

Permanent Perhaps

Economic, Political and Cultural Roots of the Alaska Permanent Fund

a presentation

By

Gregg Erickson

to the

**Institute of the North
Future of the Fund Webinar**

November 9, 2020

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PROLOG

Alaska's problem:

- **BOOM & BUST ECONOMY:**

PROLOG

Alaska's problem:

- **BOOM & BUST ECONOMY:**

FURS



PROLOG

Alaska's problem:

- **BOOM & BUST ECONOMY:**
FURS
GOLD



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Alaska's problem:

- **BOOM & BUST ECONOMY:**

FURS

GOLD

COPPER



PROLOG

Alaska's problem:

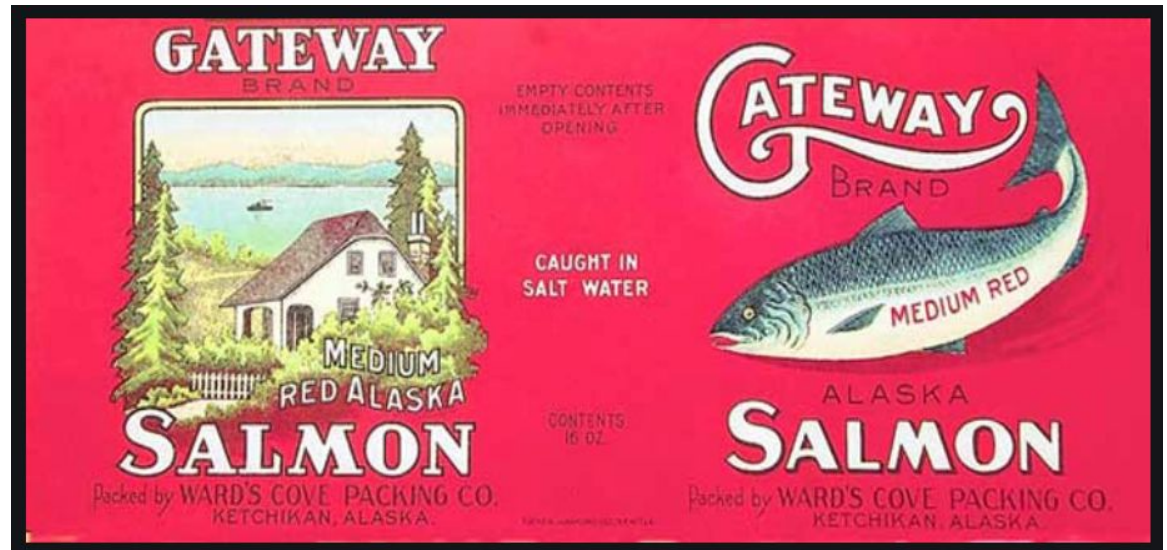
- **BOOM & BUST ECONOMY:**

FURS

GOLD

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Territorial Gov. Earnest Gruening defines the problem in 1941:

“[The] issue is whether Alaska shall be built up for Alaskans ..., or whether it shall continue to be governed for and by outside interests whose sole concern

is to take out of Alaska *as much as they can, as fast as they can, and leave as little as possible.*” [Emphasis added]



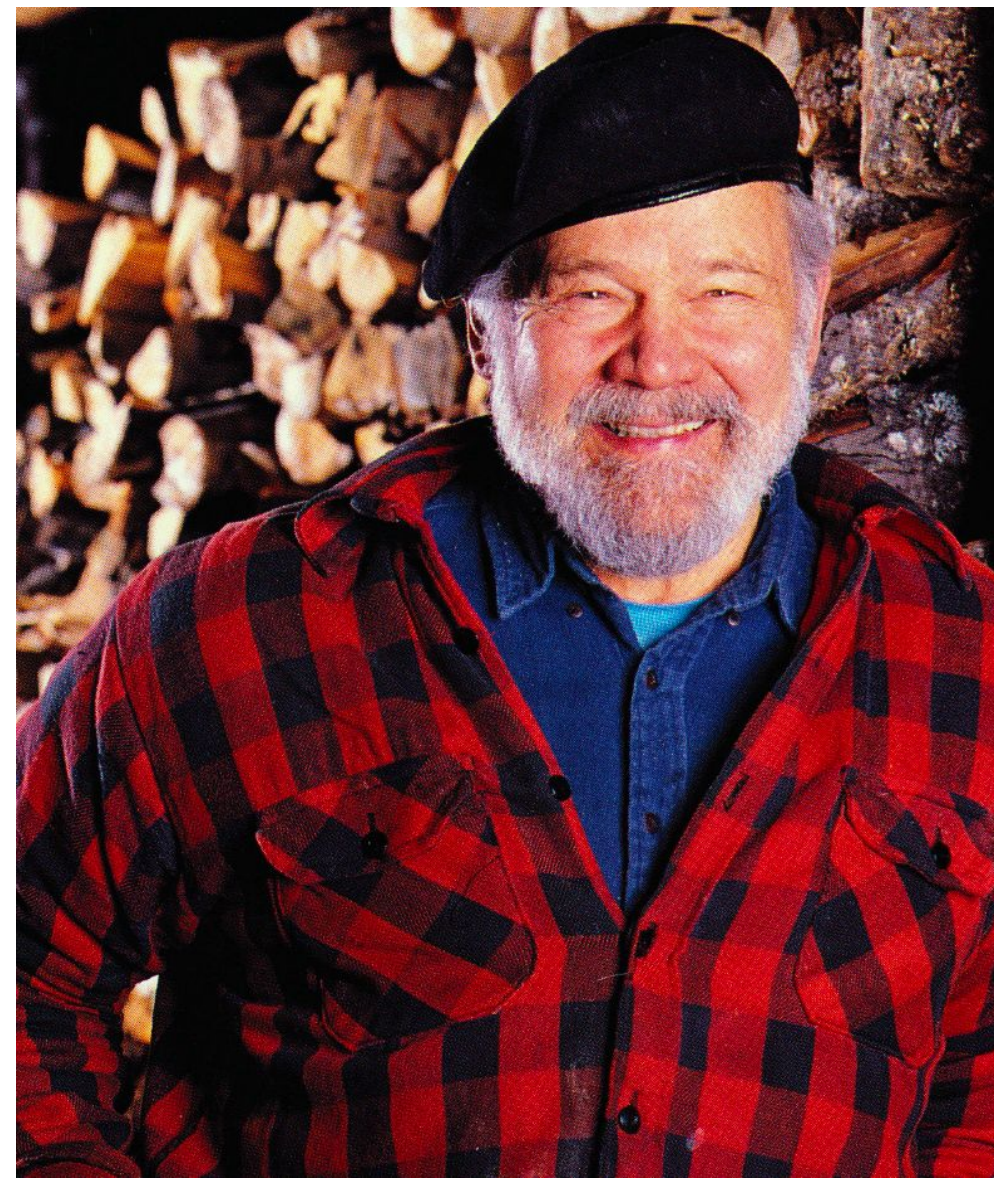
Message to the People of Alaska,
April 1941

Jay Hammond,
manager in 1965 of
the salmon-rich
Bristol Bay Borough,
experienced the
problem first-hand.



“[A] cursory study showed almost ninety-seven percent of the payday from fish caught within our borough’s boundaries left [the borough] in the pockets of folks who lived elsewhere — most outside Alaska.”

Jay Hammond,
former Bristol Bay Borough manager,
writing in *Bush Rat Governor*, his 1994
autobiography.



“One can starve to death eating T-bones — if five other guys first gnaw off the meat.”

Jay Hammond, president of the Alaska State Senate, “Blown bonanza at Bristol Bay, 1972

- 1956 – Alaska Constitutional Convention

“The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, *for the maximum benefit of its people.*” [Emphasis added]

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 - 1959 – Alaska Statehood

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“I do not believe that Alaska is economically able to assume the responsibilities of statehood.”

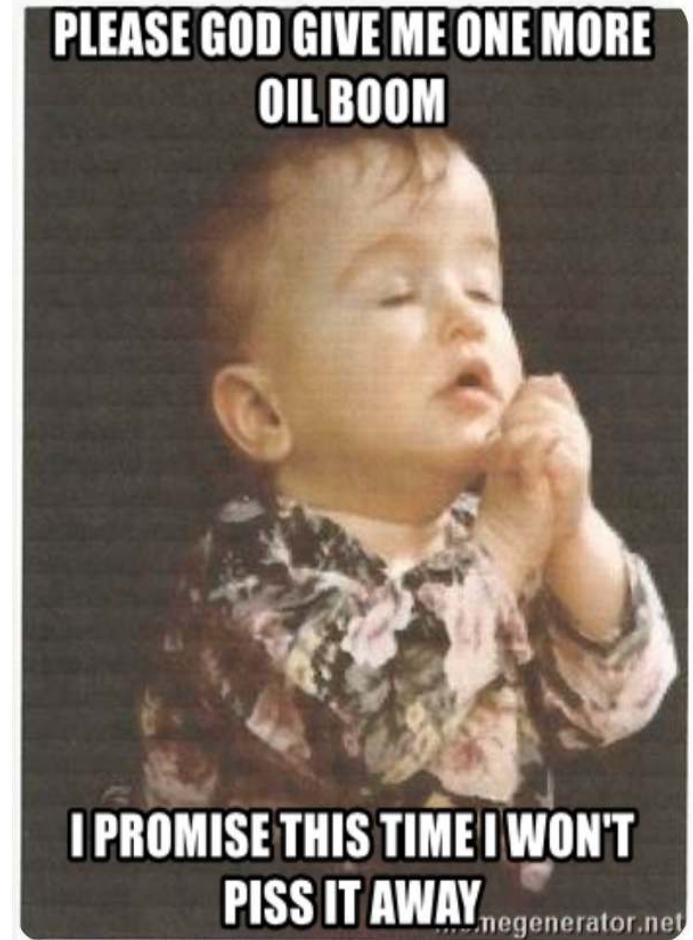
Sen. Strom Thurmond (D-South Carolina) speaking against Alaska Statehood in Senate debate , June 1958

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1976 – Voters approve Permanent Fund constitutional amendment

Why a Permanent Fund?

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- Alaska decided to save a fraction of the oil money for the future, *without specifying how those savings would be used.*
- Benefits suggested from creating a Permanent Fund included dams, to day care centers, to cash payments to residents.

**But is the Permanent Fund
really permanent?**

Is the Permanent Fund really permanent?

Probably not.

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Is the Permanent Fund really permanent?

- No constitutional protection against **inflation**, the “thief in the night.”
- Attorney general opinion (2009) allowing invasion of principal.
- Broken link between size of dividend and Fund Management weakens push-back against boondoggle investments.
- **Fund cannot be secure if it is sole source of money for government that doesn't create a drag on the already contracting economy.**

State looks to Permanent Fund for salvation

Lessons from Permanent Fund's 44-year history:

- Permanent Fund was an improbable success.
- Alaska Dividend was a success.
 - Success is not permanent.

Where does Alaska go from here?

Ideal solution

- Constitutionally protect the real value of the principal.
 - Send all Permanent Fund real income to households.
- Finance state government with taxes (like other 49 U.S. states).

Benefits of ideal solution

- Ends Alaska disconnect.
- Maximizes economic welfare to citizens.
- Maximizes economic stimulus.
- Avoids regressive fiscal impacts of reducing PFD.

More Likely solution:

- Increased use of Permanent Fund to finance state budget
- Shrinking citizens dividend
- Shrinking real value of Permanent Fund

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