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Second part in our review of the Alaska Permanent Fund

Alaska's PFDs almost didn't happen

Public was lukewarm on dividends; many legislators were opposed

By Mike and Tim Bradner

In the early 1980s, when the Permanent Fund Dividend was created, the idea of giving away money seemed outlandish to many Alaskans. It was a quirky idea – government giving away money. The public was cool to the idea and there was strong opposition in the Legislature. How things change. Now the dividend has become an entitlement for many Alaskans and the size of it – $3,000 vs. something less – the seismic zone of Alaska politics.

There was, and is, nothing anywhere like the Permanent Fund dividend, or PFD. Just after it was created in the early 1980s the late Zhou Enlai, premier of the Peoples' Republic of China, dined with then-Gov. Jay Hammond during a visit by Hammond to the People's Republic of China. Zhou had learned of the dividend and exclaimed, "You Alaskans are more socialistic than we are!"

Mixed views on PFD today – for some essential; for others an embarrassment

Many Alaskans today have mixed feelings about the dividend. For many lower income Alaskans it helps pay essential bills, such as for home heating and medical expenses. Others save it for education. Still others spend it on luxuries like vacations. Still, for many the PFDs and the debate over its amount seems an embarrassment at a time when oil revenues are reduced and basic public services are under pressure. But most still defend the PFD at some level as necessary to keep the state's citizens interested in the $60 billion-plus Permanent Fund and protecting it from raids by special interests.

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Special report on Alaska's Permanent Fund Dividend program

Jay Hammond saw PDF as watchdog for Permanent Fund

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Jay Hammond strongly believed in the PFD as a watchdog protecting the Fund. Elmer Rasmuson, a conservative Alaskan banker and the first chairman of the Fund's Board of Trustees, agreed with Hammond that the dividend has created a strong public constituency for the Fund. Most Alaskans now regard the dividend as a political reality, but it is still a curious fixture of the state's fiscal system.

Where did the idea come from?

It came from Jay Hammond. The former governor is widely credited with getting the dividend through the Legislature in 1980 and 1982, but Hammond had been thinking about the idea for several years. He had earlier proposed a citizen dividend for the Bristol Bay Borough residents in the 1960s as a way of distributing fish tax revenues paid by nonresident fishermen. The proposal failed because local voters so adamantly opposed any tax, even one 97 percent paid by nonresidents. Bristol Bay eventually adopted a fish tax, but without the dividend.

The notion of a citizen distribution was first floated to a statewide audience by University of Alaska economist Arlon Tussing during the Conference on the Future of Alaska in 1969, a conference of Alaskans convened by the Legislature and conducted by the Brooking Institute to consider ways of using a $900 million windfall in oil bonuses the state received in a 1969 North Slope lease sale. Tussing suggested, to an incredulous audience, that Alaskans might consider a one-shot distribution of the $900 million to Alaska citizens.

Several years later, economist Milton Friedman first broached the idea of a regular distribution in a meeting with state legislators in 1977. Asked what method of spending oil revenues would best benefit individual Alaskans, Friedman urged legislators to "write individual checks." But more than anyone, the dividend idea was Hammond's. "The concept of a distribution in the form of an annual dividend to all Alaskans was essentially one man's idea – Governor Hammond," Elmer Rasmuson recalled. Hammond had long been interested in the notion of more equitable sharing of public resource wealth. He had watched fisheries payrolls in his home region of Bristol Bay go mainly to nonresident fishermen with little left for local people. He worried the same thing would happen with oil.

Senior citizen bonuses, student loans were early models

There were other models for a citizen dividend in the early 1970s, following the North Slope oil lease sales. The Longevity Bonus Program, for senior citizens, was an early version of the PFD, sending a small monthly stipend to Alaska senior citizens. There was also a generous loan program for college and vocational students with nearly half forgiven if the borrower remained in Alaska after graduation. This was a gift, and a kind of education dividend.

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Important principle – no link to recipients' need (Cont.)

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An important principle at the time was that these payments to senior citizens and students were not linked to need. Everyone was eligible regardless of income or status. These were not welfare programs. It was a short step, conceptually, from these early targeted entitlements to broadly-based Permanent Fund dividends. Hammond, however, championed an early version of the dividend in which payments were linked to years of residency so that "pioneer" old timers would get larger dividends than newly-arrived "cheechakos." That was not only morally right, Hammond felt, but it would discourage in-migration of newcomers interested in getting the dividend. This was the version that passed the Legislature in 1980, only to be contested in court by Ron and Penny Zobel, two Anchorage residents.

Because of the legal uncertainties raised by the Zobel litigation, the Legislature passed a "backstop" dividend bill in 1982 (the Zobel case was still in court) to make equal dividend payments to everyone. The U.S. Supreme Court eventually ruled the original 1980 law unconstitutional, so the alternative 1982 plan went into effect. It is the program we have today.

Mike Gravel, as U.S. Senator, offered an alternative

The idea of direct distribution of public wealth was given additional intellectual currency in 1980 when Mike Gravel, then one of the Alaska's U.S. Senators, offered an idea as an alternative to the direct payment of a division. Gravel's idea was the Alaska General Stock Ownership Corporation, or AGSOC, a state corporation which would invest in revenue-producing projects (ownership of part of the Trans Alaska Pipeline System being a leading candidate) with shares of stock distributed to individual Alaskans. Alaskans would receive dividends from the shares.

AGSOC was based on Louis Kelso's concept of community ownership of assets. Kelso pioneered the employee-owned corporation, of which there are many in the U.S. At the time Hammond was also tinkering with a variation of Gravel's idea in an idea he called "Alaska, Inc." proposal. It also involved citizens owning shares of stock, with dividend from those, as an alternative direct payments to citizens. At the time these ideas appealed to Alaskans' more libertarian instincts.

Accidents of history played a role

Gravel's AGSOC had support and might easily have emerged in the Legislature as an alternate to directly-paid dividends, but politics intervened. House Democratic leaders worked to defeat AGSOC to deprive Gravel, who was running for reelection, credit for its authorship. At the time, State Rep. Clark Gruening, D-Juneau, wanted to challenge Gravel in his reelection in the 1982 general election, and many of the young Democrats who then controlled the House leadership were supporting Gruening.

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Accidents of history played a role in PFD creation (Cont.)

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One of the interesting aspects of Gravel's AGSOG and Hammond's Alaska Inc. is that it might have passed muster with the courts with a residency bias – Hammond's original hope – with a one-time distribution of shares from a state development corporation with, perhaps, fewer numbers of shares issued subsequently to new generations (giving the state corporation the authority to do this). This could have functioned like Alaska Native corporations formed under the federal Alaska Native Claims Settlement Act of 1971 making one-time stock distributions to that generation and allowing the corporations themselves to issue different classes of shares to younger Alaska Natives.

After the state House failed to pass state legislation needed for Gravel's AGSOC Hammond cooled on his own idea for Alaska Inc. because of the complexities and returned to the idea of dividends paid to citizens from the Permanent Fund earnings.

Understanding PFD's creation amid wild state spending in early 1980s

To really understand how the PFD, an outlandish idea at the time, came to be, one must also understand what 1980 and 1981 were like in Juneau. Those were heady days when unexpected increases in oil prices brought billions of dollars of surplus oil revenues into the state treasury. Although 25 percent of oil royalties went to the Permanent Fund, 75 percent still came to the treasury along with 100 percent of oil taxes. Overwhelmed by the scale of the new wealth, legislators, and Hammond himself as governor, were largely caught unprepared.

In 1979, the Legislature had about $1 billion available for spending; in 1980, that increased to $3 billion. In 1981, state revenue forecasters were predicting that $6 billion would be available. The Legislature, in a frenzy, actually appropriated $6 billion, although a dip in oil prices resulted in less money being available. An embarrassing deficit was avoided when Governor Hammond delayed a large appropriation to the Permanent Fund.

The numbers seemed incomprehensible to most. Alaskans had lived under austerity for years, or so they thought, and the new oil income unleashed expectations and new demands. It was impossible for legislators to say "no" to constituents when it was known there were billions the treasury. Developers and contractors, with schemes to spend the money, came crowding into the halls of the state capitol. Things were so wild at the time, the Legislature actually voted money to build a harbor and airport on an uninhabited island (there was a real estate speculation involved). Legislators didn't even meet to deliberate capital projects. They simply punched appropriations into the Legislature's central computer, which printed out what was to become the state capital budget.

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Money was spent so freely: Why not give the people some – directly?

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It was as if Alaskans thought up all the traditional schemes they could think of to spend money for public services like soft loans; construction projects; saving some in a "Rainy Day Fund," separate from the Permanent Fund; repealing the state income tax and other taxes; and then deciding to just to give some of it away. At the time the conventional wisdom from respected economists was that oil prices would keep going up. Alaska's bonanza would never end, it seemed. In that environment, the idea of giving money away — giving Alaskans a direct payment from the state's resource endowment — seemed not so crazy, at least then.

Public was initially skeptical to giving away money

In actuality, the public, and the Legislature, were initially very cool to the dividend idea. Soon after the Permanent Fund was established in 1976, Alaska pollster Mike Rowan found more respondents were opposed to, than supportive of the idea of direct payments. Another researcher, David Dittman, found similar results during surveys in Anchorage in 1977.

A legislative panel that held hearings on the Permanent Fund in 1977 and 1978 reported the weight of public comments favored tax relief; loans for economic diversification; and reinvestment of any surplus funds into the Permanent Fund itself. Elmer Rasmuson recalled that in seminars he chaired, as the Permanent Fund's first chairman, "showed almost no support for the dividend concept, but rather for public service benefits," from the Permanent Fund and the state's new oil wealth.

Influential Alaskans also opposed the idea of a dividend: Bob Richards, a well-known economist at the time, worried the PFD would oil income into consumption and away from needed investment in public infrastructure. Others had misgivings about the national reaction to big Alaska "giveaway" programs. Alaska was then, and still is, dependent on federal programs and the state's congressional delegation at the time (as well as now) worried about the reaction in Congress to the state handing out money. Many, including Hammond, worried that the giveaways would attract immigration (there is no evidence that it has, but a much larger dividend might have that effect.)

Hammond, House Democrats rammed the dividend through

Cliff Groh, Jr., an Anchorage attorney who helped steer the dividend through the Legislature as legislative staff, acknowledged later that the dividend was a "top-down" idea, conceived by Hammond and rammed through the Legislature by the governor and a handful of lawmakers in the State House. Hammond saw the dividend as a device to safeguard the Permanent Fund, but also as a way to slow the feeding frenzy at the state treasury trough and to redistribute at least some of the benefits of the state's oil windfall to all citizens instead of to special interests and the politically-influential.

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Some legislators asked Hammond to drop the PFD idea

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Some legislators agreed with Hammond on this latter point. Terry Gardiner, a lawmaker from Ketchikan and eventually one of the dividend's backers (and House Speaker) was appalled to find upper-income Alaskans receiving state-backed home mortgage loans with interest rate subsidies that were larger than poor families were receiving in state assistance. The dividend's chief advocate in the Legislature, Rep. Hugh Malone of Kenai, was interested in the redistribution effect, and also agreed with Hammond that it would help safeguard the Permanent Fund.

Republicans in Legislature opposed PFD on basic philosophy

Despite all the state money being available, it wasn't an easy sell. Cliff Groh recalled there were just a handful of legislators supporting the idea in the beginning. Hammond recalls a delegation of House Democrats, led by Rep. Mike Miller, of Juneau, asked him to drop the plan. Conservative Republicans in the House Minority opposed it, mainly on grounds of philosophy. Two Anchorage Republicans, Rep. Ramona Barnes and Rep. Joe Hayes, felt the state should invest in public infrastructure instead of dividends. Barnes demonstrated her dismay by tearing up a symbolic Permanent Fund dividend check during a House floor speech.

Dividend actually failed its first vote in Senate, then passed 12-8

The plan produced odd political alignments. Rep. Sally Smith, a liberal Democrat, who strongly supported Great Society social programs, was a skeptic. Gardiner, then Speaker of the House, and Anchorage's Rep. Sam Cotten (state Fish and Game Commissioner under Gov. Bill Walker) were lukewarm. Reps. Dick Randolph and Ken Fanning, Alaska's first Libertarian Party legislators, were enthusiastic supporters, and some House Republicans supported the idea.

Libertarian elements in the plan appealed to conservatives like David Cuddy, an Anchorage banker who was in the State House at the time, as well as Rep. Mike Beirne, another former legislator. Cuddy is credited with giving the dividend its name (it was earlier called a "Heritage Payment") as the bill emerged from the House Finance committee. Rick Halford, a former Senate President then in the House, was originally skeptical but became a key supporter.

Hammond's concerns were motivated by worries that this once-in-a-lifetime opportunity (the oil discoveries) would be wasted through spending unless safeguards were put in place. In a paper published in 2017 economist Roger Marks explained the governor's reasoning: "Hammond worried that the earnings from the Fund would be readily spent by politicians, and that spending did not benefit everyone equally, and would deprive future generations of the benefit of the Fund. He also believed citizens had the right to share directly in the income from public assets, and that indi-

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"People should decide how to use their share of oil royalites, not state"

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viduals could benefit more deciding themselves how to use the money. Thus he, to a large extent, and others, conceived and promoted the idea of having the Fund pay out an annual dividend to all Alaska residents (including children), Marks wrote.

Many in the more conservative Senate had ideological problems with the idea of giving away money, but the Senate leadership, led by former senators Don Bennett, Jalmar Kerttula and Ed Dankworth, wanted to give Hammond what he wanted so the governor wouldn't veto the senate's big capital budget appropriations, which were mainly for construction. The final legislative votes were close. The dividend bill actually failed 10-8 in its first consideration on the senate floor, then finally passed 12-8.

Hammond was still, at times, ambivalent about the backstop equal-dividend-for-all though 1981 and 1982. In addition to his Alaska Inc. idea, which was somewhat similar to Gravel's AGSOC, at times he favored alternatives like distribution of Permanent Fund income to municipalities; setting up annuities for individual Alaskans and using it to pay for health insurance. What eventually brought him back to the PFD as we know it today was his feeling that public resources belong to the people and that individuals, not government, should decide how to use their direct shares of the oil money. Along this same line Hammond rejected a last-minute proposal to deposit minors' PFDs into trust accounts for education or until they became adults, believing in maximum individual choice.

However, there was still stiff resistance to the PFD in the Legislature and no real public support. In the end Hammond had to play hardball to get the Legislature to finally pass the backstop dividend bill in 1982. To get his way he vetoed a large House and Senate capital appropriations bill and threatened a special session (unpopular in an election year) unless he got the dividend. He finally got what he wanted. Later that year the printing presses rolled, printing out $1,000 checks for all Alaskans – the first PFD. Hammond would be likely be dismayed at how the dividends have paralyzed Alaska' politics today. He supported a big dividend, we often heard him say, but he coupled that with the need for a personal income tax to "claw back," as he put it, some of the dividend money to support public services like schools.

What if there had never been a PFD?

What if the PFD had never been created? How large would the Permanent Fund be today? In 2017 Alaska economist Roger Marks calculated that if $21 billion paid out in dividends between 1982 and 2016 been retained in the Permanent Fund and earning the same return the Fund has enjoyed over the years, it would be $80 billion larger, or $135 billion, in 2016. Assuming an average annual return of 5 percent, which is less than the Fund has actually earned, annual income would have be $6.75 billion from 2017 on. Marks' paper, "The Opportunity Costs of the Alaska Permanent Fund Dividend," was published that year in the *Journal of Economics and Public Finance in 2017*.

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Sidenotes: What did TAPS construction do for Alaska's economy?

Aside from the effects of spending of oil revenues after 1980, the construction of the Trans Alaska Pipeline System by itself, in the 1970s, was to have dramatic effects on Alaska. Between 1970 and 1980, the period that covered construction of the pipeline but prior to the bigger impacts of oil revenues, Roger Marks found that:

- Alaska Population increased from 300,000 to 402,000
  Alaska's population is now 737,438 (2018)
- Employment increased from 133,000 to 211,000
  Alaska employment is now 322,100 (April, 2019)
- Alaska's state budget increased from $262 million to $2.2 billion
  Alaska's budget, state general funds only, is now $5.6 billion (Fiscal Year 2019)

What have the PFDs done for Alaska's economy?

Surprisingly, economists have been unable to find evidence of significant effects on the state's economy because of the PFD program. State labor economists were unable to find any effects of the dividends on state wage and salary employment even in years of unusually large dividends. Independent economists drew similar conclusions in separate investigations. Researchers at the University of Alaska's Institute of Social and Economic Research found a very mild and temporary increase in hours worked among men in a period following payments of the dividends, but this was offset by a mild, temporary decrease in hours worked by women. The net effect combining men and women was a slight decrease.

The darker side: Do PFDs fuel drug abuse?

Separate ISER data shows an increase in substance abuse following PFD payments as well as a decrease in petty crime. It has been shown that drug abuse and petty crime are linked, in that petty crime rates tend to increase at rates similar to rates for substance abuse. The belief is that people commit crimes like car theft and burglary to get money for drugs. In this regard, it would seem logical that by putting more disposable income into the economy, part of which is used to buy drugs, PFDs also reduce peoples' need to commit minor crimes to get money for drugs.

Mike and Tim Bradner are long-time Alaskan journalists and publishers of the Alaska Legislative Digest and Alaska Economic Report. Mike Bradner served in the Legislature and was Speaker of the House when the Permanent Fund was created in 1976.