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Introduction: Success in Alaska

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Every year, every Alaskan gets paid. Every man, woman, and child receives a dividend as a joint owner of Alaska's oil reserves. In 1956, Alaska ratified a constitution recognizing joint ownership of unoccupied land and natural resources. In 1967, North America's largest oil reserve was discovered in publicly owned areas on Alaska's North Slope. In 1976, the state government voted to dedicate a small part of its yearly oil revenues to a state investment fund, called the Alaska Permanent Fund (APF). In 1982, the state government voted to distribute part of the returns from that fund as a yearly dividend, called the Permanent Fund Dividend (PFD), sometimes called "the Alaska Dividend," to every Alaskan. In 2008, the dividend (plus a onetime supplement of $1,200 from that year's state government budget surplus) reached a high of $3,269, which comes to $16,345 for a family of five. More often in recent years the PFD has been between $1,000 and $1,500 per person, which comes to between $5000 and $7500 for a family of five.

The Alaska Dividend is one of the most popular government programs in the United States. It has helped Alaska attain the highest economic equality of any state in the United States. It has coexisted with, and possibly contributed to, the state's growing and prosperous economy.[1] And, seemingly unnoticed, it has provided unconditional cash assistance to needy Alaskans at a time when most states have scaled back aid and increased conditionality.

This book discusses the extent to which the Permanent Fund and accompanying dividend constitute a model worthy of study and perhaps of imitation and adaptation. Part I of this book examines the history and the economic, social, and political impact of the APF

and PFD. Part II examines the ethical debate over the suitability of the model for export. The sequel to this book (yet to be published) explores whether and how the Alaska Dividend is a model that can and should be adapted for circumstances elsewhere.[2] This book is an "edited volume," and the contributing authors differ in their level of enthusiasm for (or skepticism of) the Alaska model. But we believe that the evidence provided by this book shows that the combination of policies we call the Alaska model is worthy of examination by other states, nations, and regions.

1. What Is the Alaska Model?

The "Alaska model," as we use the term here, does not refer to the whole of Alaskan state government policy (most of which we do not study and cannot evaluate), or even to the whole of its oil revenue policy. It refers only to elements in the combination of APF and PFD. Although the APF is the source of revenue for the PFD, the two are different programs created at different times by different kinds of legislation. The APF is a Sovereign Wealth Fund (SWF)—a pool of assets collectively owned by the members of a political community usually invested into interest-generating investments. It was established by a constitutional amendment that did not specify what was to be done with the returns to the fund. The PFD is the policy of devoting the APF's returns to a dividend for all Alaskan citizen residents. It was created by a simple act of the state legislature. Many nations and regions have SWFs, but only Alaska's SWF pays a regular dividend to its citizens. Many nations and regions provide some form of cash benefits, but so far only Alaska pays a regular cash dividend to all of its residents.[3] The APF and the accompanying PFD link a resource-revenue-management policy with a progressive social policy. As an SWF, the APF helps to ensure that the state will continue to benefit from its oil after its reserves are depleted. As a dividend, the PFD helps every single Alaskan make ends meet each year without a bureaucracy to judge them and ensures that all Alaskans receive some tangible benefit from the state's oil wealth.

We call this unique combination the Alaska model. It consists of three elements: (1) resource-based revenue, (2) which is put into an SWF or some other permanent endowment, (3) the returns of which are distributed as a cash payment to all citizens or all residents. The extent to which a policy has to contain all three of these elements to qualify as following the Alaska model is not so important. But we will discuss the importance of each of these elements separately.

A. Resource Revenue

The argument for the Alaska Dividend is simple and powerful: the oil, by right, belongs to all Alaskans (if not to all people in the world). The PFD is an efficient and effective way to ensure that every Alaskan benefits from the state's decision to exploit its oil resources. If that argument works for Alaska's oil, why not Maine's fisheries, South Africa's diamonds, Hong Kong's real estate, Oregon's forests, America's broadcast spectrum, or the world's atmosphere? Governments have allowed private, for-profit exploitation of these and many more resources, claiming that we will all benefit from the jobs and economic activity they create. But do we? Do we all? Does a homeless person in Denver benefit from the gold being mined in Colorado? Does a shanty dweller in Johannesburg benefit from the diamonds being exported from South Africa?

Whatever benefit Alaskans might or might not get from increased economic activity and jobs flowing indirectly from oil exports, and whatever benefit they might or might not get from infrastructure built by oil tax revenue, every Alaskan can point to the dividends they've received since 1982 and say: I got this benefit from the state's decision to exploit its oil reserves. Not many other programs do that, but many more could.

The case for taxing natural resources is at least as good as, and probably far better than, the case for taxing any other source of wealth. Resource taxes have the benefit of discouraging overuse of scarce resources. If properly employed, they can be an important part of a green environmental management strategy giving people the incentive to reduce their consumption of scarce resources to sustainable levels. Yet, few, if any, countries in the world employ resource taxes in this way. Resources are often given away by governments to individuals and corporations who sell them back to the public. Sellers usually add value, of course, but the sellers capture not only the value they add but also the natural resource's value along with it. They get something for nothing, and then they sell this something for something.

A resource tax is literally a user fee. Anyone who takes possession of a resource makes it unavailable for others. The tax represents a payment for the burden imposed on others. This justification for resource taxation is more closely associated with "left-libertarianism," discussed in chapter 9 of this volume by Ian Carter.[4] But, as we will argue in chapter 14, resource taxes are also consistent with liberal-egalitarian, civic republican, utilitarian, and other theories of justice.

Of course, not every country has as much oil as Alaska, but one of the key lessons of this book and its sequel is that a country does not have to be "resource rich" to have a resource dividend based on the Alaska model. We make this argument in greater detail in the final chapter of this book. Here we preview only a small part of that argument.

One reason we know that a country does not have to be resource rich to have a resource dividend is that every country and every region has valuable resources. A chapter in the sequel to this book will show that the total value of natural resources (including not only mining, fishing, and forestry but also land value, the broadcast spectrum, the atmosphere, etc.) is surprisingly high even in areas not thought of as being resource rich. Gary Flomenhoft shows that even "resource poor" states, such as Vermont, can create a substantial resource dividend.[5]

Another reason we know that a country does not have to be resource rich to have a resource dividend is that only a small part of Alaska's resource wealth actually goes to supporting the fund. Alaska has many valuable natural resources, but the APF is supported almost entirely by taxes on oil. These taxes are extremely low by international standards, and only about one-eighth of the state's total oil revenue goes to supporting the APF. We discuss the potential for a much larger dividend in the sequel following this book.[6]

B. A Permanent Endowment

Alaska introduced the APF largely because Alaskans knew that oil drilling would provide a very large but *temporary* windfall. They wanted to extend the period in which that windfall would benefit Alaskans by putting some of it away into a *permanent* fund. The APF was one of the first SWFs. Today many resource-exporting nations and regions have them. Some nations have funds more than ten times the size of the APF.[7]

We see the essence of the Alaska model as a strategy to make sure that the system functions as a permanent endowment, but an SWF is not the only mechanism that can do so. To some extent, treating resource taxes as user fees does so automatically. Some resources are capable of producing a permanent stream of revenue from user fees. These include land, the broadcast spectrum, and renewable resources. Revenue from such resources does *not* need to be put into a fund to function as a permanent endowment, and the Alaska model can be employed with only the first and third elements. Other resources

produce only temporary resource streams. No nation can produce oil forever. Pollution taxes will hopefully discourage pollution. For revenue from sources like these to produce a permanent endowment, a mechanism such as an SWF is necessary. The second element—the fund—is necessary only to turn a temporary stream of resource revenue into a permanent income.

C. A Cash Payment to All Citizens

To some extent the dividend was a way to sell ordinary Alaskans on the idea of a permanent fund. But to some extent the motivation for the fund was to support the dividend. Some of the lawmakers who created these programs, particularly Governor Jay Hammond, were probably influenced by the movement for what is now known as a "basic income guarantee"—the government-ensured guarantee that every citizen will have at least a small unconditional income without a work requirement. At the time, the policy was widely discussed under the names "guaranteed income" or "negative income tax." Many economists and policymakers in the United States in the 1960s and 1970s saw it as an effective and efficient way to combat poverty. Hammond, who had unsuccessfully proposed a similar policy on a local level when he was mayor of Bristol Bay borough, saw the APF as an opportunity to create a basic income guarantee; if not to fight poverty, then to make sure every Alaskan, rich or poor, would share in the benefits of the state's oil resources.[8]

The basic income guarantee figures significantly in the discussions in this book and in its sequel to follow. Therefore, it is important to have a brief introduction to it here. Any policy that unconditionally ensures every citizen a nonzero income is a basic income guarantee. A "full" basic income guarantee ensures an income large enough to meet a person's basic needs—enough to keep a person out of poverty. A smaller unconditional income is usually called a "partial" basic income guarantee.

Several different kinds of policies can ensure some kind of basic income guarantee. The two most commonly discussed policies are the "negative income tax" and the "basic income." The negative income tax ensures that no one's income falls below a certain amount by distributing targeted benefits to people with low incomes. Basic income instead gives a small income to everyone regardless of their income from other sources. The negative income tax is a program clearly aimed at addressing poverty. The basic income also might be motivated by a concern for poverty, but it might be motivated by

other concerns as well, such as the desire to ensure that everyone, rich or poor, benefits from the oil industry whether or not they have a direct connection to it.

A third policy that is closely related to (but not a form of) the basic income guarantee also figures significantly in discussions in this book. A stakeholder grant awards everyone an unconditional income, but rather than delivering a small income throughout a person's life, it delivers a single large lump sum grant—usually when the recipient meets maturity. Stakeholding, the policy of providing stakeholder grants, is a variation of the universal, unconditional grant idea. It does not ensure that people will have a nonzero income throughout their lives, but it does ensure that people receive some substantial income at least at one point in their lives.[9]

The negative income tax was widely discussed by economists, politicians, and welfare activists in the 1960s and 1970s. A somewhat watered-down version of the negative income tax was narrowly defeated in the US Congress in 1971. The US and Canadian governments have conducted five social science experiments to see how the negative income tax would affect labor market participation and other variables.[10] The Indian government will soon begin a basic income pilot project similar to the North American negative income tax experiments.[11]

Although discussion of the negative income tax in the United States has declined since the 1970s, in the 1980s basic income became a widely discussed topic in the academic literature in social science and philosophy, and it has remained so ever since. Researchers have examined the political and economic feasibility of the idea, its likely effects, and the ethical arguments for and against it.[12] Basic income comes and goes in political popularity. It has recently appeared on the political agenda in Germany. A basic income pilot project is under way in Namibia. The policy has considerable grassroots support in southern Africa today, and the Brazilian government is officially committed to phasing it in, although no timetable for moving beyond the first stage of the phase-in has been set. The concept of basic income is currently popular with the Green parties and left-leaning parties in Europe, but its support (much like the support of the Alaska Dividend) often cuts across party and left-right divides.[13]

Nothing about basic income or the basic income guarantee ties it to any specific type of financing. There have been proposals to support it by income taxes, sales taxes, money creation, and almost any conceivable form of government revenue. The Alaska model finances basic income directly from a financial endowment and indirectly from user

fees on oil extraction. Therefore, it is, in effect, a resource-financed basic income. Many chapters in this book discuss the importance of financing basic income by resource taxation. One important reason for this type of financing is that it makes it clear why each member of the community is entitled to the basic income. If someone wants to take possession of the community's resources or dump pollutants into the community's atmosphere, they should pay every member of the community for the privilege. Our discussions with the Alaskans have led us to believe that many of them view their PFD in this way.

As we will see in later chapters, not everyone agrees about the extent to which the Alaska Dividend fits the definition of a basic income. Usually, a full basic income is defined as an unconditional income large and regular enough to meet a person's basic needs. The Alaska Dividend is neither regular in size nor large enough to meet a person's basic needs. But it is regular in timing and is unconditional. So, it constitutes only a partial, irregular basic income. But it is the only version of basic income currently in practice in the industrialized world.

2. Importance of the Alaska Model

We (the editors of this book and the authors of this chapter) became interested in the Alaska model because of our interest in basic income. We're excited to see that basic income—so controversial in theory—has proven to be so popular in practice. Observation of the Alaska model shows not only that basic income can work but also how attributes of the Alaska model can be designed to work well elsewhere. The Alaska model is not perfect, but it is a successful strategy on which to build something better.

By endorsing the Alaska model, we do not mean that governments should replace everything they do with the combination of a resource tax, fund, and dividend. We mean only that they should examine it as a possible addition to their tool kit. This combination of policies—so far unique to Alaska—has proven to be immensely popular while having many tangible benefits: it ensures that every Alaskan benefits from the state's natural resource wealth; it keeps the wealth of the commons in the common domain; it develops citizens' interest in management of public resources; it saves for future generations and for the day when the resource is fully exhausted; and last, but not the least from our point of view, it mitigates poverty and inequality.

Authors of articles in this collection will elaborate on the above-discussed and other aspects of the Alaska model, as well as scrutinize

problems with the model or with the case of Alaska. We find that the Alaska model is something that other governments should study and consider adapting to their own resources and circumstances.

3. A Preview of the Book

The two parts of this book examine the Alaska model and consider arguments for or against particular aspects of the model.

Chapters in part I provide the background necessary to evaluate the Alaska model. In chapter 2, Cliff Groh and Greg Erickson examine the unlikely history that brought the APF and the PFD into existence. In chapter 3, Groh and Erickson explain how the two programs work in practice. Scott Goldsmith discusses the impact of the Permanent Fund Dividend on Alaska's society and economy in chapter 4. James Bryan and Sarah Lamarche discuss the political consequences of linking natural resource wealth and basic income in chapter 5 and show how this policy combination can serve justice for future generations. In chapter 6, Michael A. Lewis addresses the issues of fund and risk management, which are important if the Alaska model is to further the economic security of recipients. Erickson and Groh return in chapter 7 to analyze the challenges that the APF and PFD have faced during their first three decades of existence. In chapter 8, we reply to the points raised and discuss some of our concerns for the Alaska Fund and Dividend.

Chapters in part II examine the ethical and political case for using the Alaska model as a tool for social justice and connect the experience of the Alaska Dividend with the philosophical debate over basic income. Ian Carter presents the resource dividend as a left-libertarian economic policy in chapter 9. In chapter 10, Almaz Zelleke criticizes the extent to which the Alaska model, structured as a resource dividend, can be thought of as the practical implementation of basic income or even a step toward it. Christopher Griffin discusses the PFD as a practical application of the theoretical idea of stakeholding in chapter 11. Jurgen De Wispelaere and David Casassas argue in chapter 12 that the Alaska model, as it stands, is of limited value in promoting civic republican objectives. Stephen Winter criticizes the Alaska Dividend for making recipients complicit with the oil industry in chapter 13. In the final chapter of part II, we address the concerns of the authors in this section and discuss why the link between resource taxation and basic income is important for different theories of social justice.

In the concluding chapter, we bring together what we have learned from our study of Alaska's experience with its Fund and Dividend and

draw six lessons from the Alaska model that are relevant to its imitation or adaptation for other places and resources.

This book's sequel, *Exporting the Alaska Model*, will focus on how those lessons can be applied elsewhere.[14] It will include empirical studies of how much resource revenue is available for a resource dividend in states that, unlike Alaska, aren't undergoing a resource boom. It will include practical proposals for different versions of the model, as well as discussions about why, how, and under what circumstances other nations can or should follow the model.

NOTES

1. Noss 2010; Groh and Erickson, this volume; Goldsmith, this volume.
2. Widerquist and Howard, forthcoming.
3. Iran is currently in the process of phasing in a regular dividend.
4. See also chapters by Alanna Hartzok and by Gary Flomenhoft in Widerquist and Howard, forthcoming.
5. Widerquist and Howard, forthcoming.
6. Widerquist and Howard, forthcoming.
7. Sovereign Wealth Fund Institute, n.d.
8. We base this conclusion on remarks he made at the 2004 US Basic Income Guarantee Congress.
9. See Griffin, this volume.
10. Widerquist 2005; Levine et al. 2005.
11. Shrinivasan 2011.
12. See, for example, Standing 2005; Widerquist, Lewis, and Pressman 2005.
13. US Basic Income Guarantee Network 2011; Basic Income Earth Network 2011; Basic Income Earth Network and affiliates 2011.
14. Widerquist and Howard, forthcoming.