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is who's better off than they otherwise would be? The economy isn't somebody 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, 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. The \$80,000 is not coming in an instant. It wouldn't be a check. I think that would be pretty hard to resist. I think realistically, that if the state of Alaska did propose to send every family a check for \$80,000, the people of the United States would re-think the ownership of those resources. The fact that it does come over a period and it is not being handed out in cash to the residents of the state, to some degree maps the fact that is in part what is going to happen regardless of the scenario you adopt.

I think when you talk about taking either the capital sum and doling it out as it comes in, 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.

I think there is a difference in what individuals might do and what they might compact as a body politic to do. 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. 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 is I've been trying to avoid getting involved in the Permanent Fund controversies entirely. 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 at 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 that rate. 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 Public Interest Research Group. Go at it Jamie.

LOVE: 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 of 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. I know that there's one sort of philosophical difference that's emerging right now and that is on this issue of 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. 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, 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, 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 rathole and a pressing need for a lot of people. I don't always think it's just the project per se. There are examples, there are times when the same project can turn out to be either one.

Most of us are familar with a lot of efforts to develop housing in rural parts of Alaska. It's 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, 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. 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. There is a tremendous recognition by a lot of people. There's a lot of waste in mismanagment. There's some other reasons why the housing wasn't done properly in some areas. 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 taken a big quantative jump into a new area of running the government and providing services. 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--this has been elaborated in some detail by earlier consultants.

Dr. Daniels and Dr. Tussing 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 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, I'm talking primarily about social investments. Those monies that are invested domestically in Alaska, 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 the home loan was equal compared to the person who got a cheap loan 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. 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. 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 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, 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 known already. What struck me as a bad thing to start out with, if we're talking about managing the Permanent Fund. 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. 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 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 not 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 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? 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?

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. 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 per se, 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 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 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 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 that the community has to pay for. It has to pay for higher housing costs, if that housing is lost and has to be constructed at 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, it can make some wise, some real contributions in that area and still make good bottom-line economic sense. I 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 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 results in the very high utility rates. 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. Secondly, it may allow to implement such things as local hire and other types of social considerations. This is an area 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, for example, a foreign-owned fishing cannery. 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 intermediary that is feasible to provide financing to very small communities in Alaska. Commercial banks simply will not ever be a feasible economic intermediary 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.

I'm going to have to cut this short because my notes are going a lot longer than I wanted to. 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. 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 intermediary would depend upon the legal structure that the legislature sets up to management. 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 somebody else on its credit rating. 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 per se about financial areas. I, personally, don't think I've been addressing my remarks so much to the Permanent Fund per se 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. 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 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 amount of surplus in the treasury. 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. 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 terms of the annual income from natural resources per person or per family unit 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, there's always a scarcity in priorities. 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. 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 years on down the road because there is going to be money in the treasury. There is going to be money in the Permanent Fund.

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

Already I hear people talking about the use of the Permanent Fund in its relation to the general fund. The Permanent Fund makes loans to income producing loans. Okay. Why can't the general fund borrow money from the Permanent Fund and promise to pay it back at 5% interest? I hear that sort of thing going on. I worry about that. No state has been in a situation like this, and I think, it's going to bring about some changes in some very different kind of pressures than we're used to in Alaska.

I think, we look at why people voted for the Permanent

Fund in the first place. I think the kind of dialogue that's going to go on this year where Clark's committee and other people are going to be going out and having meetings around the state to try to re-assess why people did vote for the Permanent Fund and what they were thinking about when they voted for it, and now that it's a fact, what is going to be done with it. To a large extent, people voted for the Permanent Fund because they had a feeling that there was going to be an excess in the treasury and they were concerned about the legislature spending the money. It was kind of a reflection of that traditional American hostility to government that we seem to bring along as a tradition in part of our political heritage.

So you set it aside into a fund that the legislature can't spend, but what you also do is you create another mechanism, and you create managers of that fund, and how accountable to the people are the managers of that fund? The legislators are really accountable to the people. If there's any fault in the system, maybe we should look to that rather than to setting up another layer for managing the fund that might not be responsive to public needs or public desires.

I am concerned about the Permanent Fund and the surplus revenue question from the standpoint of its effects on dividing the state politically in the future. Already we're having problems in differences of direction between urban Alaskans,

who live in Anchorage and Fairbanks and Juneau, and rural Alaskans, who live in small villages and have a different set of concerns and priorities. I think, you'll find that many rural Alaskans are skeptical of the Permanent Fund and the reasons by which it's been created. This whole dialogue we're going through here today is because the Permanent Fund is more of an urban orientated kind of a thing. They look at the requirement for safe investments to be made by the Permanent Fund; yet they know that many rural loans are in the frontier, high-risk area. They're concerned that a lot of those loans will wind up going to large scale development projects to benefit primarily cities and the urban areas and the urban work force.

They also realize that a lot of their benefits come from the state programs, state services in rural areas. They are concerned that if more money is dedicated out of the general fund, more than 25% of royalties into the Permanent Fund, then it will tend to short change the services and the kind of programs they are getting. I worry about that.

We have no place to really look for examples on how to cope with this problem. We do have a couple examples here in Alaska. We have the case of what happened to the \$900 million from 1970. Now, there was a situation where

there were surplus revenues, and we can look to how it was handled by the government. There's been a lot of debate and a lot of pro and con about what happened to the \$900 million. To a large extent, I think, the case can be made that the money was used for things people wanted. People asked for that money to be spent. If you look at the record, you'll see that a lot of it, probably most of it, went for education, because people asked for it. I think those kind of pressures are going to happen again in the future. That's really all I have to say.

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

LINDAUER: I'd like to remind everybody that we really have two aspects to this thing. We keep running them together. We have the question on how to spend the income that's going to come off this thing. And we have the question of the investments that are going into it. It seems to me, that we're continually talking about the income, but as a matter of fact, it may well be that how we make the investments are going to have more impact on those people who are in Alaska today. I'm going to come to that.

There's also the question of what our objectives are.

I'm not so sure we've specified them. That is, how much of what we are doing is for us and how much of what we're doing should be for people in the lower 48 or for our grandchildren to make them even more richer than they're otherwise going to be, richer than we are. I don't think we've really decided whether it's for us or for the future.

We've had many, many proposals as to what to do. Almost all of them, as far as I can see, with the exception of the Alaskan, Inc. kind of distribution of income, would appear to have no real benefit for the people who are in Alaska today in terms of improving the general quality of the life of the mass of the people and their standard of living, perhaps even for future Alaskans. Most of them would tend to make Alaskans more numerous rather than better off.

I'm primarily concerning myself now with the investments and how the capital is put together rather than the income and how it is spent. I think it would be a terrible shame if we said that the main impact on the day to day life of the average Alaskan was, he got stuck in a few more traffic jams and was three deep at the Russian River instead of shoulder to shoulder. At the present time, I'd say that we're likely to be three deep. That bothers me because for better or for worse, Alaska owes nothing to the New York City bond brokers. It really does not have an obligation to

provide a job for everybody who wants to come up here to find one. Indeed, the panelists and their comments about labor mobility are all too correct because people will come up here to take advantage of these things. The average Alaskan will, in fact, not be better off. The goals for both income and investment, again separating them, should be to use them both to directly benefit and encourage today's Alaskans to have a better quality of life, more prosperity, and hopefully to do so, I think we can, in such a way as to build a tax base so that we will be able to continue that higher quality of life and standard of living at such a time in the future for our grandchildren when the oil runs out.

What I'd like to do very briefly is throw out my comments on the major proposals that I've heard in the most summary form and tell you why I've come to these conclusions.

Let's take the development bank project and let's talk about spending \$1 billion for a big power plant or some huge, massive traditional development bank. No matter what we call it, once we set up a major, highly financed development bank, it's going to function like a development bank of projects. I find it very difficult to believe that a dam that's going to take 20 or 30 years to build is going to have any great impact on the quality of life of people now living in Alaska. It's true that when the

thing comes on line there'll be more electricity, I assume that that will then generate electricity for the additional people who are in here building the things that the public development bank has promoted. The average Alaskan even then will be in no way better off.

In any event, such projects, for better or for worse in today's world, would be built by Washington, if they had any sense or any merit at all. The Corps of Engineers has never been known not to build a public works project if they could, in any way, be justified. So the fact that we would build those that they wouldn't, suggests to me, that we'd have a rat-hole factor there that would be monumental; approaching infinity, I think.

Big projects like that probably ought to go in front of the voters and certainly can be bonded by the legislature and discussed at the legislature and put on a bond issue if they really have merit, and we just can't get Washington to provide them the way they would for all the other states in the Union, if for some reason Washington will start to ignore us in that fashion, then the legislature can take action. I really don't see any need to have a development bank for major, huge subsidy projects.

There's also the possibility of gilt-edge investments,

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

There's also the suggestion that we ought to make such things as direct loans and guarantees to Alaskans and Alaskan businesses, and that has some merit in it. The trouble is that if we make them directly, there's too much chance that the loans and guarantees will be made on a political basis instead of an economic basis. Everyone who has a good loan will go to the bank; everybody who has a bad loan will go to the Permanent Fund. The net result of that is going to be that we will probably lose a lot of our capital. The Permanent Fund will unnecessarily be saddled with a great deal of public disenchantment. Overall, it's a net loss, I'd like to make

a suggestion which might kill the two birds that we need to have killed. That is to provide benefits for Alaskans as well as benefits for future Alaskans without having that kind of risk involved.

What I would think we should do heavily, at least with some of this money, would be to put it into the financial institutions of Alaska that are here today for the purpose of making the banks, the savings and loans, the credit unions, whatever the financial institutions are of the economy today and those that might be established for the purpose of making low interest loans in certain areas, certain socially desirable areas.

The one that particularly springs to mind is housing. It's very important that everybody realize that financial institutions do not make their money because there's an absolutely high level of interest such as 10% or 9 5/8 or whatever the rate is. They make their money on the spread between whatever it takes and whatever they loan it at. Getting it at 7 and loaning it at 9 gives them the same profits as getting it at 2 and loaning at 4. It's the risk differential and the administrative costs that must be covered. The Permanent Fund could definitely provide very low interest loans to the financial institutions to handle such things as making loans to the village utilities

if that's socially desirable, or any other things that would be so enumerated. Housing, what have you? I would really suggest that this should be done. If we can improve the quality of life for Alaskans by letting them have better housing, that's something that can be done immediately and will affect the whole mass of people. It's also building a tax base. The same thing through lower utility costs. It is a form of subsidy which will get out to all the people whereas a major subsidy that just causes one or two big dams to be built or major capital projects will fundamentally benefit a handful of engineering companies that are headquartered in New York City or wherever the major engineering companies are headquartered.

I submit to you again, that our responsibility is to Alaskans and to improve the quality of their life. It is not to provide jobs and incomes for people who do not live in Alaska. If we can build the tax base for the future through such investments and subsidies, and that's what they are, and simultaneously provide an access to a better quality of life, and the one things we see right now in the economy of Alaska is a massive move toward the upgrading of housing. I would submit that that is an area in which the legislature and everyone else needs to take a very serious look.

The only other thing I would say is, please notice

that I'm talking about the investments in the principal in the Permanent Fund. I am not talking about how we ought to spend however the income comes. We should seriously consider such things as Alaska, Inc., or variations of that if that is politically impossible, which would get the benefits back to the people directly and not send them into a few large projects that are oriented towards outside the state and very delayed benefits.

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

GRUENING: Thank you for that optimistic outlook.
Barbara.

BERGMAN: Okay, I'd like to say a few things about Dr. Lindauer's remarks. There's a little confusion on whether present day Alaskans are too well off or not well enough off. Here you've got the oil revenues coming in. One sort of rationale, we're segregating them in the Permanent Fund is in some sense we're too well off. That is, the present day Alaskans are lavishly provided for in terms of public service if the money were not put into the Permanent Fund. What that would argue is that some of the

money should go into the Permanent Fund again primarily for the benefit of future generations of Alaskans. Some of it should not go into the Permanent Fund, some of the revenue should be used to lower taxes for example. That's what that would argue.

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

LINDAUER: Five years ago they would have.

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

LINDAUER: That's not what I suggested.

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

LINDAUER: I didn't mean that implication. Let me tell you

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

BERGMAN: That relates to the issue of how well off the present day Alaskans are. Do they have needs that ought to be met out of the present day oil revenues? What you're saying is yes. I think, that's something that is essentially a political question that has to be determined.

Now, there's sort of a subrosa question here which hasn't come out explicitly, perhaps it has, I think it ought to be out and discussed a little more, that is the problem--do you want to give benefits to the present citizens of Alaska and positively avoid giving benefits to people who will migrate subsequently or people who have migrated recently? There are pros and cons on this. Even if you

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

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

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

LINDAUER: I didn't really discuss how to spend the income. I have my own value judgement, without thinking it through, I would use it to have a form of property tax relief to encourage, again, the average citizen, who is in Alaska, to benefit by being able to afford a better class of housing, if that's what that person wants.

I was discussing the question of how to make the investments of the principal of the capital of the Permanent Fund and suggesting that we would be better off if the principal, wherever possible, was invested in Alaska in such a way as to build a tax base and in such a way as to benefit Alaskans. I still believe that we owe nothing to bond brokers in New York and we owe nothing to a handful of engineering companies who would come up here to make major capital projects and bring in itinerate laborers who would come in and out, we would get little, if any, benefit from this. I'd rather see everybody living in a better house, if that's what they want or having decent utilities in their villages, if that's what they want.

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

LINDAUER: That's right.

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

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

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

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

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

LUNCH BREAK

GRUENING: We'll try to wrap this thing up in a time that's appropriate, we won't drag it out. Dr. George Rogers has to return to Juneau tonight and the last plane leaves at 3:00, so if you have any questions of him, specifically, you should ask them first. Before we open it up to general questions, Dr. Lindauer wanted to clarify a statement he made and from that point on you can ask any questions you want of the two economists, the panelists, or the legislature, for that matter.

If you have specific proposals for investments, I think we're also interested mostly in your philosophy for why that is a good thing for the Permanent Fund to do and why the Permanent Fund as opposed to maybe the general fund or the revolving loan funds that are created from the

general fund could not do it as well.

I only have one comment on what's transpired so far and that is it appears to the extent that the Permanent Fund becomes active in the Alaska economy, intervening in the Alaska economy, we have increasing problems with how to fairly distribute the subsidy, if there is one applied in the loan, and how to manage it in a way that it's accountable to changing desires in needs of the people. It doesn't mean that we shouldn't do it; it just means the problem is a little more difficult as the Permanent Fund becomes active in the economy. You may want to have a comment or a question on that. As long as the panelists are here, you might as well get your questions out first. Dr. Lindauer.

LINDAUER: Somebody asked me a question which led me to think that something I had said had been misunderstood. It had to do with development banks and development bank projects. My concern is not with the establishment of a development bank per se, particularly not with the establishment of a development bank kind of analysis of projects. My concern is with the kind of big project that one finds the World Bank engaging in. Something that would be a \$5 billion hydro project that would have overruns to \$8 billion. Something that would be a single project or a handful of projects which would be an all or nothing kind of use of the Permanent Fund monies. I am particularly opposed to

putting all the money into a big project such as a major dam. I am certainly not opposed in any way to the establishment of a development bank concept to analyze various and sundry projects.

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

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

GRUENING: Anyone want to take a stab at that?

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

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

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

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

GRUENING: Identify yourself please.

CUC: Okay. Dennis Cuc. Specifically, with the oncoming gas production and new discoveries that will be found in Prudhoe

Bay, how much extra are we going to have in the Permanent Fund? Does the Permanent Fund just anticipate Prudhoe oil and gas or does it anticipate other discoveries at all?

GRUENING: I can answer that. The amendment applies to all oil revenue produced through royalties and leases and bonuses on state land, so that if the Beaufort Sea, for example, were sold next year for a bonus payment, 25% of that bonus payment would go into the Permanent Fund; and if it were sold under the same arrangement where the state gets 12½% of the oil or the value of it, then 25% of that would also go into the Permanent Fund.

But, I think the impetus for the Permanent Fund was the vast wealth that people saw coming out of Prudhoe, although other revenues are subject to contribution. The projections that you see in that little green book that some of you picked up, and there are more out there, if you want them, are based strictly on Prudhoe Bay.

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

resource, would be interested in this proposition?

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

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

LINDAUER: I did speak very briefly with him during the lunch hour about that, and I think one of the things that was

discussed was the capital requirements of banks. It may well be that there would have to be enough profits involved in the break to generate additional capital so that they could continue to expand. I think that we're really talking about a conceptual thing here. The question of whether the money should flow through the Alaskan financial institutions or should it flow through a bond brokerage house in New York City. Other things equal, I'd just as soon let the Alaskan institutions make the money.

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

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

GREUNING: Why is that?

BERGMAN: They want to expand their loans very quickly. Because very prudently they want to take care to see that they're good loans. So when they get a sudden big deposit,

what they will do is put the money to work in a relatively riskless way, which is the government bill market, where the funds are liquid and they get a rate of return. It's open to the Alaskan government to buy its own bills instead of putting large sums in interest free accounts, even temporarily. With large sums so that even putting them in interest free accounts for relatively short periods can lose a lot of money. Now you know, I hear sort of contradictory things. In one ear, I hear that you're so rich it doesn't matter, and with the other ear, I hear that you have a lot of slums that need attention and so on. No matter how rich you are, it's foolish to unnecessarily enrich bankers, even Alaskan bankers.

GRUENING: Any bankers in the crowd?

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

LOVE: I think what we are getting into is sort of technical discussion as to whether or not the Permanent Fund working through the banks buy CDs or whether they buy loans or whether they sell CDs or buy loans. I think what Clark was talking about, at one

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

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

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

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

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

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

DOOGAN: Yes, I'd like to get back to a slightly more general question. This is directed more or less to Dr. Lindauer, but just generally to stated goals of the fund. When you discussed

making loan interest loans to Alaskans using the principal that way, taking the earnings and distributing them to Alaskans in some sort of direct manner, you raised the question of tradeoffs. You have two goals and they can, on this scenario, be accomplished; but you have to decide what your first goal is. If it's to put the most possible money in the pockets of Alaskans, obviously you don't make low interest loans, you try to make as much interest as you can, because you can put more money in. If it's to build houses, then you have to sacrifice the goal somewhat of putting money in the pockets of Alaskans. So the question is when you made that sort of proposal, what was your primary goal?

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

ally, do not think that we should go for the high risk investments that would conceivably yield the highest incomes. I think that we should consider that how we invest that money is going to be as important, in my view even more important, than whether we get an extra one percent on the top by taking some risks for the money. Last time we took some risks I understand there were some big losses. You get more interest when you take a risk as a risk premium. Should we really be risking it? I think there should be something in between the final recipient and the state as a guarantor of the repayment of that money, so there is a guaranteed income. That's one reason, I like financial institutions, because if the loan goes sour, it's their loan that went sour. They would owe the state whatever they paid to get that money.

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

HAVELOCK: Some currency depreciates very rapidly.

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

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

reasons to do it. But you have to be clear that whatever track you take, there are going to be costs and there are going to be benefits. You have to see who gets the benefits and who bears the costs. They're generally not the same people.

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

GRUENING: And you're Jerry McCutcheon.

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

ROGERS: The purpose of the Permanent Fund--we're faced with an unusual situation, or what seems to be an unusual situation in which we have for a period of time the prospect of drawing upon resources that belong to Alaska in this case, they're state land, that will be depleted over a period of 20 to 30 years. The benefits

of these, if they are not put into a Permanent Fund, would be used for current expenditures, current benefits. One of the underlying things, I think, of the whole idea was that this was a way of creating a nest egg, which would be available, which would share some of the benefits with future generations. The other thing was because Alaska has been through boom and bust cycles in the past, we have this fear of there being a let down right after a particular period of prosperity comes to an end. Most of our past development has been gold, defense, construction, the Alaska earthquake briefly, and then oil development. Each of these have had different cycles. So the idea of creating this fund as a cushion at the end to give us a basis for moving..

MCCUTCHEON: I'd like to ask my next question.

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

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

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

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

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

ROGERS: Why couldn't the income be level? Because there's an immediate national need for the resource, the energy resource. It's being developed during this period.

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

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

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

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

MC CUTCHEON: That could be one of them.

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

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

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

MC CUTCHEON: Correct.

ROGERS: We had a voice in that. It's a political

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

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

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

MC CUTCHEON: Then the Permanent Fund can be considered in two ways. That which is resources you own, and that which is postponed?

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

MC CUTCHEON: Thank you.

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

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

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

My second point, from what I've heard today and what I, as an Alaskan, have been coming around to in the last couple of years, is that we really don't want the money. What is it going to bring us? More people. We've heard that from every edge of the room today. What is it going to

bring us?

There is an important qualification on that, which is we don't want the money now; but we do want it later. So that's one of the things that has to be worked around.

Something which hovers in the background of the entire Permanent Fund discussion up to now, is the question of what percentage of those monies subject to the Permanent Fund are actually going to end up being used by the Permanent Fund. Will it be 25; will it be 50; will it be 75; will it be 100? I think that it's absolutely the most important decision to be made right at the outset. There are numerous arguments about which is cart, which is horse; but the principal first effect of the Permanent Fund will be these vis a vis the general fund. There's been a lot of talk in this room today about how we don't need any more government growth. Obviously making 100% Permanent Fund would have quite an effect on slowing government growth. That may or may not be a worthy goal, but to bring all these comments to a head.

There is one kind of quality, we've been talking all day about social quality, we've been talking about economic values and investments. But no one has really touched on the subject of environmental quality. I would like to suggest to you people today that the Permanent Fund could be used to buy back Alaska.

To buy environment quality for this state. We all heard about trade-offs. It's a favorite economic word. We've heard about externalities. I'm not going to tell economists about externalities: they all know about it. The fact remains that our resources are not being developed by the same people who hope to profit by them or by the same people who would hope to keep a reasonable level of environmental quality while those resources are being developed. BP Alaska or the Alyeska Pipeline Service---they have their own, very rightly so, idea of what trade-offs are going to be and what they consider to be a wise trade-off. The Alaskan people are almost in a hypocritical stance because they want the values that come with oil development but they are screaming to high heaven about the environmental trade-offs.

Once in a film a fellow made the comment that Alaskans want wilderness at the back door and civilization at the front door. When someone moves in behind them, they've got a problem. That's one of the best comments I've ever heard on that matter.

To continue with the idea of environmental quality and trade-offs, I'd like to suggest some concrete things which have been brought up by the conversation of our last speaker, one of which is that the state of Alaska could buy leases, oil leases, with the Permanent Fund. It could've bought the

entire Northeast Gulf for half a billion dollars, that's one sixteenth of an \$8 billion Permanent Fund. We could've held it off the market. We could've particularly held off the market those tracts that were environmentally sensitive; and, when the time arose when we needed more development in the state, we could then have begun to develop.

The second thing, and this has been brought up before, Russ and I have talked about this before, is we could have decided unilaterally two years ago that we were going to build the Alaska gas line. Would Congress have told us not to build it? If we were going to invest \$4 billion building a state-owned pipeline to Alaskan tidewater, would there be an Alcan line now?

I think the most dramatic results of the Permanent Fund could be control over how those resources are developed. That to me is more the essence than the money which might conceivably come from those resources. We could control the environmental stipulations to a much greater degree, not only in terms of the letter of the law, but carrying out that intent if we were ourselves the owners and controllers, not of the conversation that was just here, control the sequence and the timing of development of resources if we do truly own them. A lot of our problem right now is the federal government can't control that; but we could form ourselves an oil company and bid against anyone who wanted to develop our resources before we did if we were lucky enough to cal-

culate what they thought they were worth and put ten more dollars on top of it, we would have control of it.

One of the conflicts here is that if we set up 100% Permanent Fund in order to try to keep state government from growing, we may unfortunately put into higher gear the mechanism of development, which has been the need for state revenues, that is by putting 100% in the Permanent Fund we might make the Beaufort Sea be sold 15 years earlier. That's a conflict, I recognize that. In many cases, we can't control that development or its speed or its tempo. We haven't even really wanted to, we've been so greedy. We want it all right now. We've got a long time to go in this state. A couple thousand years. Oil is going to get more valuable, everybody knows that. We're holding it as a national trust. It's nice that the Carter administration has the moderate views it has about development. But we had better, after Carter, get ready for another Nixon. Somebody who, you know, doesn't care about what's in the Northeast Gulf--somebody who doesn't know anything about, well, this wasn't federal, but somebody who doesn't know anything about Kachemak Bay and why not to put an oil rig there.

My faith in Alaska is the faith that we can control our own destiny, but in order to do that we may have to remodify

our idea of what is income producing or when it becomes income producing or when we would like it to become income producing. To me, that is one of the outstanding possibilities of the Permanent Fund, which so far, has not been touched.

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

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

DOOGAN: It seems to me, that your statement hasn't really so much given us a solution to the problem of what to do with the

Permanent Fund, but rather to speak of Alaskans as though they were a homogeneous group. The Committee's goal is to try to get some sort of an idea of what Alaskans in general would like to see done with the money. If you postpone that just by saying we'll use the money to buy oil leases, then we'll have to have another committee with a different name trying to figure out when people want the oil leases sold.

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

GRUENING: Tim, I had one question. I agree that the question of the increased contribution to the Permanent Fund whether you're going to raise it above the mandatory 25% set in the constitution is important. I think you implied this in your statement, but I'm checking. Shouldn't we decide basically what the goal of the fund should be or what we think it should be before we decide to increase the contribution. If in fact a lot of these goals can be achieved through the general fund, why put it into the Permanent Fund unless that has a special goal? Shouldn't we determine that first before we increase the contribution?

MC GINNIS: I'm going a little bit backwards from your

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

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

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

BRADNER: I just had a question, Clark. The way the thing is now written, is it possible for the legislature to annually increase the amount of money into the Permanent Fund or does it have to be done by legislation. For instance, if the Finance

Committee were to find that they bent the budget for one year and there was X amount left over, could they, by resolution, put what was left over of the excess revenue that year into the Permanent Fund? Or does it have to be a set percentage?

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

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

MC GINNIS: It's a definite possibility. Whether it's

Alaska, Inc, or any of a number of other things we've got in mind. It all goes back to whether we really want the money.

GRUENING: Any further questions? Jerry.

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

MC GINNIS: \$19 billion.

MC CUTCHEON: inaudible

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

MC CUTCHEON: inaudible

GRUENING: As I understood the proposal was illustrative only of the type of resource investment that could be gotten into. I

have had enough of royalty gas right now. I hope we don't get into that debate again.

MC GINNIS: One variant on the proposal--we don't have to own 100%; we may not, in order to exercise effective control, even have to own 51%. We might do it with 30. We might be just a greater among many equals. I'm talking about co-venture as well as outright ownership. I don't feel that you're ever going to get a company from outside Alaska, wherever it's from, however many ads or dog races or whatever it is they sponsor to tell the way the Alaskan public is going to care. If the Alaskan public doesn't care, then we might as well bag it.

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

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

GRUENING: I'm not dodging the question, but one of the things we're trying to find out...I personally think you have to find out what you feel basically are the major goals. I

have some opinions on that. I haven't concluded yet to what the percentage ought to be--increased or remain the same. It's something I want to wait on frankly. That's my answer to it. I think I'd like to hear more from the public as to if they think it should be increased, why they do.

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

HAVELOCK: I just want to say since you don't know what you're

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

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

HAVELOCK: I'm also concerned. This is something that George and I talked over at lunch. The importance of preserving the distinction in whatever you do between investment policy and spending policy. As you've got all kinds of potential subsidy operations going on if just having a floating category of anything that makes a profit. The fact that you are, in fact, spending money to support housing, or

rural facilities, or whatever it may be, it becomes disguised. It seems to me, from the accountability perspective, you want to have some sort of standard as to what you would do in investment policy, that is, what do you do with money that you don't have a purpose for using to spend on something that would encourage some social end. Establish yourself some sort of an interest rate on that and appropriate the money that is necessary to fulfill social objectives on money which may be loaned beyond that to special purpose programs.

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

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

which you could not predict. By taking oil money, which you are already getting, and reinvesting in oil, you are increasing the risk.

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

BERGMAN: Let me add a footnote to this. I think that Mr. McGinnis is right. I think the environmental problems have been given rather short shrift in the discussion. Then again, I think it's quite reasonable for Alaska to, in some sense, trade-off environmental benefits for either Permanent Fund capital or Permanent Fund income. It's, of course, up to Alaskans to decide what a reasonable rate of trade-off is. But if, as I think I hear, the environment is something that

is of great concern to everybody, then I don't think it's unreasonable to pay great attention to it, to sacrifice some income, possibly there's even some safety to it. I certainly think in terms of future leases, that perhaps environmental impact ought to be given greater stress than they have in the past. For example, insistence be made that people who exploit these resources ought to finance the clean-up or ought to use possibly high cost methods, which to the least damage.

I'm a little confused by the discussion as to whether Alaska's really very poor, or very rich. If we take the view that there is a lot of leeway here, then certainly saving the environment, creating environmental amenities, or not destroying those that exist, should have a very prominent place in the planning.

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

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

MEEKINS: My question is if we are assuming that Alaska, Inc. proposal finally won out and that we were distributing a thousand or two thousand dollars a year to the share holders of Alaska, Inc. proposal, my question is what do you think about

the possibility of the feeding inflation and then that increase in income would just drive up prices and thereby the real income would stay the same.

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

One point, I just wanted to repeat what John said and what Professor Gordon mentioned. We've got to separate in our thinking the Permanent Fund, the management of the fund

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

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

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

GRUENING: Mr. Paul Fuchs, I think had a statement or question.

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

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

(portion not taped)...where people could be sold these houses, giving the savings out along the line. Where now we have all these sponges called businessmen, which are raising capital along the line. I think we need to look at the needs of Alaskans and not at the needs of these companies.

They don't care about our people, only as much as they can make off us. Not just the small industries either. I think we ought to look at some of the large industries, as has been said, so we can control the rate of development more so we don't end up not only with a high unemployment rate because so many workers have flooded in, but we have such high population influx completely tears our cities apart. Where crime is just you know. Anchorage is not anything like it used to be. That's a reflection of that. That's a social cost that means something to Alaskans.

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

The other point I want to make is that, I think some of the forms of economic organization that we have seen here lately, like the development of some cooperative, is an important concept for

the Permanent Fund to look into, especially in the native villages, where it more lends itself to the cooperative culture that is already among the native people and also among non-natives. I think it's an important concept that we start, just people work at a place; they elect their management; and they decide on the work process, rather than having it shoved down their throats. People who are working on the line live with this every day. I think if you could look towards that, nearly the whole social picture of what it means to live in Alaska, I think, perhaps, the Permanent Fund could be used towards this end.

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

DOOGAN: It's not so much a question. I just would like to again restate my comment that I made after Tim McGinnis finished. We have a tendency to talk about Alaskans as though they were one thing. Let's put it like this. Bankers who live in Alaska, no matter how greedy or conspiratorial they might be, are also Alaskans. The appeal is not an appeal that you can deal with unless you can define Alaskans not to include conspiratorial bankers. Do you see the point? Granted everybody wants to make Alaska a better place

to live for Alaskans. The question is how do we do that?

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

DOOGAN: So you'd be prepared to trade that off against the benefit to bankers and stockholders of banks in Alaska?

FUCHS: I'd say so, yes.

DOOGAN: The existing financial structure?

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

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

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

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

FUCHS: Okay. Well that's a political question we have to face. In terms of our relationship with the United States, but I think that's beyond the scope of this. Another thing about the \$8 billion, there probably would not be that much of a need for that much money. But we could look towards oil development. Even if, in the beginning, going a little slow, even if we are a little more inefficient, we'd have to be really inefficient to not be able to make money. If the oil companies are going to make \$98½ billion out of Prudhoe Bay field, if we even recovered half of that by developing these resources ourselves, we'd be far ahead.

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

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

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

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

FUCHS: That's before taxes.

GORDON: Are you talking about long term future or are you talking about any one year?

FUCHS: That's over the 20 years. Life of the field. The other thing is what you're talking about--the figure you're talking about profits also doesn't include all the advertising and the high rates--hundreds of thousands of dollars paid to managers.

GORDON: It is also true that if you take all the high paid managers and reduce them to zero, it would not affect that figure by any significant amount. In fact, it isn't even true the owners of corporations take out anything like that. What they really take out is the dividend. The dividends are only around a third of that--about \$35 billion currently. About a third of those dividends in turn, go to work in pension plans. So the notion that there's a huge pot of gold there that you can get a hold of just isn't true.

LOVE: That may be true in all industries. But wouldn't you agree that in, for example the Prudhoe Bay development that it's more capital intensive than maybe certain other types of industries in terms of pension plans?

GORDON: Well, I'm not talking about returning to capital. Returning to capital includes the interest of course, as well as corporate earnings. I'm just talking about specific corporations. The corporation doesn't make the money they pay out in interest; they make the corporate earnings. However, there's a widespread misapprehension about the nature of corporate earnings and particularly how big they are.

LOVE: There's also, I think, a wide misapprehension, in this case, about the concept of how profitable Prudhoe Bay is. I think that it's unwise to compare the development of Prudhoe Bay to industry in general, or even the oil industry in general. Because it's a fairly special and unusual situation. I'm sure you know it's got more proven reserves in the entire, everything in Canada and about 30% of the nation. So it's a very unusual field. It's an unusually profitable venture that Mr. Fuchs is talking about. I don't think it avails itself to really simple comparison to standard industry practice.

FUCHS: Just even a small cut of how much they're going to make is what all this money is in the Permanent Fund. There's supposedly so much we don't even know what to do with it. That's just a fraction of it. It's a low test. Depending on how other nations act to it.

GORDON: I don't know what you mean. Do you mean that Alaska should attempt to expropriate that money? That hypothetical \$98 billion before taxes.

FUCHS: I don't think there's anything wrong with that. It's our resource.

GORDON: I don't know legally whether it's your resource or not. Do you mean morally it's your resource.

FUCHS: Well, let's say if they're going to make \$98½ billion, why.....

GORDON: You're not making \$98½ billion; that's just nonsense. You don't make \$98½ billion if that's gross. The question is the period over which they make it. But if you're going to do that, why don't you expropriate all the corporations. What's so peculiar about those corporations that they should be expropriated rather than all the other corporations?

HAVELOCK: Mr. Chairman, is there any rule of germaneness to this discussion?

GRUENING: Well, I was hoping that it would kind of peter out. See what you started, Paul? I think that we should talk a break. Rep. Carpenter has indicated that I was amiss in the beginning, and I won't do it again. This gentleman in the back wanted to speak. Would you like to do it now or after the break?

DI NARDO: I'd like to make a few points. I'm Dan Ni Nardo. I've made a few notes here. One is management of the fund, what to do with the money. When you do invest it, we're worrying about the profit sharing that might take place by the managers, the social cause, how you measure effectiveness, etc.

My suggestion is an alternative of doing away with the Permanent Fund. It's very much important for this reason; there was a doctrine signed, the Constitution of the United States of America, that laid the ground work for a system called free enterprise. Free enterprise means that every individual in this room, in this state, you answer the question as to whether social needs get the best allocation. This is up to the individual people to decide. They do not need another government agency to decide for them. This has been the cause of the present problem that you're talking about in the state of Alaska.

Free enterprise across the board, and I'll tell you buddy, on a historical basis, on economic basis, free enterprise is the most efficient system ever invented by man to allocate that resource called money to where it should go. (inaudible).....That's why I'm opposed to the Permanent Fund. (inaudible)

DOOGAN: I had a comment before the break. It seems to me that with the last few speakers we've more or less set possible boundaries in this discussion. Maybe when we come back, we can confine ourselves within those boundaries.

GRUENING: Five minutes. Thank you.

BREAK

CLIFF BLACK: My main question seems to state who really is going to administer the fund? It boils down to a very deep philosophical question. If we are going to allow the legislature in Juneau to dictate what happens in Alaska to funds like these which provide an unusual and great opportunity for Alaskans to somehow effect local decision-making, local