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JUNEAU ALASKA

Alaska State Legislature
House

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Anchorage, Ak. 99504

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October 10, 1977

Memo to: Mike Doogan, Admin. Asst.
House Permanent Fund Committee

From: Bill Miles *BW*

Date: October 10, 1977

When the World Series has ground to a halt, can you, in 500 words or less written in layman's language, interpret for me the comments of Belden Daniels and Arlon Tussing insofar as their theories go on the creation of jobs, or the non-creation of jobs, that may be resultant of Permanent Fund investment?

Thank you.

MEMORANDUM

TO: Representative Bill Miles 10/12/77

FROM: Mike Doogan *MD*
 Administrative Assistant
 House Permanent Fund Committee

SUBJECT: The Permanent Fund and Job Creation

Your request (of October 10) was to have summarized the statements of Drs. Arlon Tussing and Belden Daniels on the effects of Permanent Fund investment on job creation.

My reading of Dr. Tussing's Economic Considerations in Establishment of Alaska's Permanent Fund and Dr. Daniels' Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers and Models and Options for the Alaska Permanent Fund: Functions, Regionalization and Accountability shows that neither makes many specific statements on job creation.

I have chosen instead to summarize: a) the statements in and implications of those papers; b) conversations with Dr. Daniels; c) conversations with and public statements by Drs. Barbara Bergman and Donald Gordon; d) public statements by members of the symposium citizen panel¹; e) material from other sources. I hope this suits your purposes.

Please note here that much of what follows is based on the perhaps simplistic equation that investment creates jobs by expanding economic activity. This may not be accurate.

Of Permanent Fund investment strategies that have been discussed:

1. Investment outside Alaska would have little quantifiable effect on job creation in Alaska.

¹ Drs. George Rogers and John Lindauer; John Havelock, Jamie Love, Tim Bradner

2. Market rate investment inside Alaska would have:
 - a. Little quantifiable effect if you accept Dr. Tussing's opinion that existing capital markets are efficient². If you accept that opinion, such investment of Permanent Fund money simply would replace other money that would have been invested. By extension, jobs created by such Permanent Fund investment would have been created anyway³.
 - b. A greater quantifiable effect is you modify⁴ or reject that opinion. Those who do so argue that existing capital markets are inefficient either in term (seven to fifteen year loans), area (the Bush), scale (small and medium enterprises) or a combination of these.
3. Below market rate investment inside Alaska would have an even greater quantifiable effect. Everyone seems to accept the premise that subsidized loans can bring into existence projects and enterprises that would not otherwise exist.

On point 3, Dr. Tussing offers two opinions: first, such loans would tend to go into sectors of the economy that already re-

² Page 14: "Investors and entrepreneurs, would-be lenders and would-be borrowers alike believe that the existing capital market institutions are adequate to finance large industrial or commercial developments in oil and gas, mining, petrochemicals, fisheries, timber, trade and tourism anywhere in Alaska. I have found utterly no reason to doubt this consensus..." (author's emphasis)

³ Dr. Daniels discusses the question of "with/without" evaluation on Page 179 of his second paper.

⁴ As Dr. Tussing does on Page 18: "At this stage in my investigation, I have been able to identify only one function in which a new public financing source might function better than the current machinery of the private capital market, and that is in the provision of commercial credit and financing of small and medium scale industrial and commercial enterprises in small communities and rural areas." Dr. Daniels has said that he also sees the need for such a function.

ceive money⁵; second, that money from such loans would tend to encourage the replacement of labor with capital⁶.

This second opinion forces me to urge that the equation, economic activity creates jobs, be carefully examined.

To summarize, types of Permanent Fund investment that might create jobs are: a) market rate investments in Alaska that fill capital gaps; b) below market rate investments in Alaska.

As far as I know, there have been no studies commissioned or completed designed to determine specifically the job creation effects of such investments.

Again based on Dr. Tussing's second opinion, it seems that in order to use Permanent Fund investment to create jobs a specific and detailed strategy for doing so must be drawn up.

Such a strategy would have to address at least the questions of:

1. Would Permanent Fund investments designed to create jobs meet Constitutional requirements?
2. How would Permanent Fund investments designed to create jobs affect other possible Permanent Fund investment goals (preservation of principal, diversification of the economy, etc.)?
3. How many jobs could be created through Permanent Fund investment?
4. What kind of jobs would they be?
5. For whom would these jobs be created?

⁵ Page 19: "Lower capital costs would likely have their biggest impact precisely where development would proceed most rapidly in any event."

⁶ Page 19: "Making capital cheaper and easier to obtain will undoubtedly have one effect which may be regarded as counterproductive; business will be given an added incentive to substitute capital for labor and the state's economy will tend to become more capital intensive than it otherwise would be. If investment policy is to be in any way directed toward 'job creation', it must be highly selective and not simply a matter of lowering capital costs across the board."

Rep. Bill Miles

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There is some opinion available on these questions. There may even be some hard data and more, of course, could be gathered or purchased.

To summarize, it appears that anyone who would wish to use Permanent Fund investment specifically to create jobs faces a fairly large task in designing a strategy to achieve that goal.

MD:LAD