The Alaska Model as a Menu of Options

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Our book, *Exporting the Alaska Model: Adapting the Permanent Fund Dividend for Reform Around the World*, provides a broad discussion of the possibilities for adapting the Alaska model, as we have defined it, to work in other times and places. Authors have not examined every nation and region of the world, far from it, but the discussion has examined developing nations, developed nations, newly resource-rich areas, long-term research-rich areas, and resource-poor areas. Therefore, we hope that this book provides a wide set of examples from which nearly any nation or region of the world can draw useful lessons about how the Alaska model can be adapted for their circumstances. This chapter reviews the contributions of each chapter and discusses the menu of options available for applying the model in different places and times.

Hamid Tabatabai shows how Iran has introduced something even closer to a basic income than the Alaska dividend. The Iranian legislation was introduced as a compromise to replace inefficient subsidies, with very little discussion of either the theory of basic income or the practice of the Alaska dividend. But the very fact that this model can come out of such a compromise demonstrates its flexibility and applicability.

Angela Cummine addresses the skepticism among managers of Sovereign Wealth Funds (SWFs) around the world about Alaska-style resource dividends, and shows that much of it is based on misconceptions or unclear reasoning.

Alanna Hartzok adds a word of caution about the current management of the Alaska Permanent Fund (APF). She argues that before we consider employing this strategy on a global basis, it needs to live up to more rigorous ethical standards. We agree that the APF and the accompanying Permanent Fund Dividend (PFD) can be improved, but we believe that the Alaska model is an enormous step forward already, and that it is worthy of both imitation and improvement.

Cliff Groh shows that Alaska faces difficult times ahead as oil revenue declines as exports continue to drop—as they inevitably will. He is right, but it must be stressed that this difficulty is caused by the failure of the state to employ the model more fully and more widely. The APF and PFD are financially sound and prepared for the day when oil runs out. It is the rest of the state budget—living off oil revenue that is known to be temporary—that is the problem.

Chapters in Part II provide proposals for adapting the model to specific circumstances. Gary Flomenhoft considers the economically well-off but resource-poor state of Vermont. Paul Segal considers a worldwide resource dividend. Jason Hickel considers the economically poor but newly resource-rich state of South Sudan. Former Alaska governor, Jay Hammond, in a posthumous contribution written several years ago, considers how the Alaska model could be employed to help strengthen and unify Iraq. Michael W. Howard considers the cap-and-dividend proposal as a politically feasible way to employ the Alaska model in the United States as a whole.

In the final two chapters of Part II, Karl Widerquist first suggests how the United States can create a permanent, common-asset-based endowment, large enough to fund a significant portion of the federal government budget. He then considers the extent to which Alaska could have converted, or can still convert, its temporary resource-revenue stream into a permanent resource endowment to prepare for the eventual decline in oil exports.

All the chapters in Part III discuss Widerquist's proposed variation on the Alaska model, individualizing the APF and PFD combination into Citizens' Capital Accounts (CCAs). This proposal is meant to create a policy in between basic income and stakeholder grants, capturing some of the benefits of both. Howard criticizes the CCA proposal for its slow phase-in and considers how to introduce the idea more quickly. Jason Berntsen criticizes the argument for CCAs in two ways, one based on paternalism and one based on property rights. Ayelet Banai considers the feasibility of applying CCAs in Iraq, in general, and in Iraqi Kurdistan, in particular. Christopher L. Griffin, Jr. addresses the specific issues of parental withdrawals and additions to their children's CCAs. In the final chapter of part III, Widerquist responds to all of these comments.

After reading all these ambitious proposals, readers of this book probably have the sense that a wide menu of options is available for adapting the Alaska model for different places, times, and circumstances. We will conclude with a summary of some of the available options for employing the model in incremental as well as ambitious ways. The menu we present is more illustrative than exhaustive.

Several choices define the dimensions of the menu of options. Such choices are often called social choices, because the answer affects the whole of society regardless of who makes the choice. We will assume that the government makes these choices, because it has ultimate legal authority over them no matter how they are made. Out of the thousands of decisions governments make, three of them define what we call the Alaska model.

Choice 1. The government has to decide whether to capture rent on privatized resources or give them away. Government can temporarily capture rent by selling a resource, or they can permanently capture it by renting the resource. Of course, they can also give resources away with a tax liability attached. We have not explored the difference between renting a resource and giving it away subject to a tax liability. Even if there are meaningful philosophical differences between the two, their effects on rent capture are likely to be similar. The relevant choice is in the continuum from not charging for privatized resources at all to taxing or renting them at 100 percent of their market value.

Choice 2. The government has to decide whether to create a permanent endowment or not. As discussed in earlier chapters, many resource taxes produce permanent revenue streams, and thus they function as permanent endowment automatically in ways that income, sales, and property taxes do not.[1] If a resource tax is in place, the permanent endowment issue is crucially important only for nonrenewable resources, such as oil, because they produce temporary revenue streams. The main question becomes what portion of a temporary resource windfall should be put toward the creation of an endowment. Governments could create endowments through means unrelated to resources or common assets, but we haven't discussed this issue.

Choice 3. The government has to decide whether to have a dividend and what portion of its revenue to devote to it. Of course, governments make thousands of budget decisions, but the relevant trade-off for this project is between a dividend (or some similar mechanism) and all other government spending.

The Alaska model, as we have defined it, means that at least some privatized resources are rented or taxed, at least some of that revenue is used to create a permanent endowment, and at least some of the returns to that endowment are directly distributed to the people via a dividend or some similar mechanism. Thus, the government can make very different decisions on each of these three issues and still in some way follow the Alaska model. We can say that the Alaska model is more fully employed, the greater portion of resource rent the government captures, the larger and more permanent its endowment, and the larger its dividend.

Three more social choices, closely related to the three above, broaden the menu of options much further, determining how the government will employ the model and work it into the existing government system.[2]

Choice 4. The government has to decide how large its budget should be.

Choice 5. Closely related, the government has to decide where to get its revenue. For our purposes, the relevant question is what portion of government revenue will come from common assets, on one hand, and all other taxes, on the other.

Choice 6. If the government decides on direct distribution, it has to pick a method, which could be an irregularly sized year-end bonus, like the Alaska dividend; a regular basic income; a once-in-a-lifetime stakeholder grant; a CCA; or something else. These options are clearly laid out in almost every chapter above and in our previous book,[3] and so we won't review them here. However, we should mention that we do not consider Social Security, unemployment insurance, and other forms of conditional social assistance to be direct distribution. Although programs such as these are often extremely valuable, they are not unconditional payments to all citizen residents. We take this feature of the PFD to be an essential characteristic of the Alaska model.

Now that we have defined the choices available, we can consider some of the menu options. The interaction between these decisions makes the menu very complicated. How large one believes total government spending should be might affect the type of taxes one prefers, and so on. We don't try to list the menu options. Any such list would be misleadingly incomplete. Instead we will discuss some existing and theoretical options, as well as some points of controversy.

The status quo in most countries today involves few, if any, aspects of the Alaska model. Most privatized resources have been given away for free, and more is taken from the commons daily. Direct resource taxation is extremely rare. Even the "property tax," which sounds like a resource tax, mixes the value of improvements with the value of the resources themselves, causing negative side effects.[4] As Flomenhoft demonstrated in his chapter, taxes typically capture only a small portion of common asset rents. Although our distant ancestors had access to a world full of common resources, few of us received any compensation for all the property that has been assigned to others. Instead, there is poverty and economic insecurity, inadequately alleviated by a bureaucratic, dysfunctional, and intrusive welfare system. Many private sector jobs pay poverty wages and promise little hope of advancement.

Oil is a rare exception to the rule of resource giveaways. It is one of the few commodities for which governments usually try to get some revenue in exchange for privatization. Most governments, including Alaska's, have fallen far short of maximizing profits from their oil reserves, but a few others, such as Norway's and those of several Persian Gulf nations, have successfully captured most oil rents, sometimes for the people, sometimes for the ruling family.

Alaska—as earlier chapters have made clear—is so far the only place that employs all three elements of the Alaska model. It does each one in a partial way, and both Groh and Widerquist worry it has not done enough to turn its temporary resource revenue into a permanent endowment.[5] We have similar worries about most other states currently undergoing resource booms. As Widerquist argued in this volume, no nation can be sure it has escaped the resource curse until resource exports are gone.[6] A more fully employed version of the Alaska model, even in Alaska, could help protect these countries from the pains of declining resource exports.

Iran's new dividend program is closer to the basic income model than Alaska's, but Iran seems to be less well prepared for the eventual decline in oil exports than Alaska. Of all the countries currently undergoing a major resource boom, Norway might be the best prepared for the eventual decline of resource revenues. It has extracted a very high portion of the rental value of its oil fields and put it to good use.[7] Norway lacks a universal dividend like the PFD, but it has good government services, good infrastructure, and a relatively large SWF.

However, Norway had major advantages before it discovered oil, and it could still do much more to create a permanent resource endowment.

Discussion of a more fully employed Alaska model moves out of existing practice and into theory. Several theoretical models have been discussed in this book and its paired book released earlier.

Left-libertarianism is one theoretical model that has a close connection to parts of the Alaska model. Left-libertarians argue for the moral superiority of taxes on resources and other common assets over all other forms of taxation. Some left-libertarians go so far as to argue that the government has a moral duty to tax common assets up to their full rental value *and* a moral duty *not* to tax anything else. Left-libertarians differ among themselves on dividends.[8] Some are very favorable toward dividends or basic income, but others would prefer to use the whole endowment for government spending, which might include more traditional forms of redistributional spending. Many left-libertarians are committed to the empirical claim that taxes on common assets are capable of supporting all government spending.

One does not have to be committed to these left-libertarian claims to be sympathetic to the Alaska model. The findings of these two books indicate that the ethical case for taxing resources is at least as good and perhaps better than taxing other things and that the efficiency benefits of a permanent resource endowment are very strong. Therefore, there is good reason for people of all political ideologies to consider taxing resources before taxing other things. Because so few governments tax resources at all, there is enormous potential to shift taxes in that direction.

Few other political ideologies are morally committed to any particular kind of tax. Property rights advocates or right-libertarians prefer a minimal *level* of taxation, but they also believe that, to the extent that taxation is necessary, it should be collected in the most efficient and least disruptive way. Thus, we believe that even right-libertarians should seriously consider the Alaska model. At least one right-libertarian has attempted a favorable introduction to resource taxation for property rights advocates.[9]

Progressive ideologies, such as Liberal-egalitarianism, Civic Republicanism, Communitarianism, and so on, usually support a more active government and are more favorable to a high level of taxation. Liberal-egalitarians who support basic income have usually assumed it would be supported by a progressive income tax. Progressives tend to be skeptical about the left-libertarian reluctance to tax anything besides resources, and about the left-libertarian claim that resource revenue can support all government spending, but they have no necessary reason to oppose raising what revenue they can from a resource endowment. Therefore, we believe, adherents of many different political ideologies should be interested in the Alaska model, although they would choose different options about the level of taxation and the mix of spending.

Widerquist, in chapters 11 and 12, suggested splitting the returns to the permanent endowment: half for government expenses, and half for a dividend. He argues that if the endowment turns out to be large enough, there would be need for few other taxes.

Jay Hammond preferred a larger APF devoted entirely to supporting the PFD. Other taxes, such as the state income tax, should remain in place at least in part because tax-linked spending gives citizen taxpayers a stronger incentive to be vigilant against wasteful or counterproductive government spending. From this conjecture, we can create an alternative model, we'll call "the Hammond model," in which the government creates the largest permanent endowment it can through capturing rents on common assets. The endowment's returns are devoted entirely to supporting a dividend, and all other spending is supported by the income tax (or whatever form of taxation is most prudent). One could even imagine a new political ideology in between left- and right-libertarianism called "Hammondian-libertarianism," combining the highest sustainable resource dividend with the lowest necessary level of income taxes. This ideology probably does not exactly mirror Hammond's beliefs, but he would probably recognize his influence over Hammondian libertarianism.[10]

One might prefer to go in the opposite direction, using resource revenue entirely to replace existing taxes without distributing any of it as a dividend. If it is a good, efficient source of revenue, it can simply replace other taxes. We are skeptical about this strategy on its own, partly because using revenue from newly privatized common assets to replace income taxes is regressive: it helps only the rich and does nothing for the poor. If there is a tax shift from income taxes to taxes on previously privatized assets it is not likely to be regressive, because resource ownership is as unequal as income (perhaps more). A direct dividend for all citizens is far more progressive than most forms of tax cuts and more progressive than most other things the government is likely to do with the resource revenue.

Hammond's experience with the elimination of Alaska's income tax illustrates a problem. In a political compromise, he agreed to use most of Alaska's oil revenue to replace the state's income tax, but he later regretted this decision, not only because the oil revenue the state was choosing to run on was temporary, but also because he thought it was an unfair way to share the benefits of the state's newfound income.

To see the disparity, imagine a state with 1 million people and 1 million dollars of new resource revenue. If the state shares that new revenue through a dividend, each citizen benefits by the same amount: $1. If it shares that new revenue through an income tax cut, low-income people gain nothing, middle-income people gain very little, and upper-income people receive almost all the gains because they pay the most income taxes.[11] Thus, progressives should be very concerned about using resource revenue for anything but a dividend at low levels of resource revenue.

This concern loses force, however, when the size of the resource revenue is large and when we are shifting from existing income taxes to taxes on already privatized, but untaxed, resources. Resources, especially income-producing resources, are very unequally owned, and resource taxes might turn out to be as progressive as income taxes (as well as being easier to collect and less burdensome on taxpayers). If Flomenhoft's higher estimates for the value of resource rents turn out to be correct, a resource-endowment could fund both a very high basic income and a significant portion of other government spending.

Many options are now on the table. The Alaska model, as we see it, is a framework that can improve the effectiveness and efficiency of governments with very different ideological characters and in very different economic circumstances. The right answers to all the choices discussed above depend both on ideological and practical concerns. We believe this book has made a strong case that there is good reason, almost regardless of ideology, to move in the direction of the Alaska model. Almost everywhere today governments are missing opportunities to reduce burdensome taxes and to create sustainable public endowments. In the course of doing so, they might also reduce poverty and increase economic equality and opportunity. The Alaska model is efficient, fair, and environmentally friendly. Citizens and policy makers everywhere should examine it carefully and adapt it to fit their particular circumstances.

NOTES

1. In this volume, see Hartzok, chapter 4; Flomenhoft, chapter 6; and Widerquist, chapters 11 and 12.
2. We have left out thousands of related choices, including, for example, the choice of what portion of resource to hold in common and what

portion to privatize. The arguments here pertain mostly to privatized resources.

3. Widerquist and Howard 2012a.
4. Maxwell and Vigor 2005.
5. Groh, this volume, XXX; Widerquist, chapter 11, this volume, XXX.
6. Widerquist, chapter 12, this volume, XXX.

7. Warnock 2006.
8. Vallentyne and Steiner 2000a and 2000b; Reeve and Williams 2003; Widerquist 2009.
9. Pollock 1996.
10. For skepticism about combining a dividend with an income tax in Alaska, see Groh, this volume.
11. Howard makes a similar point when defending a carbon dividend against proposals for using carbon cap revenues for government spending.