until 10 days after the legislature has adjourned, unless the party or attorney upon the call of the action for trial waives the benefit of this section. When it appears that a party or an attorney of record of a party to a civil action is a member of the legislative council, the Legislative Budget and Audit Committee, or one of their subcommittees, the action shall be continued when the legislative council, budget and audit committee, or the subcommittee, as the case may be, is holding a meeting, unless the party or attorney upon the call of the action for trial waives the benefit of this section. When it is necessary to file a brief or memorandum of law in an action which has been continued under the provisions of this section, the action shall be continued for a time sufficient to prepare and file the brief or memorandum.

* Sec. 2. In sec. 1 of this Act, AS 24.40.031 has the effect of changing Rule 40(f) of the Alaska Rules of Civil Procedure, by providing for the continuance of a trial of a civil action or other court proceeding when a party or attorney is a member of the legislature.

Permitted to become law without signature
Actual effective date: August 16, 1974

2. Permanent fund legislative review. (Attached)

In House Room 3000

1 IN THE HOUSE

BY SWANSON

2 HOUSE BILL NO. 4

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska permanent fund."

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

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

9 CHAPTER 12. ALASKA PERMANENT FUND.

10 Sec. 37.12.010. FUND ESTABLISHED. There is established as a
11 separate account the Alaska permanent fund. At least 25 per cent of all
12 mineral lease rentals, royalties, royalty sale proceeds, federal mineral
13 revenue-sharing payments and bonuses received by the state shall be
14 placed in the fund. These funds and any other funds appropriated for
15 deposit in the permanent fund shall be held perpetually in trust for the
16 benefit of the present and future generations of Alaskans. The fund
17 shall be administered in accordance with the provisions of this chapter.

18 Sec. 37.12.020. FUND PRINCIPAL. Funds placed or deposited in the
19 permanent fund are fund principal which shall be invested in perpetuity
20 only in the income-producing investments specifically designated in this
21 chapter regardless of other provisions of law dealing with permissible
22 investments of state funds.

23 Sec. 37.12.030. INVESTMENTS ALLOWED. (a) The principal of the
24 fund may be invested only in

25 (1) obligations of, or obligations insured or guaranteed by,
26 the United States or agencies or instrumentalities of the United States;

27 (2) obligations of the State of Alaska or municipalities of
28 the State of Alaska;

29 (3) obligations secured by reserves paid in by the United

Introduced: 2/11/77
Referred: Special Committee on
the Alaska Permanent Fund and
Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 210

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE -- FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act providing for interim management of the
7 Alaska Permanent Fund; and providing for an effective
8 date."

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

10 * Section 1. AS 37.10 is amended by adding a new section in art. 3 to
11 read:

12 Sec. 37.10.065. INVESTMENT OF THE ALASKA PERMANENT FUND. (a)

13 The Alaska Permanent Fund consists of 25 per cent of all mineral lease
14 rentals, royalties, royalty sale proceeds, federal mineral revenue
15 sharing payments and bonuses received by the state. The commissioner
16 of revenue shall deposit in the Alaska Permanent Fund 25 per cent of
17 the receipts from these sources at least once each month. The commis-
18 sioner of revenue shall invest the money in the Alaska Permanent Fund
19 in income-producing investments of the following types:

20 (1) obligations of, or obligations insured or guaranteed
21 by, the United States or agencies or instrumentalities of the United
22 States;

23 (2) obligations secured by reserves paid in by the United
24 States or agencies or instrumentalities of the United States or obli-
25 gations of corporations in which the United States is a shareholder or
26 member;

27 (3) certificates of deposits issued by United States domestic
28 banks which are members of the Federal Deposit Insurance Corporation
29 and secured as to the payment of principal and interest in accordance

1 with Alaska law;

2 (4) corporate investment-grade securities;

3 (5) bankers acceptances drawn on and accepted by United
4 States banks which each have a combined capital and surplus aggregating
5 at least \$100,000,000; .

6 (6) repurchase agreements, the securities underlying the
7 agreements being any of the items in (1) - (5) of this subsection;

8 (7) deposits of federally insured savings and loan associa-
9 tions not to exceed 10 per cent of each saving and loan association's
10 deposits exclusive of federal, state, and municipal deposits;

11 (8) fixed-term certificates of debentures of federally
12 insured credit unions not to exceed 10 per cent of each credit union's
13 shares.

14 (b) The commissioner of revenue may enter into contracts provid-
15 ing for custody of securities and execution of transactions.

16 (c) The commissioner of revenue shall transfer to whatever
17 agency is established for the express purpose of managing and investing
18 the Alaska Permanent Fund all or part of the securities and money in
19 the Alaska Permanent Fund in accordance with Alaska law no later than
20 two weeks after receipt of written notice from that agency.

21 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
22 10.070(c).
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Introduced: 2/21/77
Referred: Finance

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 HOUSE BILL NO. 244

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Depart-
7 ment of Revenue for the interim management of the
8 Alaska Permanent Fund; and providing for an effective
9 date."

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

11 * Section 1. The sum of \$62,600 is appropriated from the general fund to
12 the Department of Revenue for the interim management of the Alaska Permanent
13 Fund.

14 * Sec. 2. The unexpended and unobligated balance of the appropriation
15 made by this Act lapses into the general fund June 30, 1978.

16 * Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-
17 070(c).

Introduced: 5/5/77
Referred: Special Committee on
the Alaska Permanent Fund and
Finance

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 525

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the distribution of income from
7 the Alaska Permanent Fund; amending rules of procedure;
8 and providing for an effective date."

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

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

11 CHAPTER 18. DISTRIBUTION OF INCOME FROM ALASKA PERMANENT FUND.

12 Sec. 37.18.010. POLICY, FINDINGS, AND PURPOSE. (a) It is the
13 duty and policy of the state with respect to the natural resources
14 belonging to it and the income derived from them to provide for their
15 utilization, development, and conservation for the maximum benefit of
16 its people.

17 (b) The legislature finds that there exists in Alaska a serious
18 problem of population turnover. A substantial portion of the state's
19 population is comprised of individuals who reside in Alaska for only a
20 relatively short period of time. This is especially true in the
21 state's larger cities. This constant turnover in population leads to
22 political, economic, and social instability and is harmful to the
23 state. It is in the public interest for the state to promote a stable
24 resident population.

25 (c) The legislature also finds that the demands on and costs of
26 state government have increased over the past few years at an excessive
27 rate and that this increase has been permitted to occur, at least in
28 part, by a feeling on the part of much of the electorate that those
29 demands and costs do not have a significant economic impact upon them

file copy

Introduced: 1/31/77
Referred: Rules

1 IN THE HOUSE

BY SWANSON

2 HOUSE RESOLUTION NO. 7

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 Requesting a House special committee on
6 the permanent fund.

7 BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES:

8 WHEREAS, on November 2, 1976, the majority of the voters of the State of
9 Alaska approved a constitutional amendment to establish a permanent fund
10 whereby not less than twenty-five per cent of the rentals, royalties, certain
11 shared revenues and other proceeds would be set aside and invested in income-
12 producing investments; and

13 WHEREAS the constitutional amendment approved by the voters directs
14 investment of the revenues derived from the state's nonrenewable resources
15 only in investments specifically designated by law; and

16 WHEREAS the establishment and implementation of a permanent fund repre-
17 sents an opportunity for the State of Alaska to provide for long-term
18 planning and support of the development of Alaska's renewable resources and
19 other elements of the economy and will contribute to improvement of the
20 economic life of Alaska for the benefit of the present and future generations;
21 and

22 WHEREAS the Alaska State Legislature has a paramount role in the estab-
23 lishment and operation of a permanent fund in that it shall determine the
24 structure of the fund and define the scope of permissible investments;

25 BE IT RESOLVED by the Alaska House of Representatives that the Speaker
26 of the House of Representatives appoint a special committee of not more than
27 five members of the House to constitute a working committee to study alter-
28 natives in the implementation of an Alaska permanent fund and to report its
29 recommendations to the members of the House.

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Introduced: 5/2/77
Referred: Special Committee on
the Alaska Permanent Fund and
Finance

1 IN THE HOUSE

BY GRUENING, GARDINER AND MEEKINS

2 HOUSE BILL NO. 515

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the Alaska Permanent Fund."

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

8 * Section 1. AS 37.10 is amended by adding a new section to read:

9 Sec. 37.10.055. DEPOSIT IN ALASKA PERMANENT FUND. The commis-
10 sioner of revenue shall deposit in the Alaska Permanent Fund at least
11 once each month 25 per cent of the receipts from all mineral lease
12 rentals, royalties, royalty sale proceeds, federal mineral revenue-
13 sharing payments and bonuses received by the state, except that, com-
14 mencing July 1, 1978 and terminating July 1, 1985, the amount deposited
15 by the commissioner in the Alaska Permanent Fund under this section
16 shall be (1) at least 37.4 per cent of the receipts from these sources
17 or (2) if the legislature determines by joint resolution that another
18 percentage would, because of revised revenue estimates, be more appro-
19 priate to insure that the total deposit will result in the sum of
20 \$900,600,000 being deposited by July 1, 1985, in addition to the sum
21 resulting from the 25 per cent deposit, then that percentage.

In Senate Person: Fund Comm. file copy

Introduced: 5/5/77

Referred: Interim Committee on
the Alaska Permanent Fund and
Finance

1 IN THE SENATE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

2 SENATE BILL NO. 348

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the distribution of income from
7 the Alaska Permanent Fund; amending rules of procedure;
8 and providing for an effective date."

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

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

11 CHAPTER 18. DISTRIBUTION OF INCOME FROM ALASKA PERMANENT FUND.

12 Sec. 37.18.010. POLICY, FINDINGS, AND PURPOSE. (a) It is the
13 duty and policy of the state with respect to the natural resources
14 belonging to it and the income derived from them to provide for their
15 utilization, development, and conservation for the maximum benefit of
16 its people.

17 (b) The legislature finds that there exists in Alaska a serious
18 problem of population turnover. A substantial portion of the state's
19 population is comprised of individuals who reside in Alaska for only a
20 relatively short period of time. This is especially true in the
21 state's larger cities. This constant turnover in population leads to
22 political, economic, and social instability and is harmful to the
23 state. It is in the public interest for the state to promote a stable
24 resident population.

25 (c) The legislature also finds that the demands on and costs of
26 state government have increased over the past few years at an excessive
27 rate and that this increase has been permitted to occur, at least in
28 part, by a feeling on the part of much of the electorate that those
29 demands and costs do not have a significant economic impact upon them

1 personally. It is in the public interest for the state to promote the
2 involvement of its citizens in the budget making process by providing
3 them with a more personal and direct stake in the outcome of budget
4 decisions.

5 (d) The legislature finds that establishment of a mechanism for
6 direct distribution to the people of at least half of the annual
7 income of the Alaska Permanent Fund, and by which an individual's
8 portion of that distribution will increase the longer he continues to
9 be an Alaska resident, will promote the purposes of encouraging a
10 stable resident population, and of providing the people with a more
11 personal and direct stake in the outcome of the state's budget decisions,
12 and ensure an equitable distribution of at least a portion of Alaska's
13 resource wealth among Alaska's citizens, who are its equitable owners.

14 Sec. 37.18.020. TOTAL AMOUNT OF ANNUAL DISTRIBUTION. No later
15 than the second day of each regular session of the legislature, the
16 commissioner shall report to the governor and the legislature on the
17 income from the Alaska Permanent Fund deposited in the general fund
18 during the fiscal year which ended on the preceding June 30. The
19 legislature shall appropriate at least 50 per cent of that amount to
20 the department for distribution under sec. 80 of this chapter.

21 Sec. 37.18.030. AMOUNT OF ANNUAL PAYMENTS. Each of the annual
22 payments to be distributed under sec. 80 of this chapter shall be
23 equal to the quotient of the amount appropriated pursuant to sec. 20
24 of this chapter divided by the total number of duly credited shares as
25 of December 31 of the year last preceding the year in which the appro-
26 priation was made.

27 Sec. 37.18.040. ELIGIBILITY FOR SHARES. (a) As of December 31,
28 1979, each eligible resident of Alaska who makes timely application
29 under sec. 70 of this chapter shall be credited by the commissioner

1 with one share under this chapter for each five-year period since
2 January 1, 1974, in which he has been an eligible resident, as defined
3 in sec. 100 of this chapter, or would have been but for being too
4 young by five years or less to register to vote.

5 (b) Shares are not transferable in any way whatsoever, and no
6 payments may be made, other than as expressly provided in sec. 80 of
7 this chapter, to anyone other than the eligible resident. Shares do
8 not survive the death of their holder, and any alienation is void as
9 against public policy. If a share should be declared or ordered by a
10 court to be alienated in any way, it ceases to exist for purposes of
11 this chapter until and unless it is restored to the person from whom
12 it was alienated.

13 Sec. 37.18.050. ELIGIBILITY FOR ANNUAL PAYMENTS. Each eligible
14 resident of Alaska, who has one or more shares under this chapter, and
15 who makes timely application under sec. 70 of this chapter, shall
16 receive one annual payment for each share to which he is entitled
17 under sec. 40 of this chapter.

18 Sec. 37.18.060. DETERMINATION OF ELIGIBILITY. (a) Any person
19 who applies for a share or for an annual payment or payments must make
20 proof of eligibility satisfactory to the commissioner. The commis-
21 sioner may not credit any person with a share or make a payment to any
22 person until and unless proof of that person's eligibility sufficient
23 to satisfy a reasonable person has been made to the commissioner.

24 (b) Proof of eligibilty may be made by applicants from school
25 attendance records, state and local tax and licensing records, voter
26 registration records, birth and marriage certificates, selective
27 service records, sworn affidavits from others having knowledge of a
28 person's residence, and other forms of documentary evidence which a
29 reasonable person would rely on in the conduct of his own affairs. An

1 affidavit from an applicant without supporting evidence of eligibility
2 is not satisfactory proof of eligibility.

3 (c) A person may attempt to make proof by waiving his right to
4 privacy and authorizing the commissioner to make a search of any and
5 all local, state, and federal records and any private employment
6 records which may tend to prove his eligibility. The commissioner's
7 making any search of records is entirely discretionary, and he is
8 under no duty to make the search or to exercise reasonable care in
9 making the search, if he does so; the entire risk is upon the applicant.

10 (d) Upon his determination of a person's eligibility for a share
11 or for an annual payment, the commissioner shall, by first class mail,
12 notify the person of that determination. If the person is determined
13 to be ineligible, he shall be informed by certified mail, of the
14 following:

15 (1) the reason for his ineligibility;

16 (2) that he may file additional proof and/or file a request
17 for a hearing before the commissioner at which to present proof of his
18 eligibility; and

19 (3) that his failure to do one or the other within 30 days
20 makes the decision final and unappealable.

21 (e) If a person does not file additional proof or file a request
22 for a hearing with the commissioner within 30 days after his receipt
23 of the commissioner's notice of the determination, the commissioner's
24 decision becomes final as to the period involved and there can be no
25 further appeal. This time limit is jurisdictional.

26 (f) If a person files additional proof or files a request for a
27 hearing with the commissioner within 30 days after he receives the
28 commissioner's notice of the determination and, after the additional
29 evidence has been considered or the hearing held, he is still deter-

1ained to be ineligible, he may appeal to the superior court within 30
2days after he receives notice of the final decision. This time limit
3is jurisdictional, and no suit may be brought after it has elapsed.
4In considering the appeal, the superior court is to review solely on
5the record which was before the commissioner and to use the reasonable-
6basis test on factual matters and its own judgment on the law. The
7same standard of review shall apply, if a further appeal is taken to
8the supreme court. This requirement is substantive, not procedural.

9(g) A person not eligible as of December 31 in any year may
10establish or reestablish eligibility as of December 31 in subsequent
11years.

12Sec. 37.18.070. APPLICATION PERIOD. (a) In order to receive a
13payment or to be credited with a share, an eligible person must first
14apply for one or both on the Alaska net income tax form or on another
15form provided by the commissioner.

16(b) The application covers the last preceding period ending on
17December 31 in which the applicant was eligible for a payment or to be
18credited with a share or both.

19(c) The application, together with the proof of eligibility
20required by sec. 60 of this chapter, for the year or five-year period
21claimed as of December 31 must be filed with the commissioner or, if
22mailed, postmarked no later than the following April 15. This filing
23date is mandatory. Any applications not timely filed or postmarked
24will be returned and the applicant is not eligible for the year for
25which the late application was made. This provision does not bar
26subsequent presentation of additional proof of eligibility so long as
27the application was timely filed. A year for which a person would
28have been eligible but for his failure to file a timely application
29may subsequently be counted toward a five-year period to be eligible

1 for a share under this chapter.

2 Sec. 37.18.080. ANNUAL PAYMENTS. (a) Payments shall be made as
3 soon as practical after January 1 of the year following the application.

4 (b) If the payment is to a person presently incarcerated as
5 punishment for committing a crime, it shall be made to the Department
6 of Health and Social Services to offset the expense to the state of
7 the incarceration.

8 (c) At the request of the person to whom payments are to be
9 distributed and to the extent allowed under federal law, distribution
10 of payments may be deferred or otherwise set aside so as to defer the
11 payment of income taxes. Payments may also be made as tax credits or
12 rebates at the request of the person to whom payments are to be
13 distributed.

14 Sec. 37.18.090. PENALTIES. (a) Any person who wilfully submits
15 false or misleading information to the commissioner in making proof of
16 his eligibility or of the eligibility of another is guilty of a mis-
17 demeanor.

18 (b) In addition to any criminal penalties imposed, any person
19 convicted of violating (a) of this section whose conviction is not
20 reversed is not, and can never become, an eligible resident under this
21 chapter, forfeits any shares with which he may have been credited, and
22 is not, and can never become, eligible to be credited with any shares
23 or to receive any payments.

24 Sec. 37.18.100. DEFINITIONS. In this chapter, unless the context
25 requires otherwise,

26 (1) "commissioner" means the commissioner of revenue or his
27 designee;

28 (2) "department" means the Department of Revenue;

29 (3) "eligible resident" means any person who is registered

1 to vote under the Election Code, is a resident of Alaska under AS
2 15.05.020, filed (or whose parent or parents filed) a resident Alaska
3 income tax return for the year preceding his application, and was
4 physically present in Alaska for more than one-half the period between
5 January 1 and December 31 last preceding his application for one or
6 more payments, for a share, or both, or who, if not so physically
7 present was temporarily absent for reasons of professional, vocational
8 or other special education for which a comparable program was not
9 reasonably available in Alaska, post-secondary education, military
10 service, medical treatment, or service in Congress;

11 (4) "five-year period" includes any cumulation of periods
12 within a span of no more than 10 years which totals five full years;

13 (5) "share" means a right to receive payment from the
14 annual distribution made under this chapter and credited by the
15 department to an eligible resident.

16 Sec. 37.18.110. NONSEVERABILITY. If the residency requirements
17 of this chapter are invalid, the provision is nonseverable, and the
18 entire chapter is invalid and of no force or effect.

19 * Sec. 2. In sec. 1 of this Act, the enactment of AS 37.18.060(e) and
20 (f) has the effect of imposing a jurisdictional limitation on the operation
21 of Appellate Rule 45, Alaska Rules of Court Procedure, in that an appeal
22 under the rule (having to do with appeals from administrative decisions to
23 the superior court) must be brought from the commissioner's decisions as to
24 eligibility within 30 days or the courts will have no jurisdiction to hear
25 it. This is an exercise of the legislature's authority over the jurisdic-
26 tion of the courts, but because it also effects an implied, narrow amend-
27 ment to Appellate Rule 45 by imposing this jurisdictional time limit instead
28 of the procedural time limit of the same duration which will continue to
29 apply to other appeals, this section has also been included.

1 * Sec. 3. This Act takes effect immediately, the first distribution
2 shall be made as soon as practicable after January 1, 1980, based on income
3 received during the fiscal years 1977 through 1979 to persons eligible as
4 of January 1, 1979.
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II. Review of the public mandate

A. Public Forum results.

1. Anchorage/Southcentral - 39% favored loans for development of renewable resource industries. Also some for new oil and gas money.
2. Fairbanks - Highest of all areas, 41% of Fairbanksans said they wanted the permanent fund to be loaned to develop renewable resource industries.
3. Southeast - 32% people (twice the percentage of any other option) said loan for development of renewable resources. A quote from the Public Forum Proceedings: "The enormous response to this choice as the top priority use of oil and gas revenues, set the tone for the regional workshop and most of the meetings from Skagway to Metlakatla."
4. Northern - 15% of people preferred loans for renewable resource industries (not a majority).

B. Town Meeting on Energy

1. Solar energy practical in the Fairbanks area? 62% yes; 16% no; 22% not sure.
2. Priorities for research support:

1st - solar	4th - hydroelectric
2nd - geothermal	5th - synthetic fuels
3rd - coal	6th - oil and gas

- C. Statement of the clear public mandate. To use the permanent fund and similar state funds such as the Renewable Resources Development Fund.

III. Plan: In order to accomplish this goal, financial support needs to be

significant enough to administer a small program, preferably through the present University of Alaska research administration, the office of the Vice Chancellor for Research. This office is required to insure accountability of research and coordinate work at the investigator level to be sure that a consistent, constructive program is maintained. This would require a basic allotment which should be adequate for paying for additional administration plus overhead, and should include an inflation-equalizing mechanism to be sure that inflation is accounted for. Also, the present research system requires that proposals for research be formal, specific and detailed which is very beneficial, since it is a good indication of the depth, preparedness, and competence which the proposer possesses. However, proposals require considerable time -- time which is expensive and not spent in ongoing research. For this reason, it is highly recommended that some funds be made available for proposal writing. Since about 20% of a researcher's time is spent on proposal and proposal research, it is felt that 20% of the annual research funds granted for this proposal be earmarked for proposal support.

The level of support for an ongoing Alaska Renewable Energy Research Unit depends on several elements:

1. The amount of money available from the aforementioned Renewable Resources Development Fund, the Permanent Fund earnings, and other resources,
2. The level of support necessary to provide an adequate support and research program, including what is felt to be "adequate."
3. The political importance and priority of developing alternative renewable energy resources for Alaska. This money should be

made available to fund proposals directly involving Alaska - specific energy research, but should also be available for use as seed money to solicit federal or other outside funds when the opportunity is available. In this way, maximum beneficial use can be made of the annual allotment money.

As a last feature of the program, we suggest that the program be given a reasonable degree of political autonomy, i.e. that the legislature appropriate the money at least biennially, with review every two or five years. In this way no bureaucracy need be created to administer the monies, other than the aforementioned administration. An additional policy or administrative agency is not deemed necessary to achieve the goals of this program. It can be efficiently accommodated within the present university research structure. In this way the multi-disciplinary nature of alternative renewable energy research can also be facilitated with a high degree of communication. Research results and findings can be distributed to the interested public through publications and the State Cooperative Extension Service.

The philosophical basis for this energy research is an important factor. It is very prudent and wise to move our energy demand to the renewable resources in Alaska, especially since it can be aided by the substantial amount of non-renewable capital. Lack of capital investment in both research and demonstration has always been a deterrent to the use of renewable resources. Alaska has no shortage of opportunity for renewable resources, but research in the past has suffered because Alaska-specific research was not

always relevant to "lower 48" problems. Consequently the federal government would balk at the funding of esoteric research. Alaska now has the opportunity to lead the way in researching and demonstrating its renewable resource potential and can provide a valuable research program to be used and modeled by other states and Canada.

Use of fossil fuels for space heating and power generation is becoming very expensive, and petroleum and coal are extremely valuable, too valuable in fact to continue to burn them unnecessarily. When we can use something else for power which is adequate, safe, and renewable, surely we should do so whenever possible. Renewable resources potentially can provide substantial amounts of energy to both urban and rural Alaska if fully developed in an environmentally aware and humanly concerned manner. Walt Kelly's Pogo comic strip has supplied one of the most relevant of quotes for Alaskans: "We are confronted with insurmountable opportunities." Although Alaska has many opportunities which it cannot surmount for various reasons, the establishment of a renewable energy resources research and development program is simply a matter of having the will and foresight to commit our permanent fund resources to this plan. It can be a great service to Alaskans and to the nation to provide badly needed development experience in renewable energy resources.

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, FOR THE RECORD MY NAME IS TIM WALLIS, PRESIDENT OF DOYON, LIMITED. I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK YOU AND THE COMMITTEE FOR TRAVELING TO FAIRBANKS TO RECEIVE PUBLIC INPUT ON THE PERMANENT FUND. IN THE EARLY STAGE OF THE CREATION OF THE PERMANENT FUND, AT WHICH TIME I WAS A MEMBER OF THE LEGISLATURE, I OPPOSED THE CREATION OF THE PERMANENT FUND. AFTER FURTHER CONSIDERATION I CHANGED MY POSITION AND VOTED FOR THE PERMANENT FUND LEGISLATION THAT WAS VETOED, AND VOTED FOR THE CONSTITUTIONAL AMENDMENT FOR THE CREATION OF THE PERMANENT FUND. AS A RESULT, COMMENTS OR CRITICISMS THAT I MAKE NOW OR IN THE FUTURE I HOPE WILL BE TAKEN IN THE MANNER THAT I AM TRYING TO ASSIST IN ESTABLISHING A WORKABLE PERMANENT FUND.

DOYON, LIMITED HAS SPENT CONSIDERABLE TIME AND EFFORT TO EXAMINE THE PROPOSALS FOR THE PERMANENT FUND. BECAUSE OF OTHER PRESSING ISSUES, IN PARTICULAR THE D-2 ISSUE, I AM NOT FULLY PREPARED TO COMMENT ON ALL ASPECTS OF THE LEGISLATION. WITH THE COMMITTEE'S PERMISSION, I INTEND TO SUBMIT FURTHER TESTIMONY AT A LATER DATE TO BECOME PART OF THE COMMITTEE'S FORMAL RECORD. ALSO, I WOULD INTEND ON TALKING TO YOU AND OTHER COMMITTEE MEMBERS ON AN INDIVIDUAL BASIS AS A PERMANENT FUND CONCEPT WINDS ITS WAY THROUGH THE LEGISLATIVE PROCESS.

THERE ARE A COUPLE OF POINTS I WOULD LIKE TO MAKE FOR THE COMMITTEE'S CONSIDERATION AT THIS TIME. FIRST, I RECOMMEND THAT THE LEGISLATION BE STRUCTURED SO THAT THE MAXIMUM AMOUNT OF LEVERAGE CAN BE OBTAINED FROM THE PRUDENT USE OF THE FUND. CERTAINLY THE SAME LEVERAGE TOOLS COMMONLY USED BY PRIVATE SECTOR MONEY MANAGERS SHOULD BE AVAILABLE TO THE MANAGERS OF THE PERMANENT FUND. THERE ARE AT LEAST FOUR WAYS THAT INCREASED LEVERAGE CAN BE ACCOMPLISHED IN THIS LEGISLATION:

1. THE FUND SHOULD BE PERMITTED TO PURCHASE EQUITY SECURITIES. THIS WOULD PERMIT PRIVATE VENTURERS TO RAISE MORE FUNDS FROM THE PRIVATE MONEY MARKET THAN MIGHT OTHERWISE BE POSSIBLE.
2. THE FUND SHOULD BE AUTHORIZED TO SUBORDINATE ITS LOAN POSITION IN FAVOR OF PRIVATE BORROWERS IN LARGE SCALE PRIVATE DEVELOPMENT PROJECTS. SUBORDINATION IS A TIME-TESTED TOOL WHICH CAN BE INVALUABLE FOR ALASKAN DEVELOPMENT PROJECTS WHEN EXERCISED WITH CARE BY FUND MANAGERS.
3. THE FUND SHOULD BE PERMITTED TO PARTICIPATE IN SYNDICATED LOAN ARRANGEMENTS. ONCE AGAIN, THIS IS PARTICULARLY IMPORTANT IN THE CASE OF LARGE SCALE PROJECTS.

4. FUND MEMBERS SHOULD BE PERMITTED TO MAKE LOAN GUARANTEES. LOAN GUARANTEES BY THE FUND WOULD INCREASE THE DEBT CAPACITY OF ALASKAN BORROWERS IMMEASURABLY. A DEBT GUARANTEED BY THE FUND COULD BE USED TO ATTRACT PRIVATE MONEY AT FAVORABLE INTEREST RATES AT NO DIRECT COST TO THE STATE. SUCH FAVORABLE INTEREST RATES MIGHT EVEN MAKE MARGINAL PROJECTS FEASIBLE, OR REDUCE THE RISK PREMIUM FOR HIGH-RISK PROJECTS.

IT SEEMS TO ME THAT A PRIMARY OBJECTIVE OF THE FUND SHOULD BE THE ATTRACTION OF PRIVATE CAPITAL TO ALASKA BY USING THESE TOOLS AND PERHAPS OTHERS THE FUND COULD BECOME A DYNAMIC FORCE IN IMPROVING OUR STATE FAR BEYOND PROPORTION TO THE FUND'S SIZE. I ENCOURAGE YOU STRONGLY TO GIVE THE MANAGERS OF THE FUND THE WIDEST POSSIBLE DISCRETION IN USING TOOLS TO INCREASE THE LEVERAGE OF THE FUND TO ATTRACT PRIVATE CAPITAL. IT APPEARS THAT GREAT DISCRETION WILL HAVE TO BE PLACED IN THESE MANAGERS IN ANY EVENT, SINCE THEY WILL HAVE CUSTODIANSHIP FOR A BILLION-DOLLAR-PLUS FUND. IT ONLY MAKES GOOD SENSE TO GO ONE STEP FURTHER AND GIVE THEM THE SAME KIND OF INVESTMENT TOOLS THAT RESPONSIBLE MONEY MANAGERS HAVE IN THE PRIVATE SECTOR.

MY SECOND POINT WILL BE BRIEF. I BELIEVE THE PORTION OF THE BILL CALLING FOR A POSSIBLE INVESTMENT OF 30% OF THE FUND IN "COMMUNITY DEVELOPMENT PROJECTS OF MUNICIPALITIES

AND PUBLIC CORPORATIONS" MAY NEED TO BE SPELLED OUT IN MORE DETAIL IN THE STATUTE. IF THAT SIZABLE PORTION OF THE FUND IS GOING TO BE AVAILABLE FOR THIS TYPE OF INVESTMENT THE DEFINITION OF COMMUNITY DEVELOPMENT PROJECTS SHOULD BE BROADLY CONSTRUED. FOR EXAMPLE, IN MANY LARGE SCALE PRIVATE DEVELOPMENT PROJECTS MANY QUASI-PUBLIC FACILITIES SUCH AS ROADS AND HEALTH CARE CENTERS MUST BE CONSTRUCTED. I BELIEVE THAT SOME FUND MONIES SHOULD BE AVAILABLE TO PRIVATE FIRMS CONSTRUCTING THESE QUASI-PUBLIC FACILITIES SUBJECT TO COVENANCE. THIS SECTION WOULD PERMIT PRIVATE COMPANIES WHICH MUST CONSTRUCT QUASI-PUBLIC FACILITIES ACCESS TO THE FUND. CERTAINLY MANY SAFEGUARDS COULD BE BUILT INTO THE ADMINISTRATIVE ORGANIZATIONS WHICH WOULD REQUIRE THAT THESE QUASI-PUBLIC FACILITIES SO FINANCED WOULD BE AVAILABLE FOR PUBLIC USE AT SOME SPECIFIED TIME. I RECOMMEND THE BROADENING OF THE LANGUAGE OF THE LEGISLATION TO INCLUDE PUBLIC TYPE INVESTMENTS BY PRIVATE COMPANIES. THE CURRENT LANGUAGE LIMITING INVESTMENTS TO MUNICIPALITIES OR PUBLIC CORPORATIONS IS TOO NARROW AND UNDULY RESTRICTIVE. AS I INDICATED AT THE BEGINING OF MY REMARKS, DOYON, LIMITED WILL HAVE MORE DETAILED PROPOSALS AT A LATER TIME.

I AM CERTAIN THAT WITHIN THE NEXT FEW MONTHS A CONSTRUCTIVE AND IMAGINATIVE BILL CAN BE DRAFTED TO MEET THE MANIFOLD NEEDS OF ALASKA'S ECONOMY.

*Send to Gardiner
Lone*

Permanent Fund
RI/ 9/14/77
1/3

My name is Ronald Inouye. I am a resident of Fairbanks and am employed at the University. My comments to you are strictly my own.

I appreciate this opportunity to share with you a few of my concerns regarding the Permanent Fund. Although the thoughts I will express may not fit directly into what may currently be the focus of this Committee's discussions, I do hope that a few of the ideas may creep into some of the Committee's minds and find a hospitable niche, to be retrieved at the appropriate time.

My plea is a pretty standard one, that of increasing help to state agencies for the preservation of historic and cultural artifacts and manuscripts. I believe we are all aware if the usual arguments for such material culture and manuscript preservation pleas resulting from vanishing lifestyles, big time economics decimating human values, etc., and those arguments still hold. However, I would like to pursue the issue a bit differently.

If the purpose of the Permanent Fund is essentially economic and your concerns are about accruing interest and getting "a good return for our dollar" I would like you to consider the following.

Tourism is a larger and larger part of our state's economy. Why do tourists come here? I bet it's not to see how many new homes have been built in Anchorage or Anaktuvuk or to shop in any of the new malls popping up all over the state like puffballs after a lucrative rain. Many of those tourists come up to see the undeveloped land and to look at the historic sites and artifacts of the past. The tourists love the local museums and historic buildings. They stay in hotels and spend money on transportation and meals when they visit those museums and historic places. Without those records of the past, the tourists

wouldn't be here.

What economic contribution comes from the current educational and research communities of our state which use as their raw material the resources of the past now discreetly preserved and made available for present use? Take a look not only at those on private and state payrolls servicing museums, archives and libraries, but also those who make use of the collections of those institutions. These depositories of information are located all over the state from Ketchikan to Barrow. The users of those depositories include the lawyer, the corporation executive, the environmental impact statement compiler-- all of whom are linked in their work to information from the past. They indirectly make their livings too from the past.

Needless to say I believe that there is a long-term return on the dollar for every penny spent by our state government in historic preservation and the acquisition and care of historic manuscripts and material culture collections. These are the kinds of things which I believe the state should be promoting too through its "Permanent Fund" development.

And while I believe that "Permanent Fund" monies should be partially devoted to such things I believe too that good management principles should be applied in the management of those monies.

Several years ago the Kate Pullen Alaska Memorabilia Collection was lost to and by the State. That historic Skagway collection was offered to the State as an intact collection and would have been an asset to the State. Unfortunately, the State was unable to get its act together and the Pullen Collection was sold off piecemeal to the highest bidder in Seattle. I was in Seattle during the sale and saw Alaskans there trying to retrieve bits and pieces so the items could

be returned to local museums in the state.

Regardless of our personal feelings about the value of the Pullen Collection, the situation points out that our state has inadequate policies to deal with such situations.

When first teaching in Ketchikan I was very interested in having students learn more about the Northwest coast artstyles, particularly that done in Southeast. In checking for good examples from the late 1800's and early part of this century I found that my students would need to go to Portland or Leningrad or Denver to see them. Is there not a way that some of those items could be returned to Alaska?

I feel guilty and powerless to do anything whenever I hear about another art dealer from Seattle, or Anchorage for that matter, buying another collection for disposition when really the State has a legitimate right to look out for the public's interest in such situations. This pattern continues because we have yet to find a creative way to ensure that the cultural materials and manuscripts of significance stay in Alaska, open for public use. Had we conceived of those materials initially as resources of increasing value and developed good management policies for their acquisition and use, we would not now be wringing our hands and bemoaning the loss of so many valuable aspects of our state's history.

Thank you.



Rep Russ Meekin Box 562
Fairbanks, Alaska

September 14, 1977

The Pod contains seeds from potatoes grown
in Ruby, Alaska this summer. The seeds can
State of Alaska be saved & planted a year or
Permanent Fund Hearings a thousand years from
Fairbanks, Alaska now, sort of a
living trust.

Gentlemen:

I am Jack O. Nakkila of
Fairbanks, Alaska. I am an
economist and business
consultant for Alaskan and
international ventures to include
development of agriculture,
offshore oil drilling, thermal solar
energy and interstellar travel.

The following is my testimony.

Sincerely,

Jack O. Nakkila

Testimony on State of Alaska Permanent Fund

Hearings: Fairbanks, Alaska Sept 14, 1977

Jack O. Hakikila

The Alaskan Permanent Fund through its creation has two immediate important connotations. It is permanent and it is for Alaskans. As a permanent fund for development purposes, it is important that long term goals for development of the state be established concurrently. And having as its objective, the assistance to Alaskan business development, it is important that the goals be achieved through the administration of the fund by Alaskans.

It appears through the handling of consultant roles through outside consultants, that once again Alaskans are being led to believe that the opportunities for investment are more golden elsewhere. Meanwhile Alaskan businessmen starve, go broke and die.

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While Alaskans are being told through the press of golden investment opportunities elsewhere, events of the past, and not too distant a past must be remembered.

The state of Alaska took in 900 million dollars through a lease sale at approximately 3000 per acre on the North Slope in 1969. A good example of the efficiency of the alternative investments in outside capital markets exists in the disposition of these Funds.

The basic Factors of economic production for several hundred years have been recognized as land labor and capital. Land is an all inclusive term in macroeconomic usage for natural resources. Similarly in recent years, human capital has become the all inclusive term for labor and the other human Factors in economic production.

-3-
While the Permanent Fund considers the disposition of that third fundamental item for economic production, capital, it must be remembered that effectively, capital can only be used with the other two resources.

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

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

I speak from personal experience.

On December 31, 1973 after spending three and one half years with New York Life

Insurance Co., one of the largest of the

American insurance companies, and having

submitted for consideration investment proposals

on shopping centers, apartment projects, and

other projects such as a medical clinic,

at no cost to the company. (This was a

service to clients & hopefully to the company)

^{speaker} This ~~was~~ was told that New York Life

would rather invest its money in projects

associated with another pipeline to Texas.

Alaska is too speculative. When the Vice

President making this statement was asked,

which is more speculative, investing where

the oil is running out or where the largest

reserves on the continent are being tapped.

a blank stare was the reply. The market



Having learned from three and one half years of experience with the leading insurance investor in Alaska that investment in Interior Alaska included the 1967 power plant at the El of Alaska and no more, that New York life was old & conservative, it would not do as a vehicle for a young & growing state, an attempt was made in 1974 to secure financing for Alaskans through private effort.

At the Bank of America, one of America's leading banks, a vice President admitted in August, 1974 that the company had twenty billion in loans it would like to consider in its own backyard. They were not interested in Alaska. Once again, ^{sound} economics could not justify business decisions.

In 1975 the firm of Merrill Lynch, Pierce, Fenner & Smith agreed to consider Alaska. While on their staff in San Francisco, the investment banking division indicated a sincere interest in Alaska. In May of

1975, the head of this firm's office doing business in Alaska told this writer, if anyone comes from New York to undertake energy related issues, it will be for the Seattle area in nuclear power & not for oil related activity in Alaska.

Personal experience in securing investors for the greatest investment experience in history through lower forty-eight institutions has not been good. Alaskans should not be asked to commit their development funds to these institutions to squander on irresponsible projects in their own backyards. Available ^{Natural Resources & human capital} ~~development funds~~ ^{Alaska} ~~that prudent use~~ ^{could be used} effectively in Alaska?

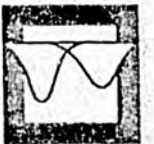
Let us proceed immediately to reality. Alaskans are being asked to transmit the most fundamental resources to lower 48 markets, petrochemicals, without processing. An immediate opportunity exists, for



investment in petrochemicals. Five million dollars would prove their Feasibility through a pilot plant.

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

Now let's turn for a moment to Creative Financing. Where can the greatest return be secured for society through the operation of the private enterprise system?



SAFETY OF STRUCTURES
UNDER DYNAMIC LOADING

- 8 -

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

It is proposed that an exchange be formed for patentable ideas.

Our system of economic enterprise

operates through a system of organized

Market. Stock & bond markets &

commodities markets operate by bringing

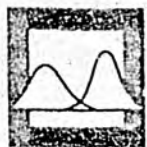
investor & speculator together in an

Organized Fashion to bid on tangible

and intangible products, tangible such as

Coffee, sugar & wheat & intangible such as

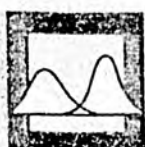
as stock certificates.



-9-

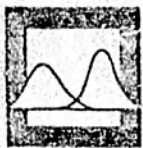
The only provision made today to capitalize on that most Fundamental of economic resources ~~of~~, ~~the~~ inventive ingenuity, can be made through the incorporation of it's values into the price of stock of existing companies. The inventor is afforded patent protection for a period of seventeen years by the U.S. government but his patents have no exchange value on an organized exchange unless their value is incorporated into the value of stock of a company ^{which} is traded through the stock exchanges. In the case of a patent whose value lies further down the road than seventeen years. no incentive lies in its disclosure.

The most creative of our inventors are in Alaska. The Alaskan permanent Fund can be established to afford



For the provision ^{for} an exchange ~~of~~ patentable ideas ^{which would} to hold and trade ideas whose value may not be recognized for one hundred years. A system of speculative houses would be necessary. Such houses could hold ideas, with patents applied for at such time as the house deems that they might become useful. In the meantime the inventor would be rewarded and could go on to the development of his next idea.

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



SAFETY OF STRUCTURES
UNDER DYNAMIC LOADING

- 11 -

Abundant natural resources and the
creativity of the human resources of
the residents of the State of Alaska.

Clark

Don Bennett



Arch Symposium

funneled thru
April Moore
in FBX

League of women voters; Peg Tillison

FBX

Laborex 942 McDonald

BA

Fred Hough - Joint Trades Council - retail clerks

Frank Murkowski

via Fisher as to other academic

Time

Chuck Reese

Sandra Stringer (Bill)

Frank Delong

Neil Beak

Long Mac Dermott

Dave Russell

Ed Perkowski

Jeff Knabel

Dr. William Phillips

A7I

Oper. Eng.

Carpenters

Resources

Dr. Wm Woods

YAH

465-3782



done

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IT SEEMS TO ME THAT A PRIMARY OBJECTIVE OF THE FUND SHOULD BE THE ATTRACTION OF PRIVATE CAPITAL TO ALASKA BY USING THESE TOOLS AND PERHAPS OTHERS THE FUND COULD BECOME A DYNAMIC FORCE IN IMPROVING OUR STATE FAR BEYOND PROPORTION TO THE FUND'S SIZE. I ENCOURAGE YOU STRONGLY TO GIVE THE MANAGERS OF THE FUND THE WIDEST POSSIBLE DISCRETION IN USING TOOLS TO INCREASE THE LEVERAGE OF THE FUND TO ATTRACT PRIVATE CAPITAL. IT APPEARS THAT GREAT DISCRETION WILL HAVE TO BE PLACED IN THESE MANAGERS IN ANY EVENT, SINCE THEY WILL HAVE CUSTODIANSHIP FOR A BILLION-DOLLAR-PLUS FUND. IT ONLY MAKES GOOD SENSE TO GO ONE STEP FURTHER AND GIVE THEM THE SAME KIND OF INVESTMENT TOOLS THAT RESPONSIBLE MONEY MANAGERS HAVE IN THE PRIVATE SECTOR.

MY SECOND POINT WILL BE BRIEF. I BELIEVE THE PORTION OF THE BILL CALLING FOR A POSSIBLE INVESTMENT OF 30% OF THE FUND IN "COMMUNITY DEVELOPMENT PROJECTS OF MUNICIPALITIES

AND PUBLIC CORPORATIONS" MAY NEED TO BE SPELLED OUT IN MORE DETAIL IN THE STATUTE. IF THAT SIZABLE PORTION OF THE FUND IS GOING TO BE AVAILABLE FOR THIS TYPE OF INVESTMENT THE DEFINITION OF COMMUNITY DEVELOPMENT PROJECTS SHOULD BE BROADLY CONSTRUED. FOR EXAMPLE, IN MANY LARGE SCALE PRIVATE DEVELOPMENT PROJECTS MANY QUASI-PUBLIC FACILITIES SUCH AS ROADS AND HEALTH CARE CENTERS MUST BE CONSTRUCTED. I BELIEVE THAT SOME FUND MONIES SHOULD BE AVAILABLE TO PRIVATE FIRMS CONSTRUCTING THESE QUASI-PUBLIC FACILITIES SUBJECT TO COVENANCE. THIS SECTION WOULD PERMIT PRIVATE COMPANIES WHICH MUST CONSTRUCT QUASI-PUBLIC FACILITIES ACCESS TO THE FUND. CERTAINLY MANY SAFEGUARDS COULD BE BUILT INTO THE ADMINISTRATIVE ORGANIZATIONS WHICH WOULD REQUIRE THAT THESE QUASI-PUBLIC FACILITIES SO FINANCED WOULD BE AVAILABLE FOR PUBLIC USE AT SOME SPECIFIED TIME. I RECOMMEND THE BROADENING OF THE LANGUAGE OF THE LEGISLATION TO INCLUDE PUBLIC TYPE INVESTMENTS BY PRIVATE COMPANIES. THE CURRENT LANGUAGE LIMITING INVESTMENTS TO MUNICIPALITIES OR PUBLIC CORPORATIONS IS TOO NARROW AND UNDULY RESTRICTIVE. AS I INDICATED AT THE BEGINING OF MY REMARKS, DOYON, LIMITED WILL HAVE MORE DETAILED PROPOSALS AT A LATER TIME.

I AM CERTAIN THAT WITHIN THE NEXT FEW MONTHS A CONSTRUCTIVE AND IMAGINATIVE BILL CAN BE DRAFTED TO MEET THE MANIFOLD NEEDS OF ALASKA'S ECONOMY.

- 1) Do you own or have you owned a business in Alaska?

_____ Yes

_____ No

- 2) If you checked "yes" to question #1, what type of business do you or have you owned?

Please explain nature of
business venture:

_____ Retail sales (grocery,
boats&motors, snow vehicles,
etc.)

_____ Services (cafe, movie
theater, professional, etc.)

_____ Other (agricultural, logging,
fishing, etc.)

- 3) If you checked "no" to question #1, have you ever thought seriously of entering business for yourself or with partners?

_____ Yes

_____ No

Please explain type of business enterprise you would be interested in.

- 4) Have you ever applied for a bank loan in any of the following categories?:

_____ Home mortgage

_____ Automobile loan

_____ Home construction

_____ Agricultural loan

_____ Small business

_____ Other (please specify)

_____ Personal loan

- 5) If you checked any of the loan categories in question #4, was the loan/s granted or denied?

_____ Granted

_____ Denied

If denied, please explain.

- 6) Was bank consideration of your application: ☐ Satisfactory
☐ Unsatisfactory

Please explain.

- 7) Have you ever attempted to get loans from sources other than commercial banks?

☐ Yes

☐ No

If "yes", from which of the following?:

☐ State loan

☐ Friends or family

☐ Federal loan

☐ Personal resources

☐ Credit union

☐ Other

Please give any details you feel are relevant.

- 8) Do you think loans are adequately available to Alaska residents?

☐ Yes

☐ No

Please explain.

- 9) We would appreciate any further statement or information you may wish to give relevant to credit and opportunities in Alaska.

10) With which of the following state loan programs are you familiar?

- | | |
|---|---|
| ☐ Veterans | ☐ Fisheries Enhancement |
| ☐ Small Business | ☐ Commercial Fishing |
| ☐ Small Business Development Corporation | ☐ Alaska State Development Corporation |
| ☐ Child Care | ☐ Water Resources |
| ☐ Tourism | ☐ Alaska Housing Finance Corporation |
| ☐ Agriculture | ☐ Senior Citizen Housing |
| ☐ Student Financial Aid | |

11) Please comment on your impressions of the state loan programs.

12) What rate of interest do you believe the state should charge for its loan programs and Permanent Fund loans?

13) With which of the following federal loan programs are you familiar?

- | | |
|---|--|
| ☐ Bureau of Indian Affairs (BIA) | ☐ Small Business Administration (SBA) |
| ☐ Farmer's Home Administration (FHA) | ☐ Other (please specify) |

What are your impressions of the federal loan programs?

14) In which areas would you like to see the Alaska Permanent Fund make loans available?

- | | |
|---|---|
| ☐ None | ☐ Education |
| ☐ Housing | ☐ Environment |
| ☐ Small Business | ☐ Other (please specify) |

If you have any personal ideas or suggestions regarding the Alaska Permanent Fund, please write or call. Your input will be very much appreciated as we begin formulating the legislation to determine the structure and activities of the Permanent Fund. Thank you for your cooperation.

Additional comments:

May we contact you personally or by phone? ☐ Yes ☐ No

Name

Address

Telephone

Please return completed questionnaire to:

Senator George Hohman, Chairman
Senate Permanent Fund Committee
Pouch V
Juneau, AK 99811

Telephone: 907 465-3880/465-3743

The hearing was called for order.

Present were: Clark Browning, Chairman of
the Committee, Senator H. A. ^{Feb 1890} ~~Wright~~ ^{Chapman}
of Senate Spec. Com. on P.H., Com. ment -
Schacoffi Hayer, Hanger, Gardiner, Doogen ~~in~~ to Coma.
Charlie Park

Chm. Canning introduced the Com.
and the

and called for comment, without
distracted from the audience on the
bliss.

Mr. Robert Rogest suggested that the Pth word
for ~~last~~ for speaking with high energy efficiency. He
emphasized aspects both monetary ^{and} oil are
involved. He explained that high energy efficiency are
more conservative ^{very} alternative energy sources
for heating and used his home as an example.

Ed Callaghan of Fbks. expressed his opinion
that the PF could be used as a tool
to constrain ~~state~~ ^{state} spending or ~~new~~ ^{new};
later on to replace ~~the~~ ^{new} methods.
That the St. was used to take in 7. W a St.
Budget of 389 million, if the PF contain
30 to 35 billion could not, the interest maintain
the whole of budget. He suggested that
the St. do everything in it power to

HB

He complemented ~~the~~ 682 for its establishment of a public corp & particularly the growth sec because the private sec is not in the position to step into these risky investments.

Former
Senator Paul Haugland ~~commented~~
was recognized in the audience &
~~commented to the Committee that~~
~~private consultant~~ & made some
commentary about his experience in Ak.
He suggested the Legislature obtain the best financial consult
possible.
Kevin Heron - T-bks B. assembly mn.
suggested we need to consider what
we are going to do when the oil runs out.

The Committee recessed for lunch
& returned at 1:30 PM w/ Chairman
of the Senate Spec. Comm on the Gen
Fund George Johnson also present.

Alan Bloom recommended ~~the~~ 7% of
the interest returned from the ~~primary~~ fund to the
planning fund. ~~for~~ by earmarking
a % specifically for welfare & social
service delivery and cutting back appropriation
from the General Fund thereby
directly benefiting all taxpayers.

Tim Wallace, Pres of Canyon Ltd. ~~comment~~
offered some amendments for HB 682.

Pg. 1 line 24 delete "constant" & insert
"a fluctuating".

Pg. 1 line 27 delete "non-stable" insert
"seasonal".

financial
to show a more optimistic outlook
to outside investors

Pg. 3 li 23 ^{this} involves politics more &
makes a board member answerable
to the Governor instead of two bodies.

Bond guarantees for small contractor need
most used as a use for the fund.

Harold Gilliam suggested ^F monies should be
available to
municipalities ~~that have overlooked in~~
~~setting up the demand fund. The money should~~
to ~~be used for low interest rate bonds from~~
~~purchase of~~ offered by municipalities
~~municipalities~~

SCOMM

#9:192

#192

SYMPOSIUM--September 10, 1977
Anchorage Westward Hilton

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

Introductions made by Chairman Gruening--continues:

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

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

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

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

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

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

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

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

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

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

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

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

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

BERGMAN: Why don't I stop here.

GRUENING: That wasn't intended to cut you off.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BERGMAN: Stock and General Motors

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

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

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

GRUENING: Any questions here of Dr. John Havelock?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BERGMAN: What about the privates on the base?

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

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

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

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

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

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

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

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

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

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

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

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

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

GRUENING: Senator Rodey.

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

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

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

LOVE: Okay. Are the microphones working?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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