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NORTHERN EXPANSES

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BERINGIA

THE INTERNATIONAL DECADE OF INDIGENOUS PEOPLES OF THE WORLD

YEAR 10

THE INTERNATIONAL DECADE OF INDIGENOUS PEOPLES OF THE WORLD, YEAR 10

СЕВЕРНЫЕ просторы

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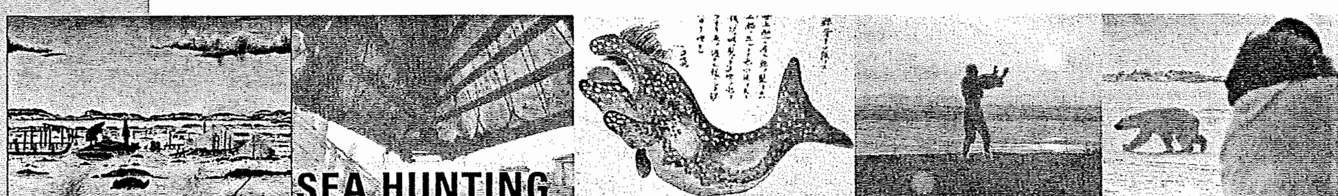

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UNITED OR DIVIDED TWINS?

THE POLITICAL ECONOMY OF BERINGIA

The modernization experience in Alaska might help in setting an economic roadmap for Alaska's western neighbor, the Chukotka Autonomous Okrug. However, in trying to explain to their Russian colleagues the experience of the Alaska model, a pair of Alaska economists realized that, despite all the talk about sustainable development and the human dimension for arctic science, we do not have a generally accepted framework of economic and policy analysis for Alaska or the U.S. Arctic.

We started with a working hypothesis that the U.S. example of modernization in the Arctic, specifically experience in Alaska since statehood (1959) and in the North Slope Borough since its establishment as a self-rule municipal government (1972), is a potential prototype of development for other sparsely settled high-latitude regions, particularly those populated by disparate population groups with primarily indigenous and immigrant origins.

We postulated that the Alaska experience incorporates the most sophisticated combination of market institutions and local and regional self-governance of any of the sub-national regions in the Arctic and Subarctic. One indicator of such sophistication is the coexistence of high levels of per capita income and material welfare originating from the extractive activities of large multinational firms, with sustained high levels of reliance on subsistence resources and traditional relationships within Native communities. We anticipate that Alaska contains or has demonstrated most of the elements that we can expect to see in the foreseeable development of other post-Soviet Arctic regions, including Alaska's nearest neighbor Chukotka, one of Russia's poorest and least modernized regions.

When we began to look at Alaska and eastern Russia we speculated whether these are "new" and "unique" cases within the scope of western development economics. We are beginning to see that, in so many ways, the economies are ordinary and simple and do not necessarily create a new paradigm in development economics. Specifically, the past and present state of the economies of these northern regions are consistent with existing explanations for a subset of economies that rely heavily on export-led growth of primary resource production. Several theories relate the importance of the growth of the export sector of a resource producing country or region to the total and sustained growth of its economy. One of the first people to develop this kind of analysis was the economic historian Harold Innis (for the first time in 1915), who described development in his native Canada in terms of the production and export of a principal resource, called a "staple".

The story of the Alaska economy

When the US purchased Alaska from the Russians in 1867 it quickly stepped into Russia's role in the colonial relationship. The US exploited salmon as the primary base resource from about 1878. Gold was discovered in lode deposits in the 1880s in the southeast of Alaska (Juneau and Treadwell), about the same time as the Lena gold fields of Irkutsk began to step up operations. The McCarthy-Kennecott copper mine, in operation from 1911 to 1938, produced ore from 1915 to 1928 at a value that exceeded that of gold production.

World War II brought on "Military Alaska" and a sizable influx of military and construction personnel to Alaska. For this period you can consider 'defense' as Alaska's exploitable resource. The resource in this case is a strategic location. Alaska's geography made it vulnerable to Japan during World War II and Alaska was also a prime staging area for the US lend-lease program to the Soviet Union. During the Cold War period 1951 to 1960 US government stationed between 34,000 and 50,000 military personnel in Alaska.

The transformation from colony to a wealthy region occurred because Alaska became a state of the United States in 1959, entitled to the same rights as the other 48 US states. Alaska's success is due not only to Alaska's association with the US, biggest and richest of the democratic capitalist nations, but specifically, being an equal member of the United States. This equality and what may be called a degree of sovereignty immediately gave Alaska two immense economic advantages. First, Alaska became a part of the US and its laws, customs, monetary system, and access to US technology, labor and capital. Added to the "instant" opportunities by association to the US, Alaska reaped the benefits of the relatively extensive rights states have within the federal republic. The United States developed a complex balance between states rights and federalism molded by 183 years of experience and a civil war. Second, as part of becoming a state the federal government gave 104 million acres (about a third of the state) outright to the State of Alaska, including all resource rights to royalties, taxes and other conventional means to capture economic rents from resource development. Since a non-renewable resource, like oil, is a "gift of nature," all of the income the exploitation generates is economic rent. Alaska's wealth after statehood was generated from capturing economic rents of an extremely valuable "gift of nature." As part of its land grant Alaska received the Prudhoe Bay oil field, the largest deposit of oil ever found in North America (discovered in 1968), which, at its peak, produced 20 percent of US total oil production.

Alaska faced the chief issues posed to any primary resource exporter, namely how to manage its state owned resource base. Alaska also needed to decide how to manage the economic rents from non-renewable resource development and the subsequent revenue flow which those rents would generate. First, Alaska policy makers recognized the immense importance of natural resources and the likelihood that economic rents from resource exploitation would be the main source of Alaska's wealth in the present and future. In its State Constitution Alaska created a separate

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article on natural resources, the only state to do so. Second, decisions on a strategy (quantity and price) at which Alaska sells its non-renewable resources to maximize benefits, or, for that matter, the rate of resource depletion, were deliberately taken out of the state's sphere of decision making once it leased oil deposits and private oil companies began producing oil. The infrastructure which was involved in bringing Alaska oil to market represented an investment of over $10 billion dollars, a state of the art 800 mile pipeline that stretches from the extreme north, where the oil fields are, to the tidewater Port of Valdez, Alaska. Although the oil flowing through trans-Alaska pipeline comprises a large amount of North American oil production, it represents less than three percent of world oil production. This is not enough to influence the world market and so Alaska became a price taker. That is, unlike Saudi Arabia, Alaska does not control a large enough portion of the market that its incremental supply affects the total supply. The combination of needing a flow of income to pay off large up-front investment and the inability to control oil prices means that Alaska is committed to a maximum rate of depletion (quantity) at whatever price the market offers.

Alaska is a resource owner and also is a "sovereign" government that has taxation rights. Because of these two different roles, Alaska approaches the task of capturing revenues using two philosophically different, though non-competing methods. The system is somewhat complicated. As the resource owner, Alaska needed to decide whether to explore, develop and produce non-renewable resources (in this case oil) by itself or to let private companies do the job on behalf of the state. Alaska, with no expertise and no equipment for developing oil, decided to let private companies explore, develop and produce its oil on behalf of the state. The privilege of drilling on a particular plot of Alaska, with the promise of being the subsequent developer was determined on a competitive basis, and the right granted to the highest bidder (usually a multi-national oil company). This is one of three ways that the State of Alaska receives revenue from ownership of the oil resource. The lease bonus payments for the Prudhoe Bay field equaled over $900 million in 1969.

The second way Alaska receives revenue is from the fee paid by the developer for maintaining rights to a particular lease. This is a relatively small fee and usually plays a large role only if a company bids and wins in a lease sale, pays its lease bonus, and then does not drill oil or gas or does not produce oil and gas. If the company does not produce oil it is not earning any income, yet it still pays rent. The state wants to see the resource developed and so this is an incentive for the company to produce the resource or stop paying rent and return the lease.

Finally, Alaska gets a percentage of the resource as the owner. By convention in the US for oil this is 1/8 of the resource (12.5%). Alaska can take this portion in kind, as barrels of oil, or have the oil companies sell the oil on the State's behalf. As the "sovereign" government, with taxation rights, the state levies four taxes. A production (severance) tax of 12.5 to 15 percent, a conservation tax (collected like a severance tax, but monies are dedicated for environmental conservation) of 1/8 cent per barrel of oil, a state corporate income tax on profits, and a property tax of 20 mills (a mill is a tax rate equal to .001 percent, in this case, the tax rate is .02 percent) on the value of property. The State of Alaska further devolved some of its powers to local

Caribou and pipeline

© PATRICK VALKENBURG PHOTO

government. For example, in the oil-producing area the municipal government, the North Slope Borough, also levies a property tax at the rate of three mills (.003 percent). This all adds up to a lot of money. The North Slope Borough's tax revenues are currently about $200 million for a population of almost 10,000 people. The total revenues were more than double in the 1980s.

The North Slope Borough took full advantage of their powers for the benefit of a primarily Native population. The Borough quickly learned that it is of great advantage to be a region that global capital markets find familiar and tractable, from those that seem to the market forbiddingly obscure, potentially troublesome or excessively expensive. A great part of the North Slope Borough's success over the last thirty years has been the ability to make rating agencies and investment bankers, representatives of the global capital markets, feel familiar and comfortable with the Borough.

Most people of Alaska, from government officials to fishermen, generally accept policy conclusions based on a staples theory explanation of the relationships between the oil producing sector and the rest of the economy. They understand that an industry is either part of the economic base or the support sector. They also understand that there is an employment or income "multiplier" that takes each dollar created by basic industry and sustains and grows other sectors of the economy.

At the same time Alaska incorporated public participation in economic rent management, policy makers in Alaska "discovered" and used the principle of comparative advantage. This occurred in Alaska during the late 1970s and early 1980s when surplus economic rents from the petroleum industry equaled several billion dollars. By understanding that Alaska's chief comparative advantage was in petroleum production various proposals were prevented from redirecting the immense economic rents to develop new untried and ultimately unsustainable activities.

Economists at the University of Alaska showed that the value of revenue added to the Alaska's economy in the base industry (petroleum development) was tremendous, relative to any other Alaska activity. For example, Alaska would have to produce five and a half times US coal production (1979) or nine times US copper production (1979) to match Alaska's petroleum revenues. The people of Alaska were convinced that an additional dollar invested on developing an additional unit of oil for sale on a demonstrated market, or putting the state's money in the bank and collecting interest, is more efficient than subsidizing a new industry. In short, why should a region bother investing and subsidizing unsustainable industries when it can make more money developing an additional unit of base resource or put the money in the bank to earn interest?

This kind of argument led Alaska policy makers to create an investment fund from a portion of its oil revenue windfall. The Alaska Permanent Dividend Fund is a $27 billion fund that earns more money than any sector of the Alaska economy except the petroleum development industry and petroleum support industry. Several important features of the Permanent Dividend Fund make it successful. In particular much of the success relates to immunizing the fund from political influence and raiding. First, the fund, for the time being, is excluded from being used for development or investment within the state. Although this meant that money from the original economic rents would be siphoned off outside the state and reduce the multiplier effect of the revenue, it diversified the state's earnings in investments that gave higher than average returns compared to likely returns on local development projects. Since most of the Alaska economy became depressed as the oil economy became depressed (the "bust" cycle), the Permanent Dividend Fund was an outside fund that provided a diversified and stable source of income.

The second feature of the Permanent Dividend Fund removed it from the grasp of political raiding, by distributing part of the fund's earnings to the people of Alaska. Every year a dividend of about $1,000 to $2,000 dollars is distributed to every Alaska resident. This clever strategy of appealing to the residents' rent-seeking behavior insures that any politician who would attempt to disburse the fund for any reason, including general government or special interest projects, would be under attack by most residents of Alaska. Another advantage to the dividend program is that much of the money given to the residents is spent within Alaska and takes advantage of the multiplier effect (compensation for the fund's "outside" investments). The Permanent Dividend Fund provides an incentive for citizens to be aware and concerned with the general management of economic rents. This is also an equitable way to let the citizens directly enjoy part of the economic rents.

Alaska's key to becoming wealthy was that, armed with all the tools of a US state, Alaska was able to capture some of the economic rent from the development of oil at Prudhoe Bay, redirect the revenue flow and hold it within its own economy. In Alaska, although the regional government was the resource owner, the actual exploration, development and production was carried out by private multi-national oil companies and private subcontractors to the multinational companies. Similarly, although some of the benefits of resource revenues were squandered by state government, overall, much of the benefit of the economic rents from petroleum development reached the Alaska public, in the form of employment, infrastructure, services and even a direct disbursement of economic rents in the form of a dividend.

Maintaining the engine of growth

Grave issues face Alaska's future, including wasteful use of the revenue flow from economic rent and the sustainability of Alaska's petroleum-generated economy, once the bulk of the oil is depleted. These issues are second order problems. Alaska created a successful solution to the fundamental problem of a remote or peripheral region successfully capturing and managing economic rent from non-renewable resource development to maximize the benefits for its inhabitants. Maintaining the engine of growth is always a problem, as is turning primary resource export-led economic growth into diversified long term growth. It is unlikely that Alaska will have a balanced economy any time in the near future. Facing this reality involves many complicated and unpopular policy decisions. Alaska is attempting to break trail on a strategy for development in the face of diminishing income. Of course the secret hope of many Alaskans is that another resource boom will come into the horizon. The only likely chance of this happening is if the natural gas resources of the North Slope of Alaska become economically viable.

Indigenous people and the economy

Of course the Beringia region has indigenous people who somehow fit within the greater economic system. Some arguments about development pit the traditional economies of indigenous people against the cash economy. Discussion of sustainable development often creates this dichotomy. For the North, a proposition discussed extensively is that indigenous economic activities are, or can be, the foundation of a sustainable livelihood. This deserves attention for two reasons. The first is that in discussing development in Russia the issue of indigenous people's participation is particularly relevant. The second is that the proposition that the indigenous economy must suffer from contact, be in conflict or remain exclusive of the market, or cash economy, need not be true, as we see from the Alaska example.

Some of the literature that tries to adapt sustainability to the North unconsciously avoids confronting the inherent ambiguity of sustainability and indigenous people's economic activity. The discussion is either extremely specific (e.g., sustainability of northern Canadian indigenous village of Old Crow, population 250) or chooses not to recognize the diversity in the global northern "indigenous economy" and addresses only a stereotypical model of indigenous economy. But how can the rural economy of a region be torn out of the general system of the regional economy? Most of today's indigenous people, certainly in Alaska, and in most of the areas of Russia, are very familiar with the cash economy. In fact, many of their subsistence activities are carried out more efficiently by incorporating equipment and supplies from the cash economy. This does not diminish the importance of indigenous rural subsistence to the overall indigenous economy.

Indigenous people can operate on many levels within the world economy and should certainly not be condemned for successfully adapting and reaping benefits from the "Western cash economy." Indigenous peoples need not choose between a dichotomy of tradition and adaptation to the market. Alaska is an example of a region where the indigenous economy has synthesized the traditional economy and the market.

The Alaska indigenous economy exists within a complex economic, legal, and political framework that provides an opportunity for the indigenous economy to participate in a broad spectrum of economic activities, from Native-owned corporations to subsistence use of fish and wildlife resources. Alaska presents difficult and often contradictory evidence for researchers addressing sustainability.

In Alaska the indigenous economy has become greatly influenced and involved in the oil and gas industry that has dominated the Alaska economy. With the discovery of the Prudhoe Bay "super" oil field in the late 1960s, the "indigenous economy" in Alaska has become an active participant in the market economy of the state. The discovery of oil led to the 1972 Alaska Native Claims Settlement Act (ANCSA) that transferred 12% of the territory of the State of Alaska into Native ownership, and, with an award of $1 billion, set up 13 regional Native-owned corporations and over 200 village Native-owned corporations. Today, the regional ANCSA corporations represent about 75,000 Alaska Native shareholders (about 15 percent of the Alaska population), have close to $3.5 billion of corporate equity, have annual revenue of over $2.5 billion and employ 5% of the private workforce in Alaska.

The indigenous people of Alaska have also taken advantage of their rights as state and federal citizens. An example of this is the organization of the North Slope Borough, which has collected over $2 billion in property taxes from Prudhoe Bay oil development as the local, municipal government. The Inupiat controlled North Slope Borough government has provided high levels of public services, jobs, and income over the last twenty years. This money has also been used directly to promote and support the subsistence economy in the North Slope Borough, by giving the borough government the ability to exercise political autonomy. A vivid example of this is the fight the North Slope Borough mounted against the International Whaling Commission's (IWC) 1976 ban on traditional bowhead whale hunting by Alaska's indigenous people. The North Slope Borough was instrumental in forming the Alaska Eskimo Whaling Commission, an indigenous organization that formally led the battle for obtaining a quota for bowhead whale harvest. The North Slope Borough hired scientists and spent more than $20 million on an elaborate scientific program to demonstrate that bowhead whale stocks were double what the IWC had incorrectly estimated, thereby reinstating a higher quota.

The indigenous economy is therefore more extensive and complex than it is often described. Any economic development in the North, from resource exploitation projects to maintaining services for northern villages, requires large investment in infrastructure, equipment and organization and is usually beyond the means of the village or regional capital base. Therefore, state and federal government and outside private investment are inevitable actors in the economy of the North and the indigenous economy. The indigenous peoples in northern economies, in turn, are part of the global economy.

So what does this all mean for the Russian economy of Beringia?

Chukotka

Chukotka is virtually lacking in basic industry, in the sense the term is used in regional economic analysis. This situation is the combined effect of a near-termination of the Cold War military presence, near-collapse of mining enterprises that turned out to be uneconomic in the face of global costs and commodity prices, and sharp contraction of the subsidies to general government and public services formerly provided by Moscow.

A change in administration has brought great changes to the region relative to regional economic conditions from 1990 to 2000. Governor Abramovich and his administration have arranged for federal transfers to actually be spent within Chukotka and also attracted considerable private investment and humanitarian aid. Nevertheless, the only current viable base industry is gold mining. This industry produces a small percentage of what it did twenty years ago, however, investment is being made into this sector. The new Governor has also attracted a major Russian oil company to explore the oil and gas potential of the region. This is the last great hope for a new base industry. At this point the level of discovered resources are limited and are for local use. For example, in Anadyr, the region's capital, the main power plant is being switched over from coal to natural gas.

In this situation agriculture and subsistence activities remain disproportionately important to the local population. Until recently, the local people in Chukotka have been excluded from mining and related high-wage occupations (engineering, construction, truck-driving and the like), making up a small percentage of the ordinary labor force. Most indigenous people were kept in the agricultural sector through the collective- and state-farm systems, but a few were trained as government and communist party administrators or educated as scientists, teachers, artists, musicians and doctors.

Today, the agricultural sector remains one of the most important industries for the indigenous populations, but it also faces a steady contraction. Most of Chukotka's non-military labor force is (or was, until chronically unemployed) engaged in mining, and has been made up almost exclusively of migrants from other parts of the Soviet Union. Accelerated movement of Native people from the agricultural sector to urban wage labor (or urban unemployment) will probably result in few overall benefits to the indigenous people or the region.

In Chukotka, the traditional sector is important to several indigenous groups of rural people—particularly the Native reindeer and marine-mammal hunters. These are populations of people in Chukotka who cannot easily leave the rural areas, even in the worst economic crisis. Most of the Russian and Ukrainian population still retain strong links to other parts of Russia and the former Soviet Union and could adapt to the job market by moving to another part of the country. Many of the indigenous people would find moving to any other part of Russia difficult. Even moving from the rural to urban areas involves significant change for people raised in a rural lifestyle.

This brings us back to the original question. Can the modernization experience in Alaska be useful to set an economic roadmap for Chukotka? The first step is to establish a generally accepted framework of economic and policy analysis for Alaska or the US Arctic. We have made significant strides toward defining this framework. One thing is clear, there is still a lot of work for social scientists to do.

Arlon TUSSING
and John TICHOTSKY,
economic and policy analysts