

BLINDED BY RICHES: THE PERMANENT FUNDING PROBLEM AND THE PRUDHOE BAY EFFECT

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January 2004



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 <p>UA Understanding Alaska</p>	<p>Understanding Alaska (UA) is a special series of ISER research studies examining Alaska economic development issues. The studies are funded by the University of Alaska Foundation. This and other UA reports are on the project web site—www.alaskaneconomy.uaa.alaska.edu</p>
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1. INTRODUCTION

The road is long, supplies are costly,
seasons are short, Fortune is fickle.
Alaska Mining Record, Juneau, 1895

Throughout its history, Alaska has never been an easy place to make a living. No one has better summed up the potential risks of its economy than an 1895 Juneau newspaper editor who warned prospectors of the dangers they would face *en route* to the gold fields in the Yukon Valley. The editor's single sentence is a brief but eloquent summation of the essential truths that dominate economic life in Alaska, thirteen words of wisdom that every Alaskan resident should remember. "The road is long," the *Alaska Mining Record* cautioned, "supplies are costly, seasons are short, Fortune is fickle."¹

This paper is part of ISER's "Understanding Alaska" project, funded with money provided by the office of the president of the University of Alaska system. It explores the long-term roots of the most serious economic dilemma the state faces today, the looming fiscal gap of up to a billion dollars. It examines in particular how the wealth of Prudhoe Bay and the billions of dollars in the Permanent Fund have distorted modern political debate in the state and all but erased the historical memory of Alaska's struggle to be free economically and politically from domination by federal bureaucrats and distant corporations. It was a struggle for increased local responsibility, which first required above all else that Alaskans would have to pay a bigger share of the costs as the necessary price to control their own affairs, instead of simply relying on federal handouts and taxes on outside interests.

One of the strongest arguments against Alaskan statehood had been that with such a narrow tax base and an unseemly dependence on federal handouts, Alaska could never be independent enough to even begin to pay its own way. This complaint was particularly compelling in the 1940s, as the decline of the salmon industry and the rapidly increasing population due to World War II and the Cold War caused a sharp drop in revenue and a steep rise in demand for government services. The end result was a fiscal shortfall even larger in percentage terms than anything Alaska faces today. The enactment in 1949 of a broad based, personal income tax re-aligned the tax system to match the economy, and ultimately helped pave the way for statehood in 1959.

When the people of Alaska accepted the necessity in 1949 to tax themselves, it was the first elemental requirement for the achievement of statehood. Without the income tax it is likely that Alaska could have never become a state and would still today be a territorial ward of the federal government; without the 1949 income tax there would be no state lands, no state oil lease sales, no Prudhoe Bay windfall, and no \$26 billion Alaska Permanent Fund.

Statehood brought Alaska enormous oil wealth, because the huge Prudhoe Bay oil field is on state-owned land—and it was developed in the late 1970s and early 1980s, when oil prices were at record highs. But ever since the crash of global oil prices in the mid-1980s, and the slow decline of Alaska North Slope oil production beginning in 1989, a fierce debate has simmered over the appropriate levels of state spending and state revenues. Though Alaskans may bitterly disagree on possible solutions, virtually everyone in Alaska does agree that the state somehow needs to chart a sounder fiscal course for the future. No consensus has yet emerged on what the correct balance should

be between new taxes and spending cuts to replace Alaska's depleting oil wealth. Where will the billions of dollars come from that will be needed to balance the books in the not-too-distant future? Who should pay and how much?

More than a decade ago ISER economist Scott Goldsmith proposed what he called a "safe landing" strategy for the state, a mix of additional revenues and budget cuts to avert a fiscal crash. It was a most appropriate analogy for a state heading blind into the future, flying like a plane without instruments in a bad storm, lost and disoriented, and running out of oil.

In this policy debate two key elements have been missing which have contributed to the state's confused and chaotic fiscal flight plan. The lack of a long-range budget plan means we don't know where we are going, but just as importantly the absence of a long-range historical perspective means we don't know where we are. As a result, for nearly twenty years Alaska has seen its fortunes rise and fall with crude oil prices, as the state stumbles from one interminable budget crisis to the next. In fact the specter of the "fiscal gap" has been looming on the horizon of the Alaskan political scene for so long, that some residents and politicians want to believe that the warnings of an impending catastrophe are delusions, reasoning that because Alaska's fiscal house did not collapse yesterday, it is unlikely to collapse tomorrow either, no matter what the economic forecasts predict.

Many Alaskans do not understand that for the past decade the state has been balancing its books by drawing billions of dollars from a dwindling savings account known as the Constitutional Budget Reserve, the existence of which has helped to mask from the general population the continuing deficit in state revenues. Most state officials

agree that unless there are either massive cuts in state spending or large increases in state revenues, the day of reckoning will come within the next few years as this reserve fund is emptied.

With Alaska's financial health so closely tied to the fluctuating price of oil, the state has found itself living on the edge of financial disaster, completely at the mercy of world market conditions. The seemingly random and unpredictable course of events from day-to-day has helped foster an air of confusion and uncertainty, exacerbating the political turmoil over what should be done. Alaska has a highly transient population, with little knowledge of even the recent past, and few scholars have ever seriously examined the most basic questions about the patterns of Alaskan economic history. As a result we are debating in the dark, and without somehow shining more light on the past, and making sense of the fragments we recognize, we are condemned to live in the chaos of the ever-changing present, watching the price of oil go up or down.

One of the constants of Alaskan history is that the most significant, defining events and turning points of the past hundred years, from the gold rush and World War II, to the Good Friday earthquake and the wreck of the *Exxon Valdez*, were totally unexpected; the history of Alaska is punctuated by one shocking surprise after another, and there is no reason to think this pattern is going to change in the future.

Historical patterns cannot predict the future of Alaska's economy, because admittedly history has always been a horrible crystal ball. Even though mutual funds proudly boast of their historical track record as they try to enlist new buyers, the disclaimer in fine print admits what experienced investors know: "past performance is not indicative of future results." Neither the stock market, nor the rise and fall of political

regimes, nor the weather, nor the roll of the dice can be predicted simply by extrapolation from historical trends. Despite that inalterable reality, however, “past performance” is in fact one of the most basic tools of all forecasting. Since the origin of our species, humans have evaluated new situations by making comparisons with what they’ve seen before, searching for patterns of recognizable behavior, and finding analogous situations from past experience. Above all history is invaluable for interpreting the present, as without some basic knowledge of historical tides and times, there is otherwise no chance to comprehend the tumult of the current moment.

In reality the “fiscal gap” is not a new dilemma, but the latest manifestation of a recurring phenomenon that has plagued Alaska for at least a hundred years: the Alaska permanent funding problem. Alaska’s economic history is marked by the persistent weakness of the tax structure and tax base, accompanied by anemic levels of local political control. The adequacy (or more accurately the inadequacy) of Alaska’s tax system is an excellent historical barometer to chart the progress of Alaska’s struggle for increased political power, from a mere possession of the federal government in the mid-19th century, to one of the 50 sovereign states in the mid-20th century. In general, as Alaskans struggled against great political odds to increase local political authority, it resulted in increased local taxation; the reason was simple. Just as today, distant large corporations and investors, or the federal government, dominated Alaska’s economic life, and taxes were the one method by which Alaskan residents through their government could retain a greater share of Alaska’s wealth, could keep the money earned inside Alaska from going outside.

Alaska's continual tax deficit mirrored the long standing struggle over who should benefit from the development of Alaskan resources, and what share residents and non-residents should each pay for the privilege of living or working in Alaska. The central thrust of the statehood movement was to ensure that Alaskan residents would become the primary beneficiaries of Alaskan development. Increasing taxes and achieving statehood were irrevocably linked, two means to the same goal: building a permanent foundation for a stable society, one that would endure long after all the gold in Alaska was gone.

Familiarity with these core themes underpinning the permanent funding problem casts the current fiscal crisis and debate about the use of Permanent Fund earnings in an entirely new light. These issues deal with the most fundamental questions of Alaska's political economy and history: Who should pay to develop Alaska's resources? Who should receive the benefits? Where will the money come from? Where will the money go? Only in this broader context can the true dimensions of the present day situation be fully appreciated.

The roughly \$50 billion the State of Alaska has earned from petroleum revenues in the past twenty-five years can be grossly misleading if one is not aware of the long-term trends. The riches spun off by the Prudhoe Bay bubble are an exception in Alaskan history, as far removed from the norm as can be imagined. Since the late 19th century the expense of government services in Alaska has generally far outstripped current government revenue from Alaska; year after year it has almost always cost far more to deliver services to Alaskans, than Alaskan residents have paid in taxes. Furthermore the running deficit was long masked and filled by an extraordinarily large federal subsidy,

with federal services taking the place of what would normally have been local functions. As long as the United States government owned more than 99% of the land, and paid all the bills, Alaskans could naturally be spared the burden of both taxes and self-rule.

The critical weakness of the tax base was the lack of diversification. Reliance upon a single, unstable source for tax revenues both mirrored and magnified the weaknesses of Alaska's economy, and came at the cost of political independence and stability. Dependence upon federal subsidies, and the resulting increase of federal power, was complemented in the private sector by dependence upon the large corporations extracting natural resources that begrudgingly paid the bulk of Alaska's taxes, and naturally expected to control Alaska's political affairs.

Just as the petroleum industry has become nearly the sole support of state government in the past quarter century, the salmon canning industry filled a similar role in territorial days before World War II. This process, which economists would call "exporting" the tax burden to the distant consumers of Alaskan products, whether canned salmon or gasoline, could be sustained only as long as the federal subsidies and resource revenues continued without interruption. The surplus could arise from either a windfall, such as the petrodollars of the past quarter century, or a severely restricted level of government service to a limited population, such as generally prevailed before World War II. Relying on a single industry to carry the tax burden left Alaska particularly vulnerable to changes in market conditions, resource depletion, and special interests. With only one egg in one basket, Alaska's tax and fiscal structure was dangerously vulnerable, and any combination of falling resource revenues or rising demands for services would cause havoc.

Whether or not Alaskans today would prefer to tax themselves, give up their Permanent Fund Dividends, make draconian cuts in state spending, or a combination of all three, remains to be seen. Some action will have to be taken, because just as in the 1940s, the tax system presently receives nowhere nearly enough in revenue to pay for on-going government services. It is still an open question as to what sacrifices this generation is prepared to make in order to keep Alaska solvent over the long haul. More than half-a-century ago the fighters for Alaska statehood realized that an increase in taxes was the cost of statehood and the price of permanence. They recognized that without taxation there would be no representation. Without taxation there would only be even greater dependence upon both federal handouts and outside corporations, which would depart as soon as the resources were gone. The wealth and power that the residents of the State of Alaska have accumulated today only came about because Alaskans had once been willing to tax themselves.

At the present time an optimist has to believe that the current generation of Alaskan political leaders can craft a workable solution to the fiscal gap crisis, and through a combination of economic growth, spending restraints, increased taxes and Permanent Fund revenues resolve the latest permutation of the permanent funding problem. The history of Alaska demonstrates that the challenges faced by previous generations were no less daunting than those of today. In reality earlier leaders might well have envied the situation in which Alaska now finds itself. While the billions of dollars in the Permanent Fund, and the Permanent Fund dividend program, may have complicated the issue politically, Alaska economically has a wealth of assets to put its

fiscal affairs in order that forty, fifty, or seventy five years ago no one would have ever dreamed possible.

Life in Alaska has often defied the rational rules of economic sense; prospectors, like all gamblers, seldom bothered to calculate the odds. The struggle to strike it rich, no matter what the cost, is the center of Alaskan economic history, and risk takers with an incurable strain of optimism have always been the dominant players. Despite the long roads, short seasons, and high costs, those who were willing to take a chance on success at least had a chance to succeed, and economically the State of Alaska has been a glorious success story. When it entered the Union in 1959, Alaska struggled to stay afloat, but oil development brought unprecedented wealth to its residents. The riches from Prudhoe Bay and the Permanent Fund, however, should not blind us to how hard the road has been, or how hard it is bound to be in the coming years.

No one should disregard the current dire predictions about the state's future, because it would be highly irresponsible to do so. Anyone who can count can foresee the challenges that lie ahead, and the first step in overcoming them is to accept the longstanding hard realities of economic life in Alaska.

2. THE PERMANENT FUNDING PROBLEM

The billion-dollar question in Alaska today is, “Where’s the money?” or more precisely “Where’s the money for tomorrow?” Where is the money going to come from to balance the state’s books in the future?

Admittedly at the present moment some view Alaska’s economic prospects as rather grim; some see the pipeline as half-empty. The main source of state wealth for the past twenty-five years, the Trans-Alaska pipeline, is now-moving only about one million barrels of oil a day, about 50% of its peak production in the late 1980s. By any measure one million barrels of oil is still a fantastic pool of wealth, a sizeable proportion of America’s total domestic output, but the state has become so dependent on oil for its revenues that this decline has troubling implications for the future. Like the high-living prodigal son, the State of Alaska has survived for the past quarter-century on the returns from Prudhoe Bay, freely spending its inheritance without any serious plan for what happens when the oil well runs dry, except to count on finding “another Prudhoe Bay.” The situation calls to mind a *New Yorker* cartoon of two bums standing on the street, wistfully looking into at a window display for a \$15 million Lotto jackpot. One of the down-and-outers says to the other, “Winning is crucial to my retirement plans.”²

Declining oil production, a steep drop in timber production, disastrous salmon runs and fierce new competition from farmed salmon around the world have not been good news for Alaskan workers. All of these and other developments are not pleasant thoughts for anyone thinking about Alaska’s long-range economic health. Where are the high paying jobs of the future going to come from to support the economy of the State of Alaska and to pay for state services? Where’s the money for tomorrow?

Figure 1 Alaska's post-Prudhoe Bay fiscal plan.



As troubling and unsettling as this modern dilemma appears however, it is important to realize that concerns about the financial survival of Alaska are not simply a recent phenomenon. Throughout almost all of its history, except for the Prudhoe Bay bubble from the late 1960s to the mid-1980s, Alaska has generally lived uncomfortably close to the edge of fiscal insolvency. The unrivaled riches from Prudhoe Bay have blinded many current residents to one of the great continuities in Alaskan economic history; the sheer size of the needs in Alaska have always been so great, the demands so costly, that except for this recent era, the struggle to pay for the most basic of government services has been the rule, not the exception, in Alaskan history. One might call it a permanent deficit disorder. Large fixed costs and a precariously narrow and uncertain tax base, combined with the vagaries of a natural resource extractive economy, and powerful business interests not susceptible to local control, meant Alaska was chronically trying to answer the unanswerable question about where the money would come from for tomorrow. It is only in this context that one can truly remember the motivation behind the

creation of the Alaska Permanent Fund by constitutional amendment in 1976, as an ambitious effort to solve the Alaska permanent funding problem.

The Permanent Fund was supposed to have been the answer to the curse of natural resource development, the antidote to the mining camp mentality—or “Kennecott Syndrome”—of here today gone tomorrow, double or nothing, easy come easy go, take out the profits and leave behind an empty hole in the ground. By permanently stashing away surplus returns of mineral revenues, the Permanent Fund provided the opportunity to fundamentally alter the nature of the Alaskan economy. Through a balanced portfolio of careful investments, the Permanent Fund could transform a diminishing supply of petroleum into a steady stream of dividends and interest. Though not quite on the level of turning water into wine, changing oil into money would replace a non-renewable resource with a renewable one, breaking the cycle of boom and bust.

Alaska had never known the economic stability of more settled and developed places. No region in American history had ever been more susceptible to such wild swings in its economic fortunes, alternating between unimaginable prosperity on the one hand and a landscape littered with ghost towns on the other. Extraction of natural resources, such as fur, fish, and minerals was an eternal gamble, and the take for the coming season could never be counted upon on as a sure thing. As a result, territorial revenues based on resource production were always “variable and uncertain,” as Alaska’s budget writers confessed in 1933.³ In contrast to this highly unpredictable funding source, however, were the relatively predictable fixed costs of essential government services and infrastructure, such as roads, schools, utilities and hospitals, police and fire protection. Every biennium during the territorial fiscal cycle, the Alaska Board of the

Budget (composed of the governor, territorial treasurer and auditor) routinely reminded legislators that a “possible reduction in revenues...might happen at any time, since a failure of the fishing season always materially affects the revenues of the Territory, and the same can be said of the success or failure of other industries.”⁴

When the inevitable occurred, when natural resource production fluctuated between good years, marginal years and disastrous years, the fixed demands of the society built on the profits of those natural resources did not simply vanish. Unless, that is, the entire society itself disappeared, as countless boomtowns and mining camps had done in the past. A town that lived solely on non-renewable natural resource production was doomed from the start, but in the face of this dominant frontier reality eternal optimists nevertheless labored to build enduring towns and communities. Thus was born the recurring affliction of the Alaska permanent funding problem: how to build a stable society on an unstable economic foundation?

The permanent funding curse would prove to be especially virulent when the basic economy shifted from one prime resource to another, such as from fur to gold, gold to fish, or fish to military and government spending. Inevitably the government revenue structure set by political forces lagged behind the changing economic structure, as people and politicians are often highly resistant to economic facts they do not want to accept. To operate effectively the tax system had to be in sync with the economic system, and when the taxation regime failed to evolve quickly enough to remain in harmony with the economy, a breakdown was all but certain.

There are haunting similarities between the dire “fiscal gap” crisis Alaska finds itself in today, and several occasions in the past, most notably the economic debacle of

1947-1949, when the Territory of Alaska was driven into virtual bankruptcy. Then as now the evolving Alaska economy was faced with rising demands for services from a growing population, and handicapped with a seriously flawed and outdated tax structure, which relied upon a single non-resident industry to provide the vast majority of revenue. In 1940s of course there was no Alaska Permanent Fund, no \$26 billion savings account looming over the horizon, when the territory found itself with outstanding debts worth more than one hundred times the total of its general fund balance.

Though the sums today run into the billions of dollars, instead of merely millions, and oil wells instead of salmon canneries are the biggest producers of Alaska's natural resource wealth, nevertheless the current debates about dividends, taxes and budget cuts echo the arguments of more than half-a-century ago. How much government can Alaska afford to have? How much government can it not afford to lose? What share should local citizens have to bear towards the cost of making Alaska something more than just a temporary camp for mining, fishing or construction? How much should Alaskans be asked to do for Alaska? What are the rights and responsibilities of year round residents versus seasonal workers who send their paychecks back home?

The essence of the permanent funding problem was deciding who would pay and how much for the cost of making Alaska a permanent home. For most of its history either the federal government or the canned salmon industry paid Alaska's bills, and as might be expected, those who paid the piper were those who called the tune.

Uncle Sam's Subsidies and Alaska's Invisible Deficit

With 99% of the land in federal ownership up until 1959, Alaska's tax base was almost non-existent. This meant that federal funds in disproportionately large amounts would be required to provide most essential services. The federal government retained ownership of the land and natural resources because of a desire to ensure that earlier American history did not repeat itself in Alaska, that the rampant destruction and waste that had accompanied the development of the western frontier would not be repeated on the Last Frontier. By the time the formative decisions about the disposition of Alaskan resources were being made in the early 20th century, the old 19th century rules about what had been acceptable had clearly changed. Conservation and controlled development had become the law of the land. To the dismay of Alaskan pioneers, the government would not give entrepreneurs as free a hand in the development of the public domain in the north, as their compatriots had once enjoyed throughout the rest of the west.

The federal decision to retain ultimate control of more than 99% of territorial Alaska required the U.S. government to bear a proportionally greater fiscal responsibility for Alaska's people than those in other territories. In 1957 a banker likened Alaska's predicament to that of a powerless and disgruntled minority shareholder. "Alaska can be compared to the 1 percent company stockholder," Ed J. Rusing of the Miners and Merchants Bank told a Congressional hearing. "Collectively, we Alaskans own less than 1 percent of Alaska's land area. It is virtually impossible to guide the development of our territory without a larger share of our stock to work with."⁵

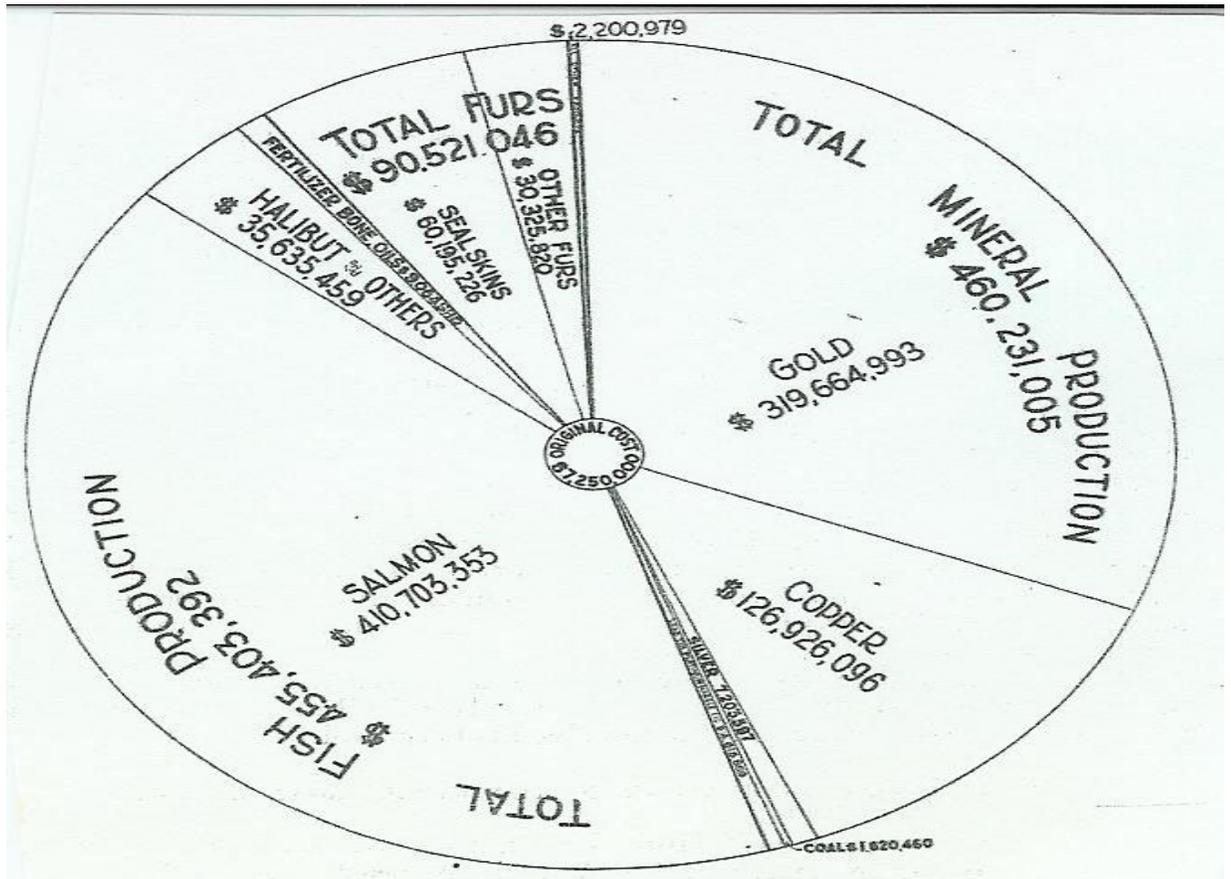
Just as the United States government had long ago declared that Native Americans had a "special relationship" with the federal government, so too was Alaska

with a fraction of a 1% share, destined to have its own unique affiliation as a peculiarly dependent ward relying on federal funding, and subject to the control of bureaucrats from as many as fifty separate federal agencies. As one report noted in 1937, the federal government's monopoly of Alaska's lands dictated that Alaska would probably remain a "special responsibility of the government of the United States" far into the future.⁶ "It is sometimes said," Alaska Governor John W. Troy explained in 1933, "that more money is appropriated annually for Alaska than was ever appropriated for any of the other Territories."⁷

Dating back to the late 19th century this continual federal subsidy to pay the costs of government in Alaska would mask a chronic, invisible deficit; the people of Territorial Alaska could not pay the necessary expenses to govern themselves, even if they had wanted to do so. Many services, which elsewhere had traditionally been state, local or even private matters, were federal responsibilities in the Territory of Alaska.⁸ Even long before World War II, when billions of dollars in federal defense spending and military construction projects revolutionized the economy, the U.S. Treasury bore the major portion of all costs to govern Alaska. The steady infusion of federal funds to make up for the chronic shortfall of other government capital in Alaska became such a part of the Alaskan scene that it was all but invisible, hidden in plain sight.

One popular refrain over the years was how many times Alaska's resources had re-paid the original \$7.2 million purchase price. A memorable 1920 pie graph showed

Figure 2 Alaska Products 1867-1920. The outer circle represents more than \$1 billion in fish, fur and minerals, compared with the “original cost” of \$7.2 million in the center.



the various proportions and values of fur, fish and minerals produced in Alaska since 1867. The large circle represented a total value of \$1,008,356,422; nearly lost in the center of this one billion dollar circle was a tiny ring in the center about the size of a marble labeled “Original Cost \$7,250,000.”⁹

By the 1950’s, according to one statehood proponent who testified before Congress, the resources of Alaska had “repaid the United States more than 450 times” the purchase price.¹⁰ Another statehood advocate maintained in 1953 that Alaska was probably the best investment ever made by the federal government, turning \$7.2 million into \$3.5 billion. “That is, we think, a pretty fair return,” said George Sundborg, manager

of the Alaska Development Board. “We do not think the Nation has done much better than that on many investments which it has made.”¹¹

In response Congressman Wayne Aspinall of Colorado asked Sundborg “whether or not any attempt has ever been made to figure out the amount of money that was sent from the United States into Alaska in order to produce this amount of value which went from Alaska back to the United States.”

“I do not know of any such study, Mr. Aspinall,” Sundborg stated, but “I am sure ...the amount of money which has been spent in Alaska is very much less than the value of the products which have come out of Alaska.”

Aspinall agreed that was undoubtedly the case, but it reminded him of the large sums that miners had poured into the Colorado hills in order to extract silver and gold. In his mind those empty mining shafts the miners had left behind were not truly empty. As he often quipped to friends in the east, “if you just figure out the amount of money we put into those holes out in Colorado, you would find a sizeable sum.”¹²

As Aspinall’s story about Colorado’s money holes indicated, the cry that Alaskan natural resource production had “repaid” the purchase price in full many times over was politically powerful, but economically misleading. The diagram and the fixation on the \$7.2 million figure represented how most people simplistically viewed the Alaskan economy, and Alaska’s relationship with the United States government, almost as if the only cost of Alaska to the U. S. had been the original purchase price. The confusion is understandable.

Every school child knows that the United States paid \$7.2 million for the purchase of Alaska in 1867-1868, but no one has ever calculated what the true costs and benefits of

owning Alaska have been to the people of the United States. Given the way in which federal funds have historically been dispersed and accounted for, as well as the astonishing array of government services that have been provided, to even attempt a crude answer is a formidable challenge. In 1960, however, a congressional committee made a rough stab at what the national stake in Alaska was minimally worth in dollars and cents. The U.S. House Committee on Government Operations estimated that all federal holdings in Alaska were worth about \$1.7 billion; it was an absurdly low figure, as the report valued the hundreds of millions of federal acres in Alaska at only \$1.59 an acre.¹³ Furthermore during World War II and the Cold War, when defense had become Alaska's most potent economic force, far surpassing the impact of both canning and mining, the federal government had spent roughly \$2 billion in Alaska on military construction projects.¹⁴

The low-ball estimate however is hardly a shock, because the costs of administrating Alaska to American standards have never been fully appreciated. The only time in its history when Alaska was not a drain on the federal treasury—except for the brief period from 1979 to the early 1980s, when world oil prices temporarily drove Alaskan revenues and federal taxes to record levels—was during its first two decades, when expenditures were minimal and tax revenues from the fur seal trade were substantial. In his classic 1886 *History of Alaska*, Hubert Howe Bancroft claimed that in the first ten or fifteen years after 1867, the total of what the American government had done for Alaska “may be summed up almost in ten words.” In his mind the annual cost of owning Alaska was only about \$235,000 a year—the amount that would have been

earned if the \$7.2 million had been invested in 4% bonds instead of 586,000 square miles.¹⁵

Throughout the 1870s and 1880s federal civilian spending in Alaska was negligible, while upwards of \$300,000 a year in seal skin taxes poured into U.S. coffers. The Bureau of Fisheries reported that from 1870 to 1878 the government collected \$2.6 million in sealskin taxes, against a total expenditure from their division of only \$29,000.¹⁶ By the late 1890s, however, the flow of money from Washington, D.C. to the north was far in excess of any taxes derived from the territory, a pattern that would continue throughout the 20th century. Year after year federal expenditures in Alaska have routinely exceeded federal revenues by a wide margin, and in fact it is likely that federal per capita spending was higher in territorial Alaska than anywhere in America. The *Washington Post* charged in 1912 that Alaska was “more dependent on Congress than any other part of the United States outside of the District of Columbia.”¹⁷

A typical year for federal expenditures was probably 1913. According to Franklin K. Lane, the Secretary of Interior in the Wilson Administration, Alaskans paid about \$800,000 in federal licenses, fees and taxes in 1913, while federal spending in the territory that year totaled more than \$5 million.¹⁸ A 4-to-1 or 5-to-1 ratio of federal expenditures to federal income apparently persisted. A 1937 government report estimated that during the previous decade federal spending in Alaska averaged more than \$12 million a year, while annual federal revenues from the territory averaged less than \$3 million.¹⁹ This massive federal transfer payment would continue on throughout Alaskan history, almost without interruption, to the present day.

The unprecedented and largely unappreciated role of federal dollars in sustaining the Alaskan economy and providing essential government services shaped the Territory of Alaska into a unique economic and political hybrid, where federal agencies assumed the normal responsibilities of state, territorial or local entities, including roads, schools, courts, mental institutions, communications, health and transportation. “This use of Federal agencies in the performance of purely local functions,” an academic study of Alaska’s constitutional status noted in 1927, “is unfortunate both from the point of view of the National Government and from the point of view of the Territory. It places upon the National Government a burden that does not properly belong to it, and also does violence to the principle of local self-government which the United States has followed in the cases of Hawaii, Porto Rico, and the Philippines.”²⁰ The substitution of federal dollars for local monies continued throughout territorial days. “During recent years in her Territorial status,” a U.S. Senate report stated in 1954, “Alaska has benefited from more generous Federal financial assistance to meet local needs than has been extended by the Federal Government to any of the existing States.”²¹

Prominent examples of this exceptional federal largess included the construction and operation of Alaska’s telegraph and communications network, the construction and maintenance of its road system, and the settlement of the Matanuska Valley Colony, but the most notable and costly federal gift was probably the construction and operation of the Alaska Railroad. The ARR was a massive experiment in government-sponsored economic development, unique in American history. It was the only railroad built and run directly by the U.S. government, except for the rail line in the Panama Canal Zone. By the late 1930s the Alaska Railroad’s total price tag above and beyond its cumulative

revenues was nearly \$75 million, while the population of the immediate railbelt area it served between Seward and Fairbanks was slightly more than 7,000, a per capita investment along the route of more than \$10,000.²²

To put the American experience in Alaska in proper perspective, the case of the Canadian north is most revealing. Ottawa's contributions to the Yukon Territory and the Northwest Territories—which together were more than two-and-a-half times the size of Alaska—constituted only a small fraction of what Washington lavished on the west side of the 141st meridian. As one analyst observed in 1937, compared with Alaska, Canada's northern territories were “economically stagnant” with bleak prospects. “They have never received appropriations from the Canadian budget even a tenth as large as those granted by the U.S. Government to Alaska.”²³

Blaming the Feds

Despite the heavy hand of U.S. federal spending, as typified by the Alaska Railroad, Alaska's relative lack of development, slow population growth, and other economic travails helped to foster the belief that the government was intentionally or unintentionally hindering the development of Alaska, through a toxic combination of mismanagement, misguided conservation efforts, bureaucracy, over-lapping jurisdictions, incompetence, and neglect. The logic was simple: throughout recorded history Alaska had never developed as fast for sustained periods of time as big boomers and builders had hoped, so by definition the government was obviously not doing enough—no matter how much it was doing—to promote development.

This chorus of complaint began in the late 19th century, in the age when the federal government's presence in Alaska was barely perceptible. In 1883 Wendell Phillips, the famed abolitionist, protester, and socialist reformer, urged Congress to take up the righteous cause and bring justice to the people of Alaska. Just as he had denounced Lincoln for not being harsh enough with slave owners, Phillips blasted congressional officials for their lethargy.

“From every point of view,” Phillips thundered in December 1883, “the condition of Alaska is a disgrace to our Government, and calls for immediate action. Cease to receive revenue from Alaska or give her an equivalent by protecting life and property, securing peace, and offering to every man, woman and child the means of fitting themselves for citizenship and their duties. If we have not leisure to attend to our citizens, then, as the woman said to Philip of Macedon, ‘Cease to be King.’”²⁴

Wendell Phillips' sense of moral indignation at federal mismanagement, and his claim that the United States was taking from Alaska, but not giving anything back, would become the first verse of the Alaskan gospel, continued to be sung long after it ceased to be true.²⁵ The need to “do something” for Alaska became a moral crusade that inspired every major political milestone in Alaskan history including the passage of the first Organic Act that created the office of governor and a rudimentary judicial system in 1884; the approval of a Territorial Delegate in 1906; the establishment of the elected legislature in 1912, and the granting of statehood in 1959.

In this popular political view the federal government served as the ideal target, but perceptive observers realized that more fundamental geographic and economic factors were also involved. “There has been so much talk about governmental deficiencies in

Alaska,” E.W. Nelson of the Bureau of Biological Survey said in 1921, “that many people appear to believe that it has been the main cause for the present economic depression in the Territory. This is a misapprehension of the facts....” According to Nelson, who had first lived in Alaska in 1877, the territory’s basic troubles were “due to the great size of the country, its isolation, scanty population, and the costly and uncertain means of communications, combined with the exhaustion of the known bonanza placer mines.”²⁶

Under these difficult circumstances the costs of governing the enormous expanse of Alaska naturally had to be paid in substantial part from federal funds. For instance, take the cost of mail delivery. The cost per mile of delivering the mail in Alaska was estimated to be ten times that of the average costs in the Lower 48. The gross postal receipts from Alaska during the period from 1928-1937 totaled only about \$97,193 a year, while the average annual cost of operation of the postal system in Alaska was \$779,330. Consider also the cost of Alaska’s admittedly meager collection of roads, all of which would have easily fit inside a corner of Connecticut. By 1937 the territory had only about 2,500 miles of public highways, which a federal report admitted was “a mileage equivalent to that which is regarded as necessary in continental United States to service an area approximately 36 miles square,” but nevertheless these strands of roadway had cost the federal treasury more than \$27 million.²⁷

In 1911 Alaska Governor Walter E. Clark had warned that if and when Alaska received the full powers of local government, it must be prepared to accept a wide range of new duties, responsibilities, and costs. Local control, he said, will mean “that Alaska is able to take care of itself and does not need any more financial support from the National

Government than the other regularly organized territories have received—which is comparatively little.”²⁸ He could not foresee that day coming any time soon, and opposed the establishment of the territorial legislature created the following year, because, he argued, “the Territory is not yet able to bear the expenses of local government and of public works.”²⁹

The needs were practically infinite, but the means to fill them were limited by political and economic practicality. “The government is very kind to Alaska,” one man candidly described the federal attitude in 1899. “It gives us immunity from taxation and at the same time pays all our expenses. It provides us with officials, schools, teachers, court houses, jails, asylums, and...we are not asked to pay the bills....”³⁰

The creation of the State of Alaska in 1959 was itself an act of faith that a sustainable economy could be built with balanced resource development, provided that the citizens of Alaska were willing to start paying the bills themselves. The willingness to pay increased taxes in order to replace the territory’s federal subsidies was the crucial litmus test of statehood. Were the people of Alaska willing to accept the burdens that went along with the privilege of self-government? Were they willing to pay the price for statehood? Were they willing to try to resolve the permanent funding problem?

Seward’s Folly and the Roots of the Permanent Funding Problem

With the purchase of Alaska by the U.S. government in 1867, the huge costs involved in running this sparsely populated but vast territory, one-fifth the size of the continental United States, became an American burden. It is safe to say that no one fully appreciated either the benefits, or the true costs, of what governing Alaska would entail.

While the American public did not greet the U.S. purchase of Alaska with unanimous derision in the 1860s, “Seward’s Folly” or “Seward’s Icebox” did generate a fair amount of skepticism from those who wondered what it was truly worth. In his influential history of Alaska, former Alaska governor (and later U.S. Senator) Ernest Gruening, enjoyed recounting some of the minority opinions in Congress opposed to the purchase. A representative from Maine complained that Alaska was “intrinsically and virtually valueless,” while a member from Missouri claimed it was “utterly worthless,” and “to suppose that anyone would leave the United States...to seek a home...in the regions of perpetual snow, is to simply suppose such a person insane.”³¹

Even a person with limited mental capacity could recognize that Alaska’s climate, isolation, and scant population scattered over an area of more than half-a-million square miles, meant that the region would be an extraordinarily expensive proposition to govern. During the congressional debate opponents claimed it would require up to \$3 million a year in annual expenditures to administer Alaska—an astronomical sum at the time, equal to about 5% of the entire federal peacetime budget for 1860, the last year before the Civil War.³²

In 1869 an agent for the Department of the Treasury gloomily predicted that given the extraordinary costs of running the Revenue Cutter service to the Bering Sea, it might be best to put Alaska into cold storage. “As a financial measure,” he wrote, “it might not be the worst policy to abandon the territory for the present, or until some possible change for the better shall have taken place, but for political reasons this may not be advisable.”³³ Critics would point to negative attitudes such as this, and the legend of Seward’s Folly, as

the root cause behind generations of alleged federal neglect and ignorance about the needs of Alaska.

The first official U.S. Census of Alaska, Ivan Petroff's notorious 1880 report (much of which he simply made up because he found it too inconvenient to travel around the area himself) was truthful in his estimate of the difficulties he might have encountered if he had taken the trouble to travel across Alaska. "When we look at Alaska we are impressed by one salient feature," Petroff wrote, "and that is the remarkable distances which exist between the isolated settlements. It is not at first apparent, but it grows on the traveler until he is profoundly moved at the expenditure of physical labor, patience, and skill required to traverse any considerable distance of that country."³⁴

Even under the best of conditions, transportation in "Seward's Folly" posed such sweeping hazards that many wondered if anything in Alaska would ever be worth the risk or cost of development, except perhaps for its lone undisputed commercial treasure in the 1860s, the tiny Pribilof Islands in the middle of the Bering Sea. These sixty square miles of wind-swept tundra, often shrouded in the Bering Sea fog, and "among the most insignificant landmarks known in that ocean," were reckoned at the time to be worth more than all the rest of the nearly 600,000 square miles of Alaska. The Pribilofs were Alaska's 19th century version of Prudhoe Bay. Every year throngs of fur seals, commercially prized for their fine skins, hauled out on the Pribilof beaches to breed. The animals were so numerous, a witness said, that to determine "how many there are with accuracy is a task almost on a par with that of numbering the stars."³⁵

In the first decades after the purchase, the Pribilofs would continue to be—as they had been during the Russian era—"an unfailing treasury from which to draw in times of

need.”³⁶ In order to help ensure the conservation of the fur seal, the U.S. government leased the fur seal rookeries to the Alaska Commercial Company of San Francisco in 1870 for twenty years, giving the California-based firm a de-facto monopoly on all Alaskan trade. During the two decades following the purchase of Alaska, the fur seal trade proved to be the first of American Alaska’s great resource booms, with the Pribilof “seal mine” often providing more than 70% of the annual value of all Alaskan resources. From 1868-1888 America’s fur seal empire generated \$55 million in resource production, of which 56% (\$30,857,000) had come from the fur seal trade, and another 24% (\$13,269,000) from all other furs.

Monopoly Money

Due to their control of the fur seal monopoly, the ACC had a practical stranglehold on all Alaska commerce and transportation. “During the decade following annexation,” noted Alaskan scientist Alfred H. Brooks wrote, “the history of the Territory is practically that of the Alaska Commercial Company.”³⁷

In some respects the fur seal trade of the Alaska Commercial Company was both a throwback to the past, as well as a forerunner of the way the future would unfold in Alaska. As a government sanctioned monopoly, the ACC harkened back to the old mercantilist trading firms of the 17th and 18th centuries, like the Dutch East India Co., the Hudson Bay Company, or the Russian American Company. As Brooks noted however, the ACC’s Alaska monopoly, except on the Seal Islands, was not due to government edict, but “conditions of industry and transportation practically gave it such a monopoly.”

This natural monopoly based on “enterprise, business acumen, and capital” was a pattern that would be repeated often throughout Alaskan history.³⁸

Over the years this tendency towards concentration would be replicated in every major Alaskan enterprise, including the two industries that were the foundation of Alaska’s basic economy from the 1880s to the 1940s, salmon canning and gold mining, as well as the pulp industry in the 1950s and the oil industry in the 1960s.³⁹ Only Alaska’s richest and most abundant resources attracted outside capital, and over the long haul only corporations large enough to weather the inherently high costs and risks on the frontier could flourish, leaving little room for smaller competitors. The high price of admission for extractive enterprises in Alaska demanded deep pockets, as the work was highly seasonal, relying on imported labor and the development of massive and costly private infrastructure. A salmon cannery, gold mine, lumber camp or oil field often required construction of an entire company town to feed and shelter employees, far distant from any public facilities, as well as a transportation system to bring them there and back again.

But though it may have been a large territory, Alaska would always be a small market. As happened elsewhere in colonial economies around the world, this sparsely populated frontier was largely controlled by a few dominant, non-resident, highly capitalized corporations, usually exploiting a single high value, high cost product, to the exclusion of other resources and competitors. It was a rich, but narrow economic base, dangerously susceptible, like any single enterprise, to fluctuations in production, public opinion, government policies, and market prices.

Gold and Salmon

While the fur trade was Territorial Alaska's first commercial activity, gold mining would become its most famous enterprise and salmon fishing its most lucrative. From the 1880s until the eve of the Second World War, mining and fishing would be the twin pillars of the Alaskan economy.

The gold discoveries in the 1890s and early 1900s brought a massive influx of miners and settlers, as prospectors spread out across the territory searching for new bonanzas. Until the 1920s the majority of gold miners tended to be small, rather inefficient, individual operators, relying primarily on the exploitation of high grade bonanzas, rather than the "systematic development of large deposits of lower grade," and as a result, according to the U.S. Geological Survey, few Alaskan gold mines were on a "sound economic basis." As the USGS candidly admitted, up to that time the "mining of placer gold has been carried on as a gamble rather than a business venture."⁴⁰

The harsh reality was that most gold miners in Alaska never made money from gold mining, and survived only by earning additional income from trapping and woodcutting. In 1920 an estimated 30% of the 488 placer mines in the territory produced less than \$1,200 each in gold. The average net return for these small miners was only \$398, about half of what a typical prospector would have to spend every year on food, supplies, housing and transportation.⁴¹

Coinciding with the exhaustion of most of the easily exploited bonanza pockets, the inflationary spiral during World War I sent the already fragile industry into a fatal tailspin, a decline that the USGS said dealt "a staggering blow to the prosperity of the Territory."⁴² The placer mining industry would have to be almost completely re-invented

in the 1920s before it again became profitable. A combination of factors led the revival: a series of cost saving technological advances (especially the cold water method of thawing frozen ground), the massive investment of outside capital in dredging equipment, and a 69% increase in the price of gold by the Roosevelt administration in 1933, all helped give placer gold mining in Alaska a new lease on life by the mid-1930s, the same era that saw the greatest salmon packs ever in the canning industry.

Fittingly enough, the Klondike River, the scene of the 1896 strike that launched the great gold rushes at the turn of the century, was also one of the most renowned salmon streams in the Yukon basin. George Carmack even claimed that he discovered the gold fields after dreaming a dream of two golden salmon. “They were two beautiful fish,” he later wrote, “but I noticed that instead of having scales like salmon, they were covered with an armor of bright gold nuggets, and had \$20 gold pieces for eyes.”⁴³

Alaska’s salmon were so valuable they might very well have been covered with gold plate, as over the years, especially after World War I, the bulk of Alaska’s natural resource production and the vast majority of its jobs and tax revenues came from salmon fishing. In Ernest Gruening’s memorable image, Alaska was a one-crop country, relying on salmon in much the same way that the old South relied on cotton.⁴⁴ “Salmon and other fisheries,” a popular 1939 school textbook on American conservation stated, “are the real gold of Alaska.”⁴⁵

Alaska’s Civil War: Residents vs. Non-Residents

The economic power of non-resident corporations such as the salmon canneries translated into immense political influence, especially because the Territory of Alaska

was one of the feeblest governments ever created in U.S. history. Under the American system a territory was a ward of the federal government, a completely dependent entity that relied upon Congress and federal bureaucrats to make the ultimate decisions on crucial issues, with no real power to effect change except by pleading and gentle persuasion. Territorial residents had no representation in Congress, except for a non-voting delegate from 1906 to 1959, but influential corporations based in the contiguous states had many ways of making their wishes clearly known to the congressmen and senators who made the decisions on Alaskan issues. Naturally absentee corporate managers and stockholders often had far different priorities and needs from the people living in Alaska.

The 1912 Organic Act had granted Alaska a limited form of home rule by establishing an elected legislature, but one with severely restricted powers even compared to other territorial governments, largely because entrenched business interests feared the additional taxes a stronger local authority might be inclined to impose. In this respect the very structure and function of the Alaska territorial government had been shaped to suit the needs of the fishing and mining interests. A newspaper commented at the time that the new legislature would be more remarkable for all the powers it did not have, rather than the few that it would possess.⁴⁶ In the 1940s one author called the Alaska Legislature “the most circumscribed legislative body functioning in any land which professes faith in democracy.”⁴⁷ Others likened the Territory of Alaska to a shadow government, an institution with the form but not the substance of administrative authority.

The most pressing restrictions on the Alaska Territorial Government concerned three vital areas: land laws, natural resource management and fiscal matters. Alaska's wealth lay in its lands, waters, and natural resources, and the inability to have any voice in their control was a major limitation. The territory could not borrow funds or issue bonds to pay for civic improvements, and could not go into debt beyond the projected income of the coming year.⁴⁸ The legislature was given limited power to tax, and the crucial authority to levy taxes on the fishing industry, despite the vehement opposition of the fishing interests, which attempted unsuccessfully to block territorial taxes in court and in Congress.⁴⁹

The civil war between non-resident and resident interests became the most divisive and consistent dynamic in Alaskan politics, and one of the underlying causes of Alaska's permanent funding problem. George Rogers, a long-time Alaska economist, noted in a 1960 study on the Southeast regional economy that the resident/non-resident conflict featured "two totally incompatible" viewpoints: the non-resident pioneering impulse of draining the resources dry as rapidly as possible "in the interest of temporary advantage and short-run private gain," versus the conservationist ideal of "advocating wise utilization of resources in the interest of the long-run welfare of all the people."⁵⁰

Broadly speaking the two contending factions differed over a fundamental philosophical question: Who should be the primary beneficiaries of the development of Alaska: the corporations and entrepreneurs who assumed the risks and costs, or the residents who lived there? How could these conflicting interests be resolved? What share of the wealth, if any, should remain permanently in Alaska?⁵¹

The practical side of this debate centered on the question of territorial taxes, the ultimate sign of government power and strength. Americans have never liked paying taxes, either with or without representation, and both Alaskan residents and businesses invested in Alaska have been particularly vocal in opposing government's "power to destroy." But the taxation question in Alaska would be particularly crucial because it symbolized everything about the shape of the society that Alaska would become.

In 1911 James Wickersham, the Alaska delegate, had complained that the roughly \$50 million the fur trading companies had taken from the Pribilof Islands had left Alaska without a trace. "...There is not a home, a schoolhouse, or church in Alaska built out of that \$50,000,000," Wickersham said.⁵² Thirty years later Governor Ernest Gruening sounded the same battle cry. Gruening pleaded with the Alaska Legislature in 1941 to enact a modern system of taxes, in order to retain a greater share for Alaska's residents of Alaska's wealth, because "far too much survives in Alaska of the earlier practice of take-it-all-out, take-it-down-below, leave-as-little-as-possible, spend-nothing-in-Alaska. Indeed, the most serious defect in our Alaska economic and social structure is just that. Too much going out. Not enough staying here."⁵³

Increased taxes were a method by which some natural resource wealth could be retained in Alaska, and a lever that resident Alaskans could use to influence resource development. Alaska's struggle to gain the power to tax and to find the will power to tax lay at the core of the central drama of Alaskan political history, the battle against the iron rule of absentee ownership and the tyranny of natural resource production.

Mining vs. Fishing

Most pioneer Alaskans thought of gold mining as the primary industry of the territory, with salmon canning as number two, despite the fact that four or five times the number of people were typically employed in fishing as mining. “Gold mining has long been the principal Alaskan industry,” the 1920 report of the Alaska Advisory Committee explained to the Secretary of Interior, “for though it has employed far less men than the fisheries, yet the prospectors and miners, unlike the fishermen, were all permanent residents of the Territory.”⁵⁴ In the early 1900s an estimated 60% of the permanent non-Native population of Alaska relied directly or indirectly on the gold mines for its livelihood, in sharp contrast to fishing, which was dominated by a large non-resident, seasonal work force, the so-called “90-day wonders,” who stayed for 90 days and left locals to wonder if they’d ever return.⁵⁵

Placer mining was often politically idealized and romanticized as the bedrock that sustained Alaskan civilization (akin to the sentiment for family farms in agricultural regions) and it stood in stark contrast to the perception some had of salmon canning as a foreign, corporate, parasitic presence devouring Alaska’s resources. A popular quip was that the so-called Alaska canned salmon industry might more accurately have been called the Seattle canned salmon industry or the San Francisco canned salmon industry.

Nothing better symbolized the differing perceptions towards mining and fishing than the radically different views towards gold dredges and fish traps, the two mighty engines and labor-saving devices at the heart of these respective industries. Gold dredges were large gold digging machines, enormously expensive to build and operate, which earned enormous profits for outside corporations. Despite being controlled by outside

interests, however, Alaskans welcomed the dredges as essential labor-saving devices that employed numerous permanent residents and made the extraction of low grade gold deposits possible. In 1925 a young journalist named Margaret Deyo gleefully described the gold dredge as the savior of Fairbanks, making possible the community's second coming by harvesting the "waste gold" that the pioneer prospectors had missed. She envisioned "20 to 40 years of prosperity," and imagined "how electrically equipped homes" with water and sewer, will replace the "the tumble-down log huts" that had been the norm.

"Out on the creeks," she wrote, "now dotted with decaying log cabins and rotting tailing dumps—ugly souvenirs of the original owners who nearly all took themselves and their gold Outside—giant dredges will be in operation for many years to come, furnishing employment to all who want it and happiness to all who are willing to work for it."⁵⁶

When the only other likely alternative was a ghost town, the gold dredge naturally came to be seen as a life-giving symbol of permanence and prosperity. This was in total contrast to the common view of the other great labor saving device of the territorial economy, the fish trap, which became the prime example of the heartless exploitation of Alaska's resources and the Alaskan people.

In territorial days only a tiny fraction of the wealth from the salmon industry ever directly touched Alaska's shores. A typical salmon cannery was an entire world unto itself, a well-stocked enclave complete with its own migrant labor force, transportation network, shelter and supplies. Giant fish traps constructed by the canneries in strategic locations enabled the companies to intercept all the salmon the processing plant could handle, eliminating the need to hire local fishermen.

In Alaskan lore the fish trap was the most visible symbol of the canned salmon industry's exploitation of Alaska's resources. In the mid-1940s the Fish and Wildlife Service reported that non-resident corporations owned 91% of the 434 fish traps in Alaska, with two firms alone operating 118 fish traps.⁵⁷ As noted economist George Rogers once wrote, by the time fish traps were finally outlawed with the coming of statehood in 1959, these large structures so efficient at capturing returning salmon had become almost a satanic symbol in Alaskan politics, the "*bete noire* of Alaskan political demonology." The fish trap was so reviled, Rogers explained, because Alaskans viewed it as the "dipper with which the large absentee owner appear to skim with relative ease the cream of one of the Region's most valuable natural resources" before hauling it all away.⁵⁸ According to Rogers many Alaskans seemed to think of these so called "fish killers" as "the very embodiment of the evil in this world." In hardly any free democratic society in history, had there even been such near unanimity on a particular issue as the need to eliminate fish traps. "Nobody, regardless of party affiliation," Rogers wrote, "could be *for* fish traps in Alaska, and expect to be elected to any public office." In a 1956 referendum 84% of Alaskans voted to abolish fish traps.⁵⁹

Taxing Salmon to Pay for Gold

If the different views towards gold dredges and fish traps best symbolized the breadth of the resident—non-resident divide, the practical side of this battle was demonstrated by the special tax treatment the territorial government bestowed on mining, particularly placer gold mining.

Due to the salmon industry's high gross values and profits, and the concentration of fish trap ownership among a handful of large, non-resident corporations, it was both more cost efficient and politically expedient to tax salmon fishing at a much steeper rate than gold mining. Until World War II, salmon taxes—including license fees, corporate income taxes and raw fish taxes—provided the bulk of territorial funding. The fish traps, canneries and fishing boats yielded on average anywhere from 65% to 75% or more in total territorial tax receipts each year. Just as Native peoples had done for thousands of years, the Territory of Alaska lived from one salmon run to the next.

In contrast with the salmon canning industry, however, for decades mining was relatively free of territorial taxes. Miners and mining supporters predominated in the Alaska Territorial Legislature, which in those days before “one man, one vote” featured the over-representation of the interior and the northwest, where gold mining was king.⁶⁰ As a result, for many decades the territory was in the peculiar position of using taxes on the fishing industry to subsidize the extraction of non-renewable mineral resources. This was particularly true until the legislature supplanted the existing net income tax on mines with a highly controversial gross gold tax in 1937, a measure that proved far more difficult to evade, and led to the doubling of tax receipts on mines within two years.

Despite the rhetoric of the Alaska Mining Association, which called the gross gold tax a “Tax on Courage,” and said it was a “cancer feeding on the lifeblood of the Territory,” mining never paid an egregiously large sum in taxes, especially compared to the tax load of the fishing industry.⁶¹ In the forty years from 1917 to 1957 the cumulative value of Alaskan salmon production was about three times that of the cumulative value of gold and copper. However, during that same time the fishing industry paid almost nine

times as much as the mining companies did in territorial taxes. Furthermore, up to half of the taxes on mining were essentially rebated to the mining community, as the taxes were “offset by the direct and special benefits to mining by Territorial expenditures.”⁶² In the 1920s the territory actually had a program that provided direct subsidies for individual prospectors, who otherwise might not have been able to afford to keep in the gold mining business.

The reliance on fishing taxes to pay for territorial services was especially galling to those in Southeast Alaska, the most densely populated region of the territory and the center of the salmon canning industry. Many panhandle residents complained of the injustice of singling out one industry—no matter how profitable—to carry the territory’s taxation burden alone. H.C. Strong of the Ketchikan Chamber of Commerce, representing the self-proclaimed salmon canning capital of the world, angrily told a U.S. House Committee in 1921 that the territorial legislature, as it had been apportioned under the 1912 Organic Act, was heavily biased in favor of the sparsely-populated interior mining camps, and as a result Alaska’s “fisheries have been the easy prey of the legislature.” In his mind the burdens and benefits of Alaskan taxation were out of balance. The Ketchikan businessman protested that hundreds of thousands of territorial tax dollars paid by the fishing industry in Southeast Alaska were being siphoned off to pay what he claimed were the exorbitant costs of government services in the interior. “...To take from the district that pays it and spend it somewhere else does not seem right,” Strong complained. “And, gentlemen, much of it is spent unwisely.”⁶³ In response to his testimony a congressman from Kansas replied that the habit of “taking from those who

have and giving to those who have not” was often the nature of politics. “It does not please the fellow who has and pays, but it pleases the fellow who has not and receives.”⁶⁴

The belief that Southeast Alaska’s fishing industry was carrying the rest of Alaska on its back led to a powerful secession movement in the 1920s, aimed at creating a new territory called “South Alaska,” largely comprised of the Alaska Panhandle. In the fall of 1923, almost 95% of the municipal voters in a series of local elections in Southeast Alaska cast their ballots in favor of independence from “North Alaska.” The southern separatists charged that the “constant menace” they faced was continual chore of paying the taxes to develop the more remote parts of Alaska.⁶⁵

Despite the efforts of the secessionists, nothing came of their proposals. The fishing industry continued to supply up to 60% or more of territorial revenues, a lingering imbalance in a fragile tax structure that persisted through the late 1930s, an era of unrivaled profits and prosperity for both salmon canning and gold mining. In 1936 Alaskan canneries processed 8.4 million cases of salmon, the largest volume ever recorded up to that time, worth almost \$45 million, and the \$18.4 million in gold production was the highest in more than 25 years, leading Alaska’s governor, John Troy, to declare the following year that “never before have the material prospects for this Territory been brighter than now.”⁶⁶ In the face of these unsurpassed riches, critics maintained that Alaska’s primary industries were not paying anything close to their fair share of territorial expenses.

The Kennecott Syndrome

By the late 1930s it was obvious to disinterested observers and economists that the failure to retain a meaningful fraction of Alaska's natural resource wealth, whether fish or gold, in order to pay for government services, was a serious impediment to Alaska's sustained growth, a roadblock to its political maturation, and an underlying cause of the territory's permanent funding problem. A simple equation defined Alaska's classic colonial economy, as it exported massive quantities of canned salmon, gold and copper, and imported in return much smaller amounts of the three most valuable products consumed in Alaska—tin cans for the canneries, petroleum products, and whiskey, in that order.⁶⁷ This was not a prescription for a stable or sober society.

In 1935-1937 the territorial legislature established the Alaska Planning Council, a nine-member advisory board charged with the duty to "prepare plans and make recommendations for the well-rounded permanent development and perpetuation" of Alaska's resources.⁶⁸ Funded by the National Resources Committee, a New Deal planning agency that dealt with the wise use and conservation of America's natural resources, the council undertook the first serious studies of Alaska's tax structure in 1938-1940. In a series of influential reports, the council decried the almost casual way in which the territory was actually subsidizing the development of its mineral resources for short-term jobs, regardless of the long-term cost.

"It should be remembered," economist James Rettie wrote for the council in 1938, "that mining is a wasting industry. The mineral crop it harvests cannot be restored and, once used, is not susceptible of further taxation. Exhausted deposits of minerals can be replaced only by the discovery and development of new ones."⁶⁹ Two years later another

report from the planning council authored by executive secretary John Pegues again stressed the necessity to plow back a portion of Alaska's mineral wealth into territorial infrastructure. "Wisely administered" renewable resources such as forests and fisheries could theoretically become perpetual economic machines, and "income earned from their use will yield tax revenues to the Territory in perpetuity. Not so with minerals. Once used they are gone forever." Pegues compared the impact of modern mining companies stripping the land of minerals, to the scorched earth policy of Sherman's army as it swept across the south. "As was said of country covered by General Sherman's march through Georgia to the sea," Pegues wrote, "even a crow flying over the region left behind in the wake of monster dredges, draglines and other improved mining equipment has to pack his rations."⁷⁰

The wasted landscape he probably had in mind when he wrote those words was the recently abandoned Kennecott Copper Mine, the poster child for the rape-ruin-and-run interpretation of Alaskan history. During its nearly thirty year lifetime, the Kennecott Copper Mine produced upwards of \$200 million in copper before it ceased all operations in 1938; at that time the mining company abandoned the Copper River and Northwestern Railway and left the town of Cordova without its principal economic base. Shortly before Kennecott shut down, Secretary of Interior Harold Ickes visited Alaska. Ickes, who often boasted that he hoped someday to be designated as the first Secretary of Conservation at the head of a re-organized Interior Department, was particularly dismayed at the get-rich-quick and get-out-fast mentality of most Alaskans, perfectly symbolized for him by the Kennecott Mines. He found the transient nature of a mining

economy repugnant. In his secret diary, not published until after his death, Secretary Ickes wrote:

The chief drawback to Alaska, as I see it, is that the people here, generally speaking, think of everything in terms of mining.... Mining is more or less a gamble even in the best of circumstances, and a gambling spirit does not make for the building up of a normal American community with a background of agriculture or industry. People have come to Alaska to exploit a nonrenewable resource, such as gold or copper, and then take the wealth back to the United States in order to live an easy life....

The case of the Kennecott mine near Valdez and Cordova is in point. This has been the greatest mine in the world, but its rich copper deposits have been exhausted and it is about to be abandoned. The Kennecott Copper Company is going to move out lock, stock, and barrel. The homes and the local businesses that have been dependent upon it will have to be abandoned too, in large measure. No other industry has been built up to replace the mine.... It looks as though another Cripple Creek, Colorado, or Virginia City, Nevada, were in the making.⁷¹

According to Ickes what Alaska needed was to “build up its agricultural, forest and other stable resources for the long pull” and to attract settlers “interested in building up permanent homes for themselves and their children. I have taken occasion to talk along these lines to people whom I have met here. I have told them that their psychology is wrong. I very much doubt whether they have understood what I was talking about.”⁷²

Alaska’s mining camp mentality, the Kennecott Syndrome, went hand in hand with Alaska’s addiction to federal subsidies. Ickes cited the failure to keep a “decent share” of Alaska’s wealth in Alaska through adequate taxation as a fundamental cause of the territory’s endemic public capital shortage and its peculiar dependence on federal spending. “Alaskans won’t tax themselves or their exportable wealth,” Ickes wrote in his diary, nevertheless they “are constantly clamoring for more Federal money” to subsidize all their activities. “They think Uncle Sam ought to build and maintain highways, extend

and improve the Alaska Railroad, and supply the Territory with public works of all nature while they continue exploring every crack and crevice for precious metal which will make them rich and enable them to go back to the United States to live in luxury.”⁷³

3. THE FIRST ALASKAN FISCAL CRASH: 1941-1949

Worse Than a Hole in the Ground

Secretary Ickes' sermon on the evils of the Kennecott Syndrome and the resulting dependence on federal handouts was repeated year after year in the legislative messages and public speeches of Alaska's governor, Ernest Gruening, the reform-minded New Dealer who took office in December 1939 and would serve an unprecedented term of more than 13 years. In January 1941 Gruening sternly lectured skeptical legislators about the lessons of Kennecott and urged them to revise the territorial tax structure in order to ensure that non-residents did not get rich at the expense of residents. "The dividends from Kennecott went far and wide," he said, benefiting "many individuals who never saw Alaska and had no thought of ever coming here, or doing anything for the Territory...." But the mine that had enriched the world, he believed, had impoverished Alaska and would continue to do so far into the future.

"What has the Territory of Alaska to show for those two hundred million dollars today?" Gruening asked. "A hole in the ground? No, worse than that. It actually has a relief problem. And three towns dependent in varying degrees on the activity of Kennecott are either on the way to becoming ghost towns or are seriously impaired."

Gruening explained that the territory should have long ago taken steps to ensure that a fraction of the value of the Kennecott Mines be deposited in a savings account or an "Alaska fund" to finance Alaska's infrastructure—a suggestion remarkably similar to what would eventually become the Alaska Permanent Fund 35 years later. If the territory had levied "appropriate severance as well as income taxes," Gruening said, the

government could then “have invested that money in an Alaska fund for the support of our schools, to build more roads, to maintain our Pioneers’ Home” and to support other critical territorial services.

The key word was permanent. Adequate savings of public capital, Gruening said, would encourage settlers to build up the territory “as a place of permanent abode” and “speed the permanent establishment in Alaska of the American breed of home-seekers and home-builders” who would be “increasingly self-reliant, increasingly self-governing, increasingly supplied with those necessities and conveniences of modern life which we like to believe are an integral part of the American standard of living.” The governor said the goal of responsible leaders should be to establish a new sustainable society for the benefit of all residents, and to inaugurate “a new era in which Alaska should be less and less a mining camp or a cannery camp to which thousands come seasonally to extract what they can and take it all ‘down below.’” Saving a larger portion of its natural resource wealth through appropriate taxation, Gruening claimed, was the essential first step.

Alaska has enriched the nation. But it has done relatively little for itself. The time has come when an increasing proportion of that wealth should be kept in Alaska for the further development, progress, and improvement of Alaska and the Alaskans. That is the fundamental issue which faces us here today. That is the challenge which we should meet.⁷⁴

The Kennecott Syndrome was the most important root cause of the permanent funding problem, and the depleted wealth of Kennecott and other natural resources was Alaska’s “anti permanent fund.” It would take a long and bitter political battle, lasting eight full years, culminating in a fiscal meltdown, before the legislature would rise to the challenge of combating the dollar drain of the Kennecott Syndrome.

Death and Territorial Taxes

Gruening's idea that money from natural resource development would go into an "Alaska fund" to provide a pool of badly needed public capital was politically unfeasible in 1941, because territorial Alaska, thanks to the Kennecott Syndrome, had probably the lightest tax rates of any entity under the U.S. flag. In Alaska the second great curse of human existence was generally rather easily avoided, as nothing was inevitable about taxes in the Territory of Alaska.

Even though salmon taxes carried a disproportionate share of the territorial tax burden, the tax rates on fishing, as on everything else in Alaska, were extraordinarily low. In his 1938 tax study for the Alaska Planning Council, Rettie echoed the argument that Alaska's wealth flowed out of the territory at an unsustainable rate, and claimed that the failure to retain a meaningful portion in taxes eliminated any chance for more balanced development.

A very large proportion of the wealth derived from the extraction of Alaska's resources never returns to the Territory.... If the resources of Alaska are to be further developed and opened up, a certain portion of the wealth here produced must be plowed back into various needed public improvements and facilities that will stimulate further expansion of industrial activity. Continued support of education and other social services that are coincident with the modern standard of living will also be necessary the Territory is to have a healthy growth in population.⁷⁵

The question of what the canneries and mines could afford to pay was a matter of endless dispute. Naturally the outside corporations and investors operating in Alaska generally favored the lowest possible taxes, or preferably none at all, believing that business in Alaska was hazardous and costly enough. To great effect the industry produced in the

late 1930s a series of upbeat newspaper advertisements (similar to the type of “public service” feel-good announcements the Alaska oil industry often uses today) to remind territorial residents about canned salmon’s wide-ranging contributions to the Alaskan economy. The newspaper ads stressed that the canned salmon industry was the cornucopia that freely provided Alaskans with schools, jobs, hospitals, food, shelter and transportation. The message was clear: Alaskans should beware of killing the fish that laid the golden eggs.

Industry propaganda about the generosity and benevolence of the canned salmon industry—“Friend to Alaska’s Children”—was as simplistic as the charge that salmon canneries and gold mines were mere sink holes in which the resources of Alaska disappeared without a trace. The image of corporations greedily stripping the Alaska cupboard bare ignored the fact that a colossal investment was required to extract any resources, and even if the tax rates were low, any development was bound to leave behind some benefits in infrastructure and wages.

The Juneau Chamber of Commerce contended in a 1939 report that the familiar complaint about outside interests “draining” Alaska’s resources for free was a common misconception by those who failed to understand the difference between gross value and net profit. A one-sided bookkeeping system that ignored the debit half of the ledger and disregarded the high costs of production in Alaska was bound to distort the bottom line. For instance the 1938 salmon pack might very well have been worth \$42 million—however the canneries claimed that their costs that year “probably exceeded \$43,000,000.”⁷⁶

The Juneau business group likewise maintained that the alleged \$200 million windfall of the Kennecott Copper Corporation was a similar illusion, because a full accounting would have to take into consideration the costs of extracting, processing, and transporting the ore, such as the roughly \$25 million the company had invested to build and operate the Copper River and Northwestern Railway, as well as an estimated \$50 million in wages paid out over three decades to an average workforce of more than a thousand men, and additional millions of dollars spent on supplies. This capital investment of scores of millions of dollars in labor and infrastructure had transformed the copper deposit from just another potential source of wealth into actual riches. The company created the value by risking its capital. Without these funds there would have been nothing for the company to “steal,” because “the copper had no value in the ground.”

Ultimately, as the Juneau Chamber of Commerce admitted, the taxes on the mine might not have been “unreasonably high or burdensome.” However, the business group argued, the Kennecott Mine had nevertheless contributed to Alaska’s overall economic well being, and had left behind an invaluable legacy in the form of its one-time subsidiary corporation, the Alaska Steamship Company, the territory’s primary transportation link to the United States. The existence of Alaska Steam, they claimed, illustrated that Kennecott had indeed bequeathed a precious inheritance to the people of Alaska, and that the structural change set in motion by the copper development proved decisively that Alaska post-Kennecott was richer than it had been before.

...in saying that nothing was left when the ore bodies were exhausted, the fact is overlooked that our present splendid transportation system between the States and all parts of coastal Alaska was developed as a subsidiary of the Kennecott

Co.... Even though the company's ore reserves seem to be exhausted, the Territory is infinitely better off economically, commercially, and industrially that if the ore had been left in the ground....⁷⁷

When accused of paying little taxes on high profits, Alaskan entrepreneurs typically responded that a high risk, high cost region demanded the incentive of higher than normal profits, otherwise there would be no reason to place their capital at risk, and therefore even slight taxes could become confiscatory. As geologist Alfred H. Brooks testified before a Congressional committee in 1921,

You can not get men to face the hardships of frontier life unless there be a reasonable assurance of large financial reward. Similarly, capital will not invest in pioneer enterprises unless there be hope of large profits. If Alaska is to make industrial advances, every encouragement must be given to the settler and the capitalist.⁷⁸

The Alaska Planning Council's preliminary analysis of Alaska's tax structure, however, concluded that the contention that new taxes would drive away business was particularly groundless, because taxes were higher "almost universally elsewhere."⁷⁹ According to the report, Alaska's taxes could have easily been 200% higher and still lie within the normal range prevailing elsewhere. In fact, the effective tax rate on the salmon industry averaged less than 2% of the gross value of the total pack between 1917 and 1937, an amount the council believed was "probably somewhere near that minimum basic contribution that...all industry should make toward the support" of territorial services.⁸⁰ Mining taxes were even less, and as a result mineral production contributed little to the public purse. From 1917 to 1936 the total taxes paid into the territorial treasury from *all* mining operations, which included Kennecott and every gold mine in

Alaska, was only about \$1.9 million, representing less than one-half of one percent of gross mineral value of about \$430 million.⁸¹

By way of comparison, the State of Alaska to the current time has taxed the oil and gas industry at roughly 30% of the gross value of oil and gas production, a level which most in industry and government have found to be reasonable. The state's tax bite on the oil industry in recent decades is approximately 10-15 times higher than the rate the Territory of Alaska in the 1920s and 1930s taxed the fishing industry, or up to 60 times the rate on the mining industry.

Despite the minuscule rate of territorial taxation, representatives of the salmon industry typically described any potential tax increase in apocalyptic language. For instance, in 1923 a Seattle-based trade journal, the *Pacific Fisherman*, warned that a proposed tax then under consideration by the Alaska Legislature was a declaration of doomsday. If passed, an editorial stated, it would be “the most destructive measure ever adopted in its effect on the salmon canning industry,” because the proposed rates “would cause a prompt and well-nigh complete suspension of salmon canning in Alaska.”⁸² Four years later, with the salmon canneries still canning away, the lead editorial in the *Pacific Fisherman* asked “Will Alaska Run Amuck?” and it bemoaned further attempts to increase fish taxes with “hostile and oppressive legislation” that echoed the most “radical and destructive bills” defeated in previous years. According to the *Fisherman* the vicious tax bills “can only be interpreted as originating in a desire to injure and destroy.” It seemed especially pointless, because “these are not intended as revenue measures, but rather as a burden to the industry” that would intentionally “kill the goose that lays the golden eggs” out of pure spite. In the eyes of the editor, the desire to raise taxes bordered

on suicidal, and he feared “the sorry spectacle of Alaska running amuck and encompassing its own destruction together with that of the fish packing industry.”⁸³

The salmon lobby worked assiduously to keep taxes at a bare minimum, but the truth was that most Alaskan residents were hardly enamored at the prospect of paying higher taxes either. Those who worked for absentee owners, or were small business owners themselves, tended to share the philosophy that no tax is a good tax. But among residents a strong contingent also clamored for more government services, desperately needed essentials such as transportation facilities, schools, clinics, land surveys, and legal services, and more local control to determine their own affairs. George Sundborg, the director of the Alaska Development Board, claimed Alaska was “the least taxed political entity under the American Flag,” and in his view the effect was devastating. “Hand in hand with low taxes have gone wholly inadequate governmental services,” Sundborg wrote. “Cheap as it has been, government in Alaska has been no bargain for Alaskans.”⁸⁴

Obviously the lack of roads, judges, police, and teachers was far more critical for residents than non-residents. These dissatisfied citizens who wanted more to stay in Alaska formed the core constituency that battled from the 1880s to the 1950s for ever-increasing Alaskan political sovereignty, as well as a comprehensive tax policy that would counteract the Kennecott Syndrome and retain a larger portion of the profits of Alaska’s natural resource production for the benefits of all residents.

Politically the culmination of this battle for increased Alaskan home rule was the achievement of statehood in 1959, but economically the first meaningful Alaskan declaration of independence from outside control came ten years earlier, with the creation of the territory’s first comprehensive tax system and the imposition of a general net

income tax in 1949. The radical 1949 tax reforms only came about because rising costs and increasing demands for services, along with the complete transformation of the Alaskan economy and society during World War II, caused the collapse of the old patchwork tax regime and a break down of territorial financing that virtually drove the territory into bankruptcy.

World War II Transforms the Economy

The passage of the gross gold tax in 1937 held out the promise that Alaska was taking an initial hesitant step to ensure that an adequate percentage of its natural resource production could be reinvested in public capital for the use of territorial residents. From 1935 to 1939, estimated general fund revenues more than doubled from \$1.8 million to \$3.9 million, fueled largely by an anticipated increase of \$1.1 million in new mining taxes.⁸⁵ But the mining boom was about to end, one of many casualties of World War II, and nothing in Alaska would ever be the same again.

During World War II military spending and government construction projects replaced salmon and gold as the foundation of the Alaskan economy. The influx of hundreds of thousands of U.S. soldiers and billions of federal dollars made national defense and related construction projects the backbone of the Alaskan economy, dwarfing the output of the pre-war mines and fisheries. In the 1940s the “Gold and Salmon Age” of Alaskan history ended, and the era that economist George Rogers dubbed “Military Alaska” had begun, with soldiers, civil servants, and construction workers replacing fishermen, miners, and trappers as the key elements in the new economy. In Anchorage, Fairbanks, Kodiak, Nome, Seward, Sitka, Skagway, Haines, and for a thousand miles

along the length of the Aleutian Chain and the Alaska Highway, the U.S. government left a trail of concrete and Quonset huts, as well as entire new cities, roads, landing strips, radar installations, airports, housing, power plants, wharfs, harbors and much more.

The eclipse of fishing and mining and the emergence of the Alaska military-construction complex had far-reaching political, social, and economic ramifications over the next quarter century, including the emergence of Anchorage as Alaska's dominant city and the flowering of the Alaska statehood movement. Like building the H-Bomb, developing and fortifying Alaska came to be seen as an essential part of the American Cold War strategy against the Soviet Union, and the expansion of Alaska's economy was the inevitable byproduct. "National defense demands development of Alaska," said Warren H. Atherton, the former head of the American Legion. "Alaska is our bulwark against international storm. It is our dike against the sea of invasion. It is the aerial Rock of Gibraltar for the United States."⁸⁶ As *Time Magazine* once quipped, the biggest promoter of Alaskan business interests was not the chamber of commerce, but the fear of international communism, and the ironic toast that could be heard was, "Here's to Joe Stalin: Alaska's best friend."⁸⁷

During World War II and the Cold War by far the largest single employer in Alaska was the federal government, followed closely by construction workers engaged on defense contracts. Between 1947 and 1957, the U.S. Defense Department spent more than one billion dollars on military construction projects in Alaska, spawning a "defense rush" larger than the famed gold rushes.⁸⁸ Out of Alaska's estimated \$500 million a year economy in the mid-1950s, approximately \$350 million came from the federal government and the military. In the 1950s this preponderance of federal dollars was most

evident in the economies of Anchorage and Fairbanks, and one skeptic claimed Alaska's two largest cities had become "merely canteens attached to [the] Armed Forces."⁸⁹

Bankruptcy in the Midst of Prosperity

The economic growth fired by federal investment during World War II and the Cold War did little at first to alter the image of Alaska as a temporary way station for transients interested only in a fast buck, working the construction camps that had replaced the mining camps. With this short-term outlook it was perfectly natural, Anchorage publisher Bob Atwood admitted at a Congressional hearing in 1947, that the typical attitude of most Alaskans towards taxation and public service had long been "to slough off on the Federal Government as much responsibility as possible instead of accepting the challenge and doing something about it."⁹⁰ This lack of initiative, he believed, was due in part to the cycle of dependency and pessimism engendered by territorial status and long distance remote control. Territorial government, he quipped, was a guaranteed remedy for the "disease of optimism."⁹¹ Alaska's tax structure was also a symptom of the territorial psychosis, the plague of "Kennecottitis," a natural reflection of the spirit of impermanence and exploitation that had long plagued Alaska. But he was convinced that times were changing, and that "Alaska is ready for taxes," because the massive military infrastructure was a sign that the U.S. government was in Alaska to stay, and could be one foundation of a permanent society worth paying taxes to support.⁹²

Alaska's economy, however, evolved much faster than its psychology, and as a result during the 1940s the territorial tax structure failed to keep in sync with the changing economy. The consequences were disastrous. While the economy was booming

in that decade as never before—many Alaskan firms made more money in the first few years of the war than in the previous twenty-five years—taxes plummeted due to sharp declines in fishing and mining, leaving the territorial government starving in the midst of Alaska’s unprecedented economic plenty. In the war years both mining and fishing declined to such an extent that by the late 1940s excise taxes on liquor were roughly equivalent to all the taxes paid by the fishing industry. After 1947, in fact, alcohol taxes became Alaska’s chief source of revenues.⁹³

“At that time we had no financial structure that was worthy of the name,” Mildred R. Hermann, the secretary of the Alaska Statehood Committee, later recalled. “We financed our government on the basis of how the red salmon ran and how much liquor people drank, and that was almost the total source of our revenues....”⁹⁴

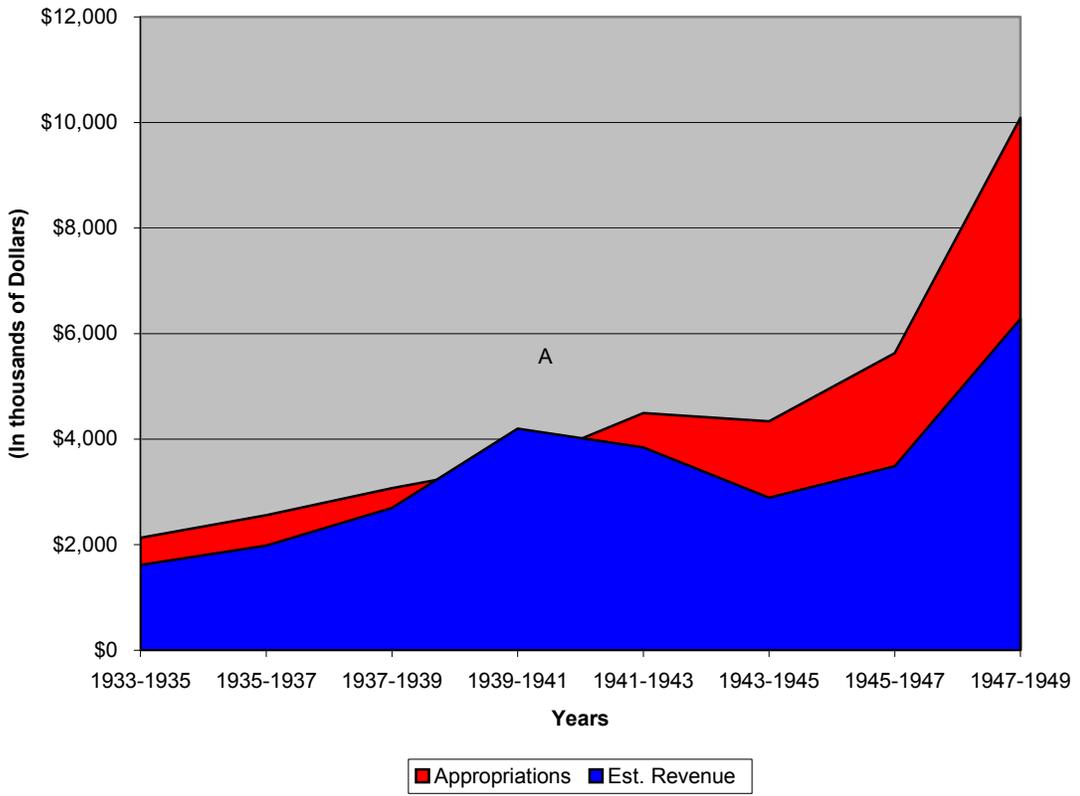
Mrs. Hermann was not exaggerating. In 1947-1948 the total value of fishing taxes and liquor taxes were both about \$2.2 million (approximately 29% each), followed by the motor fuel tax at \$1.3 million (17.4%). Meanwhile gold mining had largely disappeared, as mining taxes accounted for about 5.3% of territorial revenues, only slightly more than the 4.5% raised from the sale of automobile license plates and drivers’ licenses.⁹⁵

Fortunately for the territorial exchequer many Alaskans, as well as the hundreds of thousands of soldiers and tens of thousands of construction workers had a healthy thirst for alcoholic beverages. On the other hand individuals who did not drink or drive paid virtually nothing in taxes. Outside of the levies on alcohol consumption and gasoline, there were few broad based territorial taxes; there was no territorial sales tax, tobacco tax, property tax, or income tax. Most residents or workers paid only \$5 a year. This so-called “School Tax,” a general levy charged to every able-bodied person between

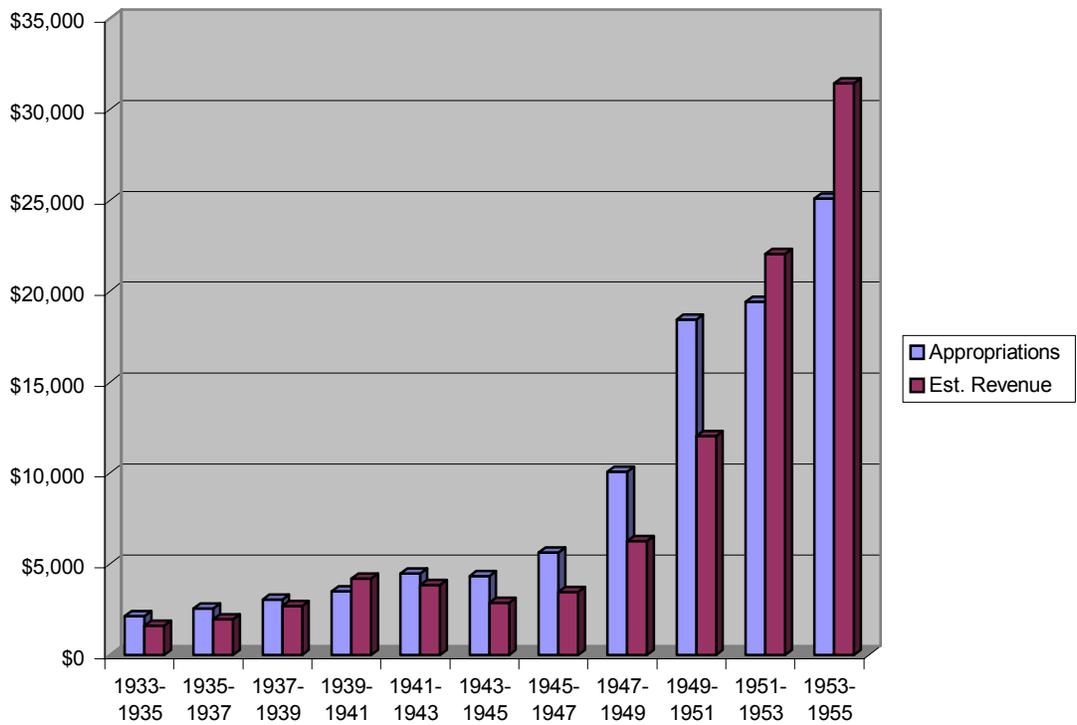
the ages of 21 and 55, accounted for 4.1% of territorial income.⁹⁶ Certain categories of businesses and professionals likewise paid minimal license fees, most of which had been set by Congress in the 1890s, fees which generally bore no relationship to the potential profitability of the enterprise. For instance, junk dealers paid \$5 a year for the privilege of dispensing junk, while attorneys paid \$10 a year to practice law, the same fee that most other professionals, including accountants, chiropractors, undertakers (in towns of less than a thousand people), osteopaths, and soft drink vendors were charged to ply their trades.⁹⁷ Numerous enterprises—some of which had not yet been invented when the first fee system was set up in the 19th century—paid no direct territorial taxes, including steamship and bus companies, airlines, banks, oil companies, radio stations, newspapers, movie theaters, auto dealers, marine facilities, garages and service stations. Most important, the private construction companies—which had been the primary beneficiaries of the multi-billion dollar military construction bonanza—paid nothing whatsoever to the Territory of Alaska.⁹⁸

At the same time that the territory's traditional mining and fishing revenue base was vanishing in the 1940s, rapid population growth (from 75,000 in 1940 to a war time peak of more than 230,000 in 1943) resulted in unprecedented new demands for increased services. Between the 1939-1941 biennial budget and that of 1947-1949, territorial appropriations increased by almost 200%—from \$3.5 million to almost \$10.1 million—while at the same time estimated revenues only increased about 50%—from \$4.2 million to \$6.2 million—plunging the government into a fiscal catastrophe by 1947.

The Road to Bankruptcy: Territorial Appropriations and Estimated Revenues, 1933-1949



Appropriations and Estimated Revenues Before and After the 1949 Tax Reforms



At the opening of the legislature in January 1947 Governor Gruening explained that the failure to align the territory's tax profile to keep pace with its billion-dollar construction boom was the root cause of the fiscal crisis. During the war the total amount of federal spending in Alaska had reached into the 10-figure range. "Hundreds of millions of dollars of this were expended through private contractors; not one cent of this unprecedented bonanza reached the Territorial treasury," Gruening said. He decried the fact that the territory got nothing while contractors "were in a short time making enough to retire for life" and construction workers were paid double or triple what they might normally earn. "Had we at that time levied a reasonable tax...we would not have the problems we have today. We would instead have a fine surplus in the Territorial treasury."⁹⁹

Realizing the nature of the territory's dilemma, by the late 1940s there was substantial support from both the public and the legislature for increased taxes, particularly from those who believed statehood would help break the hold of the canned salmon industry on Alaskan life. Looking at the budget estimates in 1947, Republican Senator John Butrovich from Fairbanks believed that he and his fellow lawmakers had a simple choice; they could either start a wholesale elimination of territorial services and doom any chance of growth in the future, or enact a comprehensive tax policy. As a member of the Senate Finance Committee, Butrovich could not in good conscience eliminate funding for essential services such as transportation, education, public health, or the University of Alaska. Though the committee carefully "pared the various

appropriations we could never meet the needs with our present estimated revenue. Tax legislation was necessary to balance the budget.”

An income tax bill subsequently passed the house by a wide margin, but it was defeated by two votes in the Senate. Winton C. Arnold, a professional lobbyist and managing director of the Alaskan salmon industry trade group, was the key figure opposing the tax. Judge Arnold—so called because he had once been a U.S. commissioner—was also sometimes derisively known as “Fish” Arnold for his unwavering allegiance to the industry. He did more single-handedly to block increased taxes and statehood than any other individual.¹⁰⁰ Arnold’s heavy-handed manipulation disgusted Butrovich, as the measure the legislature ultimately passed was actually written by Arnold himself. “Why bother to send us to Juneau,” Butrovich asked, if the legislators would meekly let the canned salmon industry “write their own ticket?” According to Butrovich it was “the most disgraceful exhibition I have seen in my three sessions in Juneau...”¹⁰¹

The failure of the 1947 legislature to tackle the fiscal crisis was probably the single greatest political failure in the history of the Territory of Alaska. According to Governor Gruening, even with the rosiest possible scenario— which he defined as “an excellent fishing season and consumption of unusual quantities of liquor”— the lawmakers had left a gaping budget deficit. In Gruening’s words, the legislature’s actions were almost a complete “collapse of responsible self-government,” as it appropriated 175% of anticipated revenues, by authorizing more than \$10 million in expenditures, against only about \$6.3 million in expected income.¹⁰²

Admittedly, writing the Territorial budget was usually an exercise in wishful thinking. Fishing taxes were based on the volume of the salmon pack, not the value, and because harvests varied so widely from year to year, predictions were seldom on the mark. As Alaska's congressional delegate, Bob Bartlett, once explained, Alaska's tax system was "pretty much by guess and by gosh so far as the Territorial budget is concerned in estimating the revenues...."¹⁰³

Conceivably a much larger than normal salmon pack might have saved the day. But it did not happen. Gruening's warning of the budget crisis went unheeded, and despite cutting back spending and freezing all funding for numerous programs, within less than two years the Territory of Alaska was statistically bankrupt. As of December 31, 1948, the territory had a general fund cash balance of less than \$6,300, against more than \$758,000 in overdue bills. These unmet obligations, which the governor said "truly cover the whole field of territorial responsibility from the cradle to the grave," included debts for schools and hospitals, transportation, child welfare, vocational rehabilitation, veterans' funding, funeral parlors, the teachers' retirement program, and the University of Alaska. The only reason the University of Alaska avoided a complete shutdown was that various members of the Board of Regents, and public minded businesses such as Alaska Airlines, loaned the university about \$200,000 interest-free in order to defray its immediate expenses and to keep the doors of the institution open.¹⁰⁴

The Fiscal Reforms of 1949

Voters disgusted in 1948 with the legislature's inability to deal with the territory's fiscal problems "threw the rascals out." Like Harry Truman's battle that same year

against the “do-nothing Congress,” which helped earn him an astonishing victory over Thomas E. Dewey in the 1948 presidential race, Gruening and his supporters “raised hell” about the territory’s fiscal crisis, slamming those who had “left the aged Pioneers hungry, the needy children without adequate assistance, and some of Alaska’s children without schools,” and pledged to enact a basic tax program that would “get Alaska back on its financial feet.”¹⁰⁵

Responding to the crucial need for a new way of doing the public’s business in Juneau, voters elected a swarm of reform-minded lawmakers for the 1949 session. In an emergency special session in January 1949, the new crop of legislators took only 11 days to pass the territorial income tax Gruening had been calling for since 1941; the income tax was followed in the regular session by a territorial property tax and a uniform business license tax. In addition to these three major new taxes, the 1949 legislature also enacted a tobacco tax for the first time, raised the tax on fish traps, and modified the “raw fish” tax so that it would be based on the value of the pack, not on the volume. The measures were so successful that the fiscal situation began to improve almost immediately. By 1950 total tax collections had doubled.¹⁰⁶ Due to larger than expected returns from the income tax—instead of a predicted \$2.5 million a year, by the early 1950s it was generating more than \$6 million a year—the territory went from virtual bankruptcy to a surplus within less than three years.¹⁰⁷ (After the legislature repealed the property tax in 1953, it raised the income tax rates in 1955 and again in 1957.)¹⁰⁸

The reforms of 1949 were intended to provide the territory with a tax structure that would be straightforward and flexible, and representative of the earning potential of all sectors of the economy. In the words of Republican Senator Andrew Nerland, a

veteran of twelve terms in the territorial house and senate, the 19th legislature “did what eighteen previous legislatures were unable to do.”¹⁰⁹ Gruening praised the legislators for having made “a beginning of plowing back a small fraction of the wealth that for eight decades has been, is being, and will continue to be derived from Alaska’s resources.”¹¹⁰

Until it was finally overshadowed by petroleum revenues in the 1970s, and ultimately abandoned in the 1980s, the 1949 income tax was the leading and most stable source of Alaskan tax revenue—bringing in about 40% of total taxes in the 1950s and 1960s. The new tax system was not only more predictable from year to year, but it also distributed the tax burden more evenly across the entire spectrum of the Alaskan economy. No longer would a single industry pay the preponderance of the costs of territorial government. The 1949 measure was a landmark in the long battle over what permanent share residents should enjoy from the harvest of Alaskan resources, and what costs they were willing to bear themselves to pay for the responsibility and privilege of living in Alaska.

The Income Tax: The First Step Toward Statehood

Before the 1949 reforms, statehood opponents had cited the repeated failure to enact a modern comprehensive tax program as proof of the territory’s inability to pay the inevitable costs of statehood. Judge W.C. Arnold, the salmon industry lobbyist, testified repeatedly against statehood in the 1940s and 1950s using every conceivable justification. Ironically, until 1949 the tax issue was one of his most compelling arguments, even though he was consistently one of the most effective opponents of tax reform. Arnold cynically told a Congressional committee in Fairbanks in 1947 that Alaskans would never

pay the cost of statehood, and the proof was that they had never taken the necessary first step of taxing themselves to pay for their own government services, relying instead on taxes from the non-resident fishing and mining industries.

Arnold pointed out that between 1913 and 1946, the legislature had collected about \$37 million in taxes, of which \$20 million (or 55%) had come from the fishing industry, with another 15% each from the mining and liquor industries, while the “business and professional interests of the Territory—I mean all the merchandise establishments, picture shows, hotels, and so forth—have paid approximately 2% of the tax load of the Territory.” How could the people of Alaska become a state, Arnold asked, with such an imbalance in their revenue structure? Statehood would not be justifiable, he argued, as long as the people of Alaska continued to rely on the fishing industry to pay such a disproportionate share of the bills. “Certainly all the people, all the business institutions of this Territory, in a year like 1946 and 1945, when this Territory has had undreamed of prosperity, ought to be wiling and ought to be able to pay more than \$80,000 a year toward a \$5,000,000 budget. It doesn’t seem inequitable or unfair to add that something more be derived from local taxes.” He maintained that Alaskans were freeloading on the fishing industry, and would not tax themselves in a responsible manner. As long as Alaskans were content to let a single industry cover the bills, and were unwilling to pay a reasonable percentage of taxes themselves, he claimed the demands for statehood should be ignored.

“...The past demonstrates conclusively,” Arnold said, “that whether the people are able to support statehood or not, they certainly are not willing to support it, because they have not been willing to support the Territorial institutions either and have not

contributed anything of consequence by way of taxation themselves but have been content to have the revenue such as could be extracted from the nonresident sources.”¹¹¹

Even those who might be inclined to support statehood accepted that the refusal to institute a modern tax system had eliminated any chance of Alaska joining the union. After an investigation of Interior Department projects in Alaska in the summer of 1946, Reps. John Rooney (D-New York) and Jed Johnson (D-Oklahoma) concluded that Alaskans would not be ready to assume the burden of statehood “until they become sufficiently informed on the principles of economics and fair government....” According to Rooney, the egregiously low taxes on the fishing industry, and the lack of any other general tax measures, were both a symptom and a cause of Alaska’s fiscal and political frailty. “The people themselves and the Territorial legislature are at fault,” he said. “The people are not ready for statehood, when they allow the fishing industry to take \$60,000,000 a year from the Territory and return only \$1,000,000. They are not capable of governing themselves.” Johnson echoed his colleague’s dismay; in particular he cautioned that Alaskans had to stop relying on federal handouts and to start “to do something for themselves.”¹¹²

After 1949, those pushing the statehood cause would repeatedly invoke the passage of the 1949 income tax as proof of the territory’s political and economic maturity. In March 1949, President Truman’s Interior Secretary J.A. Krug, explained he was “wholeheartedly in favor” of Alaska statehood. “The people of Alaska have demonstrated their readiness to assume the financial burdens that statehood will bring,” Krug wrote, “by recently enacting a local income-tax law, the first income-tax law in the Territory’s history. I can think of no stronger answer to objections to statehood for

Alaska based on the inevitability of an increased local financial burden than that its taxpayers have shown that they are prepared to meet the cost.”¹¹³

William A. Egan of Valdez, who would subsequently become the first governor of the State of Alaska, testified before Congress in 1957 that the enactment of “an equitable, though not burdensome tax structure” was a major step by which the people of Alaska had “put their house in order” so as to prepare themselves for statehood.¹¹⁴ Ernest Gruening believed the new tax system indicated “the firm purpose of Alaskans to assume their proper share of responsibility for the conduct of their affairs.”¹¹⁵

In 1957 Ralph Rivers (who after statehood became Alaska’s first representative in Congress) proudly told a Senate committee that the territory’s “horse and buggy way of just having a few scattered taxes ran out in 1949.”¹¹⁶ Rivers noted that between 1945 and 1955 Alaska’s population had increased by 100%, while territorial revenues increased by about 450% “through reasonable revenue measures” and “without incurring any bonded indebtedness.” From 1940 to 1955, Alaska grew at a faster rate than any state in America.¹¹⁷ During this era of unstoppable expansion, Rivers claimed, Alaskans had “proved their capacity for self-government” and demonstrated their ability “to meet their financial obligations in a fair and sound manner...”¹¹⁸

4. STATEHOOD: AN ECONOMIC CURSE OR A CURE?

Higher Taxes: The Price of Statehood

In a real sense the 1949 income tax was an initial down payment on the cost of statehood, but all recognized that it was just the first installment of a much larger bill to come. In the 1950s statehood proponents and opponents both agreed that if Alaska became a state, residents would inevitably be subjected to even higher taxes, because the new state would be forced to assume the responsibility and costs of many former federal functions. Weaning Alaska away from federal subsidies would pose a major challenge, especially because of the territory's unique dependence on federal programs to perform ostensibly territorial or local functions, such as highway construction and maintenance, the operation of airports, education, and the judicial system. Termination of the federal largess, which had masked Alaska's permanent funding dilemma since the late 19th century, would necessitate a substantial increase in local taxes.

Congressional Delegate E.L. "Bob" Bartlett re-assured concerned senators in 1953 that if and when Alaska became a state, the new state's taxpayers would willingly pay for the privilege to make their own decisions and to control their own affairs, and would not shirk from the need to raise their own taxes. "There are plenty of people who will say taxation at whatever level is too high," Bartlett said, but he was convinced Alaskans were ready "to assume the burden which might come to them by way of taxation." As he had repeatedly testified in many congressional hearings over the years, the problem of paying the costs for Alaskan self-government was rightfully an Alaskan responsibility. "We are blessed by a wealth of resources, which for a variety of reasons,

very easily set forth, have not yet been put to proper use. But that is our job—to pay the tax burden once we become a State and that is a job we are willing and, I think, able to assume.”¹¹⁹

While statehood supporters agreed that tax increases would be inevitable when Alaska joined the union, they argued that as residents of a sovereign state, Alaskans would be ready and able to support themselves. But even the statehood faithful readily confessed that sacrifices would have to be made. Whatever else it might bring, statehood for Alaska would not be free.

Mildred Hermann of the Alaska Statehood Committee testified (based on the research of economist George W. Rogers) before Congress in 1953 that the price of statehood for Alaskan taxpayers would probably be close to an additional \$7 million a year, about a 60% increase in spending. She argued that the potential state deficit of several millions dollars a year could be readily filled by raising taxes on gasoline and cigarettes, which at two cents a gallon and three cents a pack, were among the lowest in the United States.¹²⁰ And if even more revenues were needed, she pointed out, “we have no severance tax in Alaska, which in most States where mining and the depletion of natural resources by other means occurs, is levied as a matter of course. So we still have untouched money tax sources. Now that is why I have had the courage, perhaps the audacity—I do not know—to say that we have ample means to finance statehood.”¹²¹

Financial Arguments For and Against Statehood

It was said that the three basic arguments against statehood never fundamentally changed year after year, as statehood bills repeatedly died in Congress: “This is not the bill,” “Now is not the time,” and “Alaska is too broke to afford it.”¹²² Statehood was a motherhood issue, so opponents generally claimed they were not opposed in principle, just to the timing. Statehood skeptics frequently cited Alaska’s small population and its “non-contiguity,” but ultimately financial arguments were the underlying basis for most objections.

Half-a-dozen congressmen in 1957, who were convinced that granting statehood to Alaska would be “contrary to the best interests” of the United States, said it was “a most serious question as to whether the Alaskan economy can finance the added burdens of statehood.” The house members claimed Alaska’s economy, based on military spending, was completely inadequate for the job of sustaining a permanent society. “The economy is an artificial one,” they stated, “bolstered by huge Federal handouts.”¹²³

Allen Shattuck, a Juneau legislator and insurance agent, authored an influential report in the early 1950s he called “The Case Against Statehood for Alaska at This Time.” Like many others who were skeptical of the statehood movement, Shattuck did not consider military spending as part of Alaska’s true permanent economy, but instead saw it as a temporary boom upon which nothing could be safely built. He warned that “when large defense spending ends, as it inevitably will within the next few years,” the income tax, the liquor tax and the gasoline tax would dry up quickly, leaving only the much-diminished fishing and mining industries to carry the potential costs of statehood. He forecast a dire situation. According to Shattuck’s estimates, statehood would require

more than a 100% increase over the current level of territorial spending, to almost \$28 million a year. “In my humble opinion,” Shattuck concluded, “the Congress could not do a greater disservice to the Territory at this time than to burden us with the unupportable taxload which a State government would impose. There is no better way to retard Alaska’s development, in which we are all interested, than to add statehood costs to those we now have.”¹²⁴

In 1957 another Juneau businessman, J.S. MacKinnon, Jr., who operated a laundry his grandfather had started in 1895, protested that while statehood was a laudable goal “at the present time, Alaska is not economically able to support it, nor is it politically mature enough to handle the problems of statehood.” According to MacKinnon, the economy was almost totally dependent on defense spending, and “for every dollar spent by the salmon and timber industries, there are thousands spent by the military. A military, or defense spending economy, is not a sound economy.” McKinnon believed territorial taxes, especially on fishing, were already too high, and asked “if we have to tax our basic industries out of existence to support Territorial status, what have we to look forward to in paying for statehood?” The question was timing and cost. “Given time,” he concluded, “Alaska will develop, and when we can afford to pay the bill for statehood, I will be one of the first to jump on the statehood bandwagon.”¹²⁵

The majority of Alaskans however, were not content to wait. Time and again those fighting for statehood promised that the added costs of running their own state government were irrelevant, because this was a basic moral question of political freedom, civil rights and personal responsibility, played out against the backdrop of the Cold War, in which Americans were locked in a global death struggle with totalitarian communism.

“I find it difficult,” Anchorage banker Elmer E. Rasmuson said in 1950, “to write up a price tag on freedom....”¹²⁶

Mildred Hermann told a U.S. House committee in 1953 that what Alaskans really wanted was the constitutional American right to make their own blunders. “We feel Alaska has a right to make our own mistakes instead of having them made for her,” she said. “I think that that is probably the most cogent argument we have. We would like to make our own mistakes. We would like to take our own chances.”¹²⁷ When a congressman asked Hermann if there was “adequate aspirin in Alaska to take care of the headaches that statehood is going to give you,” she said they would be ready to import it by the truckload if necessary.¹²⁸

During the Eisenhower administration those pushing for statehood generally believed that when Alaska finally achieved recognition on an equal footing with the previous 48 states, the worst suffering would be caused by Alaska’s growing pains. One of the cardinal tenets of the statehood movement was that once Alaska joined the union, it would set off a great economic boom. With enough land and resources, the argument went, the 49th state could become such a catalyst of economic development that it would easily be able to produce all the revenues necessary to sustain itself and to provide a good quality of life for its citizens.

Both supporters and opponents of statehood agreed about the desperate need to develop a stable and secure economic base. However, they reached diametrically opposite conclusions about the best method to diversify the economy. Opponents claimed that Alaska could not afford the cost of statehood, while proponents claimed Alaska could not afford the cost of remaining a territory. Opponents said the cost of a new state

government would drive the Alaskan business community into bankruptcy, while proponents said unless residents received the freedom to develop their lands and resources, as only statehood status would allow, the federal shackles on Alaskan development would never be unleashed, and the region would remain forever an exploited colonial possession where government policies habitually favored absentee owners at the expense of the local people.

Anchorage Times publisher Robert Atwood, one of the most vocal fighters in the statehood campaign, reasoned that those who argued against statehood due to Alaska's admittedly retarded economic development could not tell the difference between either the cart and the horse, or the chicken and the egg. He particularly liked the analogy an Anchorage grocer had used in a memorable letter to the editor. "Someone has said," the man had written, "that Alaska is not ready for statehood yet because it has not enough industry. That is like telling my son that he cannot marry your daughter because they do not have any children yet."¹²⁹ In Atwood's view, "many of the arguments used in opposition to statehood are, indeed, some of the most forceful arguments in favor of statehood." He thought those who could see the big picture, and could understand Alaska's role in the historic pattern of American development, would have to realize that the territory's poor economic track record was not a sensible cause to deny statehood, but an effect of it being denied. "Alaska stands as a fertile field," Atwood said, "aching for development."¹³⁰

The political uncertainty and powerlessness of territorial status, he believed, was the prime cause of Alaska's chronic capital shortage; the political roadblocks to economic development were far worse, in his opinion, than any natural obstacles. Though he

admired the job done by Bob Bartlett, Alaska's delegate, in representing the interests of Alaska in Washington, D.C, a voteless delegate with little clout could never single-handedly halt the bureaucrats that Atwood blamed for paralyzing Alaska's economy and tying up its resources in red tape. He was equally certain that once Alaska joined the union, and enjoyed full representation in Congress, the situation would be different. "We find that our Delegate, when he walks into an office and thumps on the table, does not make the noise or get the attention a Senator gets when he goes in and thumps on that table."¹³¹

Alaska's Constitution and the Kennecott Syndrome

The basic economic argument in favor of statehood was that it would provide Alaskans enough land and political autonomy to regulate the development of their natural resources in a manner most beneficial over the long haul to the residents of Alaska. Politically and economically the Territory of Alaska was by its very nature a transient society in every imaginable way, but statehood was intended to engender the growth of a more permanent community that would endure the inevitable ups and downs of the economic cycle. This wish was unequivocally articulated in the Alaska Constitution, drafted in 1955-1956 in an effort to demonstrate to Congress and the President that Alaska was ready and willing for statehood.

The "Natural Resources" article, a unique provision not found in the constitution of any other state, required both renewable and non-renewable resources to be developed as a public trust on the principles of sustained yield and multiple use, mandating that Alaskans receive the maximum benefit for the maximum period of time.¹³² That article,

along with the 1956 voter proposition that banned fish traps—and the entire statehood movement itself—were responses to the long-range trends of Alaskan economic history.

The drafting of the constitution was the ultimate battle in the protracted civil war between residents and non-residents over who should benefit from the development of Alaskan resources. It came at a time when the political and economic power of the fishing and mining industries were near an all time ebb. Both gold and salmon were in a state of catastrophic and apparently irreversible decline in the 1950s, and it was generally believed at the time that federal policies were largely responsible. The frozen price of gold (\$35 an ounce) combined with the ravages of wartime inflation and the federally-imposed emergency closure of most American gold mines during World War II, had devastated the gold industry in the 1940s—a blow from which it never recovered.¹³³ “The future of gold mining is well known,” reported Phil Holdsworth, the territorial Commissioner of Mines, in 1955. “It can only continue to decrease under the present fixed price and high operating costs, and apparently neither of these will change in the foreseeable future.”¹³⁴

The outlook for salmon canning was little better as the salmon runs crashed to historic lows in the 1950s. At the time most Alaskans fervently believed that federal mismanagement and over-fishing by absentee owners had caused the decline in fish populations, though it now appears more likely that the downturn was probably just part of a long-term, recurring natural climatic cycle, called the Pacific Decadal Oscillation, driven by shifts in ocean temperatures.¹³⁵ But regardless of the cause, the drop in salmon stocks had serious political and economic repercussions. Salmon fishing had fallen off so sharply in the 1950s that many Alaskans wondered if the industry would ever recover.

Governor Gruening said the sharp downward curve of the salmon harvest since the 1930s “puts one in the mind of the slope of Mt. McKinley.”¹³⁶ In 1953 the salmon pack dropped to less than three million cases, about the lowest in 42 years, leading President Eisenhower to declare the Alaska coast an official “disaster area,” permitting residents in distressed communities to receive federal relief and food supplies.¹³⁷

The collapse of mining and fishing in the 1950s seemed to reinforce the hard and bitter truths of the evils of unchecked natural resource exploitation, and the weakness of the territorial government to combat misguided federal initiatives. These lessons were not lost on constitutional delegates determined to ensure that Alaska’s future would not be like the past.

Images of the ruins at Kennecott and the long battle to reform the tax system against the opposition of the mining and fishing interests permeated the room in November 1955, when Congressional Delegate Bob Bartlett gave a stirring keynote address to the constitutional convention. Bartlett warned that the “most obvious danger” Alaskans faced “is that of exploitation under the thin disguise of development. The taking of Alaska’s mineral resources without leaving some reasonable returns for the support of Alaskan governmental services and the use of all the people in Alaska will mean a betrayal in the administration of the people’s wealth.” This root cause of the permanent funding problem had to be addressed in the constitution once and for all, if Alaskans were to forever enjoy the fruits of its resources. Bartlett stressed to the constitutional framers that Alaskans “will want, and demand, effective safeguards against the exploitation...by persons and corporations whose only aim is to skim the gravy and get out, leaving nothing that is permanent to the new state except, perhaps, a few scars in the earth which

can never be healed.” The entire future of Alaska depended on what protections they could incorporate in the constitution to permanently keep a significant portion of Alaska’s wealth in Alaska for public use. “If the public domain of Alaska is frittered away without adequate safeguards,” Bartlett said, “the State of Alaska will wend a precarious way along the road that leads eventually to financial insolvency.”¹³⁸

The desire to prevent “another Kennecott” was the inspiration for a proposal at the convention to forbid the future state from selling off any mineral rights on its lands and require leasing instead. This proposed cleavage of surface and sub-surface rights was intended to ensure that residents would receive the benefits of resource development.

Dr. Ernest Bartley, a political scientist who was a consultant to the convention on natural resources (and the source for Bartlett’s keynote speech), said the history of Kennecott, which had taken out \$200 million and “left absolutely nothing of enduring value for the Territory and its citizens except a small ghost town which has become a minor tourist attraction” was “still fresh in the minds of many Alaskans.”

According to Dr. Bartley, “Alaskans will not want a repetition of Kennecott. They will want the mineral development of the new State to be such that some permanent return accrues to the State. The lease technique, with its rentals and royalties basis and its performance and development clauses, offers at least one solution of a partial nature.”¹³⁹ Though the leasing requirement was ultimately not included in the Alaska Constitution, the prohibition on the sale of mineral rights was part of the Statehood Act passed by Congress, ensuring that the new state government would maintain a permanent equity interest in all mineral development and eliminate any chance of a second Kennecott.

The 49th State: An Engine of Economic Development

In the end the generous terms under which Alaska joined the union in 1959 were both radical and completely unprecedented in American history. No other state had ever been conceived in a similar manner. During the ongoing debates about statehood throughout the 1950s, Alaska's dowry in land and fiscal incentives had become progressively more liberal, largely because federal officials recognized that the inherent economic weaknesses of Alaska highlighted by statehood opponents were hardly an illusion. Congressional leaders recognized that the most serious of Alaska's "peculiar problems" was "that of financing the basic functions of State government." The key figures involved in the crafting of the terms of Alaska's admission were particularly concerned about the new state's financial prospects and were determined that it be given every possible advantage in order to succeed. As a candid senate report stated in 1953, "The transition from Territorial status to statehood for Alaska involves problems of financial stability and land resources development, not previously encountered in connection with the admission of any of the existing States."¹⁴⁰

In a 1957 hearing, Senator Henry M. "Scoop" Jackson of Washington State—angered by an Eisenhower administration proposal he believed would not give the new state adequate highway funds—urged his colleagues not to treat Alaska like the incorrigible boy sent to a tough summer camp, where every morning the counselor rowed him out to the middle of lake and forced him to swim all the way back. "It isn't too bad," the boy told his father about his morning ordeal, "after I get out of that sack with the rock tied to it."

“It looks to me,” Scoop Jackson told his fellow senators, that the administration was “putting Alaska in a sack with a rock tied in it.”¹⁴¹

To ensure Alaska would not be unduly hindered in its development, the 49th state was given almost \$30 million in transitional funding—approximately equivalent to an entire year’s worth of taxes—spread out over the first five years. The new state also received a far larger percentage of state land, and a far larger total state land grant, than any previous new state in American history. This was done in order to “alter the present distorted landownership pattern in Alaska under which the Federal Government owns over 99 percent of the total area.”¹⁴² While most federal land grant states were only given somewhere between 6% and 11% of their total area, Alaska would receive about 30%, for a total land grant of nearly 104 million acres, approximately the size of the state of California. Furthermore, instead of receiving designated square-mile sections scattered in every township and range—as had been the case in all previous land grant states—Alaskans would have the unrivaled opportunity to pick and choose their own lands from unreserved acreage in whatever size, shape and location they desired (as long as the dimensions were reasonably compact). That enabled the new state, for instance, to select valuable mineral lands (i.e. Prudhoe Bay), instead of being saddled with a checkerboard of “glaciers, mountains and worthless tundra.”¹⁴³

As the senate committee which first conceived the new formula for granting Alaska’s lands noted in 1954, a 30% share was essential if the new state was to achieve “full equality with the existing States, not only in a juridical sense but in practical economic terms as well.” Furthermore the new state would have to be “master in fact of most of the resources within its boundaries,” as well as receive “appropriate Federal

financial assistance during what may be a difficult transition period.”¹⁴⁴ Anything less would be to create a state in name only, without the economic wherewithal to stand on its own. As the senate report explained:

We cannot afford to permit the growth of a sort of neofeudalism with the field agents of the various Federal bureaus as all-powerful landlords, collecting feudal levies from the State and its industries in perpetuity.

If Alaska is to be a State, it must be a full and equal State, not a puppet of the Federal Government.¹⁴⁵

To provide the 49th state with all the rights and privileges of the previous 48, Congress tried to overcome the inherent natural obstacles to Alaskan economic development through the special provisions of the Statehood Act. In 1958 an exuberant article in *Time Magazine* described statehood as the culmination of a long delayed love affair, “a matter of heart, a spirit singing” which resounded through the land with “a stir and a throb.” According to *Time*, Alaskans viewed Alaska as a land of “resources waiting for resourcefulness,” while another writer said the new state was nothing less than “a refurbished version of the American dream.”¹⁴⁶

The sun, moon and stars were surely in alignment when the 49th star was added to flag, because in hindsight the timing of Alaska statehood was especially fortuitous. The unprecedented terms which Congress authorized for Alaska’s admission into the union—particularly the size and method of selecting the land grant, which would be the key to Alaska’s eventual financial windfall at Prudhoe Bay—are all the more remarkable when compared with what might have happened if statehood had been delayed, as had occurred on so many earlier occasions since the 1940s. If for whatever reason the question of

Alaska statehood had still been an unresolved issue by the late 1960s or early 1970s, it is clear that the State of Alaska as we know it today would have never existed.

Alaska was a creation of the 1950s, not the 1960s, and a further postponement of only ten or twelve years would have probably meant that either statehood would be denied forever, or else granted with severe restrictions and far fewer resources. Like the tail fin and the Hula Hoop, the State of Alaska is an artifact from the Eisenhower era, a profession of optimism in a world of limitless possibilities. The 49th state was conceived and created as a great engine of economic development and natural resource production, a testament to the American belief in progress and free enterprise, in democracy and self-determination. It was designed to transform the raw wealth of the land and the sea into a self-regenerating and self-perpetuating economic system for the primary benefit of the local people. Born in the pre-Vietnam era, a time of unprecedented American confidence, wealth and power, the incorporation of Alaska into the select club of the 48 states was a demonstration—like Eisenhower’s decision to build the interstate highway system or Kennedy’s pledge to land a man on the moon—that American ingenuity could triumph over any adversary natural or human and reshape the world for the benefit of all mankind. Alaska was just one more frontier to conquer.

If by the late 1960s or early 1970s Alaska had still been on the outside looking in, the radical changes in American society during those years would have certainly altered the tone and tenor of the debate about its admission. In the wake of the 1960s’ environmental and civil rights movements, Congress would have never agreed to the same terms the senate approved in June 1958, giving the people of Alaska control over the management of Alaska’s natural resources and the rights to select and develop the

most valuable one-third of America's last great wilderness—almost 104 million acres (nearly 500 acres apiece for each of Alaska's 220,000 residents), including all mineral rights on those lands.¹⁴⁷ Furthermore, it is highly likely that once oil was discovered at Prudhoe Bay, neither the oil industry nor the federal government would have been particularly eager to let the largest oil field ever found on the continent fall into the hands of a new state government. (As one suspicious senator had cautioned in 1954: “The minute that they get any showing up there that there is a possibility to produce oil in any part of Alaska, the Federal Government will slap a withdrawal on it and Federal lessees will take out everything that is worth anything. Alaska will get no chance.”¹⁴⁸)

The euphoric righteousness of the statehood crusade in the 1950s—which a critic groused was simply “political hysteria”—thoroughly overshadowed two contentious issues lurking in the background, which would only rise to the forefront in the decade that followed: Native rights and the environment.¹⁴⁹ Despite occasional passionate debate about both of these dilemmas, neither Native land claims nor conservationist concerns were ever thoroughly addressed during the many statehood hearings in the 1940s and 1950s, largely because neither had yet coalesced as a political movement—but surely they would not have been similarly ignored in the 1960s and 1970s.

The best indicators that statehood delayed could have meant statehood denied or greatly modified, are probably the two de facto “amendments” to the statehood compact that emerged in the aftermath of the 1968 Prudhoe Bay oil discovery: the 1971 Alaska Native Claims Settlement Act (ANCSA) and the 1980 Alaska National Interest Lands Conservation Act (ANILCA). Both ANCSA and ANILCA modified the original terms under which Alaska came into the union by establishing that in the cause of social justice

there were other interests—particularly Native land claims and wilderness preservation—that had to be addressed before the needs of the state.

At the creation of the State of Alaska in 1959, with no hint on the horizon of what was to come, including Prudhoe Bay, ANCSA, or ANILCA, the main challenge ahead was simply to avoid insolvency. The granting of statehood would hardly be an automatic solution to the permanent funding problem. “The first fruit of statehood,” as a writer had predicted in 1958 after senate passage of the statehood bill, “is almost certain to be disappointment. For though Statehood will stimulate change and investment, it will take years to show effect.”¹⁵⁰

Despite their earnest hopes and dreams, and the vast resources the statehood compact had transferred to the 49th State, Alaskans would realize almost immediately that the hard road did not end with statehood; it was only beginning.

5. THE 49TH STATE STRUGGLES TO SURVIVE

When Alaskans went to the polls in August 1958, they voted five to one in favor of approving the Statehood Act, an even higher proportion of affirmative votes than the most optimistic statehood supporters had hoped to achieve. In the election campaign beforehand, doubts about Alaska's economic viability and its potential tax burden as a state were the center of debate, but the overwhelming majority swept aside those fears with a resounding mandate.¹⁵¹

Thomas R. Stewart, the secretary of the Alaska Constitutional Convention, viewed the statehood landslide as a reflection of the powerful emotional appeal of the “the right of self-government for the people of Alaska.” In comparison with that lofty principle, the threats of higher taxes and other scare tactics bore little weight. The voices of doom said, “don't go,” “turn back,” “why bother,” “we can't afford it,” but they were drowned out by a chorus of optimism and confidence. Like a young couple that by the numbers can't afford to be married—but go ahead and do it anyway—statehood was never simply a rational decision of dollars and cents. Accountants could not sing with the passion of the poets. At its root a vote for statehood was a vote for new possibilities, Stewart said. It was a wish for clear sailing and blue skies, a gamble for the adventurous to see what lay beyond the horizon, a hope for better days ahead. “Whether the possibilities will become realities,” Stewart wrote, “is to be determined largely by the wisdom and care with which the people of Alaska, and their leaders, exercise the newly gained rights of self-government.”¹⁵²

The Costs of Statehood

Alaskans awoke in 1959 from the dreams of statehood's limitless possibilities to the unforgiving reality of its precarious fiscal position, as it tried to meet limitless needs with sharply limited resources. From the State of Alaska's origin in 1959, the fiscal problems of organizing, staffing, and operating the largest state in the history of the United States consumed Alaskan leaders. Though federal assistance would hardly disappear completely, for the first time Alaskans would bear the primary responsibility of the permanent funding problem. Staying upright without territorial training wheels would prove to be a far more difficult balancing act for the new state than anyone had predicted. Looming over the state capital was the nagging unanswerable question of where the money would come from, as it quickly became apparent that everyone had drastically underestimated the financial costs of statehood and overestimated the immediate resources that Alaska could call upon to pay its bills.

In the early years the growth of the state bureaucracy was exponential, as it assumed responsibility for many of the vital functions that had previously been handled and paid for by federal agencies. In its last days the Territory of Alaska had a total annual budget of about \$18 million and 750 employees; by fiscal year 1962 the budget had more than tripled to \$55.7 million with nearly 4,000 employees.¹⁵³ Every indication was that the rapid growth would continue. The pent up hunger for new state services, such as the inauguration of the Alaska state ferry system, the expansion of existing services, such as the University of Alaska, and the replacement of federal services, such as the creation from scratch of the Alaskan judicial system and the organization of the state Department of Highways, consumed enormous sums. While critics would decry the state's spending

binge, claiming by 1963 that most of the \$28.5 million transitional bonus had been wasted, Governor Bill Egan maintained that due to the takeover of federal programs and the creation of the “new services we clamored for as a territory,” the budgets were entirely reasonable.¹⁵⁴

During territorial days Alaskans had long protested about the lack of responsiveness from federal bureaucrats who controlled so much of their daily lives, and the low levels of service provided, but with statehood public expectations of government expanded immediately. Convinced they had formerly been relegated to third-class status, after 1959 Alaskans no longer thought sitting in the back of the bus was a privilege, though the realization that Uncle Sam would no longer provide a ticket free of charge was an uncomfortable surprise.

The hard truth was that providing the services that residents demanded would always cost more than expected, simply because of Alaska’s political, economic and social geography. With barely one person for every three square miles, and about one mile of road for every 100 square miles, Alaska’s legendary “inefficiencies of scale” meant that even the most basic functions of government would be much more costly to implement than anywhere else in America. Control of Alaska’s lands was a case in point.

A Glutton for Land

Lacking the right to get title to Alaska’s lands had caused some of the loudest and most bitter criticisms about federal mismanagement of Alaska. In the 1940s and 1950s the U.S. government had surveyed so few acres of Alaska, at such a slow pace, that projections calculated it might take 12,000 years or longer (perhaps up to 40,000 years) to

finish the job!¹⁵⁵ Even those accustomed to standing patiently in line to see an unhelpful bureaucrat or to pick up the mail, were not content to wait until the next ice age to stake a price of property. The extraordinary statehood land grant was indisputably the key to Alaskan prosperity, and the faster Alaskans were able to select and develop their lands, the sooner the state would be able to stand on its own financially. After 1959 those who had never bothered to count the costs when both the land and the bills were a federal responsibility were shocked when they realized that initially taking possession of the state's inheritance of more than 103 million acres was going to cost more money than it would earn, at least in the short term.

Publisher and editor Robert Atwood of the *Anchorage Daily Times* had been trumpeting the statehood cause since the 1940s, but after statehood he advocated a “go slow” policy for state land selection that sounded remarkably like the federal attitude he had criticized with such gusto for so many decades. In February 1960 he warned in a *Times* editorial that the State of Alaska's “insatiable appetite for land” threatened to “put the whole state in the poor house.” He claimed Alaskan officials were devouring acreage as if they had land “bulimia” that would “kill the whole state...if the selections prove indigestible.”

Under the terms of the Statehood Act, Alaska had up to 25 years to select more than 103 million acres, which meant it planned to average about 4 million acres (or more than 6,000 square miles) each year. “Most of the land is of questionable value,” Atwood wrote. “But ownership brings with it heavy and continuous responsibilities that could cost the state a fortune. The state stands to become ‘land poor’ if, like a glutton, it burdens itself with land that proves worthless.”

As Atwood correctly pointed out, taking in an area equivalent to two-and-a-half states the size of Delaware every year for the next quarter century, would require hiring and equipping a costly infrastructure and bureaucracy to administer, develop and protect the land. For example, he realized the state would need: lands and minerals officers, forestry and range officers, administrative officers, cadastral engineering officers, land office managers, adjudicators, registers, draftsmen, secretaries, stenographers, clerks, surveyors, truck drivers, airplane pilots, helicopter pilots, firefighters, smoke jumpers, fire superintendents, police inspectors, patrolmen. These men and women would need salaries, offices, staff costs, health insurance, per diem, travel expenses, and the tools of their trades, from typewriters to telephones, from pens and pencils to parachutes and plum bobs. “All this expensive staff and stuff,” the *Times* complained, “to administer land that may remain worthless!”

Ironically Atwood’s bitter denunciation of the state’s land program could have been written by any one of statehood opponents in the previous twenty years.

The state has yet to discover how it will administer the land, or who will want it. If nobody wants it, the land will lie idle, perhaps until Kingdom Come. It has lain idle for generations. The Russians ignored it when Alaska was under the rule of the czars. The United States made it available free and little was taken.

Now the state is going crazy trying to seize for its own what Uncle Sam couldn’t give away and the czars ignored....Once the state is the owner, it is stuck. The law makes no provision for giving it back to Uncle Sam—or the Czar.

The *Times* reminded state officials that there was no requirement that the state select all the lands to which it was entitled, because the nearly 104 million acre land grant was a right or a potential line of credit, not an obligation. Doubting that there truly would be that much valuable land, Atwood hinted that perhaps Alaska would be better served by

selecting less than its full allotment, and letting the remainder remain a federal burden. Did Alaska genuinely need to pay the cost of upkeep for more than sixty Delawares? The state already had selected about two million acres, and the *Times* called upon the governor to “quit adding to the state’s acreage” unless or until it could prove “that the program is something more than a wild gamble.” Otherwise Alaska’s hundred million acres was almost certain to be a snow white elephant. “The financial burden will hang like a millstone around the neck of the state treasury,” Atwood concluded, “if the land selected today acquires no great value.”¹⁵⁶

The Fiscal “Gaposis”

Atwood’s newfound appreciation in 1960 for the land policies of the Czar and Uncle Sam was a typical reaction of many Alaskans when they began to understand the full range of fresh responsibilities and economic burdens that statehood entailed. The news was so glum that many began to wonder if statehood had been a serious mistake after all.

“The honeymoon is over,” one Alaska legislator told a reporter for the *Wall Street Journal* in March 1960. In a front page story headlined, “Alaska’s Ordeal: Problems Pile Up Fast For 49th State as It Finishes First Year,” the reporter commented that though it had only been about 14 months since President Eisenhower signed the statehood proclamation, “to most of the 60 men who make up the former territory’s legislature, it already seems like a lifetime.” The intractable question that prematurely aged the senators and representatives of the first Alaska State Legislature was the permanent funding problem, and there were no easy answers.

The financial crisis took several forms. One was a longstanding deficit in the unemployment compensation fund. Due to the extreme seasonality of Alaska's economy, and unemployment rates soaring like clockwork each winter to nearly 20%, the fund had been paying out more than it had received every year from 1950 to 1960. In 1957 and 1958, two interest-free federal loans, totaling nearly \$9 million, were all that kept the fund from default, leaving a \$7.2 million deficit after FY 1960.¹⁵⁷

An even larger pending crisis was the state's inordinate reliance on federal funding for capital projects—including 63% of education funds, 84% of highway costs, and 57% of airport funds—which required matching funds that the state did not have, or would not have once the transitional funding was gone. “We want to take advantage of Uncle Sam's generosity,” the chair of the House Finance Committee said, “but not be killed with kindness.” As the *Journal's* account demonstrated, the road to bankruptcy appeared to be paved with federal matching funds.

In one way, this Federal help is heading Alaska toward more financial headaches in the future. Every new mile of road adds \$800 to \$1,500 a year to maintenance costs. Federal funds can no longer be used for maintenance now that Alaska is a state. At the moment a backlog of over \$11 million of Federal maintenance money is still on hand. These funds will last two or three more years. After that, Alaskan officials don't know where they'll turn for maintenance money.

The Commissioner of Public Works invented his own word to describe the problem of having too many highways and not enough money to maintain them. “There's a slight gaposis,” he said.¹⁵⁸

The exact size and cause of the “gaposis” depended on who did the calculations. In January 1960 the state Planning Commission had issued a sobering report on the

coming needs for operating and capital expenditures. The gloomy full-page banner headline in the *Anchorage Times* summed up the report in four words: “FINANCIAL ‘CRISIS’ IS PREDICTED.” The story detailed how the state would be able to meet the needs for the 1960-1961 fiscal year only by using the transitional funding grants that were part of the statehood compact and “by drawing heavily on the accumulated general fund surplus.” Within a year, it was expected, those savings accounts would be depleted, leaving the cupboard bare. “Thereafter a serious deficit is indicated,” the report stated. “This deficit may be so large funds will not exist for capital improvements of any kind, all available funds being used to operate the government and provide minimum services to the people.”¹⁵⁹

Unlike the 1940s, the permanent funding problem in the early 1960s was not primarily due to the lack of an adequate tax system, even though Alaska’s state and local taxes, relative to the cost of living, were still among the lowest in the nation. In 1960 Alaska ranked 44th out of the 50 states for the total percentage of personal income consumed by state and local taxes and was the lowest in the far western states, with an average tax burden to income ratio of 7.8%, compared to anywhere from 9.6% to 10.5% for Nevada, Washington, Oregon, California, and Hawaii.¹⁶⁰ A bitterly divided legislature actually raised Alaska’s tax rates in 1961 on income, gasoline, cigarettes, alcohol and driver’s licenses, to help cover a portion of the future expected deficits.¹⁶¹

As a legislative report on Alaska’s tax policy in the early years after statehood determined, the Alaskan enigma was not the need to enact an additional magic tax, but the necessity to produce a product that could be taxed. “The basic fiscal problem in Alaska is not the tax structure,” the Alaska Legislative Council concluded in 1962. “It is

the development of tax bases. The potentials in the natural resource field seem to be unlimited; and both public leadership and expenditure policies should be strongly directed toward this end.”¹⁶²

The Return to Natural Resources

One of the most unsettling problems that Alaska encountered as it made the political transition to statehood, was that it appeared inevitable that its basic economy would have to undergo an economic transformation equally as radical as its political evolution. The uncertainty of continuing defense appropriations would always leave Alaskans decidedly uneasy, but by 1959 it seemed clear that the military-construction sector was shrinking—military strength in Alaska had actually peaked in 1953, the last year of active hostilities in the Korean War. The only hope for the future appeared to be a reversion back to a natural resource economy. Instead of salmon and gold, however, the State of Alaska was pinning its hopes on the expansion of the timber industry, particularly the new pulp mills in Ketchikan and Sitka, tourism, and the oil industry.¹⁶³

This shift from military-construction back to an uncertain future based on natural resources was a major theme of the most important scholarly work on the economic and political ramifications of statehood. George W. Rogers’ masterful study, *The Future of Alaska: The Economic Consequences of Statehood*, was a grim but realistic portrayal of the reality of Alaska’s economic conundrum published in 1962. Like John Maynard Keynes’s prophetic analysis of the fiscal disaster that followed the Versailles Treaty, *The Economic Consequences of the Peace*, George Rogers’ study of the economic repercussions of Alaska’s admission into the union warned that despite the best of

intentions, the future might be much darker than anyone would care to imagine.

“Statehood could be either a major contributing cause of Alaska’s future economic growth,” Rogers warned, “or of its bankruptcy.”¹⁶⁴

One implication of Rogers’ far reaching work was that the bitter conflicts throughout Alaskan history over residency and tax policy, two key components of the permanent funding problem, were inextricably linked like two interlocking strands of DNA, and neither could be understood without reference to the other. Though no one likes to pay taxes, no one hated taxes more than the non-Alaskans who provided most of the private capital to develop Alaska, but had no interest in paying for government services they were not going to use. As a result, the outside interests naturally fought diligently to keep taxing authority away from resident Alaskans, who might be more interested in adding or improving government services to better their living conditions.

The achievement of statehood, Rogers explained, “had tipped the scales heavily on the side of an over-all resident orientation for development and resource management policy,” though he admitted that this had not solved the “underlying issue,” since outside capital would necessarily still be the fuel powering Alaskan development.¹⁶⁵ Making Alaska an inviting environment for long-term economic development, while at the same time protecting the interests of Alaskan residents, would be a delicate balancing act.

Saved by Oil

The secret economic weapon of the State of Alaska, and the key to its survival through the early 1960s, would turn out to be the petroleum industry. Since the 19th century the search for economically profitable oil deposits in Alaska had been primarily

an exercise in self-delusion, empty promises and dry holes, and thus little was expected from oil, until the major discovery in 1957 at Swanson River on the Kenai Peninsula. No less a figure than Ernest Gruening, who had long maintained that Alaska had no shortage of resources to pay the cost of statehood, admitted in the early 1970s that without the 1957 Swanson River oil strike, the State of Alaska would likely have gone bankrupt shortly after 1959.¹⁶⁶

The modern Alaska oil industry and the State of Alaska came of age at almost exactly the same time. In 1958, the year Congress passed the statehood bill, the inauguration of commercial oil production began at Swanson River with an annual trickle of 35,000 barrels, less than 25 minutes worth of oil in the trans-Alaska pipeline at maximum capacity. Despite these small seeds of oil development, however, the State of Alaska was almost immediately dependent on oil revenues for its existence.

From its very birth Alaska's leaders relied on windfalls from oil development to balance its books. The state continually gambled that with the next roll of the dice it would hit the jackpot. For example, long-term state projections of federal mineral lease revenues were twice as optimistic as federal projections.¹⁶⁷ That this was not a good idea should have been obvious by the second month of statehood, February 1959, when the state received the dismal news that its share of oil lease income on federal land had "nose-dived sharply in the last six months of 1958," throwing the planned 1959 budget into the red. According to a story in the *Juneau Empire*, land conflicts between oil lease bidders and homesteaders on the Kenai Peninsula, the withdrawal of some oil and gas lease offers, and an unexpectedly slower rate of processing lease applications, meant the state would take in about \$1.25 million less than the territory had received in the first half

of 1958. The news was called “a stiff setback to Alaska’s financial hopes.” Acting Governor Hugh J. Wade told the press, “A reappraisal of the financial status is in order, since officials compiling the state’s budget had relied on these lease monies as an important source of revenue.”¹⁶⁸

It was a story that would be repeated often. In his 1961 budget message, Governor Egan gave legislators an optimistic scenario of how the state’s revenue gap for that year could be closed, but only if a good rate of oil and gas leasing, land sales, and economic growth could be maintained. If everything went as planned, Egan explained, “we will be out of the woods and the gap will be bridged.”¹⁶⁹

Economist George Rogers explained in *The Future of Alaska* that this inordinate reliance on land revenues and mineral royalties “as a means of fiscal solvency” was recognized as a risky gambit.

During the legislative session one member, a mining engineer, questioned the soundness of the revenue estimates and the wisdom of planning state finances on this basis. ‘The administration’s predictions are all optimistic, but are they going to hold up? If they don’t we’re in trouble. If the people want to gamble, that’s okay, but I think we should make it very clear to them the gamble they are taking.’¹⁷⁰

One candid insider’s account of how the State of Alaska dealt with the fiscal realities of statehood came from Roscoe Bell, the first director of the state Division of Lands. Bell admitted that the state balanced its budget predictions with the indispensable tool needed to play the lottery: wishful thinking. For example, one year Bell and his boss, Phil Holdsworth, the commissioner of the state Department of Natural Resources, gave what they considered a responsible estimate of what the state could earn from leasing in the coming fiscal year. Other officials in the Egan Administration, who were responsible

for balancing the projected budget, revised the figures upwards and chided Bell and Holdsworth for being too conservative. As Bell recalled:

We made revenues estimates for the next fiscal year...and those were rewritten in Juneau by the Department of Revenue and Department of Administration—rewritten to make them look better because they said we were too conservative on our estimates....

It wasn't exactly a shell game, because one person's guess might be as good as another's, but the reality was, Bell said, "we didn't know what was under the land."¹⁷¹

The State of Alaska's aggressive oil leasing policies played an essential role in keeping it fiscally afloat during its first five years. In 1960 Senator John McNees of Nome told the Anchorage Chamber of Commerce, "Oil lease revenues are now saving our bacon."¹⁷² In 1962 George Rogers told a reporter, "We are still in a rather precarious financial position, and we'd have been close to bankruptcy if it had not been for last year's oil leases."¹⁷³ In 1963, former Territorial Governor B. Frank Heintzleman said definitively, "Oil has been the salvation of Alaska."¹⁷⁴

Unfortunately, however, oil revenues from year to year were as unpredictable as the salmon harvest had been in territorial days, and when the 1963 oil income missed the forecast by \$6 million (out of an \$80 million budget) a familiar headline reappeared once more in the *New York Times*: "Alaska Faces a Financial Crisis." With the last few dollars of transitional funding set to run out on July 1, 1964, Alaska's leaders warned that the state's "first major crisis in financing" was going to hit everyone hard. Governor Egan asked his department heads to be ready to slash their budgets by up to 20%.

Representative Harold Strandberg, the chairman of the House Finance Committee, said

that the largely unexpected oil bonanza of the last few years had only delayed the day of reckoning, delayed the tackling of the permanent funding problem.

“The problem has been postponed from previous sessions,” Strandberg said in January 1964, “by the receipt of added oil-lease monies. It will not be of single-year duration. We must hope to develop our resources to close the gap between income and required services of government.”¹⁷⁵

What happened instead, however, was that on March 27, 1964, about three months before the last of the transitional funds from statehood were going to be all gone, the strongest earthquake ever recorded in North American history devastated the heartland of Alaska’s economy in Southcentral Alaska. The impact of the Good Friday earthquake would linger on for years, as it unleashed a flow of federal reconstruction funding which eventually totaled hundreds of millions of dollars to rebuild Alaska’s shattered infrastructure. Less than four years later the discovery of the largest oilfield ever found on the North American continent on state land at a place called Prudhoe Bay would trigger an even larger economic windfall.

The economic aftershocks of the 1964 Good Friday earthquake and the 1968 Prudhoe Bay discovery featured an inexplicable dimension of Alaska’s unpredictable economy, a hallmark that one state official superstitiously described for the *Wall Street Journal* back in 1960. “Something always happens to help Alaska,” he said. “Economically, you can’t even justify Alaska’s existence, but it’s here—just like Washington, D.C.”¹⁷⁶

While it might be due to simple fate, good luck, or an accident of history, the state that can’t be justified on economic grounds went on to become the wealthiest state per

capita in the history of the United States. Despite Alaska's good fortune in recent decades however, the underlying strata of Alaskan history is still distinguished primarily by the long-term trends of the Alaska permanent funding problem, a problem that has been thoroughly masked and disguised by the Prudhoe Bay Effect.

6. THE PRUDHOE BAY EFFECT

Ever since the discovery of oil on Alaska's North Slope in the 1960s and the incalculable riches that it promised, the Alaskan public and politicians have endlessly debated the appropriate levels of state spending. The rapid speed with which the legislature spent the \$900 million it earned in oil leases in 1969 helped spur passage of the 1976 constitutional amendment creating the Alaska Permanent Fund. While campaigning for the Permanent Fund amendment, Governor Jay Hammond often said if anyone wanted to listen he could give 900 million reasons why Alaskans should support it. The Permanent Fund was obviously one of the keys to ending Alaska's permanent funding problem. But while the Permanent Fund did place 25% of the oil bonanza off limits to government spending, it left three-quarters of the pot still on the table waiting to be divvied up. Both politicians and the public went after the available 75% of the oil money with no sense of moderation.

The Alaskan "Fiscal Trap"

In their 1994 treatise *Alaska Politics and Government*, political scientists Gerald McBeath and Tom Morehouse said that once oil began to flow in the trans-Alaska pipeline, Alaska's new-found wealth revolutionized the state's fiscal policy. Like a newly independent third-world country with an unprecedented windfall, the once capital-starved state, the land where there had never been enough money for government to do what needed to be done, tried its best to spend as much money as possible in the shortest amount of time. "Alaska enacted the greatest single distribution of state revenues per

capita by any state in the nation’s history,” McBeath and Morehouse wrote, “ a massive transfer of public wealth to a staggering array of public and private purposes.”¹⁷⁷ McBeath and Morehouse named this “policy of unsustainable spending”—using nonrecurring, unstable oil revenues to pay the recurring costs of government services—as the Alaskan “fiscal trap.”¹⁷⁸ In actuality Alaska had been caught in the jaws of the “fiscal trap”—another term for the permanent funding problem—throughout its history; borrowing from the future by relying on oil lease sales was essentially what the state had been doing to balance its budgets ever since 1959—only now the mortgage was on a much larger and grander scale.

Residents, Dividends and Taxes

In the early years of the oil boom the state government said “yes” to virtually anything that money could buy. “Suddenly Alaska was about to be hip deep in one-time petro-dollars,” Hammond wrote in his memoir. “Politicians anticipated political Nirvana: never having to say ‘no.’”¹⁷⁹

There was so much money in Juneau the state literally started giving it away. The Alaska Legislature not only abolished the state’s personal income tax, the mainstay of Alaskan revenue since 1949, but in defiance of all the normal laws of taxation and representative government, they completely reversed the flow of money. The rivers might just as well have started flowing uphill, as henceforth individual taxpayers in Alaska were asked not to give, but to receive.

Instead of citizens sending dollars to Juneau to pay to support state and local services, the state began sending out an annual bonus check—the Alaska Permanent Fund

dividend—to every man, woman and child who had been in the state for six months or more. The annual dividends grew far larger than anyone first envisioned, largely due to the booming stock market of the 1990s. In the 21 years since the dividend program was first instituted, it has paid out a cumulative total of nearly \$12 billion to Alaskans just for being themselves.¹⁸⁰

Some more cautious souls urged politicians and the public to keep spending in check. Hammond's mantra during his gubernatorial tenure was "one-time-only," as he could seldom get through a speech without reminding Alaskans that petrodollars would not last forever. Hammond initially opposed the elimination of the personal income tax, though he eventually succumbed to political pressure and allowed the repeal to become law—a move that he now calls the biggest mistake of his political career.

In August 1979 Hammond explained to the Fairbanks Chamber of Commerce that repealing the income tax would be short-sighted and irresponsible, proposing instead that half the earnings of the Permanent Fund be used to create a sliding scale "tax credit" to offset state income taxes, with one credit for each year of residency. Just as in territorial days, the natural linkage between tax rates and residency demonstrated that in Alaska's political economy, these two factors could not be divorced from each other. Taxes were the bulwark protecting the resource rights of residents.

Hammond recommended that after paying residents a tax credit with one-half of the Permanent Fund earnings, the other half would provide a stream of monies to support the general fund. A combination of individual income tax payments and Permanent Fund earnings would solve the age-old permanent funding problem. Though Hammond's sliding scale residency provision would almost certainly have been declared

unconstitutional, the thrust of his plan would have reduced the tax burden of Alaskan residents, ensured that non-residents would continue to pay taxes on their Alaskan-earned income, and extend the life of oil field revenues into the far distant future. Above all, he argued, his plan would retain the only relatively stable and steady revenue stream that Alaska had ever known, the income tax. He told the Fairbanks business community:

Income taxes now provide about the only source of recurring income to pay for ongoing state government. If we eliminate that major source, we must further invade our one time oil-wealth. This wealth should either go into our savings account and earn annual interest which we can spend in good conscience or capital construction projects which incur no new operational costs. Not one dollar should go to fund a greater percentage of government.¹⁸¹

Hammond claimed that hardly anyone in Alaska could truthfully say that they were paying their fair share for government services anyway, even with the state income tax. In 1979 each Alaska resident, whether they made enough money to pay taxes or not, received about \$2,655 worth of state services in roads, schools, police, wildlife protection, parks, and more, while the average taxpayer's bill was only \$500. One-time-only oil dollars were already picking up the vast majority of the state's tab, and the Governor warned that if the income tax was repealed then "we'll *all* be freeloaders."

Perhaps most important of all, Hammond claimed that keeping the income tax would serve as the only feasible check on controlling state spending. "Elimination of the income tax eliminates the one remaining thread tying Alaskan citizens' pocketbooks to their government," the governor said. "Without that thread, there's almost no chance at all of roping down government costs. Government is far more responsive to the people it serves if those people realize they are paying the bill."¹⁸²

Hammond's rationale that keeping the personal income tax in place would help restrain state spending was nearly identical to his reasoning behind the creation of the Alaska Permanent Fund dividend program. Paying a dividend to individual Alaskans, he argued, would create a large public constituency to protect the principal of the Permanent Fund and be a most efficient and democratic way of sharing some of the state's oil wealth. Naturally, paying out money to save money was an easier sell politically than suggesting that Alaskans should keep paying individual income taxes in the face of seemingly infinite oil revenues. But Hammond argued that the dividend was the political price needed to make citizens effective watchdogs for the people's money. "I thought it absolutely essential to have a dividend program if we were going to have any protection of the fund," Hammond said in 1999. "It created a militant ring of defenders... who would vigorously defend their fund."

In retrospect, it would be more accurate to say that Hammond's dividend program created a band of fierce partisans who became defenders of the dividend, and only indirectly of the Permanent Fund itself, as many Alaskans seem to believe that the sole purpose of the fund is to pay dividends to everyone willing and able to live in Alaska. Sometimes one hears it mistakenly called the "Alaska Permanent Dividend Program," a revealing slip that indicates a basic truth: in Alaska politics it is the dividend that wags the dog. That's especially so in the minds of those who think the annual dividend—not the Permanent Fund itself—is the crown jewel, and that a permanent dividend is even more important than the Permanent Fund. Ironically, the annual dividend program, which began as a method of controlling state spending by giving money directly to the people, has become nearly the largest single expense of state government, averaging in some

recent years close to \$1 billion. The public awareness of the Permanent Fund is focused almost obsessively on the size of the annual dividend, an indication that while all Alaskans may appreciate the fact that the fund is permanent, legions of dividend defenders believe with even greater passion that dividends are forever.

Jay Hammond, the father of the dividend program, was hardly the only voice during the oil boom years to warn of future financial problems. Economist Bob Richards of Alaska Pacific Bank was equally critical about the dangers of runaway spending fueled by the idea that the oil industry would provide Alaskans with so much wealth that no one in the state would ever have to pay for anything themselves ever again. Even before the state general budget ballooned to its all time record of \$4 billion plus in the early 1980s, Richards sounded the alarm in a stark 1979 study sponsored by the Alaska Oil and Gas Association. The study charged that state expenditures were increasing much too rapidly, and relying far too heavily on taxes, lease payments and royalties paid by the oil and gas industry.¹⁸³

Echoing the complaints of the salmon canning industry in the 1930s, Richards argued that it was inherently unwise to shift all of the state's tax burdens onto a single industry, no matter how profitable it was. "Clearly, Alaska citizens and local Alaska business firms," Richards concluded, "are not bearing the full financial burden for the state and local government services which they are receiving."¹⁸⁴ He urged the state to work at expanding its economic base in order to broaden its tax base, especially in those areas where Alaskan products did enjoy a competitive advantage, and noted that the low tax rates paid by the fishing industry for example, were "tiny in comparison to oil and gas revenues."¹⁸⁵

Richards contended that if oil taxes went any higher the state was on the verge of stunting or strangling the oil industry, of killing the golden goose. Given the enormous profitability of the North Slope fields, especially in the first years of development, that assertion is highly unlikely. One analysis found that during the first ten years of operation of the pipeline, the oil producers on the North Slope made an after-tax profit of \$41.5 billion on their holdings, despite having paid \$28.1 billion in state taxes.¹⁸⁶ In 1998, Richard Fineberg, an oil industry critic, calculated that the after-tax profits of the oil industry on the North Slope in the past 21 years had been about \$113 billion (in 1998 dollars)—or an average of about \$10,000 a minute since the day the pipeline started operating in June 1977.¹⁸⁷

Richards may have been a cheerleader for the oil industry, but he agreed with Governor Hammond that while the state's addiction to oil taxes was bringing in untold wealth, Alaskans would eventually pay dearly for ignoring the state's long-term economic health. If oil paid all the bills, if government services were now all free, who would ever bother to stop and add up the cost? When citizens stopped paying taxes for what they received, when they ceased being taxpayers, when they got all the services they were not willing to pay for, the seeds for a fiscal disaster were sown. The state could live on oil alone, but only until the oil ran out.

The Oil Crash

The easy years for Alaska's budget makers lasted only about five full years, from 1980 to 1985. Global oil prices crashed in the mid-1980s, sending parts of Alaska into a severe recession, while North Slope oil production began a slow but inevitable

decline in 1989 as the field entered middle age. Declining production and depressed prices were the double whammy that should have enabled all Alaskans to accept that the long strange trip on the back of Prudhoe Bay was over. The man who most clearly analyzed the cure for Alaska's Prudhoe Bay hangover was ISER economist Scott Goldsmith, whose analysis of the "fiscal gap" echoed the conclusions of Hammond and Richards ten years earlier.

"Alaska faces a problem that will be tough to solve," Goldsmith wrote in August 1989, "but it is easy to explain: state government is spending more than it collects. The problem will get much worse as time goes on."¹⁸⁸ Goldsmith's analysis indicated that the warnings of those who had urged caution in the expansion of state spending were not too wide of the mark. Alaska might soon be facing a shortfall of \$1 billion a year—or nearly 50% of the 1989 level of the state's general funding—unless steps were taken to reduce expenditures and increase revenues.

Goldsmith articulated an escape plan in 1992 which he called a "safe landing" fiscal strategy for the state in the 1990s, a mix of additional taxes, reductions in spending, the use of Permanent Fund earnings, and expansion of economic development, to avert a fiscal crash. "The easy-to-produce oil and unusual profit margins that fueled fiscal and economic growth are gone," Goldsmith wrote. "Alaska has to adjust to less oil money and to broaden its economic base." The future depended on the choices of Alaskans and their leaders. "Alaska is posed for either a safe landing or a nose dive," he wrote. "Whether we land safely or crash depends on how Alaskans deal with declining oil revenue."¹⁸⁹

Unfortunately, Alaska's political leaders would prove to be ineffective in crafting a workable solution to the state's fiscal problems, a fact that was plainly evident to *New York Times* reporter Timothy Egan in 1994, when he described the bizarre economic system that had developed in Alaska with the oil boom. "Living off the lard of North America's largest oil field," Egan wrote, "the state of Alaska has created a modern superstate unlike anything the world has ever seen—a sort of boreal welfare society in which people are paid to live and are given a monthly bonus if they make it past age 65." Egan claimed that the only "bright spots" for Alaska in recent years "have been world disasters or Middle East wars," which had caused oil prices to bounce. For the oil state of Alaska the worst of times globally have generally been the best of times locally, but sadly for Alaskans, even global bad luck can't last forever.

"...The free ride in the Last Frontier state is nearing an end," Egan wrote. "On paper, the government of Alaska is nearly broke...."¹⁹⁰

Representative Ron Larson, the co-chair of the House Finance Committee, told Egan that Alaska would soon have to choose between "our choice of evils": an income tax, sales tax, or cap on Permanent Fund dividends. "Alaska isn't poor," Larson said. "But when we were rich, we spent our money poorly. And now we've got to pay."¹⁹¹

While it may be true Alaska will one day be forced to pay the piper, despite a quarter century of warnings about one-time only oil revenues, and more than a dozen years of steadily declining oil production, the State of Alaska has yet to mend its ways. There have been no new broad-based taxes, no capping of Permanent Fund Dividends, and no use of Permanent Fund earnings to pay for state government. Today Alaskans have become resigned to the state legislature's annual fiscal high wire act, in which the

fortunes of state government are precariously balanced on world petroleum prices, with the state constantly one step away from a financial disaster pending the outcome of events in Kuwait, Iraq or Saudi Arabia. The general public is only dimly aware that for most of the past decade the state has been drawing billions of dollars from one of its designated savings accounts—the Constitutional Budget Reserve—to make up for the red ink in the general fund budget, and that the most optimistic forecast by the state Department of Revenue in 2002 was that the CBR would be exhausted by April 2005.¹⁹²

In fact oil revenues have now been declining for so long, and the warnings of looming fiscal disaster have been repeated so often, that a cynical public appears to believe that the approaching fiscal crisis is not nearly as serious as some bureaucrats and state officials have warned, or that if in fact that the problem does really exist, there is undoubtedly some easy and relatively painless way to solve it.

Some have argued that the long-delayed natural gas pipeline will solve the problem by launching the next big boom, while others point to oil drilling on the coastal plain of the Arctic National Wildlife Refuge as the state's salvation. In January 2003 newly elected Governor Frank Murkowski made clear his position in his first State of the State speech. Governor Murkowski said there was a simple answer to Alaska's fiscal woes. "Ladies and gentlemen," he said, "in a single word, it's oil."¹⁹³

The Prudhoe Bay Effect

Untold riches may be developed in Alaska in the future, but there can never be another Prudhoe Bay. The odds of any natural resource development coming remotely close to matching the riches thrown off by Prudhoe Bay are extraordinarily unlikely. It

was not just the unprecedented size of the oil field—now an estimated 14 billion recoverable barrels—but a combination of timing, technological developments, market forces, and a series of world crises from the 1970s to the present—including the OPEC oil embargo, the Iranian hostage crisis, and the first Persian-Gulf War—that sent oil prices to record levels and enabled Prudhoe Bay to become far and away the richest bonanza in Alaskan history.

Certainly Alaska has been the scene of many resource booms in the past 250 years, but none of them can compare with Prudhoe Bay. No other oil field has ever been found in North America that comes close to its sheer size, and the timing of its development was perfect, as market forces and global instability created an unprecedented demand for oil by the time production began to peak. The state government was able to capture a significant portion of the oil's value (about \$50 billion) in leases, taxes and royalties. The state's population was small enough, the resource was rich enough, and the bull market was strong enough, so that the mandated savings stored in the Permanent Fund has continued to this day to generate an enormous windfall in dividends (almost \$13 billion to date), even though the oil field is declining.

People often liken the oil boom to the gold rush, but in truth there is barely any measure for a fair comparison. All the gold ever produced in Alaska over the past century and more is only a fraction of the value of what has flowed through the trans-Alaska pipeline in the past twenty-five years. But gold is only the beginning. The wealth generated by Prudhoe Bay and the other fields on the North Slope since 1977 is worth more than all the fish ever caught, all the furs ever trapped, all the trees chopped down; throw in all the copper, whalebone, natural gas, tin, silver, lead, platinum, and anything

else ever extracted from Alaska too. The balance sheet of Alaskan economic history is simple: one Prudhoe Bay is worth more in real dollars than everything that has been dug out, cut down, caught or killed in Alaska since the beginning of time.

To get some idea of the size of Prudhoe Bay, relative to other Alaskan developments, consider the following. When Alaska became a state in 1959, the territory had been home to intensive commercial fishing and mining for nearly 80 years. During that time, as best as can be estimated, the total production value of Alaska’s major resources—salmon, other fisheries, gold, copper, and fur—was about \$3.4 billion. By far the most value came from salmon and gold. During most of those years, territorial taxes were extremely low, with only minimal taxes on fish and barely any taxes at all on gold. Table 1 shows the production value of major resources from 1868 through 1958, both nominal (not adjusted for inflation) and real (adjusted for inflation). During that period, salmon, gold, copper, other fish, and furs harvested from Alaska were worth about \$3.4 billion, or nearly \$40 billion in today’s dollars.

Table 1. Estimated Value of Major Resource Production in Alaska, 1868-1958¹⁹⁴

	Millions of Dollars	Millions of 2002 Dollars
Salmon	\$2,196	\$23,475
Gold	\$697	\$9,850
Copper	\$227	\$2,959
Fur seals and other furs	\$139	\$1,971
Other fisheries	\$136	\$1,728
Total, major resources	\$3,395	\$39,983

But ISER estimates the value of major Alaska resource production since statehood—from 1959 through 2002—at \$350 billion, when adjusted for inflation (2002 dollars).¹⁹⁵ More than 80 percent of that value was from oil. So Prudhoe Bay oil to date has been worth seven times more than the combined value of total resource production during the entire period before statehood.

The enormous prosperity of Prudhoe Bay has blinded many Alaskans to the hard realities of Alaskan economic history. Given the youthful age and the highly transient nature of the Alaska population, most residents have never been anything but “freeloaders” in Jay Hammond’s phrase, and have essentially never had to pay for state and local public services. Naturally they are loath to give up their dividend checks.

Most Alaskans don’t realize that Prudhoe Bay is the exception in Alaskan history, not the rule, because the permanent funding problem that had bedeviled the territory since the purchase of Alaska in 1867 disappeared almost completely from the political scene with the arrival of Prudhoe Bay. The fact is that Alaska won the lottery when oil was discovered on state land at Prudhoe Bay in 1967-1968, and the odds are against it happening again.

The distortion caused by the “Prudhoe Bay effect” has helped to polarize and warp virtually all discussions of current Alaskan economics and politics, and is perhaps one reason why despite almost twenty years of turmoil, no consensus has yet emerged on the future uses of the Permanent Fund, and on what the correct balance should be between new sources of revenue and spending cuts to replace Alaska’s depleting oil wealth. The Prudhoe Bay effect has generated many staunchly held convictions, such as the belief that another Prudhoe Bay *must* be out there waiting to be found, if we have the strength and courage to look for it and develop it (the “Prudhoe Bay is where you find it” school of thought); that the state government is a bloated monster that has wasted untold riches; that because it has wasted so much money in the past there is no reason why individuals should have to pay anything out of their pockets until all the alleged government “fat” has been trimmed; that this fat is an easy matter to trim; that the

Permanent Fund Dividend is the only benefit that most Alaskans have ever received from state government; and that therefore the dividend is not a privilege but a constitutional right, we have earned (the “You’ll take my dividend, when you take it from my cold dead fingers” point of view).

7. CONCLUSION

As this study has sought to demonstrate, one key to understanding the modern economic situation in Alaska is to recognize that the fiscal gap crisis that has plagued the state since the 1980s is merely the latest manifestation of a recurring problem. Since 1867 Alaska has suffered from a permanent deficit disorder, a malady which the Alaska Permanent Fund was originally intended to counteract.

Before the construction of the trans-Alaska pipeline, Alaska endured chronic fiscal shortfalls and deficits, though the memory of this continual fiscal instability has been all but obliterated by the Prudhoe Bay Effect. Numerous provisions in the Statehood Act, including the large transitional cash grants, but most important, the unprecedented size and quality of the state land grant, attest to the fact that authorities had good reason to wonder if Alaska could financially survive on its own without compensation for its inherent disadvantages in the market. Opponents of statehood had argued that the territorial economy was an “artificial” and unsustainable creature of the federal government, two-thirds of which was based directly on federal expenditures, particularly defense spending and military construction.¹⁹⁶

To overcome these formidable economic obstacles, and to make up for a projected decline in federal expenditures, the State of Alaska was created as an economic development machine, with a wide variety of resources and powers, so that it could generate enough funds from natural resource production to sustain itself. Everyone accepted the fact that government services in Alaska would always be extraordinarily costly compared to those in smaller, more settled, less remote regions, and therefore the state would need to garner more revenues in proportion.

This strategy paid off handsomely with the oil strike on the North Slope in the 1960s, and thanks to the wisdom of the Permanent Fund, a significant portion of the one-time only oil dollars have been saved for posterity. But the fantastic size of the lucky oil bonanza tended to camouflage the underlying weaknesses of the Alaskan economy, a natural resource based economy dependent on fluctuating prices and the production of diminishing supplies of raw materials. No matter how much oil it ultimately produces, Prudhoe Bay is not permanent any more than the Kennecott copper mine was permanent. The antidote to the Kennecott Syndrome and the permanent funding problem was the creation of the Alaska Permanent Fund, which turned a portion of Prudhoe Bay into an infinitely renewable resource.

In many ways Alaska is truly a rich and prosperous land, though in reality it has never been quite as comfortable as the good fortune of Prudhoe Bay made it appear. Even if against all odds, Alaska were to win the lottery a second time with the discovery of a “new Prudhoe Bay,” the continued persistence of the permanent funding problem throughout Alaskan history demonstrates that no one should ever take Alaskan prosperity for granted.

8. NOTES

¹ *Alaska Mining Record*, November 27, 1895.

² *The New Yorker*, 1993.

³ Territory of Alaska, *Report of the Territorial Board of Budget to the Legislature of Alaska, 11th Session, 1933-1935*, p. 2.

⁴ Territory of Alaska, *Report of the Territorial Board of Budget to the Legislature of Alaska, 13th Session, 1937-1939*, p. 3.

⁵ U.S. Senate, Committee on Interior and Insular Affairs, *Alaska Statehood: Hearings on S. 49 and S. 35, 85th Congress, 1st Session, March 1957*, (Washington: Government Printing Office, 1957), p. 18.

⁶ Charles McKinley, et.al., “*Suggestions Concerning Government and Administration in the Territory of Alaska*, 17103, (Washington: Natural Resources Planning Board, 1937), pp. 1-2.

⁷ *Annual Report of the Governor of Alaska to the Secretary of the Interior, 1933*, p. 1.

⁸ George W. Spicer, *The Constitutional Status and Government of Alaska* (Baltimore: Johns Hopkins Press, 1927), pp. 108-112.

⁹ U.S. Congress, House, Committee on the Territories, *Alaska: Hearings on H.R. 5694, “To Provide for the Administration of National Property and Interests in the Territory of Alaska,”* (Washington: Government Printing Office, 1921), p. 181.

¹⁰ U.S. Congress, House, Committee on Interior and Insular Affairs, *Statehood for Alaska: Hearings Before the Subcommittee on Territorial and Insular Affairs*, on H.R. 50, 628, 849, 340, 1242, and 1243, March 11-29, 1957, 85th Congress, 1st Session, (Washington: Government Printing Office, 1957), p. 151.

¹¹ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 152.

¹² U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, pp. 152-153.

¹³ Alaska Legislative Council, *Revenue and Taxation in Alaska* (Juneau: Alaska Legislative Council, 1962), pp. 74-75; U.S. Congress, House of Representatives, Committee on Government Operations, *The Federal Property Inventory Undertaking of the House Committee on Government Operations*, June 1960, 86th Congress, 2nd Session, (Washington: Government Printing Office, 1960).

¹⁴ U.S. Congress, House, Committee on Interior and Insular Affairs, *Statehood for Alaska: Hearings Before the Subcommittee on Territorial and Insular Affairs*, on H.R. 50, 628, 849, 340, 1242, and 1243, March 11-29, 1957, 85th Congress, 1st Session, (Washington: Government Printing Office, 1957), p. 493; Alaska Development Board, *Charting Alaska’s Progress: The Biennial Report of the Alaska Development Board, 1951-1952*, (Juneau: Alaska Development Board, 1952), p. 14.

¹⁵ Hubert Howe Bancroft, *History of Alaska, 1730-1885* (Darien, Conn.: Hafner Publishing Co., 1970) p. 717, 722.

¹⁶ U.S. Congress, House, Committee on the Territories, *Alaska: Hearings Before the Committee on the Territories on H.R. 5694*, May 1921, 67th Congress, 1st Session, (Washington: Government Printing Office, 1921), pp. 41-42.

¹⁷ *Washington Post*, January 30, 1912, quoted in: U.S. Congress, House, Committee on the Territories, *Conditions in Alaska: Commercial Value of Alaska, Statement of Hon. James Wickersham*, March 29, 1912 (Washington: Government Printing Office, 1912), p 5.

¹⁸ U.S. Congress, House, Committee on the Territories, *Alaska: Hearings on H.R. 5694, “To Provide for the Administration of National Property and Interests in the Territory of Alaska,”* (Washington: Government Printing Office, 1921), pp. 140-142. A similar ratio was true for 1911, when Gov. Walter E. Clark reported that Alaska’s tax receipts totaled about \$400,000, against federal expenditures of approximately \$3.2 million, excluding the costs of maintaining post offices and military posts. See: U.S. Congress, House, Committee on the Territories, *Conditions in Alaska, Statements of Hon. Walter E. Clark, et.al.* (Washington: Government Printing Office, 1912), p. 48. According to Treasury Dept. statistics, the total receipts from Alaska between 1869 and 1911 were about \$15 million, versus expenditures during the same time period of about \$23.2 million. See: U.S. Congress, House, Committee on the Territories, *Conditions in Alaska: Commercial Value of Alaska, Statement of Hon. James Wickersham*, March 29, 1912 (Washington: Government Printing Office, 1912), pp. 12-15.

- ¹⁹ Robert W. Hartley, "Expenditures and Income of the Federal Government in Alaska," in *Suggestions Concerning Government and Administration in the Territory of Alaska*, 17103, (Washington: Natural Resources Planning Board, 1937), pp. 76-85.
- ²⁰ George W. Spicer, *The Constitutional Status and Government of Alaska* (Baltimore: Johns Hopkins Press, 1927), p. 111.
- ²¹ U.S. Congress, Senate, Committee on Interior and Insular Affairs, *Providing for the Admission of Alaska into the Union*, Report to Accompany S. 50, Report No. 1028, Calendar No. 1029, 83rd Congress, 2nd Session, p. 3.
- ²² U.S. Natural Resources Committee, *Regional Planning: Part VII, Alaska—Its Resources and Development*, December 1937 (Washington: Government Printing Office, 1938), p. 184.
- ²³ Oscar Gass, "Memorandum on the Government of the Yukon and the Northwest Territories," in U.S. Natural Resources Committee, Alaska Resources Committee, *Suggestions concerning Government and Administration in the Territory of Alaska*, 17103, (Washington, December 1937), p. 28.
- ²⁴ Letter from Wendell Phillips, December 29, 1883, quoted in *Seals and Salmons Fisheries*, Vol. 3, p. 549.
- ²⁵ See any number of excellent articles by Claus-M. Naske detailing the wide range of development schemes launched by the federal government.
- ²⁶ U.S. Congress, House, Committee on the Territories, *Alaska: Supplemental Hearings on H.R. 5694 (and other bills) 'To Provide for the Administration of National Property and Interests in the Territory of Alaska,'* (Washington: Government Printing Office, 1921), p. 500.
- ²⁷ U.S. Natural Resource Planning Committee, pp. 202-203.
- ²⁸ *Annual Report of the Governor of Alaska to the Secretary of the Interior, 1911*, p. 33.
- ²⁹ *Annual Report of the Governor of Alaska to the Secretary of the Interior, 1911*, p. 31.
- ³⁰ *The Alaskan* (Sitka), April 22, 1899, p. 2.
- ³¹ Ernest Gruening, *The State of Alaska* (New York: Random House, 1968), p. 28.
- ³² Alfred H. Brooks, *Blazing Alaska's Trails* (College: University of Alaska Press, 1973), p. 261.
- ³³ Quoted in: Robert P. Porter, *Report on Population and Resources of Alaska at the 11th Census, 1890* (Washington: Government Printing Office, 1893), p. 255; Hubert Howe Bancroft, *History of Alaska, 1730-1885* (Darien, Conn.: Hafner Publishing Co., 1970), p. 597.
- ³⁴ U.S. Dept. of the Treasury, *Seal and Salmon Fisheries and General Resources of Alaska*, (Washington: Government Printing Office, 1898), Vol. 4, p. 236
- ³⁵ *Ibid.*, p. 172.
- ³⁶ *Ibid.*, pp. 242-243.
- ³⁷ Alfred H. Brooks, *Blazing Alaska's Trails* (College: University of Alaska Press, 1973), p. 269.
- ³⁸ Brooks, *Blazing Alaska's Trails*, pp. 269-270.
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- ⁴⁰ *Annual Report of the Governor of Alaska to the Secretary of the Interior, 1920*, p. 24.
- ⁴¹ A.H. Brooks, *Mineral Resources of Alaska, Report on Progress of Investigations in 1920*, U.S. G.S. Bulletin 722 (Washington: Government Printing Office, 1922), pp. 16-17.
- ⁴² A.H. Brooks, *Mineral Resources of Alaska, Report on Progress of Investigations in 1920*, U.S. G.S. Bulletin 722 (Washington: Government Printing Office, 1922), p. 8.
- ⁴³ George Carmack, *My Experiences in the Yukon*, p. 6; George Snow's "Klondike Discovery" says the dream salmon had only \$10--not \$20--gold pieces for eyes.
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- ⁴⁵ A.F. Gustafson, *Conservation in the United States* (Ithaca, New York: Comstock Publishing Co., 1939), p. 264.
- ⁴⁶ Elizabeth A. Tower, *Icebound Empire: Industry and Politics on the Last Frontier 1898-1938* (Anchorage: Elizabeth Tower, 1996), p. 198. The same was said about the first organic act passed in 1884. As Governor A.P. Swineford reported in 1887, the 1884 act was "chiefly remarkable for the rights, privileges, and power it expressly withheld and denies, rather than for those it confers...." See: *Annual Report of the Governor of Alaska, 1887*, p. 39.
- ⁴⁷ Crain, "Governance for Alaska," p. 190.
- ⁴⁸ Crain, "Governance for Alaska," p. 182.
- ⁴⁹ *To Repeal the Law Allowing the Territory of Alaska to Tax Fisheries, H.R. 9527, Statement of J.F. A. Strong, Governor of Alaska, May 2, 1916, Part 5, pp. 572-582; Gruening, The State of Alaska, p. 192 ff.*

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- ⁵¹ See George Rogers: *Alaska In Transition: The Southeast Region* (Baltimore: Johns Hopkins Press, 1960), p. 327.
- ⁵² U.S. Congress, Senate, Committee on Territories, Hearing, *Civil Government in Alaska, S. 1647* (Washington: Government Printing Office, 1911), p. 57.
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- ⁵⁴ "Report of the Alaska Advisory Committee to the Secretary of Interior," June 11, 1920, in *Annual Report of the Governor of Alaska to the Secretary of the Interior, 1920*, p. 105.
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- ⁵⁶ John C. Boswell, *History of Alaskan Operations of United States Smelting, Refining and Mining Company* (Fairbanks: Mineral Industry Research Laboratory, Univ. of Alaska, 1979), pp. 3-4.
- ⁵⁷ Ernest Gruening, *Message of the Governor of Alaska to the 17th Legislative Assembly*, January 25, 1945, p. 32.
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- ⁶² Frederick C. Lusk, *The Alaska Tax System: A Report to the Governor of Alaska*, pp. 8-9.
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- ⁶⁴ U.S. Congress, House, Committee on the Territories, *Alaska: Supplemental Hearings on H.R. 5694*, pp. 95.
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- ⁶⁷ George W. Rogers, *Financing Alaska's Employment Security Program: Analysis of the Alaska Economy and its Future Outlook*, (Juneau: Alaska Employment Security Commission, 1958), p. 5.
- ⁶⁸ *Annual Report of the Governor of Alaska to the Secretary of the Interior, 1937*, p.48.
- ⁶⁹ James C. Rettie, *Preliminary Survey of Taxation in Alaska* (Juneau: Alaska Planning Council, 1938), p. 64.
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- ⁷² Harold L. Ickes, *The Secret Diary of Harold L. Ickes: The Inside Struggle 1936-1939, Vol. II* (New York: Simon and Schuster, 1954), p. 444.
- ⁷³ Harold L. Ickes, *The Secret Diary of Harold L. Ickes: The Inside Struggle 1936-1939, Vol. II* (New York: Simon and Schuster, 1954), p. 445.
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- ⁷⁵ James C. Rettie, *Preliminary Survey of Taxation in Alaska* (Juneau: Alaska Planning Council, 1938), p. 12.
- ⁷⁶ Juneau Chamber of Commerce, "Planned Development of Alaska," in U.S. Congress, Senate, Committee on Territories and Insular Affairs, *Settlement and Development of Alaska, Hearings on S. 3577*, May 13-18, 1940 (Washington: Government Printing Office, 1940), p. 242.

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¹⁰⁴ *Messages of the Governor of Alaska to the Extraordinary and Regular Sessions of the 19th Assembly of the Alaska Territorial Legislature, January 11, 1949 and January 25, 1949*, pp. 3-7.

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¹¹⁵ *Annual Report of the Governor of Alaska to the Secretary of the Interior, 1951*, p. 1.

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¹¹⁷ Press release from the U.S. Department of Commerce, November 4, 1956, quoted in: U.S. Senate, Committee on Interior and Insular Affairs, *Alaska Statehood: Hearings on S. 49 and S. 35*, March 25-26, 1957, 85th Congress, 1st Session, (Washington: Government Printing Office, 1957), p. 152.

¹¹⁸ U.S. Senate, Committee on Interior and Insular Affairs, *Alaska Statehood: Hearings on S. 49 and S. 35*, March 25-26, 1957, 85th Congress, 1st Session, (Washington: Government Printing Office, 1957), p. 54

¹¹⁹ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 47.

¹²⁰ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, pp. 187-191.

¹²¹ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 187.

¹²² U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 182.

¹²³ U.S. Congress, House, Committee on Interior and Insular Affairs, *Providing for the Admission of the State of Alaska Into the Union*, Report to accompany H.R. 7999, 85th Congress, 1st Session, Report No. 624, p. 92.

¹²⁴ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, pp. 214-217.

¹²⁵ U.S. Congress, House, Committee on Interior and Insular Affairs, *Statehood for Alaska: Hearings Before the Subcommittee on Territorial and Insular Affairs*, on H.R. 50, 628, 849, 340, 1242, and 1243, March 11-29, 1957, 85th Congress, 1st Session, (Washington: Government Printing Office, 1957), p. 486.

¹²⁶ Terrence Cole and Elmer E. Rasmuson, *Banking on Alaska: A History of the National Bank of Alaska* (Fairbanks: University of Alaska Press, 2000), p. 295.

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¹²⁸ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 195.

¹²⁹ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 87.

¹³⁰ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 82.

¹³¹ U.S. Congress, House, *Statehood for Alaska Hearings, 1953, H.R. 20, 207, 1746, 2684, 2982, 1916*, April 1953, 83rd Congress, 1st Session, Serial No. 4, p. 89.

¹³² Gordon S. Harrison, *A Citizen's Guide to The Constitution of the State of Alaska* (Anchorage: ISER, 1982), p. 67.

¹³³ Terrence Cole, "Golden Years: The Decline of Gold Mining in Alaska," *Pacific Northwest Quarterly*, April 1989, pp. 62-71.

¹³⁴ Phil Holdsworth, *Report of the Commissioner of Mines for the Biennium ended December 31, 1954*, (Juneau: Department of Mines, 1955), p. 26.

¹³⁵ Steven R. Hare, et.al., "Inverse Production Regimes: Alaska and West Coast Pacific Salmon," *Fisheries Habitat*, January 1999, Vol. 24, No. 1, pp. 6-14. For views about federal policies causing the salmon decline, consider the congressional testimony of Gov. Ernest Gruening in 1947: "The runs of salmon have gone down markedly in southeastern Alaska. It has happened under Federal control. We talk about salmon fisheries as a great national asset, and it is, and it provides a livelihood for a great many Alaskans, but we know that one of the basic reasons why this depletion is taking place is that there are just not enough stream watchers to prevent poaching. . . . Under statehood I am confident that the Alaska Legislative would provide enough funds to take care of that situation, as the Congress has not." U.S. Congress, House, *Statehood for Alaska, Hearings of Subcommittee on Territorial and Insular Possessions of the Committee on Public Lands, H.R. 206 and H.R. 1808*, 80th Congress, 1st Session, April 1947, Committee Hearing No. 9 (Washington: Government Printing Office, 1947), p. 396.

¹³⁶ Ernest Gruening, *Message of the Governor of Alaska to the 21st Session of the Alaska Territorial Legislature*, January 28, 1953.

¹³⁷ Ernest Gruening, *The State of Alaska* (New York: Random House, 1954), p. 405; *Annual Report of the Governor of Alaska for 1954*, pp. 2-3; George W. Rogers, *Alaska in Transition: The Southeast Region* (Baltimore: Johns Hopkins Univ. Press, 1960), p. 299; Richard A. Cooley, *Politics and Conservation: The Decline of the Alaska Salmon*, (New York: Harper and Row, 1963), p. 186.

¹³⁸ Victor Fischer, *Alaska's Constitutional Convention* (Fairbanks: University of Alaska Press, 1975), pp. 130-131.

¹³⁹ Ernest R. Bartley, *The Alaska Constitution and the State Patrimony: The Constitution and Natural Resources*, Public Administration Services, 1955, p. 67.

¹⁴⁰ U.S. Congress, Senate, Committee on Interior and Insular Affairs, *Providing for the Admission of Alaska into the Union*, Report to Accompany S. 50, Report No. 1028, Calendar No. 1029, 83rd Congress, 2nd Session, pp. 2-3.

¹⁴¹ U.S. Senate, Committee on Interior and Insular Affairs, *Alaska Statehood: Hearings on S. 49 and S. 35*, 85th Congress, 1st Session, March 1957, (Washington: Government Printing Office, 1957), p. 62.

¹⁴² U.S. Congress, Senate, Committee on Interior and Insular Affairs, *Providing for the Admission of Alaska into the Union*, Report to Accompany S. 50, Report No. 1028, Calendar No. 1029, 83rd Congress, 2nd Session, p. 3.

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¹⁴⁵ U.S. Congress, Senate, Committee on Interior and Insular Affairs, *Providing for the Admission of Alaska into the Union*, Report to Accompany S. 50, Report No. 1028, Calendar No. 1029, 83rd Congress, 2nd Session, p. 4.

¹⁴⁶ Quoted in: George W. Rogers, *Financing Alaska's Employment Security Program: Analysis of the Alaska Economy and its Future Outlook*, (Juneau: Alaska Employment Security Commission, 1958), pp. 44-46.

¹⁴⁷ For one of the few discussions of statehood by a representative of a national conservationist organization see the testimony of C.R. Gutermuth, the Vice President of the Wildlife Management Institute, U.S. Congress, House, *Statehood for Alaska, Hearings Before the Subcommittee on Territorial and Insular Affairs*, on H.R. 50, 628, 849, 340, 1242, and 1243, 85th Congress, 1st Session, March 1957, Serial No. 6 (Washington: Government Printing Office, 1957), pp. 375, 418, 476.

¹⁴⁸ U.S. Senate, Committee on Interior and Insular Affairs, *Alaska Statehood: Hearings on S. 50*, 83rd Congress, 2nd Session, January 20-February 24, 1954, (Washington: Government Printing Office, 1954), p. 312.

¹⁴⁹ U.S. Senate, Committee on Interior and Insular Affairs, *Alaska Statehood: Hearings on S. 49 and S. 35*, 85th Congress, 1st Session, March 1957, (Washington: Government Printing Office, 1957), p. 154.

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¹⁵³ *New York Times*, April 16, 1961, p. 115; *U.S. News and World Report*, "The 49th State—Three Years Later," March 19, 1962, pp. 65-68.

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¹⁶⁰ Alaska Legislative Council, *Revenue and Taxation in Alaska* (Juneau: Alaska Legislative Council, 1962), p. 85.

¹⁶¹ *New York Times*, April 16, 1961, p. 115.

¹⁶² Alaska Legislative Council, *Revenue and Taxation in Alaska* (Juneau: Alaska Legislative Council, 1962), p. 11a.

¹⁶³ Alaska Legislative Council, *Revenue and Taxation in Alaska* (Juneau: Alaska Legislative Council, 1962), pp. 53-71;

¹⁶⁴ George W. Rogers, *The Future of Alaska: Economic Consequences of Statehood* (Baltimore: Johns Hopkins Press, 1962), p. 293.

¹⁶⁵ George W. Rogers, *Alaska In Transition: The Southeast Region*, (Baltimore: Johns Hopkins Press, 1960), p. 323.

¹⁶⁶ Claus-M. Naske, *An Interpretative History of Alaska Statehood* (Anchorage: Alaska Northwest Publishing Co., 1973), p. 82.

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¹⁶⁸ *Juneau Empire*, February 27, 1959.

¹⁶⁹ Quoted in Rogers, *The Future of Alaska*, p. 200.

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- ¹⁷² *Anchorage Daily Times*, May 6, 1960.
- ¹⁷³ *New York Times*, May 14, 1962.
- ¹⁷⁴ *New York Times*, November 17, 1963, p. 128.
- ¹⁷⁵ *New York Times*, January 6, 1964.
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- ¹⁹⁰ *New York Times*, April 24, 1994, p. E3.
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- ¹⁹³ *Fairbanks Daily News-Miner*, January 24, 2003, p. 1. Subsequently, however, the Murkowski Administration changed its approach by suggesting new taxes and budget cuts to solve the deficit problem.
- ¹⁹⁴ Numerous sources, not all of which use the same baseline measures, were used to calculate the totals. The annual *Report of the Governor of Alaska to the Secretary of the Interior* (various years) generally contains year-to-year data. Other reliable compilations include: U.S. Dept. of the Interior, Bureau of Reclamation, *Alaska: A Reconnaissance Report on the Potential Development of Water Resources in the Territory of Alaska for Irrigation, Power Production and Other Beneficial Uses*, 82nd Congress, 1st Session, House Doc. No. 197), pp. 41-63; George W. Rogers and Richard A. Cooley, *Alaska's Population and Economy: Regional Growth, Development and Future Outlook*, ISEGR, Economic Series, Publication No. 1, Vol. 1, pp. 149-182; U.S. Congress, House, Committee on the Territories, House of Rep, 67th Congress, 1st Session, Hearings n H.R. 5694, *To Provide for the Administration of National Property and Interests in the Territory of Alaska*, (Washington: Government Printing Office, 1921), p. 99, 180-182; U.S. Dept. of Commerce, Business and Defense Services Administration, *Alaska: Its Economy and Market Potential* (Washington: U.S. Government Printing Office, 1959), pp. 33-46; Government Statistical Corporation, *Alaska Economic and Fiscal Data, 1963* (Anchorage: Alaska State Development Corporation, 1963), pp. 45-58; Alaska Territorial Development Board, *Charting Alaska's Progress: The Biennial Report of the Alaska Development Board 1951-1952* (Juneau: Alaska Territorial Development Board, 1952), p. 6.
- ¹⁹⁵ ISER calculations, based on MAP database; figures adjusted to 2002 dollars.
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