Alaska with a $1,600 dividend

Introduction:

The Alaska Permanent Fund Corporation (APFC, or APF) began disbursing dividends in 1982. Since that time the Permanent Fund has become a fixture in Alaska society. This Working Group has convened because points of view differ greatly on what the future of the Permanent Fund should look like. Regardless of one's stance most agree that the Permanent Fund has changed the way Alaskans perceive the role of their government over the years since its establishment. Notably, Alaska does not have any kind of a broad-based tax, such as an income or sales tax as a source of revenue, and the Permanent Fund is the only fund of its kind that delivers dividend payments directly to its citizens. The Permanent Fund dividend program wasn't created as a needs-based program to inject cash into the hands of low-income families, nor was it created with a percentage of overall income as a parameter, it was created as a way to keep citizens more involved in the workings of the Permanent Fund and to incentivize them to prevent the government from reckless spending down of the fund that is meant to provide for generations to come.

Economic impacts:

A 1984 paper published by UAA's Institute of Social and Economic Research (ISER) titled "The Alaska Permanent Fund Dividend Program: Economic Effects and Public Attitudes" outlines many positive economic impacts of the Permanent Fund Dividend (PFD) program and described general support among Alaskans for the program. The report finds that lower-income households are more greatly impacted by the dividend program than higher income households. Adjusted for inflation, the average payout of the dividend has been about $1100 since its inception. Actual payment amounts range from about $300 in the beginning to a high of just over $2000 in 2015. The amount of $1600 was the amount paid out in 2018 and is higher than the average of the dividend payment amount over the last 10 years. Although there are certainly positive economic impacts of putting $1.5B into the economy there are also negative outcomes. Anecdotally, we know in recent times many more purchases are done online and go to companies headquartered outside of Alaska, so the money often does not stay in Alaska to help local businesses. Even purchases of airline tickets and box-store purchases have little effect on the local economy.

Social impacts:

As a sovereign wealth fund the Alaska Permanent Fund is something of an anomaly, being the only one to disperse dividends. This has created a unique perspective about the purpose of the fund among Alaskan residents, which has been noted by Angela L. Cummine of The University of Oxford. In a research article published in Basic Income Studies, Volume 6, issue 1 "Overcoming Dividend Skepticism: Why the World's Sovereign Wealth Funds Are Not Paying Basic Income Dividends," general support of universal income is offered: "The PFD program runs irrespective of whether the State of Alaska is in surplus or deficit. Also, Universal Income programs are generally needs-based so that they help those that need the income and don't go out to every man, woman and child as the PFD does."

Every year, at least 25% of mineral resource royalties must be put into the corpus or principal of the Permanent Fund, regardless of whether Alaska can balance its budget. During several years over the past decade, the APF has grown while the state budget of Alaska has faced deficits. Despite a deficit in 2000, the Legislature appropriated an extra $250 million for the Permanent Fund principal from the earnings reserve. From the Norwegian perspective, such an arrangement means the APF is not achieving its purpose of being a savings fund. The savings are built on a fiscal illusion of surplus where the obligation to pay dividends becomes detrimental to the long-term financial health of the state. The Legislature becomes constrained, as the dividend becomes an expected component of an individual's income. An October 2003 poll by Dittman Research Corp. found that 64% of Alaskans believed that they were entitled to their dividend, even if Alaska has a budget deficit (Lewis, 2004, P. 81)".

Middle ground can be found in this debate; there are options to provide funding for adequate state services such as K12 education, public safety, infrastructure, Alaska Marine Highway System, and Pioneer Homes, and still provide funding for a reasonable, sustainable Permanent Fund dividend program to disburse checks to eligible Alaskans to spend as they desire.

Funding sources:

What funding sources are needed to get to a $1600 PFD? With the operating budget that the House and Senate passed to the Governor, there exists a $600 million surplus, which would allow for a $1000 PFD. To reach $1600, we'd need an additional $400 million.

Where available funding sources are to get the needed $400 million?

1. Permanent Fund earnings reserve account
2. General Fund
3. CBR
4. Instituting a school head tax
5. Abolishment of oil tax credits
6. Instituting Income Tax

Given the above sources, it seems the CBR is the only one that can be achieved. Tapping into the earnings reserve goes against SB26 and also will overdraw the fund and put it at risk. Tapping into the general fund will cut programs beyond a reasonable level. Any type of tax increase is very difficult politically and likely will be vetoed by the Governor.

Opportunity cost or gains with that level of dividend:

A $1,600 dollar dividend is a negotiated amount, and doesn't directly correlate to any specific equation. It matches the dividend disbursed in 2018. It is obtainable without making cuts to state operations because we don't foresee having a surplus of $1 billion for PFD checks given our current revenue/budget situation.

New equation proposal from Rep. Wool:

If an equation is needed for a $1600 PFD I may have something that strikes a good compromise.

HB132 is a bill I introduced that would use oil revenue for the basis of the PFD and not use the earnings of the fund itself. This would allow the PFD to fluctuate as the price and production of oil does and would only allow large checks to be paid out as long as large revenue was coming into the state from the resources that we export. This would prevent the state from being obligated to pay a large PFD in the event that oil revenue is low, similar to the situation we are in now.

I understand that many people are reluctant to make such a large change in how we calculate the PFD and feel that the PFD should be more of a guaranteed disbursement regardless of state resource revenue. This answers the question: "Should we pay out a PFD check if oil revenue goes to zero?". Some would answer no and in that case a PFD based on oil revenue is appropriate. HB132 uses the value of 40% of oil revenue, which would generate a PFD of about $1400 based on this year's oil revenue.

If people feel that a PFD check should be disbursed even if oil revenue is zero then I suggest the "20:20 Plan." The 20:20 plan would use a value of 20% of oil revenue and 20% of POMV draw to both contribute to the PFD check. The POMV draw value is very stable and predictable and isn't as volatile as oil revenue and would provide a guaranteed base for the PFD. The oil component would add to the POMV portion depending on how the state's #1 industry is performing that year. People equate the PFD to oil revenue and creating a more substantial link to oil and possibly gas production is a good way to keep the public involved. The 20:20 plan would yield a $1600 PFD using current revenue and POMV values.