The Alaska Permanent Fund Dividend: A Case Study in the Direct Distribution of Resource Rent

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Executive Summary

The Alaska Permanent Fund is a sovereign wealth fund of the state of Alaska established in 1976 by a vote of the people to preserve part of the revenues from current oil production for future generations. Twenty percent of direct petroleum revenues have been deposited into the fund which now has a balance of $32 billion. Over its life it has generated nominal earnings of $35 billion. The successes of the fun in saving a share of the Alaska petroleum windfall and generating income are due to several factors. The boom-bust economic history of the state has been a reminder of the need to actively manage public resources. Fund management is independent of general government finances and extremely transparent. It invests to maximize long run income.

In addition, the modest share of petroleum revenues set aside in the fund has left enough available for the state to expand public spending, including the establishment of a number of programs designed to strengthen the economy in recognition of the non sustainability of the petroleum sector. Since these public programs benefit particular segments of the population, the Alaska Permanent Fund dividend program was created in 1982 to provide an annual unconditional direct cash distribution to all Alaska residents. The dividend was felt to be the most equitable way to distribute a share of the public wealth of the state to the entire population.

Since the inception of the program, the dividend has been paid each year. About half of Permanent Fund earnings have been allocated to the dividend program and the rest to increasing the balance in the fund. The size of the dividend has increased as the fund has grown, but it fluctuates considerably because fund earnings change from year to year. In 2010 the dividend payment was $1,281 which augmented per capita income by 3 percent.

The dividend program has become extremely popular since most Alaskans feel that individuals can benefit more from deciding themselves how to spend at least a portion of the public wealth rather than allowing the government to decide on their behalf. However a minority of the population feels the dividend fosters an attitude of consumerism and leads to underinvestment. And although the dividend has created a strong constituency defending the Alaska Permanent Fund, which many feel is the main reason for the success of the fund, there is concern that the dividend will prevent the fund from being used for its ultimate purpose which is to help support the economy after petroleum production ends.

Beyond its obvious positive impact on aggregate income, employment and population, little analysis has been done of other economic, social, and political effects of the dividend program. Because the dividend is not viewed as a policy to improve social welfare, but rather as a means to share public wealth equitably, interest in these other potential effects has been limited.

1. Introduction: Some Background on Alaska

Alaska is the largest of the 50 United States measured by land area—but its 700 thousand residents make it one of the smallest in population. Its border is open to the rest of the nation for the free movement of goods and services, people, capital, and information. Furthermore, it is subject to the laws, regulations, and policies established by the federal government.

Because of its small population, Northern location astride the Arctic Circle, and distance from markets, Alaska's economic development prospects are limited primarily to exploitation of its natural resources and federal spending. Most of its economic growth since becoming a state in 1959 has come from petroleum production which alone accounts for one-third of all jobs, directly and indirectly.

The economic history of Alaska prior to statehood was one of periodic resource driven booms--furs, gold, copper, timber, and fish—followed by busts due to resource depletion or market conditions. Each boom generated substantial economic rents, but most went to nonresidents who left behind little for the benefit of the permanent residents. Many residents felt the policies of the federal government were stifling growth and advocated for greater local control.

When Alaska became a state, the state government took title to about 24 percent of the land, and adopted a constitution specifically requiring management of public resources for the maximum benefit of its people. The idea of Alaska as the "Owner State" where the wealth from natural resources formed the economic base and was shared by all residents was promoted by one of the early governors, Wally Hickel.

The economy of the new state was initially weak, but in 1968 the largest oil field in North America was discovered on state land at Prudhoe Bay on Alaska's North Slope. In 1977 production began and since then the state economy has been dominated by petroleum production and the state revenues it has generated.

The direct contribution of North Slope petroleum production to gross state product has varied between 9 and 50 percent (Table A.) with the annual variation attributable primarily to petroleum production and price. The $149 billion (2010 $) in direct petroleum revenues (taxes and royalties) has allowed taxes on other industries to be kept low and on households to be eliminated.[1] At the same time state government spending has expanded to a level twice that of the rest of the nation on a per capita basis.

About 25 percent of direct petroleum revenues has been deposited into two savings accounts—the Alaska Permanent Fund and the smaller Constitutional Budget Reserve. The earnings on these savings accounts and direct petroleum revenues together have accounted for 92 percent of total state revenues from own sources (excluding federal transfers). And 89 percent of total state spending has come from direct petroleum revenues and earnings on savings accounts.

Largely because of the windfall from petroleum, the state economy—measured by per-capita income and the unemployment rate—has been strong since the 1970s. However, these statewide average economic indicators mask important regional differences in economic performance. In particular, the remote rural part of the state off the road system, which is home to about half of the Native American population, is burdened with high costs and few employment opportunities in the cash economy. The small villages in that region have little cash income and are reliant primarily on government assistance and subsistence harvesting of fish and game for their existence.

Two outside interests continue to be important in the economy—the federal government and the large oil companies that have leased and developed the oil fields. Both are perceived often to work at cross purposes with state interests and thus their presence fosters the notion that the state must continue the struggle to take control of its economic future. The shared public ownership of the natural resource wealth of the state is a vehicle to accomplish that goal.

2. Origins and Evolution of the Alaska Permanent Fund

In its first decade as a state, Alaska had a small tax base in relation to its public needs and struggled to pay its bills. In 1968 oil was discovered at Prudhoe Bay on state land and the subsequent lease sale generated $900 million dollars for the state treasury--a bonanza compared to the $128 million annual budget at that time. Government spending increased in anticipation of the petroleum revenues that would come with production, but construction of a pipeline to take the oil to market was delayed. Before production revenues began to flow into the treasury, the state had spent the entire bonus and was essentially forced to borrow from the oil companies against the future revenues they would be paying.[2]

This experience was an important lesson for Alaskans. When oil had been discovered the idea of a saving account was discussed at a series of citizen conferences sponsored by the Alaska legislature. They were motivated by the realization that the state was suddenly wealthy beyond belief. The Prudhoe Bay field was an "elephant" in the language of petroleum geologists—clearly a once in a lifetime opportunity. There was almost no likelihood of additional discoveries of that size, so the production and revenues from the North Slope would be a temporary phenomenon. The question was how convert that windfall into sustainable economic prosperity.

The consensus at that time was that the establishment of a saving account should wait until production began, and that the lease sale bonanza could be better spent on infrastructure development. The rapid disappearance of that bonanza, whether it was actually well spent or squandered, convinced most Alaskans of the need for a saving account. It would be the only way to keep some of the oil revenues away from a profligate legislature and preserve some of the petroleum wealth for future generations.

Some people argued against the idea of a public savings account, either on ideological or practical grounds. One argument was that saving was not an appropriate government function, but rather should be left to the private sector. This view however, ignored the problem with purely private savings--the Alaska population was the most transient in the nation. Future generations of Alaskans, not yet born or not yet resident in the state, would be unlikely to benefit from the private saving of current residents. Another was that there was enough petroleum to ensure that the economic development of the state would continue into the future for generations. Under a scenario of continuously growing prosperity, saving would be a mistake.

The question was put to a vote of the people in 1976 and they approved the creation of the Alaska Permanent Fund by a two to one margin.[3] Capitalization would come from deposits of at least 25 percent of the mineral royalties collected on state lands. The fund would invest in income producing investments. Fund earnings could be spent, but the principal would be permanently protected. All other details about the fund were left to the legislature to work out.

The most important questions for the fund were the contribution rate, investment philosophy, management structure, and disposition of earnings. All were decided openly in legislative hearings after public discussions throughout the state.

The choice of the contribution rate was important because putting aside too little would not guarantee benefits for future generations while saving too much would underfund the needs of the current generation. The legislature generally followed the guideline established in the language of the vote in depositing 25 percent of royalties into the fund.[4] However on occasion they have added to the fund balance with special contributions, motivated both by a desire to save more and to reduce the temptation of future legislatures to overspend any current surplus. However there has never been a formal determination of a target amount that should be saved in order to balance current against future needs.

The question of investment philosophy was a protracted debate over whether the fund should be a development fund or a savings account. It was ultimately won by those favoring a savings account.

A development fund would invest in Alaska projects designed to strengthen and diversify the economy, so when the state no longer had an economic base from oil, other sectors would be strong enough to take its place. Supporters of this position argued that there were many projects that could help the state economy grow but which could not secure financing either because the capital market was not working due to remoteness and the small size of the economy, or that some projects required a capital subsidy in order to move forward. In either case, the Permanent Fund could be the vehicle to concentrate state efforts to build a more diversified state economy through investments in public infrastructure, industrial development, and housing. Supporters of this view argued that a portfolio of bonds and stocks would not generate benefits for Alaskans.

Proponents of the savings account approach argued that investing in a portfolio of financial assets not directly linked to the Alaska economy would maximize the long run financial earnings of the fund, and that those earnings would then be available to the state for any purpose in the future Investing outside the state would diversify the overall economic portfolio of the state--an important consideration for an economy with a history of cycles of boom and bust. A state development fund would, they believed, be driven by political rather than economic decisions. Basing investment choices on politics would produce neither a positive financial return for the state nor a strong portfolio of investments.

The fund was initially managed within the Department of Revenue with other state funds until the legislature established an independent state corporation, the Permanent Fund Corporation, to manage the fund portfolio. The corporation is insulated from but not independent of the other branches of government. The governor appoints the six members of the board of trustees who set fund policy, and the director oversees the investments. The corporation mission is clearly defined to be financial management. It has no role in determining how fund income is to be used.

The constitutional amendment creating the fund gave the legislature authority to spend fund income consisting of interest, dividends, and realized capital gains, but the fund itself must be preserved. In practice this has been interpreted to mean that the inflation adjusted value of the cumulative deposits into the fund must be preserved.[5] This is accomplished through "inflation proofing", an annual deposit of a portion of income back into the fund to preserve its value.[6]

In practice fund income has been retained by the corporation until appropriated by the legislature rather than automatically transferred to the state general fund. This separate account is a contingency fund which can be used to supplement current year earnings to pay "inflation proofing" or the Permanent Fund dividend if current year earnings should fall short.[7] Keeping this accumulated income with the corporation has also protected it from appropriation by the legislature for other purposes.

The most significant change in the structure and management of the Permanent Fund since its formative years has been the liberalization of its investment policy to maximize its potential for long term growth. Over time the board has asked for and received permission from the legislature on several occasions to expand the categories of investments that the portfolio could hold, as well as adjust the target range for the allocation among different categories of investments. The fund portfolio now invests globally in stocks, bonds, real estate, and private equities. The investment policy is the "prudent investor" rule. This means that "the corporation shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion and intelligence exercises in the designation and management of large investments entrusted to it".[8]

This has increased the volatility in annual realized income. A recent suggestion to manage the fund like an endowment would reduce this volatility, would automatically protect it against inflation, and would provide more flexibility for management of the fund portfolio. Even though supported by the corporation, it has not been adopted, largely out of suspicion by the public that any change in the management of the fund was an attack on the Permanent Fund dividend.[9]

By 2010 the fund had grown to $32 billion (Table B.). Of this total $12 billion had come from required royalty deposits, $7 billion from occasional special contributions, and $13 billion from "inflation proofing". Over its lifetime the fund has averaged a total return of 8.7%,and has generated realized income totaling $35 billion. About half of this income has been used to pay the Permanent Fund dividend. The rest has either been put back into the fund as "inflation proofing" or retained in the contingency account.

3. Accounting for the Success of the Permanent Fund

The Permanent Fund has successfully transformed a portion of state non-sustainable petroleum revenues into a sustainable financial asset that can produce an annual flow of income for future generations of Alaskans. In doing so it has also helped to constrain the growth of public spending and moderated the economic cycles generated by price sensitive fluctuating oil revenues.

Although the ultimate success of the fund will depend on its role in Alaska's transition to a post petroleum economy, we can attribute its current success to a number of factors.

First, by a vote of the people that amended the state constitution, the fund was created as a separate institution with the sole purpose of managing the financial windfall. There was strong support behind its purpose-- to prevent wasteful spending and conserve the resource, and that purpose was not complicated by having the fund deal with two politically complex issues--the collection of revenues and the use of income. In practice, the dedicated royalty deposits have been like an automatic payroll deduction into a retirement account that has grown in value over time.

The fund has not been involved in the management of the petroleum wealth of the state. The laws governing petroleum taxes are written by the legislature and both the negotiations over royalties (governed by contracts between the state and lessee) and the collection of petroleum revenues are the responsibility of various departments within the administration.

Differing opinions about the optimal tax rates and royalty terms that will maximize benefits to the state result in constant attempts by both industry and the state government to make adjustments, but the fund is not involved in these disputes. These disputes center around the fair share of revenues that should go to the state rather than the appropriate amount of revenue to fund particular state programs. These disputes have resulted in several significant changes in tax policy over the years.

Nor is the fund involved in the valuation of production which is the basis for the calculation of taxes and royalties. Differences of opinion on these valuations often end up being litigated by the courts.

There have been cases of corruption involving the bribery of legislators in an attempt to influence petroleum taxes and other legislation impacting the industry, but since the fund has no role in tax policy, it has been insulated from those matters.

The fund has also been insulated from any role in determining how to use income which is a political charged issue. This has left the fund free to concentrate on its job, and it has been easy to evaluate its performance.

This institutional structure is different from that of two other petroleum funds against which Alaska is often compared. Both the Norwegian Government Pension Fund and the Alberta Heritage Savings Trust Fund are more closely integrated into the annual budget making process. In particular, all petroleum revenues are deposited into the Norwegian fund from which the annual budget is financed. Although that model has worked well in Norway, it is hard to imagine this structure would maintain fiscal discipline given the political environment in Alaska where the government is continuously expected to generate economic activity and stimulate economic development.

The Alberta fund was created by legislative action and originally had four goals. These were to provide savings for the future, to reduce the government debt load, to improve the quality of life of the province, and to strengthen and diversify the economy. A decade later it was clear that this multi-pronged approach was not working and since then that fund has adopted a clearer focus on financial return.[10]

Second, Alaska has collected more oil revenues than originally expected and has taken advantage of the occasions when revenues were high to create some programs that have diffused potential pressure to expand the role of the Permanent Fund. The petroleum revenue stream dedicated to the fund, 25 percent of royalties, is only about 10 percent of total annual petroleum revenues (including taxes). This has left 90 percent for the legislature and governor to spend on reducing taxes for businesses and households and for expanding programs. Shortly after the fund was created, petroleum revenues increased dramatically and this allowed the establishment and funding of a number of agencies--including the Alaska Renewable Resources Corporation, Alaska Industrial Development and Export Authority (AIDEA), the Alaska Housing Finance Corporation (AHFC), the Alaska Science and Technology Foundation, the Alaska Energy Authority, and the Alaska Aerospace Development Corporation—designed to promote economic development in the state. These agencies relieved pressure on the Permanent Fund to serve as the development bank.

Sometime later another surge in revenues allowed the state to establish another fund, the Constitutional Budget Reserve, for the purpose of buffering government spending against annual fluctuations in petroleum revenues. The state can borrow from this reserve in low revenue years, but is required to pay it back in high revenue years. Like the Permanent Fund, the $9 billion in this account represents petroleum revenues saved.

Third, there is a continuing perception that the state had squandered its original bonanza—the $900 million in bonuses collected in 1968. It is felt that the best way to avoid that mistake again is to put any new windfalls into the Permanent Fund, where they will be safe from wasteful spending. Over time $7 billion has been added to the fund through special deposits motivated by the desire to get the money "off the table". This impulse has been amplified by a strong general underlying desire to control government operations spending to avoid the necessity of imposing taxes.

Taken together, the constitutionally required deposits into the Permanent Fund from royalties, the special deposits into the Permanent Fund, and the payments into the Constitutional Budget Reserve amount to 25 percent of direct petroleum revenues collected since North Slope production began.

Fourth, the fund has a policy of not investing in Alaska. It looks worldwide to build a portfolio to maximize long term return on investment adjusted for risk. In this way it avoids any political pressure to funnel money into particular investments favored by powerful individuals or groups or to invest in local projects that produce a non monetary benefit rather than a financial return.

Fifth, the fund and the corporation are probably the most highly respected institutions in the state. This partly stems from the fact that many of Alaska's most respected leaders, such as former Governor Jay Hammond, helped guide the formation of the fund and have been continuing advocates. In addition the fund has been fortunate to have on the board many members perceived to be visionary and responsible custodians, such as banker Elmer Rasmuson, the first board chairman. They have also been able to attract high quality staff, both from within and outside the state, beginning with the first executive director, Dave Rose.

The transparency of the operations of the corporation is evident in numerous ways. Board meetings are open to the public and held in communities throughout the state. The corporation publishes a clearly written annual report, produces educational materials for Alaskans, and maintains a speaker's bureau. One can access a current list of portfolio holdings on a daily basis, the value of the fund, and detailed minutes of past board meetings from the corporation web site.[11] It reports annually to the legislature. Finally, because Alaska is a small state, the board members are widely known in their communities.

As a result the public has a high degree of confidence that the fund is being well managed. Second guessing the investment decisions of the corporation is not a popular pastime even in times of down markets. The attention of the public is concentrated on the issue of how to collect the fair share of petroleum wealth from the companies producing oil in the state. Once the wealth has been converted to financial assets the public feels confident that these assets will be professionally managed for their benefit.

And finally, the Permanent Fund dividend received by each citizen has created a constituency protecting the fund. Although setting aside some petroleum revenues for the future makes sense and was easy to understand at the time of the original windfall, it has since become harder to support for several reasons. First it is hard to convince people to save for a future that does not involve them. The Alaska population is quite transient with people continually moving into and out of the state. If a current resident might move away in the future, or even see his neighbors replaced by someone new from another state, he is less likely to want to save for the future and more likely to want to spent the wealth today. Second, it is hard to educate new residents who have no experience of Alaska before the windfall, of the need to save. A region, like Norway, with closed borders, does not have this problem.

In addition, there is a great temptation to spend when there is a big pot of cash that appears to be sitting idle and not benefiting the public. In such an environment there will be an infinite number of suggestions for ways to "put that money to work". Some will be good and some not so good, but they will be endless and the pressure to spend will be relentless.

It can be argued that the fund would not have survived without the dividend. It is hard to see how the fund would have grown to its current size without the protection it has gotten from its constituency, but the state has established other saving accounts, most notably the Constitutional Budget Reserve, that are forward looking. Alaska probably would still have a fund if there had been no dividend, but it would be much smaller.

4. Origin and Evolution of the Permanent Fund Dividend

In its first years the annual earnings of the Permanent Fund were small and attracted little attention. Then in 1979 the price of oil increased dramatically as a result of the Iranian Revolution, and Alaska oil revenues quadrupled.

The higher oil price was expected to be permanent and the legislature began the task of spending all these new revenues. The personal income tax was eliminated and the operating and capital budgets increased. Several new state agencies were established and capitalized. And a number of loan programs benefiting businesses and households were established.

The distribution of all this new wealth was reminiscent of the earlier experience of the wasteful spending of the lease bonus windfall. Furthermore the benefits from the elimination of taxes, the increased spending, the new agencies, and the loan programs all targeted particular population groups or businesses. There was a feeling that government was spending wastefully, and that the benefits of the spending were not distributed equitably across the population.

Against this background the question of what to do with the income from the Permanent Fund was debated in the legislature. The governor at the time, Jay Hammond, had been a commercial fisherman in a small village in rural Alaska. He had seen how the benefits from harvesting a publicly owned resource--fish from the sea--were inequitably distributed and went mostly to nonresidents of the state. He proposed an annual cash distribution to all citizens as a means of ensuring that everyone benefited from oil production on state-owned lands.

His original proposal, put forward in 1980 and known as "Alaska, Inc.," was to pay every eligible Alaskan a dividend based on length of residency up to a maximum of 25 years. That feature was designed to help stabilize the transient population, reward longevity, and minimize dividend related migration.[12]

The arguments in favor of the program included the notion that individuals were in a better position to know how to spend money for their own benefit than politicians, and that the dividend would control the growth of the public sector. Overexpansion of government would be bad for the economy in the long run after the oil revenues ran out. But others felt it was in the best interest of the state to decide communally how the money would be spent, presumably on public goods—especially public infrastructure and loan programs. That would stimulate economic development. Others felt that a large portion of the money would be wasted, and were particularly concerned with how people receiving "free money", particularly those with low incomes, would respond. Others felt there might be a backlash in Washington DC against Alaska if the state were seen as giving away money.

The dividend faced a battle in the legislature, partly because it did not have a strong constituency or organized interest group to support it politically as did loan programs and capital expenditures. In spite of this, "Alaska, Inc." did pass the legislature but it was ruled unconstitutional because it did not conform to the equal treatment clause of the U.S. Constitution. Anticipating this ruling, the legislature passed the current dividend plan that paid each qualified Alaska resident regardless of age an equal amount out of the earnings of the Permanent Fund.

The only requirement for eligibility is one year of residency in the state prior to the payment year and the intent to remain a resident in the future. Typically about 95 percent of the population, including children, receives the dividend in the last quarter of the year, about 6 months after submitting an application establishing residency under the rules of the program.

The amount available for the dividend each year is half of the nominal fund earnings averaged over the previous 5 year period.[13] As the Permanent Fund has grown the dividend has increased in size although it has fluctuated considerably in size from year to year.[14] In 2010 it represented a 3 percent increment to per capita personal income for the average resident.[15]

The annual aggregate dividend distribution is significant in relation to other sources of income that enter the economy. The $858 million in 2010 is half as big as the entire payroll of the mining and petroleum sectors ($1.664 billion). Since the dividend income comes from non petroleum related investments made outside the state, it is like adding a new basic industry to the economy. This diversification of income sources acts as a stabilizing force on the economy.

After the initial dividend distribution a comprehensive study of its impact and public attitudes about it was done to help determine whether to continue the program. Sixty percent of Alaskans surveyed thought the dividend was a good idea, 29 percent had mixed feelings, and 10 percent thought it was a bad idea. (One percent did not know.) When asked to compare the dividend with alternative uses of the funds it was clear that respondents preferred uses that distributed funds to households over public construction or more saving. Respondents however were overwhelmingly in favor of "inflation proofing".[16]

Every subsequent survey has confirmed the overwhelming, but not universal, popularity of the program. For example a non-random survey in 1989 found only 15 percent of respondents were willing to increase state revenues by eliminating the dividend. Somewhat larger percentages were willing to put a cap on its size or spend funds in the contingency account.[17]

Although the Permanent Fund balance, which ultimately determines the size of the dividend, is constitutionally protected, there is no such guarantee for the earnings or the dividend. The legislature has the authority to change the formula at any time and could, by law, eliminate it entirely. Its only guarantee is its political popularity. No legislator would suggest a change in the formula that would reduce its amount or the share of Permanent Fund income allocated to the dividend for fear of losing the next and all subsequent elections.

The dividend also instantaneously created a constituency for the Permanent Fund itself. Without a group keeping an eye on the legislature, the fund could have fallen prey to special interests. Such interests might spend the earnings inappropriately, invest the fund balance in capital projects with no financial return, or eliminate "inflation proofing".

The best example of how sensitive the legislature has become to the appearance of reducing the dividend is the special legislative contributions that have been deposited into the fund over the years. These special contributions increase the balance of the fund, future income, and with it, the size of the dividend in future years. Legislators are willing to make these special contributions even though they reduce the amount of money they could spend to satisfy special constituencies. It is ironic that the legislature has willingly contributed to a fund established specifically to protect against wasteful legislative spending.

The basic structure of the dividend program has not changed since it was introduced. Changes have involved better definition of eligibility (length of residence and intent to remain) and streamlining the payment method. Originally the annual payment was by check delivered through the mail, a process that took several weeks. Now most dividends are paid electronically directly into recipient bank accounts, all on the same day.

Policies have also been established to deal with special situations. For example certain federal aid programs for low-income families are contingent on monthly income. To offset loss of aid income to those families when they receive their dividend, the state instituted a "hold harmless" program. This is a payment to those families in compensation for their temporary loss of federal assistance. The state also acts as trustee for children who are wards of the state, managing their dividends until they reach adulthood.

When the annual dividend payment is distributed, retailers compete to lure recipients to spend as much of their checks as possible. The local media attention concentrating on the story about how people spend their dividends also contributes to a "consumption-frenzy" atmosphere. This atmosphere could be part of the source of the “wasteful” spending cited by some dividend critics.

The distribution method could be structured in any of a number of different ways, but there has been little interest in changing it. For example the dividend could be accompanied by information on good consumer spending habits or how to use the dividend to better manage consumer debt. The dividend could be distributed on a monthly basis.

The presentation of the dividend could also be "framed" in a way that guides consumer decisions in a particular direction. For example the current method does not offer a simple saving alternative for recipients either at the time of application or of distribution. Since 1991 applicants have been able to designate a part of their dividend to a University of Alaska Section 529 College Savings Plan established for the benefit of a child. Plan earnings are tax free under current law, and the proceeds can be used to pay qualified expenses at the University of Alaska or any other eligible institution of higher learning. Since its inception there have been about 80 thousand individual deposits into these accounts via PFD applications. The “pick-click-give” program which started in 2009 allows applicants to direct a portion of their dividend to charitable organizations. About 5 thousand people used the program in its first year, and an estimated 10 thousand in 2010.

However there has never been a policy discussion of what the best framing structure would be and whether it should include other options for investing or creating a “grubstake”—a means to allow a person to accumulate enough cash for a special opportunity, like starting a business. This is probably because of the feeling among the public that the decision about how the dividend is spent is no business of government.

But a large share of dividends go to children, and there are no special conditions associated with them. In the 1984 study, about half of the households that included children reported that the decision about how the children’s dividends would be spent was shared between the child and the parent. In the other half of households, the parents alone made the decision about how to allocate that money. While parents certainly should be responsible for the well-being of their children, one must wonder if children spending dividend checks is a sensible public policy either in terms of the benefits the children get from those expenditures or from the lessons the children learn about responsible financial management from the experience. There seems to be a good case for coordinating some personal finance education into the school curriculum when the dividend is distributed.

Dividend recipients are not required to participate in any community functions like voting, or attending community meetings, or even to be knowledgeable about the source of the funds they are receiving. The application process could be expanded to provide an education function so that people would have a better understanding of why the dividend was established and what it means. It could also be used to informally engage the public to think about important public policy issues.

5. Public Attitudes Towards the Dividend

The dividend has broad but not universal public support. The most frequently heard arguments in its favor are as follows:

1. Since the Permanent Fund consists of royalty payments from oil owned by the state, the earnings rightfully belong to the citizens of the state.
2. Individuals can put the earnings to better use than allowing government to decide how to spend the money.
3. The dividend is the most equitable way to distribute the benefits from the production of state owned resources.
4. The dividend is a major economic stimulus for the economy (large economic multiplier).
5. Without the dividend the balance of economic activity would be weighted too heavily in favor of the public sector.
6. Ending the program would be regressive—it would hurt poor families proportionately more than well-to-do families.
7. The dividend protects against a raid on the Permanent Fund.
8. The dividend is spent on basic needs of Alaska families.
9. The dividend keeps most of the dollars within the state.
10. The dividend is a stabilizing force for the economy otherwise subject to resource generated cycles.
11. The dividend levels the income distribution in the state.
12. Life in Alaska is tough. I deserve it.
13. I pay Alaska taxes. I should get something back.

Support for the program has certainly been bolstered by the increase in the share of the population unfamiliar with the circumstances surrounding the creation of the Permanent Fund and by the increase over time in the size of the dividend payment. Some supporters have suggested protecting the dividend payment, now at the discretion of the legislature, by putting it into the state constitution, but for now it seems well protected simply by the strength of its popularity.

But for every argument in support of the dividend, there is one opposed. The list includes the following:

1. The dividend should be reinvested in the Permanent Fund to better provide for our future needs.

2. We should be investing the dividend money in something tangible, like physical infrastructure to help stimulate economic development.

3. Much of the dividend is spent on frivolous consumption goods—alcohol, etc.

4. Many people use their dividends to take vacations and so spend their money out of the state.

5. A big chunk of dividend dollars must be paid to the federal government in higher personal taxes. We should spend the dividend money in ways that don't leak out of the state.

6. We should not be giving money away if we want to convince the federal government to keep sending us grants based on need.

7. The dividend fosters a culture of dependence on government that is neither healthy nor sustainable.

8. The dividend fosters a culture of consumption, when what Alaska needs is more investment.

9. The dividend attracts undesirable people to move into the state, putting a burden on current residents.

10. There is no reason the government should be giving checks to Alaska millionaires.

11. The dividend makes it impossible to use any Permanent Fund earnings to finance essential government services.

12. Life is great in Alaska. There is no need to pay me just to live here.

Between the supporters and opponents of the dividend are those who recognize its overwhelming popularity, but are fearful that it will become too big, which has generally meant an amount slightly larger than the current dividend. But suggestions to "cap" the dividend at $500, $1,000 or some larger amount have never garnered much support.

Alaskans are in agreement that Alaska has the right to the resource rents from petroleum production on state land. Where there is disagreement is around the question of whether ownership rests with the people communally or individually. If communally, then decisions about how to spend the royalties from oil should be made by the legislature representing the citizens of the state. If individually, then the citizens as individuals should make those decisions.

Those who consider the ownership to be communal are more likely to view the dividend as a government program which distributes income. Those who consider the ownership to be individual are more likely to view the dividend as a distribution of their ownership share of the petroleum wealth and to view the government role as simply facilitating that distribution.

Because of these two viewpoints, some Alaskans, as well as many non-Alaskans, view the dividend as a socialistic government handout while at the same time many other Alaskans view it as a payment based on a private property right. Those who view it as a government handout decry the entitlement mentality they see fostered by the payment. Those who view it as a property right feel the government has no business getting involved in managing its disposition.

These different viewpoints have existed since the dividend was introduced and show no sign of resolution.

6. Economic and Social Effects of the PFD

One concern with a natural resource windfall is that when spent locally it will overheat an economy leading to inflation, an erosion of competitiveness, and eventually slower economic growth. In a state within a nation, like Alaska, this is less a concern because its open border allows increases in local demand to be met by in migration of goods, services, and workers, thus minimizing the inflationary pressure from increased spending.

The Permanent Fund acts as a buffer between the collection of petroleum revenues and the spending of those revenues. By removing the automatic connection between the two, it has a moderating effect on the economic boom created by the windfall—both in the short and the long run. It siphons part of the windfall away from current spending and reallocates it to some future time.

The current practice of the Permanent Fund is not the only way to moderate this connection. For example if all Permanent Fund earnings to date had been reinvested, it would be twice as large today. We would be able to spend more in the future because we had spent less in the past. Another distribution scheme that was initially proposed was to put all petroleum revenues into a special fund from which the earnings would be drawn to spend on public programs. This would have ensured that the economy would not become overheated in the short term, but at the cost of shifting most of the benefits of the windfall to future generations.[18]

Alaskans are most interested in how their friends and neighbors spend their dividend checks. The infusion of cash increases the demand for consumer goods and services which generates employment and payroll growth, particularly in the retail trade and personal services parts of the economy. The increase in purchasing power cascades through the economy producing additional employment and payroll until it leaks out of the stream of local purchases as purchases outside the region, savings, and taxes. The newly created jobs will mostly be filled by an inflow of workers from outside the state who will bring their families with them. According to one estimate, ultimately the economy will be larger by roughly 7 thousand additional jobs and $1.1 billion (2010 $) in additional personal income. Population will be about 12 thousand larger.[19] A more precise estimate is impossible because little is known about exactly how households spend their dividends.

The economic and social effects of the dividend have not been much studied. Alaskans tend to view the disposition of dividend income as a private matter that is not the business of government to be investigating. Even if it were viewed as a public program rather than a distribution of earnings, there is little tradition in Alaska for program evaluation. Furthermore, because almost everyone in the state receives the dividend, it is difficult to construct statistical analyses that allow researchers to isolate the effects of the dividend from all the other factors simultaneously impacting behavior. And finally, much of the data that would go into such studies is not of high enough quality to support rigorous statistical analyses.

A popular method for determining what people have done with their dividend checks is to ask them directly when they have them in hand. An informal survey conducted by the Permanent Fund Corporation in 1994 reported that three-quarters of respondents planned to save half or more of their dividend (including reducing their level of debt).[20] Although this is an indication of what people did with their checks when they got them, it does not tell us how the dividend effects their consumption behavior. For example, some people said they used their dividend to buy winter clothes for their children. While it may be true that the dividend check was used in that way, it is unlikely that most parents, had they not received a dividend, would have deprived their children of winter coats in the harsh Northern environment.

Alaskans have come to expect the dividend each year. Although they understand that its exact size will not be known until shortly before it is distributed, they tend to treat it as a permanent increase in their income. Consistent with the permanent income hypothesis, they will spread the additional consumption made possible by the dividend over their entire lifetime, probably on more of the same types of goods and services they would have consumed without the dividend income. According to this theory, consumption should not increase noticeably at the time of the dividend distribution.

However, the anecdotal evidence, responses of people when directly asked, and a study of the pattern of receipts at retail outlets in communities across the state all suggest that consumer purchases, as distinct from consumption, do tend to concentrate around the time that the dividend checks arrive. One reason for this is that a large dividend or the combination of several dividends together provides some recipients with the "liquidity" necessary to buy an expensive consumer durable that provides consumption benefits lasting a long time—appliances, snow machines, etc. Hence the concentration of these consumer-durable purchases is not inconsistent with the permanent income hypothesis of smoothed consumption.

A second reason for purchases to be concentrated during the dividend distribution season is that businesses compete for a share of the dividend dollars through advertising campaigns, sales, and other types of special offers. Timing the purchase of a new boat motor or a trip to Hawaii with the dividend distribution season can be a smart consumer decision. It also is a happy coincidence for retailers that the distribution comes at the beginning of the Christmas shopping season when people are in a mood to spend.[21]

But even though spending increases when the dividend is distributed, anecdotal evidence suggests a large share of the distribution is saved. This was to be expected in the early years of the program since people did not know if it would continue so it was viewed as a windfall. Although that is no longer the case, the fact that the dividend is a large lump sum might provide an incentive for some saving that would not otherwise occur. More significant is the saving by parents of dividends paid to children.

If we look for lasting impacts of the dividend, no one has tried to demonstrate that the additional discretionary income, either spent or saved, has had a lasting effect enhancing the economic well being of Alaska households. Neither has anyone tried to demonstrate that the dividend has expanded economic development activities. The fear of some is that it has created a consumption oriented environment and that households have not used the opportunity it provides to increase their private wealth, or to increase their personal freedom.

But this begs the question of how the success of the program should be evaluated. Without the dividend program the money would most likely have been spent on activities designed to strengthen and diversify the economy--physical infrastructure, loan programs for businesses and households, and expenditures to support development of new industrial activities. But the state has spent a considerable amount on these activities with only limited success. Much of this spending targeting economic development could better be characterized as consumption rather than investment in that it has produced temporary economic growth, but not necessarily sustained development.

Furthermore strictly on the basis of income delivered to Alaska households, an important criterion for public expenditures in Alaska, the dividend does a better job than capital investments or government spending on operations.[22]

Two features of the dividend—it is an equal distribution to all residents and it is taxable as personal income by the federal government—contribute to it helping to level the income distribution. The dividend adds a larger percentage to after-tax income at the lower end of the distribution than at the upper end.[23]

The dividend establishes a floor below which the cash income of residents cannot fall, but it is not large enough by itself to provide a basic level of income for a household and was never designed for that purpose. There are a number of federal and state "safety net" programs like social security, the earned income tax credit, unemployment insurance, and food stamps that help to lift people above the poverty income level. The federal poverty guidelines of the U.S. Dept of Health and Human Services defined the poverty level for a two-person household in Alaska in 2009 to be $18,210.[24] Consequently as an addition to the "safety net" the dividend has been one factor in the decline in the official poverty rate since Alaska attained statehood, particularly among Native Americans. The Native American poverty rate fell from 25 percent to 19 percent between the census years of 1980 and 1990.[25]

The dividend is particularly important in rural parts of the state where the economy is largely a mixture of government cash-based transfers and subsistence activities and where cash employment is scarce. Households are cash poor and the subsistence harvests can fluctuate dramatically from year to year. Under these circumstances the cash provided by the dividend is particularly important not only because of its size but also its relative predictability.

Although there is considerable migration out of these villages to locations with greater employment opportunities and better social services, most of these villages continue to exist because the residents prefer the subsistence lifestyle. However it is very expensive to provide adequate public services to these communities and the social conditions are often poor. Although the dividend provides much needed cash to the residents of these villages, it may be enabling or empowering people to remain in rural Alaska instead of moving to places where jobs are more readily available and public services less expensive. Although it is difficult to weigh and compare the supportive and enabling effects of the dividend for residents of these communities, both effects need to be recognized.

Economic theory suggests that an unconditional payment like the dividend would reduce the supply of labor and increase the wage rate. In the 1984 study of the early dividend program, only one percent of survey respondents reported they worked less because of the dividend. This is to be expected since many lower-income Alaskans, those most sensitive to an unconditional increase of income, would prefer more work but are constrained in their opportunity to obtain employment in the cash economy. On the other hand, the effects of a continuing dividend payment on labor supply might only become evident over time if workers choose an earlier retirement.

There have been no studies that have tried to link the dividend to aspects of health or education status or other aspects of social well being (like the crime rate). This is partly because Alaskans do not think of the dividend as a policy tool to address these problems and also because of the difficulty of identifying the effect of the dividend independent of other social welfare programs and other influences. For the same reasons, no one has investigated the influence of the dividend on personal attitudes about empowerment, feelings of self-worth, sense of community, volunteerism, or other psychological factors.

One of the potential effects of the dividend that concerns many Alaskans is its impact on population. The dividend is a subsidy to the cost of raising a child and that should increase the birth rate. In fact an unpublished study has suggested the birth rate in Alaska has increased 18 percent because of the dividend.[26]

This seems unlikely for a number of reasons. First there is no indication of such a large effect in a simple comparison of the trend in the Alaska birth rate to the rest of nation. Second, studies of direct child subsidies in other countries, specifically designed to stimulate the birth rate, fail to report such dramatic impacts. And third, the effect of the dividend program on the birth rate is complicated because, although on the one hand it does directly lower the cost of raising a child, it also increases household income. If the desired number of children falls with increasing income, the birth rate could potentially go down as a result of introduction of the dividend program.

It is more likely that the dividend would influence population because it acts as a "population magnet." The dividend is an obvious incentive to move to Alaska, independent of any increase in employment opportunities arising from jobs created by residents spending their dividends. This effect should be concentrated among lower-income people and anyone not closely connected to the labor market.[27] This population growth dilutes the size of the dividend and puts increased demand on public services.

The over-65 population is increasing at a rate faster than any other state, and demand for public as well as non-profit programs providing services for lower-income individuals and families has also been growing rapidly. But it is difficult to sort out the causes for these increases among various public programs for lower-income individuals, seniors, and others to be able to attribute any of it to the dividend. No one responding to the 1984 survey indicated that they had moved to Alaska to get the dividend, and almost no one said they had decided not to move out of the state because of the dividend.

But the dividend could also attract people who are in the labor market. Relative wages in a region reflect differences in the cost of living and private and public amenities. The high wage in Alaska is compensation for the high cost of living, climate, and absence of many private amenities. The introduction of a dividend increases the attractiveness of Alaska and should be reflected in a compensating reduction in the wage rate as the labor supply increases when more people are attracted to the state.[28]

If that were to occur, part of the benefit of the dividend would go to those businesses able to hire workers at the lower wage rate. The possibility of this type of effect underscores the necessity of considering what economists call the "general equilibrium" effects of cash transfers. When a policy like the dividend program is large enough to cause changes in relative prices that influence the allocation of resources and behavior, then looking only at direct effects will not capture all the important effects of that policy and could lead to incorrect conclusions about its benefits.

The dividend has clearly shifted a considerable amount of resource wealth spending from the public to the private sector. But we should define fiscal discipline more narrowly than that to mean measuring the benefits of public expenditures against the private loss from paying for them. Dividend supporters argue that the dividend substitutes for the missing personal income tax as the means of imposing fiscal discipline on the state budget. In theory, the dividend needs to compete each year against other uses of fund earnings. But in practice that discipline is imposed only when other revenues are insufficient to completely fund the state budget. It is only then that the tradeoff between funding the dividend or using the money to pay for public services is clearly delineated. At other times other means must be relied upon to impose discipline on the budget making process.

Consequently one can argue that the public budgeting process would be more balanced if there were a special account dedicated only to payment of the annual dividend so that deliberations and decisions regarding the regular operating and capital budgets did not have to take into account their impact on the size of the dividend.

The dividend is part of a unique fiscal system that results in an unusual relationship between the government and the people. An entire generation of Alaskans has been raised having received a dividend annually since birth without necessarily understanding the purpose for which it was created. This generation has also never experienced paying for the state services they have received because petroleum revenues have covered all costs. This has fostered a distorted idea of the true cost of government and the sense that the role of the state is to provide public services at no cost and also to hand out cash to all citizens.

For some citizens this means that their only connection with the state government is the Permanent Fund dividend check they receive. Furthermore, because there are no personal taxes and receipt of the dividend carries no public responsibilities, the two together undermine the sense of community that comes from the need to collectively choose and fund public services. Local government services are also partly supported by state revenues, but because of local taxes, this disengagement is not as much a concern at the local level.

An alternative to the current dividend program would be a community dividend distributed to each community based on the number of residents. Residents would be free to spend the community dividend any way they wanted, but they would have to jointly determine how it would be used. This would build community involvement. Under such an arrangement it might be more likely that the money would purchase physical facilities that would produce continuing benefits for residents—current and future. This would keep more of the money in Alaska (it would not be subject to the income tax or residents leaving with their dividend.), and at the same time increase the incentive for community action. Of course the community dividend could also be used to reduce the local tax burden.

7. Declining Petroleum Production and the Challenge Ahead

The Permanent Fund and the Permanent Fund dividend face their biggest challenge in the coming decades.

Alaska has relied almost entirely on petroleum revenues to fund government (about 89 percent) for almost 40 years. But in the last 20 years production has dropped by two thirds and is projected to continue to decline at the same rate. In recent years the high oil price has swelled the state treasury, but eventually petroleum revenues will fall with the inevitable decline in production. Growth of the Permanent Fund will slow as the deposit of royalty revenue slows. The high petroleum revenues have contributed to growth of the economy, but the development of an alternative tax base to replace petroleum has not followed.

There are two revenue sources available to replace declining petroleum revenues. The first is taxes on households.[29] Alaska is the only state with neither a personal income tax nor a general sales tax. The second is the income of the Permanent Fund. Unfortunately taken together they would today generate considerably less revenue than petroleum, so many people think both of these alternative revenue sources will be needed in the future to pay for public services.

The Permanent Fund was created to ensure that future generations of Alaskans would share in the benefits from the petroleum wealth. Shortly thereafter the Permanent Fund dividend was created to ensure that the benefits to the current generation would be equitable, and that there would be a constituency to protect the fund from attack. This constituency would serve as a proxy for those future generations not currently represented in the decision making process.

Some would argue that this constituency has taken over the fund and turned it, de facto, into one that exists for the sole purpose of paying the Permanent Fund dividend. It has been converted from a saving account into an income distribution fund. This is evident from the fact that many people now mistakenly refer to the Alaska Permanent Fund as the Alaska Permanent Dividend Fund.[30]

The current practice regarding the distribution of fund income is first to pay the dividend, then "inflation proof" the fund, and finally to leave any remainder in the contingency account. That would cover potential future income shortfalls that would otherwise make it impossible to fully fund the dividend and "inflation proofing". Although this remainder fluctuates from year to year, it has averaged several hundred million dollars and the balance in the contingency account tends to grow over time.

There have been several attempts in the past, during periods of low petroleum revenues, to use the funds in this contingency account to help pay the costs of government operations. In the later 1980s a suggestion known as the 40-30-30 rule would have allocated 40 percent of income to the dividend, 30 percent to inflation proofing, and 30 percent to general fund spending through a new budget reserve fund. It was proposed as an equitable distribution of earnings among current residents, future generations (inflation proofing) and public needs. It was not adopted.

An advisory vote in 1999 which asked if Permanent Fund income left after paying the dividend and "inflation proofing" should be used to help balance the state budget was defeated with 83 percent opposed. The fact that the governor called for an advisory vote on this question is particularly significant because the legislature already had the authority under law to appropriate not only the funds in the contingency account, but all the earnings of the fund.

This example in particular demonstrates how sensitive policy makers have become to the suggestion of the use of fund earnings as a part of any long term solution for financing state government expenditures. Most are loath to entertain such a suggestion for fear of being charged with mounting an attack against the dividend. It has even been suggested that the only way to resolve the impasse is to "cash out" the entire Permanent Fund in one large distribution so that the public would no longer obsess over it.

However there is an opposing point of view that the dividend is not an impediment to a solution to the long term fiscal problem faced by the state. This view, espoused by the late governor Jay Hammond, is that the best way to balance public against private consumption is not to give the legislature direct access to the earnings of the Permanent Fund. It is to give all the income of the fund to the residents and require that the government "claw back"-- in the form of income or other taxes--whatever it can convince the public is necessary to pay for public services.

When petroleum revenues have disappeared, financing government through an income tax rather than fund earnings, would have several advantages. First it imposes a direct link between the cost of public services and their perceived benefits. Second the incidence of the burden of paying for government with an income tax would be progressive whereas reducing the dividend would be regressive. Third, cutting the dividend would put the burden entirely on residents whereas non-residents would pay a share of an income tax. And finally, because a state income tax is deductible from the federal income tax, the federal government would be paying a portion of the cost of state government.

Arguments that support reducing the dividend rather than imposing an income tax include the apparent inefficiency of the government handing out money with one hand (the dividend) and taking it back with the other through taxation, the inequity of putting the burden of paying for government only on workers, and the disincentive to work and invest created by an income tax.

In the end, given the high cost of government in Alaska, even imposing an income tax at rates considered confiscatory would probably not generate enough revenue to cover the cost of a very basic level of government services so that some change in the way fund income is distributed will become necessary.

However there is a third possible outcome for the problem of funding state government in the future. That would be to use the Permanent Fund itself to balance the budget. This could be done without contravening the language of the constitutional amendment prohibiting expenditure of the fund itself in either of two ways. The state could borrow against the balance to finance government, or it could stop inflation proofing. Either would reduce the real value of fund assets over time, so this alternative is not an attractive outcome.

As petroleum revenues fall this debate will intensify. As the state moves into a post petroleum future, it is fortunate to have the Permanent Fund as a resource to help it make that transition. Whether that transition will be successful remains to be determined.

Table A. Alaska Petroleum Production, Revenues, and Savings (Nominal Million $)

	Gross State Product		*State Petroleum Revenues*			*Permanent Fund Deposits*		*Constitutional Budget Reserve (CBR) Deposits*
	Total	*Petroleum Production*	*Total*	*Taxes*	*Royalties*	*Royalties*	*Special Contributions*	*Total*
1977	7,492	831	482	168	314	4		
1978	9,088	1,616	492	289	203	51		
1979	10,863	2,234	906	570	336	84		
1980	15,138	5,939	2,601	1,223	1,378	344		
1981	21,665	10,801	3,689	2,173	1,516	385	900	
1982	23,348	10,469	3,975	2,393	1,582	401	800	
1983	22,548	8,352	3,448	1,882	1,565	421	400	
1984	23,829	8,785	3,228	1,789	1,439	366	300	
1985	26,219	10,572	3,116	1,686	1,425	368	300	
1986	18,849	4,345	2,981	1,355	1,626	323		
1987	22,258	7,948	1,565	871	694	171	1,264	
1988	21,307	7,113	2,368	1,073	1,295	418		
1989	23,357	7,799	2,069	955	1,114	228		
1990	24,987	8,483	2,388	1,209	1,180	267		
1991	22,164	5,514	3,297	1,554	1,743	435		291
1992	22,591	5,321	2,592	1,288	1,305	338		247
1993	22,965	4,849	3,197	1,202	1,995	315		914
1994	23,110	4,336	1,939	771	1,168	210		437
1995	24,805	5,432	3,478	980	2,499	318		1,543
1996	26,083	6,984	2,514	1,017	1,498	264	1,842	586
1997	25,171	5,035	2,889	1,245	1,644	308	803	570
1998	23,312	2,699	1,906	829	1,077	231		343
1999	23,866	2,682	1,119	565	554	156		50
2000	25,913	3,901	2,402	910	1,491	311	280	448
2001	27,747	3,450	2,274	1,087	1,187	339	7	49
2002	28,887	3,947	1,671	724	994	258		90
2003	30,905	4,511	2,059	799	1,261	398		22
2004	34,408	6,174	2,430	998	1,432	368		8
2005	37,824	7,820	3,357	1,430	1,928	481		27
2006	41,820	9,919	4,344	1,915	2,429	601		44
2007	44,288	10,365	5,115	2,868	2,246	532		101
2008	48,551	13,288	11,239	7,510	3,729	844		438
2009	45,709	na	5,954	3,715	2,239	651		122
2010	na	na	6,105	3,438	2,667	679		510

Sources: US Department of Commerce, Alaska Department of Revenue, Alaska Permanent Fund Corporation. All data is fiscal year except gross state product.
Notes: Permanent Fund deposits shown here do not include inflation proofing. CBR deposits come from petroleum revenues obtained through settlement of disputes with taxpayers.

Table B. Alaska Savings Accounts and Permanent Fund Dividend (Nominal $)

	Savings Account Balances (Million $)		*Disposition of Permanent Fund Earnings(Million $)*				*Permanent Fund Dividend*	
	Constitutional Budget Reserve (CBR)	*Permanent Fund Balance*	*Total*	*Dividend Payout*	*Inflation Proofing*	*Residual*	*Individual Dividend Amount ($)*	*Per Capita Income ($)*
1977		-						12,388
1978		53	2			2		12,495
1979		137	8			8		13,199
1980		483	32			32		14,975
1981		1,715	150			150		16,528
1982		2,939	368			364	1,000	18,819
1983		4,061	471	64	231	176	386	18,843
1984		4,548	530	175	151	204	331	19,395
1985		6,085	658	217	235	206	404	20,104
1986		7,097	1,021	303	216	501	556	19,673
1987		8,338	1,069	391	148	529	708	19,244
1988		8,757	789	424	303	62	827	19,848
1989		9,723	869	460	360	48	873	21,525
1990		10,389	916	488	454	(26)	953	22,594
1991	297	11,433	1,031	490	559	(18)	931	23,092
1992	563	12,405	1,036	488	477	71	916	23,706
1993	685	13,748	1,226	532	363	332	949	24,478
1994	614	13,492	1,098	556	372	170	984	25,186
1995	1,994	15,146	1,013	565	348	100	990	25,778
1996	2,518	18,276	1,814	643	407	764	1,130	26,179
1997	3,172	21,095	2,061	747	486	829	1,297	27,197
1998	3,559	22,451	2,595	893	423	1,279	1,541	27,943
1999	2,628	22,500	2,544	1,045	288	1,211	1,770	28,538
2000	2,734	23,544	2,260	1,172	423	665	1,963	30,531
2001	2,995	22,430	1,199	1,113	686	(600)	1,850	32,266
2002	2,469	22,389	257	926	602	(1,271)	1,541	33,144
2003	2,093	24,094	355	691	352	(688)	1,108	33,519
2004	2,164	26,541	1,525	581	524	420	920	34,867
2005	2,236	28,522	1,781	532	641	608	846	36,764
2006	2,267	30,325	2,726	689	856	1,182	1,107	38,839
2007	2,548	33,695	3,471	1,022	860	1,589	1,654	41,081
2008	5,601	30,913	2,971	1,293	808	870	2,069	43,922
2009	7,115	29,496	(2,509)	875	1,143	(4,528)	1,305	42,603
2010	8,664	32,045	1,611	858	0	753	1,281	na

Sources: Alaska Department of Revenue, Permanent Fund Corporation, US Department of Commerce. All data is fiscal year except dividend amount and personal income.

Notes: The CBR balance fluctuates due to loans to and repayments from the state general fund to finance ongoing government operations. Permanent Fund earnings is the sum of interest, dividends, and realized capital gains. Earnings fund the dividend and inflation proofing (put into the Permanent Fund). There was no inflation proofing in 2010 because it was forward funded in 2009. The residual, if positive, accumulates in a contingency fund (Earnings Reserve). If negative, funds are drawn from the contingency fund to finance the dividend and inflation proofing. The first dividend in 1982 was not paid from fund earnings. The 2008 dividend included a special, one-time $1,200 appropriation from the state general fund to offset the high cost of fuel in Alaska caused by the rapid increase in the world oil price.

[1] Royalties have accounted for 49 percent of total petroleum revenues. Of the state taxes collected on petroleum activity-- production, income, and property—the production tax is the most important, having accounted for 37 percent of total petroleum revenues. The tax on income has accounted for 10 percent.

[2] This was in the form of a temporary reserves tax that was credited against future production taxes.

[3] The Alaska constitution prohibits dedicated funds, so an amendment was required to establish the Alaska Permanent Fund.

[4] Contributions from fields leased after 1979 are 50% of royalties, but these fields have been small relative to the early discoveries.

[5] The deposits from these sources are constitutionally protected from being spent, and are called the "fund corpus". The market value of the fund at any time will be greater or less than this due to unrealized gains or losses on investments.

[6] The amount of the annual "inflation proofing" deposit is equal to the value of cumulative deposits at the end of the previous year multiplied by the percent change in the consumer price index over the current year. This deposit is paid out of the realized earnings of the fund as an annual legislative appropriation.

[7] Neither the dividend nor the inflation proofing formulae depend on current year fund income.

[8] Alaska Permanent Fund Corporation, 2007 Annual Financial Report, page 26.

[9] Under the "Percent of Market Value" (POMV) proposal, the fund would establish a target real rate of return and each year draw no more than that percent from the fund as income. Implementation of this proposal would require a vote of the people to change the state constitution.

[10] See Peter J. Smith, "The Politics of Plenty: Investing Natural Resource Revenues in Alberta and Alaska," *Canadian Public Policy*, 17:2 1991, pages 139-154.

[11] See http://www.apfc.org/home.

[12] Interestingly, the state already had a cash distribution program when the dividend was proposed. The Longevity Bonus Program, created shortly after statehood, provided a monthly cash payment of $100 to each person over 65 who had lived in Alaska at least 25 years and was a resident at the time of statehood. The program was later expanded to include all persons over 65 regardless of length of residence, and has since been phased out.

[13] Because the dividend formula is based on the 5 year moving average of fund income, it is possible that current year income could be insufficient to fully fund a dividend payment. It is for this reason that the fund maintains a contingency account which covers any shortfall in current year income. This account is known as the "Earnings Reserve".

[14] The first dividend of $1,000 was not paid out of Permanent Fund earnings.

[15] Since personal income, as defined by the US Dept of Commerce Bureau of Economic Analysis, includes non wage earnings (benefits) and government medical payments not directly received by households, this probably somewhat underestimates the importance of the dividend as a share of income as perceived by many households.

[16] Gunnar Knapp et al.. "The Alaska Permanent Fund Dividend Program: Economic Effects and Public Attitudes," Institute of Social and Economic Research, University of Alaska Anchorage, 1984.

[17] Alaska Permanent Fund Corporation, Trustee Papers, 1989, page 63.

[18] This suggestion was advocated by the Alaska attorney Roger Cremo and was known as the Cremo Plan. The Norwegian fund has adopted a version of this approach.

[19] Because the size of the dividend fluctuates, this estimate represents an average over time. For a detailed

analysis. see Scott Goldsmith and Jeff Wanamaker, "The Economic Impact of the Alaska Permanent Fund Dividend," Institute of Social and Economic Research, University of Alaska Anchorage, 1989.

[20] See Gordon Harrison, "The Economics and Politics of the Alaska Permanent Fund Dividend Program," in *Alaska Public Policy Issues*, ed. Clive Thomas (The Denali Press, 1999) Pages 81 to 91.

[21] But one study of the dividend concluded that consumption did not change at the time of the distribution. See Chang-Tai Hsieh, "Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund," *American Economic Review* 93(1) March 2003, pages 397 to 405.

[22] Scott Goldsmith, "A Comparative Analysis of the Economic Effects of Re-imposing Personal Income Taxes, Reducing Permanent Fund Dividends, or Reducing State Spending," Institute of Social and Economic Research, University of Alaska Anchorage, 1987.

[23] Between the early 1980s and the early 2000s, the after-tax income of the richest 20 percent of families increased at a faster rate than the poorest 20 percent in 38 states. In 22 states the grow rates were about the same for the two groups. Alaska was the only state in which the income of the bottom 20 percent grew at a faster rate (25%) than the income of the top 20 percent (10%). In the early 1980's Alaska had the greatest income inequality of any state, measured by the ratio of average income of the top 20 percent of families compared to the lowest 20 percent—6.6. By the early 2000s Alaska had fallen to 43rd place at 5.8 while the US average had increased from 5.5 to 7.3. The trend toward greater income equality in Alaska was due both to faster growth in incomes of families at the bottom of the distribution—25% compared to 19% for the total US and to slower growth in incomes of families at the top of the distribution—10% compared to 59% for the total US. See Jared Bernstein el al. "Pulling Apart: A State-by-State Analysis of Income Trends," Center for Budget and Policy Priorities and Economic Policy Institute, Washington D.C., 2006.

[24] These guidelines are used in the determination of eligibility for many, but not all, federal assistance programs. The guidelines are higher for Alaska than other states because of the high cost of living, but they do not reflect differences in the cost of living across regions within the state.

[25] Scott Goldsmith et al. "The Status of Alaska Natives Report". Prepared for the Alaska Federation of Natives, Institute of Social and Economic Research, University of Alaska Anchorage, 2004. The census poverty rate is based on the poverty threshold, a definition that varies with household composition, but does not account for the higher cost of living in Alaska relative to other states. As the relative cost of living has fallen in Alaska since statehood, one would expect the calculated poverty rate to increase if all other variables were held constant. Thus the reported decline in the poverty rate over time is an underestimate of the actual trend in well being of the population.

[26] See Yereth Rosen, "In Alaska, a Push to Curb Perks for Citizens," *Christian Science Monitor*, May 10, 2006.

[27] The case of "Papa Pilgrim" garnered considerable media attention early this decade after it was reported that he had moved to Alaska and settled in a remote location with his wife and 15 children. It seemed clear to most Alaskans that his primary motive was to collect the dividend check and live off the land and state government services, since the family lived essentially cut off in the wilderness.

[28] One reviewer suggested that this effect could be offset if the dividend led to an increase in the bargaining power of workers relative to employers.

[29] Non household taxes could not generate much revenue for several reasons. First, only a small share of Alaska businesses are organized as corporations, so most are not liable for the corporate income tax. A personal income tax would capture a share of the business profits of non corporate businesses. Second, a large share of the economic base is federal government activities that are not taxable. Finally, the non-wage gross product of the other resource industries—mining, seafood, and timber—is very small.

[30] The more the Permanent Fund comes to look like a trust fund for individuals, the more likely it is that the federal government would attempt to tax the fund income.