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Alaska Wealth Management and the Politics of Envy

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Summary

This report explores issues in the management of public wealth in Alaska, particularly in relation to the oil industry and oil taxes, the public vs. private sectors, and lessons of the Alaska Native Claims Settlement Act.

ALASKA WEALTH MANAGEMENT

AND THE POLITICS OF ENVY

JUSTICE CENTER

University of Alaska, Anchorage
Anchorage, Alaska

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Report prepared for the
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by

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ALASKAN WEALTH MANAGEMENT

PART I

The Midas Touch

The embarrassment of wealth is a legendary topic in every culture. Few children are not familiar with the misfortune of King Midas, who transformed the flowers in his garden and even his precious daughter into inanimate gold. Who has not savored the story of the man given three magic wishes? The tale requires him to use the last one to restore himself to his previous condition after avaricious commands in the exercise of the first two produced unexpected and unwanted results. The parent telling this tale will often hear from the child, "Well, Daddy, what if he had asked that only one finger would turn things to gold?" or some alternative choice of wishes which could have lead to a more pleasant and successful result.

The child's point is a good one and the principal moral of the story is threefold: not that wealth or power inevitably brings disaster but that it can bring disaster, that impulsive choices (particularly if based on greed) are often wrong and that once made, a choice often has irrevocable consequences.

RELATION TO d-2. Alaskans can find much to agree with in these folk tales as they address the issue of wealth management for the 1980's. It is a matter of considerable disappointment as we enter the second phase of election 80 that few of those who offer themselves as candidates for Alaskan office seem to have considered the magnitude and scope of the premier issue of this time and place.

In part, the dramatic pyrotechnics of the d-2 battle may be credited with overshadowing this area of public policy. For some individuals, the perception of threat to a lifestyle understandably brings out high passion. But the dollar value of the difference between the wealth development potentials in the most recent competing versions of the land settlement do not come close to matching the magnitude of the responsibility involved in managing the billions of dollars which are already in firm prospect from Prudhoe Bay.

While value estimates are inherently volatile as a result of the political control of the price of oil, it is not unreasonable to use numbers in the forty billion dollar-plus range to describe revenue to accrue between now and the year two thousand. Unlike the value of various proposed economic development projects, this is a net return figure, accruing to the state without any more work than it takes to carefully count it. As a people, we Alaskans are to be, for a time, the richest the earth has ever seen but whether this wealth may be the Midas touch is still an open question.

THE MAGIC OF MAGNITUDE. If we have done badly so far both in addressing and failing to address this wealth opportunity which is also a problem, it may be because of the magical aspect of it. The magnitude of the oil revenue is well beyond any ordinary experience of windfall. Thus the earliest public policy reaction was to put a little away for a rainy day by creating a "permanent fund" as if the selection of such a title could resolve the hard investment questions which accompany the stewardship of great wealth. To this "permanent fund" the state dedicated a minor fraction of the income flow, no policy formation attending the management of the remaining bulk of the income.

STRANGENESS OF PUBLIC WEALTH. The other unfamiliar aspect of this wealth is its collective nature. We are at least familiar on a vicarious basis with the private, unanticipated inheritance the Irish sweepstakes winner or the nephew of humble means who becomes a millionaire when a never-seen uncle dies in Australia.

In the end these models of private wealth management are likely to play a major part in the development of a philosophic policy for the state; but, they are different. For whether these fortunes are squandered in riotous living and fruitless speculative schemes or husbanded for the ultimate benefit of philanthropy, as in the case of Carnegie, Rockefeller and some other great fortunes of the turn of the century, it is still a private matter. The Alaskan return is a subject of public trust.

American history found no room for the accumulation of public wealth. The revenue function of government was to collect no more than was essential to an established minimum of collective needs. To tax beyond the requirements of an operating budget was unthinkable. While state and local governments did experience revenue from the disposition of public resources, notably land, seldom if ever did these revenues rise above the requirements of budget maintenance. In fact, much of America's public land was sold to keep taxes down. It is not surprising then if, after a rainy day gesture, the next response of the Alaska public was to abolish non-oil taxes on a wholesale basis.

(NEXT TIME: LIMITATIONS ON INCOME)

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ALASKAN WEALTH MANAGEMENT

PART II

Limitations on Income

The regular session of the legislature is likely to pick up with the same subject as the special session: tax relief. A multibillion dollar state surplus certainly invites the question: What do we collect taxes for?

We can expect a number of lesser taxes to blow away with the wind. The focus of attention is likely to be on property taxes and oil taxes.

ARE OIL TAXES TOO HIGH? In most respects oil can make the most plausible case for tax reduction. The usual justification for taxes is their necessity to meet the ordinary expenses of government services. There is enough money in royalty payments alone to meet all current state expenses. Since the surplus is in large measure a product of the taxation of oil, does not fairness require the repeal of oil taxes?

This argument, which has a firm foundation in the history of state taxation, is not likely fully to carry the day, if only for political reasons. A more limited objective has been outlined by at least one influential leader: to reduce oil taxes to the level pertaining in the average of other states. This may be a pragmatic middle ground but the logic of this position on the purpose of taxation allows total repeal.

PURPOSE OF OIL TAXES. Those who will argue for the existing rate of taxation must argue a more expanded function for tax policy: that resource taxes are intended to recoup part of the value of the oil for the general public. This is certainly the tax philosophy of all major oil producing countries outside of the United States. To some extent it can be said to be the tax position of the federal government with respect to, for example, the "windfall profits" tax.

But is a "fair share" philosophy the right tax position for a state? Maybe the value of the oil should be shared with the rest of the United States through enhanced oil company profits invested in energy investment or reduced prices via the operation of the free market. The industry may also renew their argument that oil taxation is an unfair adjustment of the contract bargained for and entered by them initially in bonus bidding on north slope leases.

EARLY HARVEST OR EXCESS TAXATION? Those resisting the oil tax reduction will argue, as they did in the years that the taxes were raised, that the possibility of increased taxes was part of the original bargain. Variable taxes on resource wealth produced from state land are a reasonable way to assure a reasonable return to the people from that resource. It is not the same thing as a tax on the productivity of labor.

Further, they may point out, this year's large tax and royalty income is a result of the imperatives of pipeline flow requirements and national energy policy, not state interest. State interest alone would dictate drawing on the oil a little at a time as income was needed to supplement state taxes in meeting frugally budgeted state expenditures. These years, the State of Alaska is not just raising money for annual expenditures but taking an early income harvest thrust upon it which will be needed in 10 - 25 years.

DEFERRING INCOME. A major alternative to "giving it back to the oil companies" may be deferred income, an effort to reduce income now in favor of receipt at the time perhaps ten years hence when the oil flow and government revenue are in sharp decline.

LEAVE IN THE GROUND? The likelihood of producing another Prudhoe Bay on state land (including tide and submerged lands) as distinct from federal lands which now hold the most promise, is too small to provide a planning hypothesis for the economy of the state government. Statements from various public optimists notwithstanding, the numbers and planning data from those who are in a position to know in the oil industry do not support the idea of other Prudhoes around the corner. Thus, though bonus bids derived from further oil leasing on state land will exaggerate and prolong the income bubble of the 80's, it will not do so in a substantial way.

On the other hand, one might ask, where do we start in spreading income into the future? What on earth is the state doing in pursuing an active leasing schedule when we have more money than we can use for a decade? Even when, as in the most recent lease offering, the bonus values are a paltry $12,000,000, it would help a little if the state could leave it in the ground a few more years. Investments as good as oil are hard to find. Its value will increase faster in the ground than above. On the other hand, the lead time in developing a field may be long enough that today's leases will mean income more than a decade hence when we will need it again.

TRADING PRESENT OIL FOR FUTURE OIL. A greater impact on revenue flow would result from the enactment or negotiation of deferred income arrangements with the owners of the non-royalty oil. For example, instead of taking one eighth of the oil now, we could agree to take a more limited fraction now in favor of a larger percentage of ownership of oil produced after 1990. Arrangements of this kind might help to keep the state out of ventures in the oil business. On the other hand, since oil is politically priced, as good as the future looks, is oil a commodity which the state should keep as its nest egg?

NEXT TIME: LIMITING INCOME: OTHER THAN OIL

ALASKAN WEALTH MANAGEMENT

PART III

Limiting Income: Other than Oil

The flood of income from royalty and taxation on oil wealth quickly washed away the ground under all other forms of taxation. Suddenly we are in a topsy-turvy world in which the functional tension of government is sprung. No longer is the state to squeeze taxes out of those with income to provide services of common demand with (perhaps) a greater emphasis on the call of those least able to help themselves.

The principal functions of government are now distributive. The benefits appear to be painless. Governor Hammond, arguing that at least the concept of payment for services be preserved for the generation of the 90's, finds his pleas swept aside by the deluge in a 24 hour special session of the State House.

The normal status of state government is an equilibrium, after combat, between demands for service and the resistance of the taxpayer. Released, the demand side mushrooms, often in glaring examples of conspicuous consumption or waste. While expenditures climb, all vestiges of counterbalancing revenue from taxation are repealed with little debate except, of course, those on oil.

PRECIPITOUS DECLINE IN REVENUE. Though they receive little attention now, there are justifications of taxations beyond the need to raise general revenue. First, since the revenue is non-recurring, maybe we should be thinking about spreading the income over decades to come. The tax necessities of the future are greatly exaggerated by discharge of the present tax burden. By repealing all taxes, we abandon hope of returning to the normal equilibrium short of the public and private anguish of decades of reimposed and sharply escalating taxes accompanied by sharply declining services. The down curve on the far side of the state wealth bubble has become a precipice.

NEW CLAIMANTS ON THE STATE TREASURY. Since money is plentiful, the argument that a particular state expenditure benefits that part of society that least needs it is lost. The tenuous distributional fairness of governmental activity is jeopardized. Since the money is no longer extracted from the people, expenditures can provide a greater benefit to those that are already well off. If there is no resistance to expenditure from those who must pay, if the pie is not a limited pie, then there is no protest when large portions are sliced out by interests with little traditional claim for need.

If the tourist industry will benefit from expanded national advertising then advertise; if the fisheries will benefit from increased attention to the conservation of the fisheries then add conservation programs and officers; if the construction industry will benefit from public works then build. As well as providing sewers to hard-pressed urban areas, let's use public funds for sewers wherever people live. Suddenly every successful industry in Alaska wants the benefits which are normally distributed for hard fought reasons to distressed industry or to people of generally acknowledged deserving need.

TAXES FOR COMMON COSTS. Ordinarily, government collects taxes not only for general income, but as a service so that all those who benefit from a collective expenditure are compelled to meet their share of the cost. There is no redistributive effect.

When we abandon the principle that taxation shall be required for service that the beneficiary is able to pay, we may be distributing a subsidy not for any social or economic purpose, but because the money is there. The elimination of a tax which goes to pay for a particular service has the same effect as an expenditure for a subsidy. Is this kind of income transfer arrangement justifiable or should the oil companies have their tax dollars back?

This problem becomes more acute when the subsidy is not only in the form of free public services but in direct assistance to private enterprise via subsidized interest rates.

THE THREAT TO FREE ENTERPRISE. Unjustifiable subsidy works like excess calories on the human body. A subsidized industry is not exercised by the free enterprise system but spoons in the dollars. When the subsidy is cut off (as will inevitably be the case), the industry will be uncompetitive and collapse, corrupted by bad economic habits. The inefficient and uncompetitive American shipbuilding industry leads the list of examples of this principle.

From a broader historical perspective, grim predictions of the impact of running out of money on both the public and private sectors may be overdrawn. There are parallels. All America may now be going through a similar crisis as we prepare our appetite for high cost alternative fuels after a generation of super-cheap gasoline. But the nation wonders how we could have read the numbers without realizing that a policy must be available to meet the coming drought in oil. The current national economic gloom is in many respects a consequence of the improvident policies of the 60's and 70's.

Would America be in better shape if we had recognized in our national policies that cheap oil was on the way out and that the country's reserves of this non-renewable resource would inevitably dwindle? The parallel between America a decade ago and Alaska today poses a challenge. But if Alaskans are not prepared to debate the question, it should not be surprising if the results are ultimately sour.

NEXT TIME: CONTROLLING STATE EXPENDITURE: DEMANDS OF THE PRIVATE SECTOR

ALASKAN WEALTH MANAGEMENT

PART IV

Controlling State Expenditure: Demands of the Private Sector

One of the ironies of the present call for limitations on state expenditures is that some of the strongest calls come from those who have been the beneficiaries of the most recent government expansion. A recent estimate gauged that a thousand dollars per capita was appropriated in 1980 to special loan programs while only half that amount went to tax refund distribution.

While long standing government programs enjoyed relatively modest budget increases (considering current inflation rates) last year, major increases in expenditure have been made in direct and indirect support of the business community and private economic enterprise.

Many of the more conservative voices in the state who, one might think, would stand firm against government involvement in the private economy have been heard to urge that all of the Alaska's new wealth be reinvested in private industry in the state without apparent reservation concerning the political and economic consequences of such action.

ROAD TO SOCIALISM. A recent economist visiting the state pronounced his concern that Alaska's wealth would tempt the state to expand service programs thereby pushing the Alaskan people along the road to socialism. Socialism is defined by conventional economists of left and right as government ownership of the means of production.

Alaska is surely one of the most conservative states in a conservative country. If a single voice has been raised in the legislature calling for a massive increase in government programs in the social sector, it has not received much attention. The outcry is all for investment and capital projects.

RIDING THE TIGER. On this trend to government expansion, the itinerant economist could have made his point. If the state does indeed invest its multibillion surpluses annually in businesses within the state, it will own all the non-oil business in the state very quickly. Nor is the legislature likely to avoid supervision of its interest in business because some equity is reserved in private hands if ninety percent of the value consists of invested state wealth. The entrepreneurial community that wishes to ride the state tiger for the advantage of her economic power may end up inside her.

There is a limited market for new capital in Alaska. It is simply not true that billions of dollars worth of economic activity await only the availability of funds to take off. Every touted industry, on close examination (the bottom fishery is a most recent example) reveals that other major efficiency hurdles in management, transportation, communication and labor impede development.

INFLUENCE OF WORLD MARKETS. The final parameter controlling such developments is the world market price as set by international competition. You cannot make a submarginal economic prospect profitable by throwing money at it. Alaskans are in some danger of spending billions of dollars in subsidies to prove that principle.

If a big project is, in fact, economically feasible, money experts such as the Inter-American Development Bank's John Elac say there is not likely to be a lack of investment capital to support it. The lesson for Alaskans may be that by investing in projects no one else will buy, we end up with what Belden Daniels has called "lemon socialism" - state ownership of unprofitable industry.

A distinction can be made, however, between major enterprise and small business. Despite the need for great caution in state investment policy, there may be gaps in the supply of money for small scale enterprise, gaps which the state can address - carefully and with a relatively small proportion of its annual revenue. But such programs must use clear loan criteria of general application. One of the greater risks in funny loan programs is corruption.

Before going into the loan business, the question must be asked: to what extent may this need be met by the existing banking structure? There is an old saying that "bad money will chase out good". Private investment will leave Alaska wherever public dollars are made available at interest costs below market.

STATE VENTURE CAPITAL. The kind of capital for which demand is likely to be greatest is venture capital, money for the higher class of risk. Normally, sound investment policy requires that the venture capital investor take a piece of the equity as a way of guaranteeing a reasonable, average return considering the higher proportion of outright losses that will be involved. Again the question arises, may this involve us in socialism? If the state does end up with stock interests, how is it to vote this stock when points of policy are involved?

THE STATE IN THE PRIVATE ECONOMY. There are many possible answers to the overall question asked: what is the proper role of the state in the private economy? Indirect support such as carefully scrutinized communications and transportation facilities, community development, marketing development studies, manpower development, and research avoid some of the problems of excessive involvement cited. But public debate is not helped by impassioned cries that Alaska's money be invested in Alaska.

FACING HARD QUESTIONS. Who would argue against such a proposition - to a point? The real questions are not being asked or answered: how much is enough? How is it delivered? Should there be other policy objectives involved? - a regional distribution preference, for example? Who are the beneficiaries? Is this trickle down socialism with an unseemly slice of benefit going to those who need it least? Are we creating an unaccountable bureaucracy of state employed bankers?

Whatever it may do, the economic power of the state today is so great that any role we permit the state to play in the economy could easily slip into a dominant role.

A MINI-FED: Recognizing that fact, it may be that the state, which has already established a series of new banking institutions, should limit itself to one more model, the federal reserve system.

The state might exercise a moderating role in the ups and downs of the state's economy through a policy-oriented, deposit and bank interest policy, without pushing us into a state-run state. But in the end, most of our surplus must be invested outside the state to keep the state from taking over the private economy.

NEXT TIME: Privatization

ALASKAN WEALTH MANAGEMENT

PART V

Privatization

It is strange in many respects that the state's citizens, while they have wandered to Norway, Venezuela and even Kuwait to gather experience in wealth management, have paid almost no attention to the single most appropriate example in their own backyard: The Alaska Native Claims Settlement Act. Both in what was intended and in the results (about which much is knowable but far too little known) the Settlement is a forerunner to contemporary state experience.

In 1971, the Congress found itself faced with the prospect of developing a plan of distribution for what then seemed an enormous sum - over $900 million in state and federal revenue to be delivered over more than ten years. In part the Congress was settling a legal claim. But the Congress had a larger objective: to create an economy to support the Alaskan Native people, while preserving the patrimony and without expanding the people's already dangerous dependence on handouts.

The experience with personal distributions in the past settlements of Indian claims had not been good. The money or property quickly seemed to pass through the hands of those intended to be benefited. Lasting improvements were rare. Examples of profligacy were all too common.

Yet it was recognized that there would be an immediate outcry if something was not realized immediately from adoption of the Act. Accordingly, a provision was included for a ten percent cash pass through to every beneficiary under it. One wonders where that distribution went. It would be worth having a comprehensive answer, but not all would care to hear.

STATE DISTRIBUTIONS. The State of Alaska is now facing a somewhat similar dilemma. We have a very large amount of money in which, some say, each Alaskan has a pro rata property interest. Others assert that, as a one time yield of the bounty of the earth, it is vested with a trust which includes Alaska generations as yet unborn.

Many hope that in the long run these funds can be used to provide the state with a stable and prosperous economy and a government which provides adequate service on a tolerable tax load. The Statehood Act required that the state reserve an interest in its subsurface resource precisely because the Congress did not believe that taxation alone would be enough to sustain the cost of government services in the new state.

Because there is so much, there is a considerable demand that some of the money be handed out in cash distributions - some would have it all so handed out. The term used is "privatize" - turn the public wealth into private wealth.

Governor Hammond proposed and the legislature has adopted a scheme to distribute cash according to a plan meeting several other policy objectives - notably encouraging of savings in the Permanent Fund. His draftsmen, like any who prepare actual programs of distributions, must answer other tough policy questions too. Just who is eligible for a distribution; should entitlements be differentiated based on some other policy criteria? Perhaps inevitably, the answers to these questions have met constitutional objections. The outcome, as of this writing, is unknown.

CASH OR CAPITAL? Whether or not this particular plan survives constitutional challenge, pressure to distribute funds directly to the people will remain, as it has with public lands. This pressure will balance against concern that some of the wealth be preserved in capital form (as was the intent, for example, of the scheme of the Settlement Act).

The effort to preserve capital could take the form of non-cash distributions. By distributing stock or by having the State, a State-created institution or series of State-sponsored institutions hold stock and invest it for the account of individuals, capital will be preserved. The beneficiary may be entitled to freely transfer that entitlement or not but some capital preservation is involved. In a sense this is why the Permanent Fund disbursement program is characterized as a "dividend" program. The Settlement Act allowed for the establishment of a series of government sponsored corporations to preserve the capital appropriated by the Congress.

ELITISM VS. POPULISM. There is at least a whiff of populism vs. elitism in the contending arguments. The populists will say that the people know best how to use "their" cash. The elitists (who will say they are just more worldly-wise populists) will point out that history does not sustain this position.

SURGE IN CONSUMER SPENDING. In our consumer-oriented society, it is unlikely that much of any cash distribution will end up as capital investment. It would be interesting to see what has become of the state tax refund by January 1. Is it disputed that almost all of it will be spent on consumer goods? It would be useful to know just what is occurring. This stimulation of consumer spending does stimulate the economy. The sellers of such goods will reap a profit. But since consumer goods are virtually all manufactured outside this state, there is a very low secondary benefit from the consumer purchase dollar turnover.

On the minus side, a splurge of spending on consumer goods may encourage the unwise expansion of the merchandising sector of the economy - unless this form of handout is to become a regular feature of the economy. Lastly, this kind of distribution is subject to a big federal tax bite and unforeseeable consequences in the reaction of the national public. On the other hand cash handouts are hard to argue with, particularly just before Christmas. The issue is only one of degree.

INVESTMENT TRUSTS. Such objections to cash distribution will not prevent their happening but may temper their amount and frequency. Middle ground positions are likely to prevail. Several schemes are under discussion in government circles involving the distribution of a property interest which is capital in form but which can be alienated for cash. In any case, only a part of the state's surplus will be given over to privatization schemes.

According to one school of thought, distribution of a power of investment may prevent raids on the treasury for big project financing. People tend to push projects, even if unfeasible, if they see some spinoff benefit to themselves. The public will be less inclined to push money into doubtful development schemes in the hope of getting some spinoff benefits from the process, if the citizen can direct that investment himself and sees his main benefit as return on investment rather than spinoff.

Capital distributions certainly operate more equitably than state loan programs which give the benefit to those whose superior financial position allows them to borrow. By letting the citizen be the lender, capital distribution gives every citizen a direct stake in state investment policy.

TOO COMPLICATED? Apart from the populist argument, capital distribution schemes are challenged as too complicated to be understood or appreciated by the people. This may be so but the Alaska Native community soon grasped a very complex version of this concept. At the time of the Settlement Act, the Alaska Native community debated many complex issues such as having one big investment trust or a series of regional arrangements and non-profit vs. profit. The latter positions prevailed.

The final challenge to capital distribution may be a philosophical one: do we want to make every Alaskan a capitalist? Thus in the end, optional conversion features will likely be included in any kind of capital distribution program adopted.

NEXT TIME: LIMITING PUBLIC SECTOR GROWTH

ALASKAN WEALTH MANAGEMENT

PART VI

Limiting Public Sector Growth

While not a popular position today, some privately ask whether the State is now doing all it should to meet public service needs, particularly in rural Alaska. The point is a sore one because costs of delivery, as well as past deficits, make service distributions in rural Alaska something other than equal per capita in comparison with urban areas.

Apparent examples of abuse of service programs in rural Alaska, such as unused school houses, feed the illusion that needs are fully met. Those who have occasion to travel in rural Alaska know that serious deficiencies still exist, the kind of deficiencies that have usually pricked the conscience of the more fortunate into giving something up - it used to be taxes - in favor of the more needy. The urban areas also have a continuing demand for improved public services. The state park system is nowhere near as extensively developed as the U. S. Forest Service, for example. Does limiting public sector growth mean we will never address those needs?

Underlying the division of urban prosperity and rural want lie also some serious unanswered policy questions. What is the minimum level of service that the State should provide to everyone regardless of where he lives? The Molly Hootch case which gave a tentative and hesitant answer to this question in the area of secondary education has potential equivalents, whether or not they rise to the level of a constitutional question, in health, housing, justice administration and many other categorical topics in which the State is involved in providing service.

DISTRIBUTIONAL EQUITY. The question of distributional equity also comes up with the shoe on the other foot. For example, a village which doesn't want the roads which are distributed to urban areas and whose citizens may not benefit from subsidized hydroelectric power projects, should they get payment in lieu of this benefit? If the poor village with high cost of service is in proximity to one of the wells which is the source of wealth, should it get a specially enhanced share? If so, how much? Service equalization needs to go hand in hand with tax equalization.

The measurement of categorical entitlement can also get the State involved in unintended interference with local plans and priorities. This kind of problem has produced a trend nationally towards general revenue sharing instead of categorial support.

Many of the same people who worry whether the needs of their region are being met are also antagonistic to the further expansion of state government. After tax repeal, limitation on state expenditure is the most popular rallying cry for any politician this year. Some very serious problems support the need for a state spending lid.

LOG ROLLING. When the taxpayer no longer stands as an obstacle to raised expenditure, it is easy for those who have or want to acquire an interest in state expenditure to scratch each other's backs in the time-honored tradition of log rolling. It should not be overlooked that those interested in sharing in State largesse through "investment" stand shoulder to shoulder with those interested in direct appropriation.

THE LIMITED PIE. Though the current climate and situation seem to call out for control, little attention has been given so far to the consequences of various styles of limitations on expenditures. State expenditure patterns are fluid. An expanding State role has let new interests in without pushing others out. If a real, blanket lid is imposed, a great many interests will find that they are displaced. Ironically, in a limited pie, it is the commercial interests which may find themselves the first displaced as social service need sectors flex political muscle.

To avoid such a result, some large holes are being carved in the proposed lid for capital costs and bonding so that the construction industry, for example, which is a leading beneficiary of the state spending process, will not suffer. This is a hole that makes nonsense out of the restriction. Every capital project has program costs and maintenance associated with it.

LOCAL GOVERNMENT IMPACT. Another major feature of limitations on state expenditure is its effect in throwing costs back on local government, so another hole is proposed to allow unlimited revenue sharing. This may have the desirable effect of decentralizing government but it will not limit increases in government expenditure.

Some desirable policy results may emerge from the examination of this rather overrated policy solution. The state may come up with an acceptable estimate of just what this often talked of deficit in services is. The legislature may move towards a comprehensive program of revenue sharing bearing some relationship to categorical needs.

At its simplest reduction, there may be a major increase in per capita based distribution to local or regional government, including a regionalized cost-of-living formula, and a devolution of responsibility for traditional governmental service concerns.

The public may be let back in on the budget process via annual voting on the capital budget, or the larger elements in it, as was the case earlier when the capital budget was largely funded by bonds.

However, not just an appropriation lid but the full range of necessary policy responses to Alaskan wealth management issues is required by burgeoning oil revenue. The policy issues should be faced directly. While it may provide a small part of the answer, a call for limitations on State spending is simplistic. We cannot adopt such schemes and go home, pronouncing our problems solved.

NEXT: PRIVATIZING THE PUBLIC SECTOR

ALASKAN WEALTH MANAGEMENT

PART VII

Privatizing the Public Sector

A lid on state government expenditures is just one of the policy options open to the state in addressing special issues posed by the state's oil wealth. The issue of how we decide how money is to be spent is also an issue. Categorical formula funding could result in a massive shift to regional government, in theory government closer to the people.

While at the moment investment of state oil money in the state's private sector is a very popular concept, the full range of choices has not been presented. In a free market the people of the state would not be investment oriented but purchase oriented. Given the choice of a cash or loan program, the distribution would be preferred.

While the first splurge would undoubtedly be in consumer goods, in the longer run the average family would be likely to choose to spend a significant portion of their money on more of the things the State already has provided or could provide in some way. Recreational opportunity, medical benefits, education or other forms of self-improvement, a retirement fund, a night out at a sports or civic center, a broader or more current television entertainment spectrum are some of the examples. But the public will be averse to such needs if it means "more government."

The commitment of the average citizen to the expansion of the economic base of the state through enlarging the number of jobs available and other supposed objectives of state economic policy is theoretical rather than arising from direct interest. Granted, many Alaskans feel at least a little uneasy about chronic unemployment in some regional sectors of the economy; granted also that many, if not all, Alaskans can look at past boom times as a period of improved income and maybe enhanced lifestyle.

But the majority of Alaskans who have been in Alaska for some time are not unemployed, nor facing likely unemployment nor desirous of changing what they are now doing to work in a petrochemical plant: they are interested in expanded benefits and the right to pick those benefits themselves. And this is what they hope to get out of the state's oil wealth. They just don't want the State to expand to provide them.

BENEFIT DRAWING RIGHTS. Among the possible initiatives which Alaska might explore to meet this demand are the distribution of benefit drawing rights. This approach has been discussed at some length in the education field but it could be expanded to cover other areas of categorical benefit.

As applied in education, instead of supporting a public school system with a practical monopoly on education, each person with school age children would get a certain value of education credits which would be donated to a school of the parent's choice. These credits may be cashed by the providing institution.

Thus a private or mixed economy of education would be created, bringing the benefits of the competitive market to the educational process, allowing the parent/child maximum freedom of selection and reducing the risk of self-serving expansion in one of the great public bureaucracies.

Secondary education where this concept has received the most extensive discussion may be one of the worst places to try out such a system. A near century of tradition in developing a public school system and the public schools' role as the provider of a unifying experience for a pluralistic America may make an entirely new, privatized delivery system unfeasible and most certainly unpopular with the educational community.

The national food stamp program is another style of benefit entitlement. It is plagued by problems of definition of the benefit class that would not carry over to a universal program. Whatever its demerits it is a program in place. Food is an unlikely candidate for a state supplementary program.

MEDICAL INSURANCE. The benefit drawing right concept might be transferred to other areas where public bureaucracy and the mixture of public policies are not considered such a threat. The purchase of medical insurance may be a ripe example.

An insurance benefit drawing right could assure the continued privatization of service management and delivery while relieving the State of the huge financial headaches which result from the failure of large numbers of Americans (whether from their own fault or poverty) to obtain such insurance.

THE CASE AGAINST CASH. In the dilemma created by the failure of private choice to prefer public rationality lies the reason to disfavor cash distributions. Yes, cash distribution will maximize individual choice, at least to a point. But individual choice will not result in some types of benefits such as roads, parks and clean water which must be purchased collectively. Freeloaders should be forced to pay a share. There is also a larger objection to the free choice, cash distribution. If the money is just handed out many people will spend it most foolishly. If such people would then go away and die quietly that would be an appropriate solution. But they will not. They will clamour for more to meet the consequences of their failure to meet practical needs and those that have saved their money will end up picking up a double tab.

For this reason, the State should conserve from any hand-outs, except a benefit drawing right, enough to insure the minimum need which the society says we will end up providing on the demand of the improvident or unlucky.

TAX AVOIDANCE. Expenditures on behalf of our citizens to meet collective needs in established areas of public concern can have the additional major benefit of avoidance of federal taxation, the flaw in most distributions under active public discussion as well as in the 1980 tax refund of 1979 taxes.

Benefit drawing rights should be tax free if devoted to the traditional functions of government. Further, by transferring his benefit drawing right to another entity which may be a private provider, the citizen can show his dissatisfaction with a service in a manner, modeled on the free market system, which is practically forbidden to him under contemporary tax-service systems.

RETIREMENT NEEDS. Similar concern might be given to funding the needs of citizens of the state with respect to retirement needs. The State is actively and directly involved in one retirement program now, the unique and praiseworthy Pioneer Home system. Fortunately, resident pioneers are not taxed on the attributable income that results from such residence.

One would think that before distributing cash as federally taxable income, or paying off low interest bonds issued in a different inflation climate, the surplus might be dedicated to tax sheltered systems for supporting Alaskan citizens in the lower earning years of later life in or out of a Pioneer Home. There is ample additional social justification if required. If we don't dedicate the distribution, the provident will end up paying for the improvident later anyway.

Localization, regionalization, privatization - these and other options for reorganizing the public sector should be considered. We are a bold frontier people and should not be timid or unimaginative in exploring and adopting bold approaches to the management of our extraordinary wealth. But in our enthusiasm for individualistic ends, we should not forget that many of our needs and desires will require collective action.

NEXT - CONCLUSION: REQUIRED: A LONG TERM VIEW

ALASKAN WEALTH MANAGEMENT

PART VIII

Required: A Long Term View

One of the overriding problems with the response of the Alaskan public to Alaska's wealth management has been its failure to recognize the long established distinction between public and private sectors of activity. The State money is seen, extraordinarily, by quite conservative people as the driving force in the state's economy without any assessment of the result that this might have in shifting power among the institutions of the state.

Part of our difficulty arises from the semantic confusion of "the state" meaning the state government, "the state," meaning the economic engine of the state, private and public sector, and the "state" meaning the collective will of the people of the state. Because of this confusion, people who might think differently on reflection are embracing quite unsettling concepts, confusing private and public endeavor.

A second problem in overall approach arises from the mental confusion which equates investment savings policy with growth policy.

THE MEANING OF GROWTH. Each of us has a vested interest in personal and community growth. I have a vision of where I want to be twenty years from now and what I hope my community will be like - happy people, engaged in satisfying work with ample recreative and personal development opportunity, leading full lives - and me a part of that.

Given an inheritance which could be used to bring this about, each of us is forced to think what steps each of us in the community may take to move in the right direction. First let us recognize that just spending money will not bring about healthy change. Growth is a process in which we all engage, building a pattern out of individual long term plans and in which capital utilization is only one element. Some expenditure may be involved, but it is measured and focuses on concrete objectives leading one step at a time to that hoped for future.

THE MUSIC MAN. Music men will come to town to tell me what they can do for me, building a fine place, a great industry. But to follow them is to play to their tune surrendering freedom of choice; nor does the music man care about our dream for the future.

INVESTMENT POLICY. So hopefully we will avoid buying pie in the sky and follow our own prudent plan. Since the money is not to be spent as it comes in, for the bulk of the income we adopt an investment policy. This policy is intended to conserve and enhance assets until they are needed. Investment policy is socially neutral - to get the maximum return consistent with prudence.

It is not invested in new houses for our citizens or a power plant. We should have already scheduled such objectives into our plan for the future. Whether it is called spending or investment, putting more money into the community will most likely disrupt a carefully conceived plan. Our excess cash should be invested for return and safety alone, somewhere where it will not mess up the community.

CONFUSION OF ACCOUNTABILITY. When social investments aimed at long term community goals are mixed with savings investments, there is a confusion of accountability from which both ends will suffer. The social goals are compromised because we are losing money. Social benefits are hard to measure in the mix. The investment goal is compromised because we are handing out unearned and unaccounted benefit.

LESSONS OF THE SETTLEMENT ACT. We should gather and apply the lessons of the Native Claims Settlement in the management of these present funds given to all Alaskans. Most of the Settlement Act corporations soon learned the dangers of mixing social policy with savings investment policy. For example, at least one non-profit corporation has been independently established in each region to address social concerns.

The Native Corporations learned, sometimes the hard way, that there are not a lot of great opportunities in Alaska just waiting for investment capital. They also learned that it may be better investment policy to go outside your region and even Alaska with most of your funds rather than force investment in local blue sky.

They are also learning that economic activity is not an end in itself. Perhaps investing in steel mills or other heavy industry may make sense from the perspective of the national goals of India or other undeveloped nations. But most Alaskans come from a post-industrial age. Their lifestyle expectations are rightfully higher. They come to get away from the steel mills and assembly lines which employed their fathers. If a steel mill is economically feasible and can be operated consistently with environmental safety, fine, let someone build it. It is part of the free enterprise way. But it is a part of someone else's plan, not ours, so we don't have to spend our own money to make it happen.

THE SUBSISTENCE WAY. Other Alaskans, though they are not by education and experience post-industrial, value a way of life consistent with subsistence hunting and fishing. That is not compatible with every form of expanded economic activity. Planning growth for such people is unlikely to include conventional industry.

So it is that we should define our goals as a people and spend our wealth to achieve those goals where we can, investing the balance according to contemporary standards of prudence.

No, it won't hurt to have a little party once in a while, but we should not accustom ourselves to handouts in support of public luxury or private endeavor, either in cash or in subsidized loans to those of us who are capable of operating as entrepreneurs.

Nor will it hurt for us to give a little thought now and then to the larger purposes of mankind. Alaskans do tend to become overly involved with the collective Alaskan navel. We might enlarge our horizons by asking whether any other frontier - of knowledge, of human aspiration on a world scale, or of dire deprivation - might be addressed by a tithing of our wealth.

A GREAT DEBATE. Above all it is important that we discuss among ourselves the policies of our wealth management. A major debate is in order. Much more public give-and-take is required among those who aspire to lead us and between them and the people. Nor should we rush to make decisions which may have lasting consequences. Time and attention may give Alaskans a special destiny. Many people before us have wasted great birthrights; none have had such an opportunity to demonstrate wise management of great resources for the general good and individual freedom. The challenge is breathtaking.

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