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TRACING THE GROWTH OF ALASKA
STATE SPENDING SINCE 1979

by

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EXECUTIVE SUMMARY

During the decade of the 1980s the state of Alaska collected \$46.3 billion (1989 \$) in revenues, \$31.8 billion from the production and ownership of petroleum resources, \$8.2 billion as earnings on financial assets (the majority from the Permanent Fund), \$3.2 billion from the federal government, and \$3.1 billion from all other sources.

Total resources available to fund state expenditures during the decade were \$48.4 billion, somewhat larger than revenues actually collected because some resources were allocated to tax reductions.

Of total resources available, \$24.9 billion (about half) was used to fund pre-existing government programs at maintenance levels. Maintenance level funding included expenditure growth to offset inflation and to accommodate population growth. \$4.4 billion of the total was necessary to accommodate population growth over the decade.

Of the \$23.5 billion of available resources (about half) over and above the \$24.8 billion necessary to fund the 1979 maintenance level budget:

\$9.9 billion (40%) was allocated to savings as deposits into the Permanent Fund. (\$1.7 billion was not new saving as it was necessary to offset erosion of the value of the Permanent Fund due to inflation.)

\$6.7 billion (28%) was allocated to transfers to individuals. This consisted of Permanent Fund dividends, the elimination of the personal income tax, and subsidized housing and education loans.

\$4.8 billion (20%) was allocated to transfers to local governments for operations and capital spending.

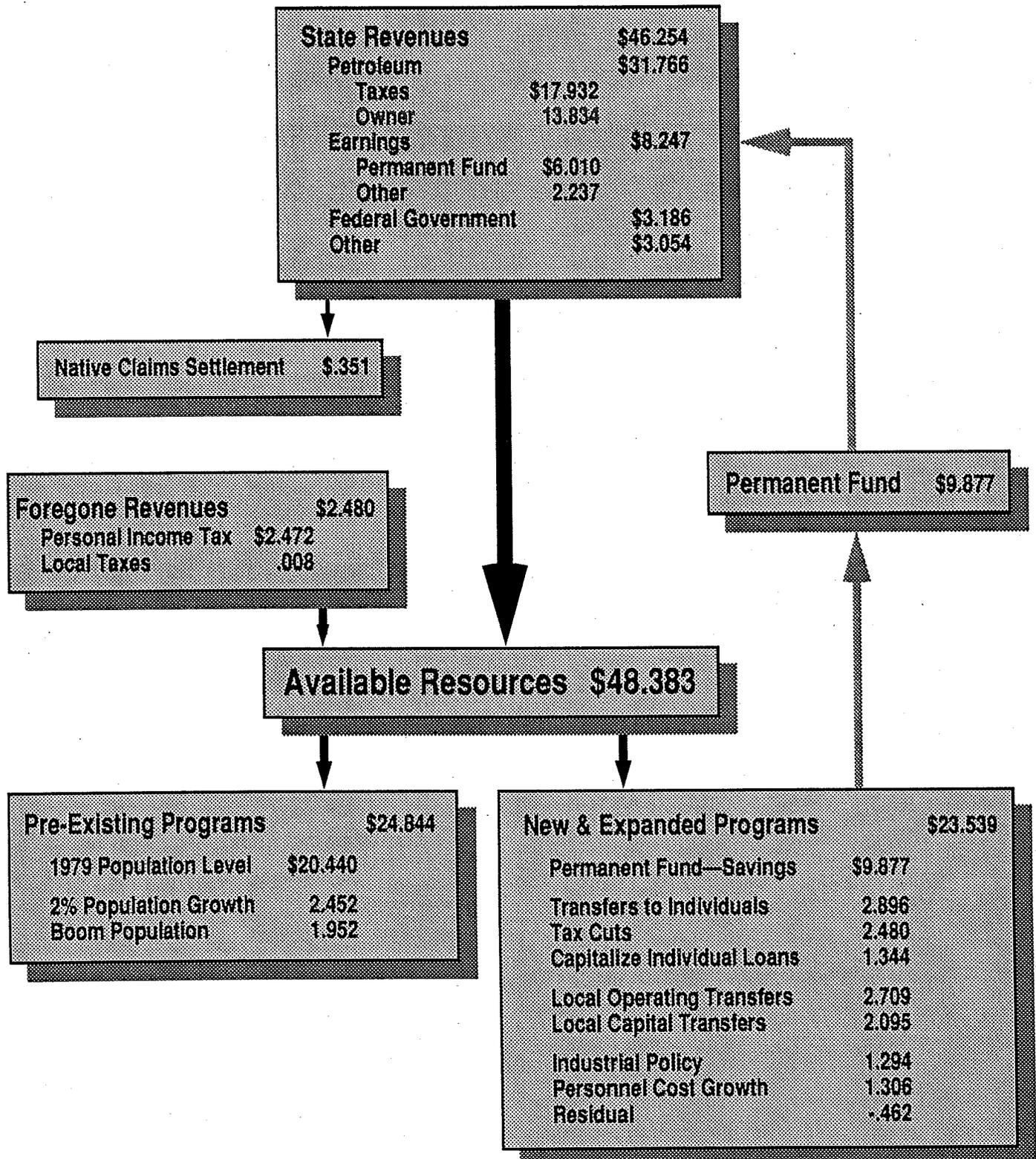
\$1.3 billion (6%) was allocated to economic development initiatives.

\$1.3 billion (6%) was allocated to increase average government employee compensation.

Aside from these activities there was no expansion in the aggregate of the state operating and capital budgets. A number of new programs were undertaken during this time but they were funded by "crowding out" other programs. Growth in these crowded out programs did not keep pace with inflation and population growth.

Alaska State Government Fiscal Flows Fiscal Years 1980-1989

(Billion 1989 \$)



TRACING THE GROWTH OF ALASKA STATE SPENDING SINCE 1979

1. INTRODUCTION

When Alaska became a state in 1959 its immediate economic prospects were limited. Timber, fish, and minerals--historically the natural resources extracted from the state--were a small part of the economy compared to the federal government presence, particularly the military. At the time oil discoveries in Cook Inlet appeared to be the best prospect for funding the new state government. In recognition of the absence of any other obvious tax base to support government, the Alaska Statehood Act included transfer to the state of the subsurface rights to large tracts of land. It was the hope that this resource base would, with development, provide that tax base.

Through the 1960s the economic expansion of the state was punctuated by cycles dominated by the Good Friday earthquake in 1964 and the Fairbanks flood in 1967. Throughout the decade the petroleum industry showed a continuing interest in northern Alaska. Then on September 10, 1969 the event occurred which forever changed the course of economic history of the state. This state with a population of 300 thousand received winning bids of over \$900 million (worth \$2.5 billion in 1989 dollars) for the lease of the subsurface rights to several tracts of land on the North Slope at a place called Prudhoe Bay. Ten billion barrels of recoverable reserves of crude oil underlay these state owned leases in the largest oilfield ever discovered in North America. Alaska began a roller coaster ride it is still on today.

It took until 1977 for the first oil from the North Slope to reach "Lower 48" markets. The mid 1970s was dominated by the construction of the Alyeska pipeline--allegedly the most expensive private construction project in modern history (approximately \$8 billion). Before its completion the state government had spent all the North Slope lease bonus money. It enacted a "Reserves Tax" in 1976 on the North Slope oil in the ground as a temporary revenue raising measure until the oil started flowing. The revenues from this tax were credited against the severance taxes the state expected to and did receive in the last years of the decade.

Then in early 1979 came the second oil crisis which tripled the world price of crude oil. Overnight the value of the state royalty oil and the tax base of petroleum reserves increased by tens of billions of dollars. Optimistic politicians talked in terms of hundreds of billions of dollars of petroleum revenues. The state appeared to be rich beyond the wildest dreams of the most fervent boomers.

In 1989 after 12 years of production at a rate of 1.5 million barrels per day, depletion of the Prudhoe Bay oil field began. The state of Alaska projects that production from this field will fall by 50% during this decade. The development of new fields on the North Slope and advanced recovery methods will be insufficient to offset the depletion of the largest oil field in the state. Revenues from petroleum, even assuming new production and rising real prices, will fall dramatically over the decade. How state government responds to the decline of the source of about 85% of its General Fund revenues will be one of the dominant factors in the economy of the state for years to come.

Since 1979 state government has been on a spending spree of unparalleled proportions. This paper is an attempt to analyze the composition of that spending and in particular to identify the spending which is over and above a "maintenance level". It is a historical analysis but the objective is to use this information to look into the future, to try to understand how state government will evolve in the next 2 decades.

2. COMPARING DIFFERENT MEASURES OF STATE SPENDING

i. STATE REVENUES

The easiest way to calculate how much money state government in Alaska spent between 1980 and 1989 is to add together all state revenues during the decade. All of the revenues collected were either spent or appropriated into special accounts. Table 1. shows a number of measures of revenues, and thus spending, based upon different revenue definitions. Part A. includes only revenues to the state General Fund. This Fund accounts for the vast majority of spending in Alaska (with the exception of the Permanent Fund) because of a constitutional prohibition on restricted funds unless required under federal law. General Fund unrestricted revenues can be summed over the decade either before or after the deduction of several special appropriations that were made to the Permanent Fund in the early 1980s.

Most analyses of state spending concentrate on the state General Fund but it excludes the activities of the Permanent Fund, Federal transfers, and assorted restricted funds of the state. These are included with the General Fund in Part B. of Table 1 and provide a comprehensive picture of all the revenues available to the state government during the 1980s.

Using this second more comprehensive definition of revenues, Table 1. Part B. shows that the state collected \$42.3 billion between 1980 and 1989. This converts to \$46.3 billion 1989 dollars of Alaska purchasing power. It is probably more meaningful to a national audience to convert this figure to total revenues in

TABLE 1. PART A. TWO MEASURES OF STATE OF ALASKA REVENUES

	STATE GENERAL FUND UNRESTRICTED REVENUE			SPECIAL APPROPRIATIONS FROM GENERAL TO PERMANENT FUND			STATE GF REVENUE NET OF PF APPROPRIATIONS		
	Mill \$	Mill 89 \$	89 US \$	Mill \$	Mill \$	Mill 89 \$	89 US \$		
1961	\$40.5	\$140.9	\$92.1	\$0.0	\$40.5	\$140.9	\$92.1		
1962	\$68.9	\$232.4	\$151.9	\$0.0	\$68.9	\$232.4	\$151.9		
1963	\$71.6	\$234.4	\$153.2	\$0.0	\$71.6	\$234.4	\$153.2		
1964	\$67.0	\$213.1	\$139.3	\$0.0	\$67.0	\$213.1	\$139.3		
1965									
1966	\$86.5	\$256.5	\$166.5	\$0.0	\$86.5	\$256.5	\$166.5		
1967	\$86.5	\$250.8	\$163.8	\$0.0	\$86.5	\$250.8	\$163.8		
1968	\$112.7	\$318.8	\$211.6	\$0.0	\$112.7	\$318.8	\$211.6		
1969	\$112.4	\$307.5	\$207.9	\$0.0	\$112.4	\$307.5	\$207.9		
1970	\$1,067.3	\$2,820.9	\$1,953.6	\$0.0	\$1,067.3	\$2,820.9	\$1,953.6		
1971	\$220.4	\$565.5	\$396.4	\$0.0	\$220.4	\$565.5	\$396.4		
1972	\$219.2	\$547.9	\$386.3	\$0.0	\$219.2	\$547.9	\$386.3		
1973	\$208.2	\$499.3	\$358.9	\$0.0	\$208.2	\$499.3	\$358.9		
1974	\$255.0	\$551.7	\$396.9	\$0.0	\$255.0	\$551.7	\$396.9		
1975	\$333.4	\$634.1	\$437.8	\$0.0	\$333.4	\$634.1	\$437.8		
1976	\$709.8	\$1,253.0	\$849.3	\$0.0	\$709.8	\$1,253.0	\$849.3		
1977	\$874.3	\$1,447.2	\$979.5	\$0.0	\$874.3	\$1,447.2	\$979.5		
1978	\$764.9	\$1,182.3	\$803.8	\$0.0	\$764.9	\$1,182.3	\$803.8		
1979	\$1,133.0	\$1,595.5	\$1,101.7	\$0.0	\$1,133.0	\$1,595.5	\$1,101.7		
1980	\$2,501.2	\$3,225.9	\$2,315.4	\$0.0	\$2,501.2	\$3,225.9	\$2,315.4		
1981	\$3,718.2	\$4,452.5	\$3,269.4	\$900.0	\$2,818.2	\$3,374.8	\$2,478.0		
1982	\$4,108.4	\$4,654.3	\$3,428.4	\$800.0	\$3,308.4	\$3,748.0	\$2,760.8		
1983	\$3,631.0	\$4,084.7	\$3,077.4	\$400.0	\$3,231.0	\$3,634.7	\$2,738.4		
1984	\$3,390.1	\$3,668.4	\$2,750.3	\$300.0	\$3,090.1	\$3,343.8	\$2,506.9		
1985	\$3,260.0	\$3,429.0	\$2,587.6	\$300.0	\$2,960.0	\$3,113.4	\$2,349.5		
1986	\$3,075.5	\$3,178.4	\$2,392.6	\$0.0	\$3,075.5	\$3,178.4	\$2,392.6		
1987	\$1,799.4	\$1,856.3	\$1,445.5	\$0.0	\$1,799.4	\$1,856.3	\$1,445.5		
1988	\$2,305.8	\$2,369.7	\$1,911.3	\$0.0	\$2,305.8	\$2,369.7	\$1,911.3		
1989	\$2,186.2	\$2,186.2	\$1,797.9	\$0.0	\$2,186.2	\$2,186.2	\$1,797.9		
SUM 80-89	\$29,975.8	\$33,105.2	\$24,975.9	\$2,700.0	\$27,275.8	\$30,031.0	\$22,696.4		

SOURCE:MAP DATABASE

TABLE 1. PART B. TWO MEASURES OF STATE OF ALASKA REVENUES

	STATE TOTAL REVENUES ALL FUNDS			TOTAL REVENUES INTO PERMANENT FUND		STATE TOTAL REVENUES NET PF BALANCE		
	Mill \$	Mill 89 \$	89 US \$	Mill \$	Mill 89 \$	Mill \$	Mill 89 \$	89 US \$
1961								
1962								
1963	\$105.8	\$346.3	\$226.3	\$0.0		\$105.8	\$346.3	\$226.3
1964	\$137.2	\$436.3	\$285.1	\$0.0		\$137.2	\$436.3	\$285.1
1965								
1966	\$152.6	\$452.5	\$293.8	\$0.0		\$152.6	\$452.5	\$293.8
1967	\$168.5	\$488.6	\$319.0	\$0.0		\$168.5	\$488.6	\$319.0
1968	\$177.6	\$502.5	\$333.5	\$0.0		\$177.6	\$502.5	\$333.5
1969	\$187.9	\$513.9	\$347.6	\$0.0		\$187.9	\$513.9	\$347.6
1970	\$1,146.3	\$3,029.6	\$2,098.1	\$0.0		\$1,146.3	\$3,029.6	\$2,098.1
1971	\$333.5	\$855.6	\$599.7	\$0.0		\$333.5	\$855.6	\$599.7
1972	\$346.7	\$866.5	\$611.1	\$0.0		\$346.7	\$866.5	\$611.1
1973	\$353.8	\$848.4	\$609.9	\$0.0		\$353.8	\$848.4	\$609.9
1974	\$396.3	\$857.4	\$616.8	\$0.0		\$396.3	\$857.4	\$616.8
1975	\$538.2	\$1,023.7	\$706.8	\$0.0		\$538.2	\$1,023.7	\$706.8
1976	\$966.7	\$1,706.4	\$1,156.6	\$0.0		\$966.7	\$1,706.4	\$1,156.6
1977	\$1,118.5	\$1,851.5	\$1,253.2	\$4.0	\$6.6	\$1,114.5	\$1,844.9	\$1,248.7
1978	\$1,062.6	\$1,642.5	\$1,116.6	\$50.5	\$78.1	\$1,012.1	\$1,564.5	\$1,063.6
1979	\$1,451.5	\$2,044.0	\$1,411.3	\$84.1	\$118.4	\$1,367.4	\$1,925.6	\$1,329.6
1980	\$3,099.5	\$3,997.5	\$2,869.3	\$344.7	\$444.6	\$2,754.8	\$3,552.9	\$2,550.2
1981	\$4,380.6	\$5,245.8	\$3,851.9	\$1,344.1	\$1,609.6	\$3,036.5	\$3,636.2	\$2,670.0
1982	\$4,959.5	\$5,618.5	\$4,138.7	\$1,385.5	\$1,569.6	\$3,574.0	\$4,048.9	\$2,982.5
1983	\$4,633.2	\$5,212.1	\$3,926.8	\$1,162.2	\$1,307.4	\$3,471.0	\$3,904.7	\$2,941.8
1984	\$4,589.2	\$4,965.9	\$3,723.1	\$999.7	\$1,081.8	\$3,589.5	\$3,884.1	\$2,912.1
1985	\$4,625.0	\$4,864.7	\$3,671.0	\$1,108.5	\$1,165.9	\$3,516.5	\$3,698.8	\$2,791.2
1986	\$4,757.3	\$4,916.4	\$3,701.0	\$1,040.9	\$1,075.7	\$3,716.4	\$3,840.7	\$2,891.2
1987	\$3,469.7	\$3,579.3	\$2,787.4	\$848.1	\$874.9	\$2,621.6	\$2,704.4	\$2,106.1
1988	\$3,885.7	\$3,993.3	\$3,220.9	\$798.5	\$820.6	\$3,087.2	\$3,172.7	\$2,559.0
1989	\$3,859.9	\$3,859.9	\$3,174.3	\$633.4	\$633.4	\$3,226.5	\$3,226.5	\$2,653.4
SUM 80-89	\$42,259.6	\$46,253.5	\$35,064.3	\$9,665.6	\$10,583.5	\$32,594.0	\$35,670.0	\$27,057.4

1989 US dollars--\$35.1 billion. (It would require \$35.1 billion in the Lower 48 to purchase the equivalent goods and services that the \$46.4 billion could purchase in Alaska during the decade.) This adjusts the revenue figure not only for inflation but also for the significantly higher cost of living in Alaska relative to the US average.

Figure 1 shows annual total Alaska state government revenues in 1989 US dollars and clearly illustrates the different periods in the history of revenues for the state. The dramatically higher levels of the 1980s is the subject of the investigation of this paper. In per capita terms this flow of revenues was roughly \$7,000 per year (at the US average price level).

ii. US DEPARTMENT OF COMMERCE

The US Department of Commerce provides another aggregate measure of Alaska state government spending during the period 1980 to 1988. (Data for 1989 is not yet available.) Since this data is prepared for all states this measure allows us to make comparisons and to conduct analyses across states. However, the definition of expenditures used by the US Department of Commerce differs from the measures commonly used by the State of Alaska in at least three ways.

First, an expenditure is not counted until it is actually "disbursed" which may be long after an appropriation is made and also long after the funds are expended from the state General Fund. A disbursement occurs only when the government writes a check to an entity outside the government sector.

Second, activity of state revenue bond funds is included in the US Department of Commerce figures. Both the revenues collected to service the bonds and the interest paid on the bonds are included in the accounts as revenues and expenditures. This shows up as a large category of both revenues and expenditures for Alaska because of several billion dollars of outstanding Alaska Housing Finance Corporation home mortgage bonds.

Third, the US Department of Commerce includes expenditures out of trust accounts (retirement). Consequently the figures in Table 2. will not correspond to those commonly reported by the state in Table 1.

Although most of the differences between the two measures are relatively minor, particularly over a period of several years, there are 2 important components of Alaska state government spending which must be kept in mind when analyzing spending behavior using the disbursement data of the US Department of Commerce. First, \$9.7 billion of state revenue has been appropriated to the Alaska Permanent Fund since it was created in 1977. This \$9.7 billion does not appear as disbursements in the US Department of Commerce

Figure 1.

TOTAL ALASKA STATE REVENUES

1989 US DOLLARS BILLION

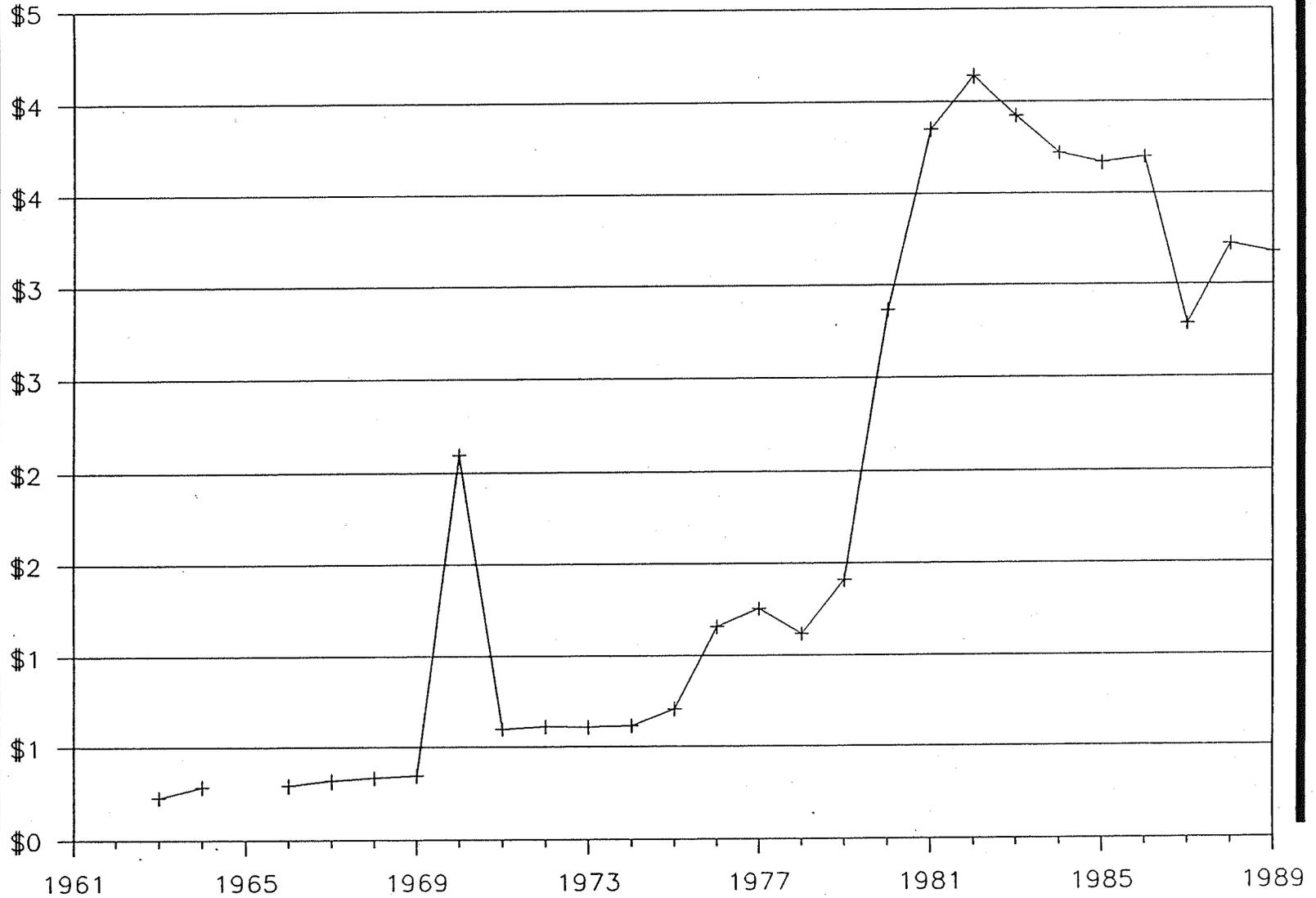


TABLE 2. STATE OF ALASKA DISBURSEMENTS: US DEPARTMENT OF COMMERCE
MILLION DOLLARS

Year	ALASKA EXPENDITURES			ALASKA EXPENDITURES 1988 Dollars		
	Total	General	To Local Govt	Total	General	To Local Govt
1965	\$202	\$174	\$21	\$606	\$521	\$61
1966	\$203	\$168	\$27	\$586	\$484	\$76
1967	\$272	\$236	\$26	\$768	\$665	\$72
1968	\$287	\$245	\$28	\$789	\$673	\$77
1969	\$285	\$239	\$32	\$759	\$637	\$86
1970	\$354	\$291	\$38	\$912	\$750	\$98
1971	\$492	\$394	\$82	\$1,230	\$984	\$204
1972	\$594	\$473	\$93	\$1,445	\$1,151	\$227
1973	\$646	\$499	\$95	\$1,508	\$1,164	\$221
1974	\$698	\$519	\$133	\$1,468	\$1,092	\$279
1975		\$619	\$155		\$1,146	\$286
1976		\$750	\$194		\$1,289	\$333
1977		\$794	\$202		\$1,279	\$325
1978	\$1,289	\$893	\$265	\$1,939	\$1,343	\$399
1979	\$1,466	\$1,053	\$294	\$2,009	\$1,442	\$402
1980	\$2,033	\$1,590	\$338	\$2,551	\$1,996	\$425
1981	\$2,543	\$1,808	\$614	\$2,963	\$2,106	\$715
1982	\$3,251	\$2,042	\$990	\$3,584	\$2,251	\$1,091
1983	\$3,836	\$2,334	\$1,089	\$4,199	\$2,555	\$1,192
1984	\$3,969	\$2,450	\$1,181	\$4,179	\$2,580	\$1,243
1985	\$4,950	\$3,032	\$1,572	\$5,066	\$3,103	\$1,609
1986	\$4,221	\$3,025	\$856	\$4,244	\$3,041	\$861
1987	\$4,416	\$3,100	\$928	\$4,433	\$3,111	\$931
1988	\$4,198	\$3,075	\$794	\$4,198	\$3,075	\$794
SUM 80-88	\$33,416	\$22,454	\$8,361	\$35,417	\$23,818	\$8,861

SOURCE: US DEPARTMENT OF COMMERCE, GOVERNMENTAL FINANCES, ANNUAL.

figures but it was all state revenues at one time, and a large portion of it was appropriations from the General Fund. Second, expenditures associated with the state supported housing mortgage bonds appears as a disbursement of several hundred million annually although the majority of this expenditure is financed by mortgage payments. The state acts primarily as the middleman.

iii. DISCUSSION

Without getting into the details of the difficulties involved in summing either appropriations or expenditures as reported by different State of Alaska sources at different times, these two alternative measures should be sufficient to demonstrate that it is impossible to summarize either the level of state expenditures, or the influence of state government spending on the economy with a single measure. Neither measure can tell us both and neither measure tells us how much influence state government has over the allocation of resources within the economy.

The influence of the public sector on the economy extends beyond any measure of appropriations, expenditures, or disbursements. State government has a regulatory function, it influences prices and the allocation of resources through subsidies, and it is a resource owner. In this later role it decides the terms and conditions of the use of its resources--the land, fish, timber and minerals. A complete calculation of this influence is beyond the scope of this paper.

3. SOURCES OF INCREASED GOVERNMENT SPENDING

Revenues in 1979 have been chosen as the base for calculating the distribution of spending increases in the 1980s. Alternatively actual expenditures in 1978 could have served as the base since the price of oil was increasing during the first half of 1989 (during the period when deliberations on the 1980 fiscal year budget were ongoing and when revisions to the 1979 fiscal year budget were also possible). The former is chosen for the base because of the availability of more detail on the components of the budget from 1979 onward and the abrupt jump in revenues in 1980.

Table 3. shows calculations of what state expenditures would have been in the 1980s under two sets of assumptions. Both assume constant real per capita spending at the level of 1979. The first case uses actual population in the 1980s to produce an estimate of expenditures for the decade of \$24.8 billion. This is the amount in 1989 dollars that would have been necessary to fund a budget at a constant 1979 real per capita spending level through the 1980s. The second estimate of \$22.9 billion is based on the assumption of population growth through the 1980s at 2 percent annually. The difference--\$2.1 billion--is a rough approximation of state spending required by the population growth induced by the

actual rapid increase in state spending in the 1980s. That is, if the growth in population of the state would have been about 2 percent during the 1980s in the absence of rapid expansion of state government spending, then \$2 billion was necessary to fund government for the excess population increase engendered by the spending boom.

The growth between 1979 and 1989 in population was 29 % and in the price level 41% for a combined increase of 82% in the budget between 1979 and 1989 assuming constant per capita spending. Without population growth, spending would have been \$20.4 billion to maintain the constant per capita target.

Although a large part of total revenues collected in the 1980s was needed to maintain constant real per capita spending at the 1979 level, there was an apparent surplus of \$21.1 billion remaining over and above a maintenance budget level available for other uses. This surplus was allocated to many different categories of programs. Figure 2 summarizes the calculation of the surplus as well as its disposition which will be the topic of the remainder of this section.

i. STATE AND LOCAL TAX REDUCTIONS (TAX EXPENDITURES)

A portion of the surplus was used to eliminate or reduce state taxes. During the 1960s and early 1970s the personal income tax, which had existed prior to statehood, annually accounted for 20-25% of state General Fund revenues. Income tax revenues helped fund the expansion of government in the early part of the 1970s. The state tax liability was calculated as 16% of the federal personal income tax liability with certain adjustments. In fiscal year 1978 petroleum revenue growth began to reduce the importance of the state income tax as a source of revenue and a system of tax rebates was introduced in the following year. The tax was repealed effective in fiscal year 1981 with a rebate for taxes collected in fiscal year 1980. A first approximation the loss of revenue associated with the repeal of the income tax, and the increase in private purchasing power, can be calculated from the federal income tax liability from Alaska. Table 4 shows that over the decade the elimination of the personal income tax amounted to a tax expenditure of \$2.5 billion.

The justification for the repeal of the tax was that it was no longer necessary in light of the huge current and projected revenues from petroleum. This was coupled with the argument that individuals could better determine than the government how their income should be spent.

Several other less important taxes which fell on individuals and local businesses were eliminated as well (school tax and gross receipts tax). In addition through most of the 1980s there were no significant increases in tax rates for remaining state taxes. Since there was no statewide sales tax or property tax the

TABLE 3. CALCULATION OF THE SURPLUS OF THE 1980S
MILLION \$

PART A. USING ACTUAL POPULATION

	TOTAL REVENUES	POPULATION (000)	SPENDING		SURPLUS		
			PC (\$)	AT 1979 PC LEVEL (NOMINAL)	89\$ (NOMINAL)	89\$	
1979	\$1,451.5	413.7	\$3.508	\$1,451.5		\$0.0	
1980	\$3,099.5	419.8	\$3.831	\$1,608.2	\$2,074.1	\$1,491.3	\$1,923.3
1981	\$4,380.6	433.8	\$4.126	\$1,789.8	\$2,143.3	\$2,590.8	\$3,102.5
1982	\$4,959.5	463.4	\$4.361	\$2,021.0	\$2,289.6	\$2,938.5	\$3,328.9
1983	\$4,633.2	497.6	\$4.392	\$2,185.5	\$2,458.5	\$2,447.7	\$2,753.6
1984	\$4,589.2	522	\$4.566	\$2,383.4	\$2,579.1	\$2,205.7	\$2,386.8
1985	\$4,625.0	541.3	\$4.697	\$2,542.7	\$2,674.4	\$2,082.3	\$2,190.3
1986	\$4,757.3	547.6	\$4.781	\$2,618.0	\$2,705.6	\$2,139.3	\$2,210.8
1987	\$3,469.7	537.8	\$4.789	\$2,575.8	\$2,657.2	\$893.9	\$922.2
1988	\$3,885.7	531	\$4.808	\$2,552.8	\$2,623.6	\$1,332.9	\$1,369.8
1989	\$3,859.9	534	\$4.941	\$2,638.4	\$2,638.4	\$1,221.5	\$1,221.5
SUM 80-89	\$42,259.6			\$22,915.6	\$24,843.8	\$19,344.0	\$21,409.7

PART B. ASSUMING 2% ANNUAL POPULATION INCREASE

	TOTAL REVENUES	POPULATION (000)	SPENDING		SURPLUS		
			PC (\$)	AT 1979 PC LEVEL (NOMINAL)	89\$ (NOMINAL)	89\$	
1979	\$1,451.5	413.7	\$3.508	\$1,451.5		\$0.0	
1980	\$3,099.5	422.0	\$3.831	\$1,616.5	\$2,084.9	\$1,482.9	\$1,912.6
1981	\$4,380.6	430.4	\$4.126	\$1,775.9	\$2,126.6	\$2,604.8	\$3,119.2
1982	\$4,959.5	439.0	\$4.361	\$1,914.7	\$2,169.1	\$3,044.8	\$3,449.4
1983	\$4,633.2	447.8	\$4.392	\$1,966.8	\$2,212.5	\$2,666.5	\$2,999.6
1984	\$4,589.2	456.8	\$4.566	\$2,085.6	\$2,256.7	\$2,503.6	\$2,709.2
1985	\$4,625.0	465.9	\$4.697	\$2,188.5	\$2,301.9	\$2,436.6	\$2,562.8
1986	\$4,757.3	475.2	\$4.781	\$2,271.9	\$2,347.9	\$2,485.4	\$2,568.5
1987	\$3,469.7	484.7	\$4.789	\$2,321.5	\$2,394.9	\$1,148.2	\$1,184.5
1988	\$3,885.7	494.4	\$4.808	\$2,376.9	\$2,442.8	\$1,508.8	\$1,550.6
1989	\$3,859.9	504.3	\$4.941	\$2,491.6	\$2,491.6	\$1,368.3	\$1,368.3
SUM 80-89	\$42,259.6			\$21,009.9	\$22,828.9	\$21,249.8	\$23,424.6

NOTE: CALCULATION OF SURPLUS INCLUDES NATIVE CLAIMS PAYMENT.

Figure 2. Alaska State Government Fiscal Flows Fiscal Years 1980-1989

(Billion 1989 \$)

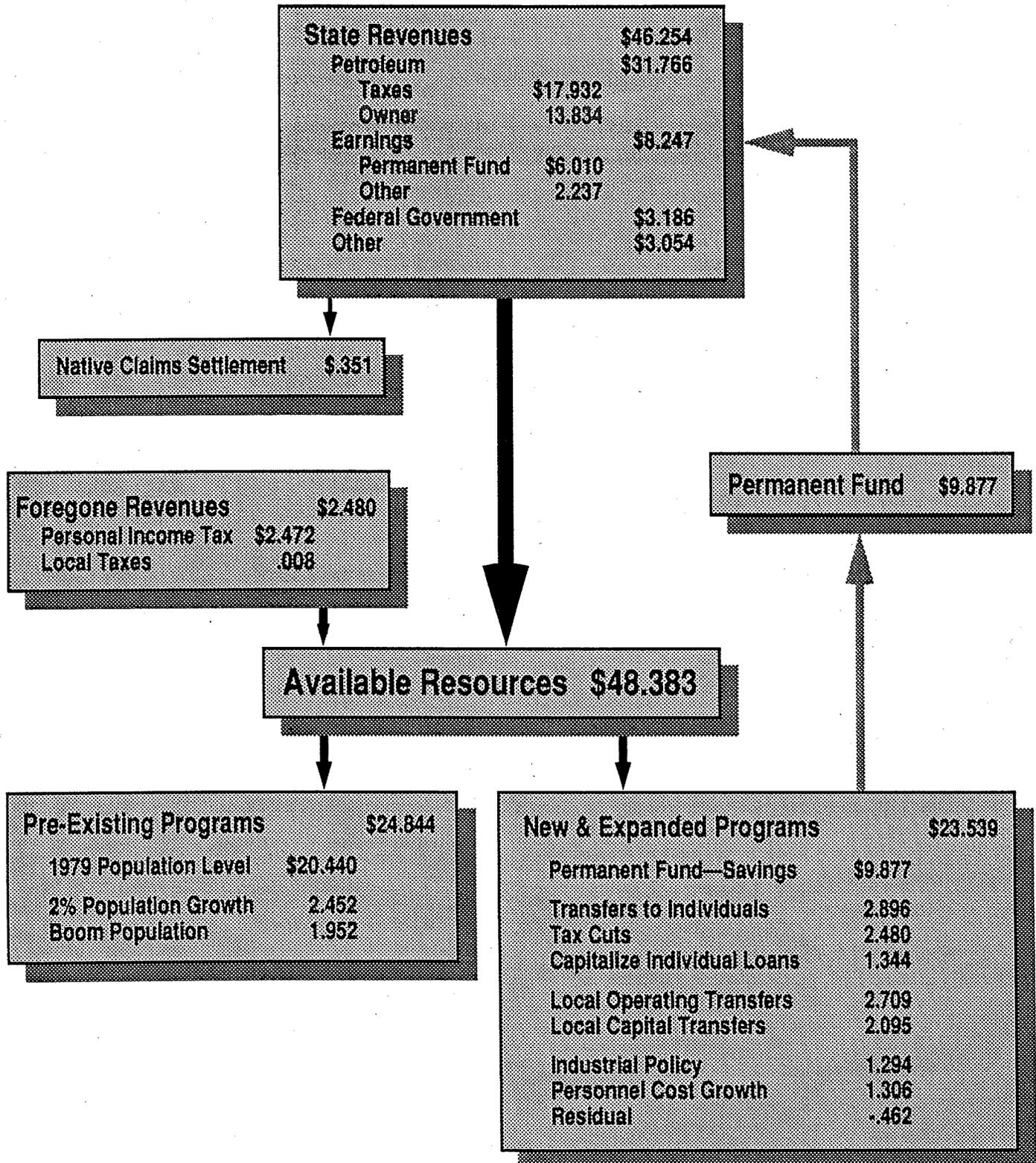


TABLE 4. TAX EXPENDITURES: THE PERSONAL INCOME TAX REPEAL
MILLION \$

	FEDERAL INC TAX PAID FROM ALASKA	FEDERAL TAX BASE FOR STATE INC TAX	ESTIMATE STATE INCOME TAX	89\$
1980	\$739.0	\$786.2	\$157.2	\$202.8
1981	\$1,008.0	\$1,072.3	\$214.5	\$256.8
1982	\$1,105.0	\$1,175.5	\$235.1	\$266.3
1983	\$1,203.0	\$1,279.8	\$256.0	\$287.9
1984	\$1,110.0	\$1,180.9	\$236.2	\$255.6
1985	\$1,014.0	\$1,078.7	\$215.7	\$226.9
1986	\$1,041.0	\$1,107.4	\$221.5	\$228.9
1987	\$1,126.0	\$1,197.9	\$239.6	\$247.1
1988	\$1,116.0	\$1,187.2	\$237.4	\$244.0
1989 est	\$1,200.0	\$1,276.6	\$255.3	\$255.3
SUM 80-89			\$2,268.5	\$2,471.8

NOTE: SCHOOL TAX AND GROSS RECEIPTS TAX EXCLUDED.

elimination of the personal income tax reduced the direct tax burden on individual Alaskans to practically zero. The remaining taxes were primarily excise taxes on motor fuels, cigarettes and liquor.

Increasing state general transfers to local government allowed local governments to reduce sales and property taxes during the early part of this period although most of the reduction was reversed by the end of the decade. Table 5 shows this pattern of tax relief based on the difference between actual payments and the constant real per capita 1979 level of payments.

During the 1980s attempts to reduce the burden of taxation on the petroleum sector were not based on the argument that the revenues were not needed. The proportion of revenues contributed directly and indirectly by petroleum increased dramatically as shown in Table 6 and Figure 3. Several tax changes were instituted based primarily on "fair share" and incentive to marginal field development arguments. The prevailing view was that petroleum taxation was the taking of a resource owned by Alaska from a small group of non-Alaskan companies.

Taxes on other resource industries were not raised during this period. The prevailing view was that the other resources of the state required more assistance to be competitive. Low tax rates were one way to accomplish this. In addition these resources were more likely to be owned by residents and consequently these taxes could not be as easily exported as petroleum taxes.

The effect of these tax reduction measures was to return to Alaska households and businesses about \$2.7 billion from state revenues during the 1980s. If these foregone revenues are added to actual revenues collected, the apparent surplus becomes an actual surplus of \$23.7 billion to be accounted for. Of that \$2.7 billion was allocated to tax relief, primarily to Alaska households.

ii. SAVINGS

The Alaska Permanent Fund was created by constitutional amendment in 1977 to serve as an account to receive and maintain a portion of the bonuses, royalties and rents collected by the state from the sale of its petroleum and other natural resources. The contribution rate was set initially at 25% and later raised to 50% on petroleum production from fields leased after 1980. The primary motivation for the establishment of the Permanent Fund was the memory of how the state bonus lease sale windfall in 1969 had all been spent by 1974 leaving the state with an increased appetite for public spending but without new revenue sources to feed it. The Fund would serve as an institutional means to convert the asset value of a depleting resource into a permanent, and renewable, asset.

TABLE 5. SALES & PROPERTY TAX COLLECTIONS
 LOCAL GOVERNMENT NON-PETROLEUM
 MILLION \$

	ACTUAL COLLECTIONS			CONSTANT REAL PC 1979	DIFFERENCE	
	SALES	PROPERTY	SUM	LEVEL	(NOMINAL)	89\$
	\$35.9	NA	NA	NA	NA	
1980	\$38.8	\$124.4	\$163.2	\$163.2	\$0.0	\$0.0
1981	\$44.9	\$100.2	\$145.1	\$181.6	\$36.5	\$43.7
1982	\$43.8	\$121.8	\$165.6	\$205.1	\$39.5	\$44.7
1983	\$42.4	\$133.1	\$175.5	\$221.8	\$46.3	\$52.1
1984	\$58.5	\$171.6	\$230.1	\$241.9	\$11.8	\$12.7
1985	\$51.7	\$190.3	\$242.0	\$258.0	\$16.0	\$16.9
1986	\$54.8	\$222.2	\$277.0	\$265.7	(\$11.3)	(\$11.7)
1987	\$55.3	\$254.9	\$310.2	\$261.4	(\$48.8)	(\$50.4)
1988	\$56.4	\$282.0	\$338.4	\$259.1	(\$79.3)	(\$81.5)
1989		\$286.6	\$286.6	\$267.7	(\$18.9)	(\$18.9)
SUM 80-89	\$446.6	\$1,887.1	\$2,333.7	\$2,325.5	(\$8.2)	\$7.7

SOURCE: MAP DATABASE.

NOTE: THESE FIGURES ARE PRELIMINARY

TABLE 6. PART A. SOURCES OF STATE OF ALASKA REVENUES NOMINAL MILLION \$

	TOTAL	INTEREST EARNINGS	FED TRANS	MISC	=====PETROLEUM =====					
					TOTAL	TAXES	-----OWNERSHIP -----			
							TOTAL	GF	PF	
1961		\$0.8	\$32.7			\$0.2	\$9.9	\$4.0	\$9.9	
1962		\$0.9	\$41.8			\$1.2	\$24.8	\$26.5	\$23.3	
1963	\$105.8	\$1.3	\$35.3	\$41.3	\$27.9	\$1.4	\$26.5	\$25.0	\$25.0	
1964	\$137.2	\$1.3	\$71.3	\$49.8	\$14.8	\$1.5	\$13.3	\$11.8	\$11.8	
1965			\$83.3		\$16.4	\$2.2	\$14.2	\$12.7	\$12.7	
1966	\$152.6	\$3.2	\$69.4	\$58.4	\$21.6	\$2.9	\$18.7	\$17.2	\$17.2	
1967	\$168.5		\$79.2		\$21.2	\$2.9	\$18.3	\$16.8	\$16.8	
1968	\$177.6	\$2.2	\$61.7	\$70.8	\$42.9	\$4.2	\$38.7	\$37.2	\$37.2	
1969	\$187.9	\$2.7	\$73.4	\$77.3	\$34.4	\$9.0	\$25.4	\$23.9	\$23.9	
1970	\$1,146.3	\$39.8	\$76.5	\$91.4	\$938.6	\$11.0	\$927.6	\$926.2	\$926.2	
1971	\$333.5	\$78.4	\$110.5	\$98.1	\$46.4	\$13.7	\$32.7	\$31.3	\$31.3	
1972	\$346.7	\$67.3	\$124.2	\$107.8	\$47.4	\$14.7	\$32.7	\$31.3	\$31.3	
1973	\$353.8	\$43.2	\$145.6	\$115.3	\$49.7	\$15.7	\$34.0	\$32.6	\$32.6	
1974	\$396.3	\$41.1	\$141.3	\$134.5	\$79.4	\$18.8	\$60.6	\$59.2	\$59.2	
1975	\$538.2	\$38.5	\$186.2	\$225.2	\$88.3	\$37.5	\$50.8	\$49.4	\$49.4	
1976	\$966.7	\$31.7	\$240.7	\$307.2	\$387.0	\$338.6	\$48.4	\$46.9	\$46.9	
1977	\$1,118.5	\$34.8	\$229.6	\$380.9	\$473.2	\$436.9	\$36.3	\$34.8	\$34.8	
1978	\$1,062.6	\$44.2	\$232.9	\$319.8	\$488.1	\$283.8	\$204.3	\$152.4	\$152.4	\$51.9
1979	\$1,451.5	\$59.2	\$220.2	\$308.6	\$909.1	\$572.6	\$336.5	\$252.6	\$252.6	\$83.9
1980	\$3,099.5	\$131.8	\$223.5	\$269.7	\$2,605.8	\$1,226.6	\$1,379.2	\$1,034.4	\$1,034.4	\$344.8
1981	\$4,380.6	\$286.5	\$200.7	\$195.3	\$3,698.1	\$2,180.2	\$1,517.9	\$1,132.8	\$1,132.8	\$385.1
1982	\$4,959.5	\$570.6	\$188.0	\$220.2	\$3,980.7	\$2,397.4	\$1,583.3	\$1,182.8	\$1,182.8	\$400.5
1983	\$4,633.2	\$737.3	\$184.9	\$256.2	\$3,454.8	\$1,887.5	\$1,567.3	\$1,146.3	\$1,146.3	\$421.0
1984	\$4,589.2	\$812.2	\$269.7	\$275.0	\$3,232.3	\$1,796.5	\$1,435.8	\$1,069.6	\$1,069.6	\$366.2
1985	\$4,625.0	\$891.3	\$304.5	\$314.4	\$3,114.8	\$1,692.6	\$1,422.2	\$1,054.2	\$1,054.2	\$368.0
1986	\$4,757.3	\$1,216.1	\$296.4	\$289.8	\$2,955.0	\$1,781.8	\$1,173.2	\$877.8	\$877.8	\$295.4
1987	\$3,469.7	\$1,230.4	\$359.4	\$331.2	\$1,548.0	\$948.7	\$599.3	\$447.5	\$447.5	\$151.8
1988	\$3,885.7	\$921.6	\$443.4	\$303.8	\$2,185.6	\$1,242.5	\$943.1	\$705.3	\$705.3	\$237.8
1989	\$3,859.9	\$968.7	\$491.8	\$353.3	\$2,046.1	\$1,214.9	\$831.2	\$621.6	\$621.6	\$209.6
SUM 80-89	\$42,259.6	\$7,766.5	\$2,962.3	\$2,808.9	\$28,821.2	\$16,368.7	\$12,452.5	\$9,272.3	\$9,272.3	\$3,180.2

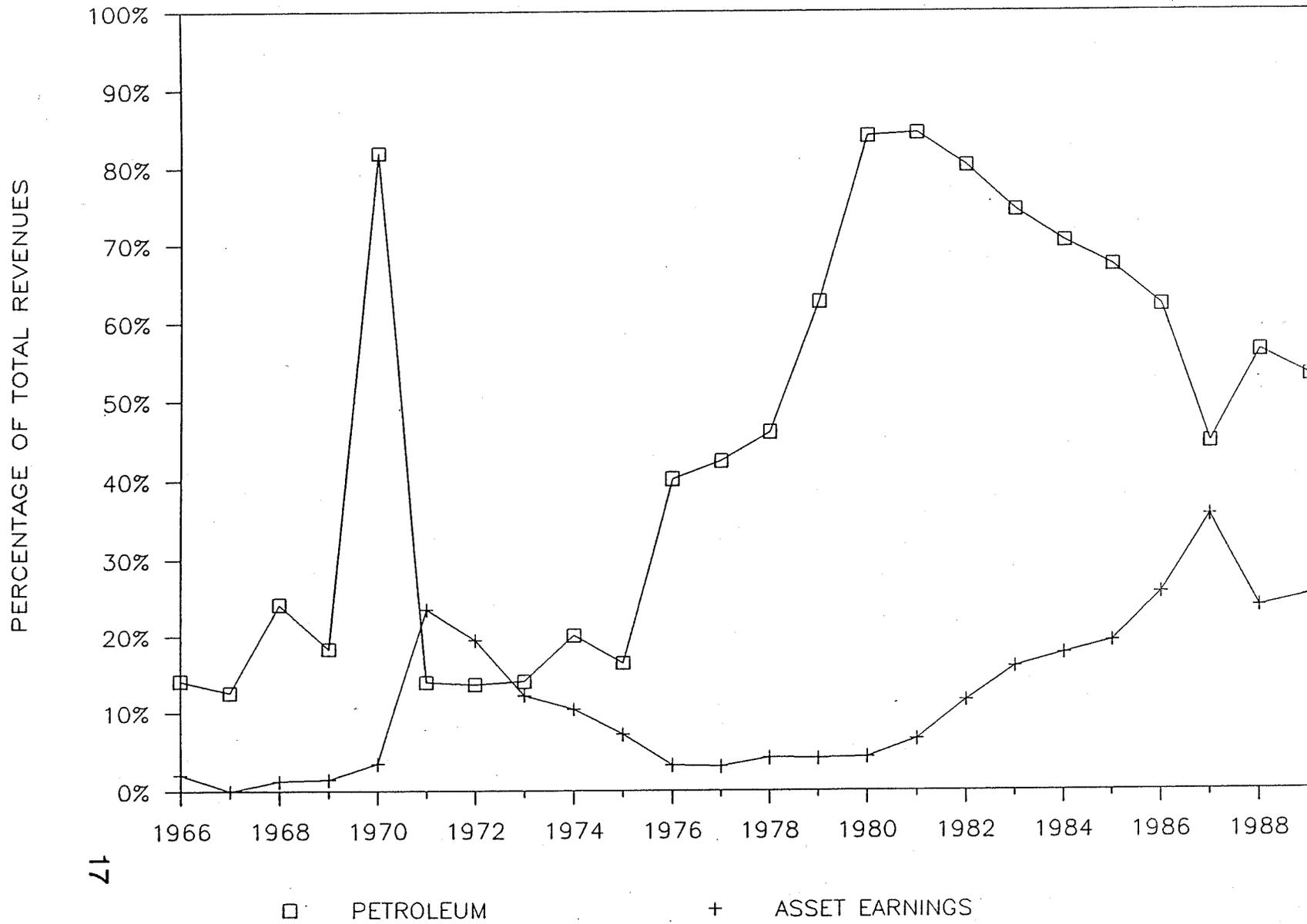
TABLE 6. PART B. SOURCES OF STATE OF ALASKA REVENUES MILLION 1989 \$

	TOTAL	INTEREST EARNINGS	FED TRANS	MISC	=====PETROLEUM =====				
					TOTAL	TAXES	TOTAL	OWNERSHIP GF	PF
1961	\$0.0	\$2.8	\$113.7	\$0.0	\$0.0	\$0.7	\$13.9	\$8.6	\$0.0
1962	\$0.0	\$3.0	\$141.0	\$0.0	\$0.0	\$4.0	\$83.6	\$78.5	\$0.0
1963	\$346.3	\$4.3	\$115.6	\$135.2	\$91.3	\$4.6	\$86.7	\$81.7	\$0.0
1964	\$436.3	\$4.1	\$226.7	\$158.4	\$47.1	\$4.8	\$42.3	\$37.4	\$0.0
1965	\$0.0	\$0.0	\$256.4	\$0.0	\$50.5	\$6.8	\$43.7	\$39.0	\$0.0
1966	\$452.5	\$9.5	\$205.8	\$173.2	\$64.0	\$8.6	\$55.4	\$50.9	\$0.0
1967	\$488.6	\$0.0	\$229.7	\$0.0	\$61.5	\$8.4	\$53.1	\$48.6	\$0.0
1968	\$502.5	\$6.2	\$174.5	\$200.3	\$121.4	\$11.9	\$109.5	\$105.2	\$0.0
1969	\$513.9	\$7.4	\$200.8	\$211.4	\$94.1	\$24.6	\$69.5	\$65.4	\$0.0
1970	\$3,029.6	\$105.2	\$202.2	\$241.6	\$2,480.7	\$29.1	\$2,451.7	\$2,447.8	\$0.0
1971	\$855.6	\$201.2	\$283.5	\$251.7	\$119.1	\$35.2	\$83.9	\$80.2	\$0.0
1972	\$866.5	\$168.2	\$310.4	\$269.4	\$118.5	\$36.7	\$81.7	\$78.2	\$0.0
1973	\$848.4	\$103.6	\$349.1	\$276.5	\$119.2	\$37.6	\$81.5	\$78.2	\$0.0
1974	\$857.4	\$88.9	\$305.7	\$291.0	\$171.8	\$40.7	\$131.1	\$128.1	\$0.0
1975	\$1,023.7	\$73.2	\$354.1	\$428.3	\$167.9	\$71.3	\$96.6	\$93.9	\$0.0
1976	\$1,706.4	\$56.0	\$424.9	\$542.3	\$683.1	\$597.7	\$85.4	\$82.8	\$0.0
1977	\$1,851.5	\$57.6	\$380.1	\$630.5	\$783.3	\$723.2	\$60.1	\$57.6	\$0.0
1978	\$1,642.5	\$68.3	\$360.0	\$494.3	\$754.5	\$438.7	\$315.8	\$235.6	\$80.2
1979	\$2,044.0	\$83.4	\$310.1	\$434.6	\$1,280.2	\$806.4	\$473.9	\$355.7	\$118.2
1980	\$3,997.5	\$170.0	\$288.3	\$347.8	\$3,360.8	\$1,582.0	\$1,778.8	\$1,334.1	\$444.7
1981	\$5,245.8	\$343.1	\$240.3	\$233.9	\$4,428.5	\$2,610.8	\$1,817.7	\$1,356.5	\$461.2
1982	\$5,618.5	\$646.4	\$213.0	\$249.5	\$4,509.6	\$2,715.9	\$1,793.7	\$1,340.0	\$453.7
1983	\$5,212.1	\$829.4	\$208.0	\$288.2	\$3,886.5	\$2,123.3	\$1,763.1	\$1,289.5	\$473.6
1984	\$4,965.9	\$878.9	\$291.8	\$297.6	\$3,497.6	\$1,944.0	\$1,553.7	\$1,157.4	\$396.3
1985	\$4,864.7	\$937.5	\$320.3	\$330.7	\$3,276.2	\$1,780.3	\$1,495.9	\$1,108.8	\$387.1
1986	\$4,916.4	\$1,256.8	\$306.3	\$299.5	\$3,053.8	\$1,841.4	\$1,212.4	\$907.2	\$305.3
1987	\$3,579.3	\$1,269.3	\$370.8	\$341.7	\$1,596.9	\$978.7	\$618.2	\$461.6	\$156.6
1988	\$3,993.3	\$947.1	\$455.7	\$312.2	\$2,246.1	\$1,276.9	\$969.2	\$724.8	\$244.4
1989	\$3,859.9	\$968.7	\$491.8	\$353.3	\$2,046.1	\$1,214.9	\$831.2	\$621.6	\$209.6
SUM 80-89	\$46,253.5	\$8,247.1	\$3,186.2	\$3,054.3	\$31,902.2	\$18,068.2	\$13,833.9	\$10,301.6	\$3,532.4

NOTE: REVENUE CATEGORIES SUM TO MORE THAN TOTAL DUE TO \$136.4 OF PETROLEUM REVENUES REPRESENTING NATIVE CLAIMS SETTLEMENT PAYMENTS INCLUDED IN CATEGORY BUT NETTED OUT OF TOTAL

Figure 3.

PROPORTIONS OF ALASKA STATE REVENUES



At the time of its creation there were two schools of thought regarding how the fund assets would be invested, and this ambiguity helped to assure the passage of the amendment. One school viewed the fund as a savings account which would serve as a source of funds for state government when petroleum revenues began to decline. The other viewed the fund assets as a potential investment fund for the construction of public infrastructure to serve industrial development needs as well as social needs within the state. In time the former school of thought dominated and the fund has been conservatively invested primarily in fixed income assets outside Alaska. The annual earnings of the Fund are now close to \$1 billion.

Although the principal of the Fund is constitutionally protected from appropriation, the earnings may be spent. The role of the fund in the coming decades is one of the most important public policy questions facing the state.

State revenues enter the Permanent Fund by three methods as shown in Table 7.--constitutional mandated contribution, special legislative appropriation, and "inflation proofing". The constitutional contribution represents approximately 25% of royalties, rents, and bonuses derived from state leases.

Interestingly a larger portion of the fund principal has been contributed by special appropriation of the legislature. A single appropriation of \$1.8 billion occurred in 1982, a year of extremely high revenues. (Actual deposits occurred over several years because revenues fell short of projections. The legislature remembered the debt to the Fund and paid a little at a time over several years.) The size of the appropriation was symbolic--twice the 1969 lease bonus payment received by the state. A payment of \$1.3 billion also occurred in 1986 from the Earnings Reserve of the fund.

The Earnings Reserve account exists because of the nature of the formula which allocates the earnings of the Permanent Fund. First, approximately half of the earnings is allocated to an account to fund the Permanent Fund Dividend. Next an amount necessary to "inflation proof" the corpus of the Fund is appropriated from the earnings to the principal. Since the fund is primarily invested in bonds, the portfolio would decline in value if reinvestment of a portion of interest earnings to cover inflation did not occur. Inflation proofing (\$1.7 billion)--reinvestment to maintain asset value-- is the final source of revenues for the Permanent Fund.

The positive or negative residual of earnings after payment of the Dividend and inflation proofing is set aside in the Earnings Reserve to cover the possibility of future shortfalls in inflation proofing. The legislature can by law appropriate the funds in the Earnings Reserve but it is so closely associated with inflation proofing

TABLE 7. ALASKA PERMANENT FUND: SOURCES OF REVENUES AND DISTRIBUTIONS
MILLION \$

	CONTRIBUTIONS				DISTRIBUTION FROM EARNINGS				
	CONST MANDATE	LEGISLATIVE APPROPRIATION FROM GF	INFLATION PROOFING FROM ER	TOTAL	INFLATION PROOFING	PF DIVIDEND	EARNINGS RESERVE	TOTAL	
1977									
1978	\$54			\$54					
1979	\$84			\$84					
1980	\$344			\$344		\$12		\$12	
1981	\$385	\$900		\$1,285		\$28	\$59	\$87	
1982	\$400	\$800		\$1,200		\$71	\$185	\$256	
1983	\$421	\$400	\$231	\$1,052	\$231	\$108	\$110	\$449	
1984	\$366	\$300	\$151	\$817	\$151	\$175	\$203	\$529	
1985	\$368	\$300	\$235	\$903	\$235	\$217	\$206	\$658	
1986	\$323		\$216	\$539	\$216	\$303	\$501	\$1,020	
1987	\$170	\$1,264	\$148	\$1,582	\$148	\$391	\$529	\$1,068	
1988	\$418		\$303	\$721	\$303	\$424	\$62	\$789	
1989	\$228		\$360	\$588	\$360	\$460	\$44	\$864	
SUM	\$3,561	\$2,700	\$1,264	\$1,644	\$9,169	\$1,644	\$2,189	\$1,899	\$5,732
SUM 80-89	\$3,423	\$2,700	\$1,264	\$1,644	\$9,031	\$1,644	\$2,189	\$1,899	\$5,732
IN 1989 \$									
1977									
1978	\$83	\$0	\$0	\$0	\$83	\$0	\$0	\$0	\$0
1979	\$118	\$0	\$0	\$0	\$118	\$0	\$0	\$0	\$0
1980	\$444	\$0	\$0	\$0	\$444	\$0	\$15	\$0	\$15
1981	\$461	\$1,078	\$0	\$0	\$1,539	\$0	\$34	\$71	\$104
1982	\$453	\$906	\$0	\$0	\$1,359	\$0	\$80	\$210	\$290
1983	\$474	\$450	\$0	\$260	\$1,183	\$260	\$121	\$124	\$505
1984	\$396	\$325	\$0	\$163	\$884	\$163	\$189	\$220	\$572
1985	\$387	\$316	\$0	\$247	\$950	\$247	\$228	\$217	\$692
1986	\$334	\$0	\$0	\$223	\$557	\$223	\$313	\$518	\$1,054
1987	\$175	\$0	\$1,304	\$153	\$1,632	\$153	\$403	\$546	\$1,102
1988	\$430	\$0	\$0	\$311	\$741	\$311	\$436	\$64	\$811
1989	\$228	\$0	\$0	\$360	\$588	\$360	\$460	\$44	\$864
SUM	\$3,983	\$3,074	\$1,304	\$1,718	\$10,079	\$1,718	\$2,281	\$2,012	\$6,010
SUM 80-89	\$3,781	\$3,074	\$1,304	\$1,718	\$9,877	\$1,718	\$2,281	\$2,012	\$6,010

SOURCE: ALASKA PERMANENT FUND CORPORATION, MONTHLY FINANCIAL REPORT, APRIL 1990.

and the Dividend that they have found it politically unwise to do so. In the early 1980s high fund earnings resulted in a significant balance in the Earnings Reserve which was appropriated to the principal of the Permanent Fund in 1987.

By the end of 1989 the Fund had a balance of \$10.1 billion of which \$9.9 billion had been deposited during the decade of the 1980s. This represents the largest single use of the surplus revenues during the decade.

In recognition of year to year fluctuations in petroleum revenues combined with the fact that the budget is prepared based upon revenues projected nearly 18 month ahead, the state also established a Rainy Day Account in the early 1980s with an appropriation of \$350 million. Although the purpose of this account was to serve as a "shock absorber" in the budget process, when the first significant fall in revenues occurred this account was quickly liquidated.

iii. INDUSTRIAL POLICY

As in previous decades, in the 1980s the state actively pursued a policy of stimulating expansion of existing basic industries and the creation of new basic industries in an attempt to expand and diversify the economy. The state had been pursuing a small scale industrial policy for many years, primarily in the form of revolving loan funds for farmers, fishermen, and miners. These funds were expanded and new ones added. In addition the construction of infrastructure to reduce the cost of development to the private sector was added as a major element of policy. The major new organizations serving these functions included the Alaska Energy Authority (originally the Alaska Power Authority), the Alaska Industrial Development and Export Authority (originally the Alaska Industrial Development Authority), and the Renewable Resources Development Fund.

Table 8. provides an approximation of the amount invested to capitalize industrial development during the 1980s. Electric power is included in this category since the scale of the hydroelectric facilities proposed and built exceeded the projected demands of their service areas and were at least partially justified on the basis of providing inexpensive power for development.

Expenditure of the funds shown in the table were justified not as consumption but rather as investment. However in many cases the current value of the assets purchased with these investments is less than the state investment. This is a reflection of the almost universal lack of economic feasibility analysis for investments and a minimum level of control over the quality of loans. With some notable exceptions, as investments they have not been particularly successful, even if the much discussed but poorly quantified private development benefits are included with the financial return to the state. There were however two other interpretations of the purpose and benefits of these programs.

The argument was sometimes made that public infrastructure investments were preferable to public consumption spending because an investment leaves behind a legacy of physical capital. Even if that capital has a value less than its cost it may still be worth something. It was argued that the alternative to the use of funds for the development of industry was a consumption expenditure which would surely have a value much less than its cost and would lead to an increase in the size of the operating budget in subsequent years. If left to the imagination everyone could think of some consumption expenditure with zero or even negative value, so this argument had some appeal.

The other argument was that these investments created private sector jobs--presumably jobs in development activities--that were superior to other types of jobs in the economy either within or without government. In fact, as a means of transferring income and employment to the private economy the industrial policy of the state was not particularly efficient because of the leakages in the small open economy of the state. One could argue that temporary job creation was in fact the primary function of industrial policy and its primary legacy based upon the value and usefulness of many of its end products.

The investments indicated in Table 8. and totaling \$1.3 billion do not represent the total value of resources which were allocated to industrial policy by the state. Industrial bonds formed an additional component of total spending.

iv. DIRECT INCOME TRANSFERS TO INDIVIDUALS

Income redistribution has not historically been an important function of state and local government except to the extent that these governments administer federal assistance programs. An exception in Alaska has been the Longevity Bonus program instituted in the early 1970s to provide a monthly cash payment, originally \$100, to Alaskan citizens over 65 who had lived at least 25 years in Alaska and had been resident at the time of statehood. The program was not based on need but rather on the recognition of the efforts of a group of Alaskans who had presumably sacrificed to build the state. Since the state was projected to grow rich riding the tide of oil starting in the 1970s, this program was felt to be a valid method of sharing that wealth with those unlikely to benefit in the coming decades.

In the early 1980s income transfers to individuals grew in three major categories--general cash transfers, categorical transfers, and subsidized loans (discussed in the next section)--with the expansion of existing programs and the initiation of several new programs. The general thrust of all program expansion was to broaden the eligibility based upon a criterion of fairness rather than need. Similarly the new programs were based upon very broad eligibility requirements. At the extreme, for the Permanent Fund Dividend, the requirement was that an

TABLE 8. INDUSTRIAL POLICY EXPENDITURES
MILLION \$

	ALASKA POWER AUTHORITY	ALASKA INDUSTRIAL DEVELOPMENT AUTHORITY	ALASKA RAILROAD	ALASKA RENEWABLE RESOURCES CORPORATION	BUSINESS LOANS	AGRICULTURE LOANS	=====SUM=====	89\$
70								
71								
72								
73								
74								
75								
76								
77								
78								
79								
80						\$8.5	\$8.5	\$10.2
81	\$39.8	\$173.0		\$16.9	\$89.6	\$8.4	\$327.7	\$371.2
82	\$118.9	\$8.0	\$9.0			\$5.0	\$140.9	\$158.5
83	\$186.1	\$21.3	\$0.3			\$2.0	\$209.7	\$226.9
84	\$136.5		\$1.4			\$6.4	\$144.3	\$151.8
85	\$87.5		\$33.2			\$14.2	\$134.9	\$139.4
86	\$169.3					\$4.6	\$173.9	\$179.4
87	\$0.8					\$1.1	\$1.9	\$2.0
88	\$53.8					\$0.7	\$54.5	\$54.5
89								
SUM 80-89	\$792.7	\$202.3	\$43.9	\$16.9	\$89.6	\$50.9	\$1,196.3	\$1,293.9

SOURCE: WHERE HAVE ALL THE BILLIONS GONE?

individual be a "true" Alaskan. Table 9 shows that \$2.9 billion has been paid since 1980 from the two largest general income transfer programs of the state--the Permanent Fund Dividend and the Longevity Bonus in excess of pre 1980 Bonus levels projected forward.

The "true" Alaskan requirement was the result of a constitutional challenge to the original Dividend proposal which was to be based upon citizens "owning" one share in the corporation for each year of residence up to a maximum of 25 shares. The idea behind this feature was that it created an incentive to become a permanent resident of a state where transiency had always been the norm for the non-native population. In a successful challenge to this form of the Dividend, which became known as the Zobel decision for the lawyer who brought the challenge, the court ruled that the creation of different classes of citizens was unconstitutional.

As a consequence of this unfavorable and politically unpopular ruling the Dividend was created as an equal payment to each citizen including children. It is similar to a negative head tax except that because of its magnitude (\$873.16 in 1989) it does create an incentive to claim Alaska residency either by physically moving into the state or other more imaginative means. It has resulted in extremely convoluted and amusing arguments about how one can remain a "true" Alaskan in ones heart even if forced to take up residence in another state for economic, health or other reasons! A similar challenge broadened the eligibility requirement for the Longevity Bonus program to all residents over the age of 65.

The rationale for the Permanent Fund Dividend, which is an annual payment to all residents from half of the earnings (nominal) of the Permanent Fund, is first that it creates a constituency for sound management of the Fund, and second that it is the most equitable means to distribute to citizens a portion of the earnings on the assets owned by the state and collected in the form of royalties. It is felt that in the absence of this distribution the earnings would be spent by the legislature in a manner which would provide less economic benefits either as measured by the value of the expenditures to citizens, or as measured by some income redistribution criteria.

Clearly as an income distribution mechanism it has a small deadweight loss compared to other mechanisms which are tied to the consumption of particular goods or services. There might be a loss of economic efficiency in the migration induced by the Dividend payment, but this will be true only in the absence of sustainability of these payments. As an income distribution mechanism it nudges the income distribution in the direction of equality as the poorest portion of the population gets the greatest percentage increase in income.

TABLE 9. GENERAL INCOME TRANSFERS
MILLION \$

	LONGEVITY	PF	SUM NET	
	BONUS	DIVIDEND	SUM	PRE 1980 BONUS
=====				
NOMINAL \$				
1971				
1972				
1973	\$2.6		\$2.6	
1974	\$6.1		\$6.1	
1975	\$0.4		\$0.4	
1976	\$3.9		\$3.9	
1977	\$5.2		\$5.2	
1978	\$9.6		\$9.6	
1979	\$12.4		\$12.4	
1980	\$13.4		\$13.4	\$0.6
1981	\$19.7		\$19.7	\$6.5
1982	\$25.8	\$466.1	\$491.9	\$478.4
1983	\$18.8	\$176.3	\$195.1	\$181.1
1984	\$29.4	\$158.5	\$187.9	\$173.5
1985	\$43.4	\$208.3	\$251.7	\$236.9
1986	\$44.5	\$295.0	\$339.5	\$324.2
1987	\$47.3	\$374.9	\$422.2	\$406.5
1988	\$50.4	\$427.9	\$478.3	\$462.1
1989	\$53.4	\$438.7	\$492.1	\$475.4
SUM 80-89	\$346.1	\$2,545.7	\$2,891.8	\$2,745.4
1989 \$				
1971				
1972				
1973	\$6.2		\$6.2	
1974	\$13.2		\$13.2	
1975	\$0.8		\$0.8	
1976	\$6.9		\$6.9	
1977	\$8.6		\$8.6	
1978	\$14.8		\$14.8	
1979	\$17.5		\$17.5	
1980	\$17.3		\$17.3	\$0.8
1981	\$23.6		\$23.6	\$7.8
1982	\$29.2	\$528.0	\$557.3	\$541.9
1983	\$21.1	\$198.3	\$219.5	\$203.8
1984	\$31.8	\$171.5	\$203.3	\$187.8
1985	\$45.6	\$219.1	\$264.7	\$249.2
1986	\$46.0	\$304.9	\$350.9	\$335.1
1987	\$48.8	\$386.7	\$435.5	\$419.3
1988	\$51.8	\$439.8	\$491.5	\$474.9
1989	\$53.4	\$438.7	\$492.1	\$475.4
SUM 80-89	\$368.7	\$2,687.0	\$3,055.7	\$2,896.1

NOTE: THE INITIAL PERMANENT FUND DIVIDEND
WAS LARGELY FUNDED OUT OF
GENERAL FUND

PRE1980 BONUS ASSUMED TO GROW AT
3% RATE ANNUALLY

Two obvious alternative uses of the earnings--reinvestment in the principal of the Fund, or sharing with the producers of the resource--are not seriously entertained by proponents of the Dividend.

The Dividend in its present form obviously represents only one of the possible methods for distribution of a portion of the earnings of a state owned resource. Alternative suggestions have included distribution of the entire amount of bonus payments to residents at the time of the sale or the establishment of a series of funds, one for each natural resource deposit, with ownership in each fund given to residents at the time of discovery or sale. The rationale for the former is permanently to take away from the government the control over the asset. The rationale for the second is to produce a distribution of the asset similar to that contemplated with the original Dividend proposal.

Categorical grants form a much smaller proportion of the total income transfers to individuals. An example is the Power Cost Equalization Program which provides a grant to electric utilities in much of rural Alaska based on the amount of electricity consumed by individual customers up to a ceiling. The grant is passed on to the consumer in lower rates. This subsidy is usually justified as the equivalent of two programs in urban Alaska which have "benefited" electricity consumers--the construction of hydroelectric generation in certain communities and the establishment of a special "Railbelt Energy Fund" to purchase electric generation and transmission infrastructure for Southcentral Alaska. Since the consumption of electricity is very price inelastic in rural Alaska, this program is essentially an income transfer based on the level of consumption.

v. SUBSIDIZED LOANS

The largest expenditures for subsidized loans to individuals have been for housing and education administered through expansion of activities of the Alaska Housing Finance Corporation and the Student Loan Corporation. The \$1.3 billion in General Fund appropriations to these corporations are shown in Table 10. The Alaska Housing Finance Corporation sold about \$6 billion in bonds in the early 1980s to provide home mortgages to Alaska residents with attractive downpayment and interest rate terms relative to the private market. For several years during the early 1980s virtually all residential mortgages were financed through this agency. The appropriations to this agency were basically a transfer to the individuals who took advantage of the program at the time of home purchase. Given the nature of the housing market however the transfer was shared by the real estate industry through demand driven increases in costs.

The supply side response to subsidized loans was even more obvious in the case of education loans, a program that for most of the 1980s was funded through an annual legislative appropriation. Although the program was designed with

TABLE 10. LOAN FUND APPROPRIATIONS TO BENEFIT INDIVIDUALS
MILLION \$

	STUDENT LOAN CORPORATION (NOMINAL \$)	ALASKA HOUSING FINANCE CORPORATION (NOMINAL \$)	STUDENT LOAN CORPORATION (1989 \$)	ALASKA HOUSING FINANCE CORPORATION (1989 \$)
70				
71				
72				
73				
74				
75				
76				
77				
78				
79				
80				
81		\$557.0		\$667.0
82		\$265.0		\$300.2
83		\$150.0		\$168.7
84				
85	\$60.3		\$63.4	
86	\$63.6		\$65.7	
87	\$61.0		\$62.9	
88	\$15.0		\$15.4	
89				
SUM 80-89	\$199.9	\$972.0	\$207.5	\$1,136.0

SOURCE: WHERE HAVE ALL THE BILLIONS GONE?

traditional post secondary education as the primary objective, a significant portion of the expenditures went for loans for vocational school training. Not surprisingly, a large number of new trade schools appeared virtually overnight, not all of which were legitimate.

As with loans for economic development, the residual value of the state investments in the institutions administering these loan programs is difficult to determine. Since a large part of their capitalization was used to pay loan subsidies, the residual value measured by what may be available to transfer to the state general fund is quite low compared to the amount originally transferred to these institutions.

vi. TRANSFERS TO LOCAL GOVERNMENT

Local government has always been heavily supported by the state because much of the tax base either lies outside the jurisdiction of local government or is concentrated in a few places where resources are located. The largest programs for general operating support are shown in Table 11. Prior to the early 1980s there was a revenue sharing program and a municipal assistance program of modest proportions. These were originally designed as categorical grants but in practice were like general revenue sharing. The largest transfer program, and the largest state government operating expenditure, is the School Foundation Program which provides support for primary and secondary education throughout the state. In smaller districts with limited tax base the Foundation Program and related education transfers provide all education funding. In larger districts the Foundation Program provides a spending floor which must be augmented with local taxes.

All of these programs expanded significantly in the early 1980s, providing increased resources to local governments. The increase in assistance above a maintenance level was \$2.7 billion. The response at the local level was both to reduce taxes and to increase the level of services. For smaller communities this meant the local delivery of services which either were previously not provided at all, or were provided at a distance.

The best example of this phenomenon of bringing the services of government to the community arose as the result of an out of court settlement of the Molly Hooch Case in 1978 in which the State of Alaska agreed to provide secondary schools in all rural communities where there were more than a handful of students. Prior to that settlement secondary education opportunities for students in small rural communities were limited to boarding schools in regional centers or outside the state. This decision resulted not only in a massive capital investment in rural school construction, but also in the ongoing expenditure of funds to operate these small schools throughout the rural parts of the state.

TABLE 11.

GENERAL LOCAL TRANSFERS
MILLION \$

	GENERAL EDUCATION AID			SUM AT 1979 REAL PER CAPITA	DIFFERENCE	MUNICIPAL CAPITAL GRANTS
	AID	AID	SUM			
70	\$5.15	57.499	\$62.6			
71	\$10.43	95.728	\$106.2			
72	\$13.47	103.243	\$116.7			
73	\$13.15	110.837	\$124.0			
74	\$13.16	127.18	\$140.3			
75	\$21.54	146.702	\$168.2			
76	\$27.42	180.103	\$207.5			
77	\$31.57	152.257	\$183.8			
78	\$32.01	162.12	\$194.1			
79	\$36.56	189.23	\$225.8	\$225.8	\$0.0	
80	\$43.57	202.013	\$245.6	\$250.2	(\$4.6)	0
81	\$114.41	330.303	\$444.7	\$278.4	\$166.3	80.7
82	\$151.40	397.902	\$549.3	\$314.4	\$234.9	178.5
83	\$136.25	491.361	\$627.6	\$340.0	\$287.6	333.3
84	\$137.21	540.061	\$677.3	\$370.8	\$306.5	337
85	\$151.84	586.099	\$737.9	\$395.5	\$342.4	493.5
86	\$151.65	620.606	\$772.3	\$407.3	\$365.0	233.2
87	\$115.86	554.287	\$670.1	\$400.7	\$269.5	191.2
88	\$109.16	568.18	\$677.3	\$397.1	\$280.2	96.1
89	\$111.13	590.651	\$701.8	\$410.4	\$291.4	
SUM 80-89	\$1,222.5	\$4,881.5	\$6,103.9	\$3,564.8	\$2,539.2	\$1,943.5
1989 \$						
70	\$13.6	\$152.0	\$165.6			
71	\$26.7	\$245.5	\$272.2			
72	\$33.7	\$258.2	\$291.9			
73	\$31.5	\$265.9	\$297.4			
74	\$28.5	\$275.4	\$303.9			
75	\$41.0	\$279.1	\$320.1			
76	\$48.4	\$317.7	\$366.0			
77	\$52.3	\$252.2	\$304.5			
78	\$49.5	\$250.6	\$300.1			
79	\$51.5	\$266.6	\$318.1			
80	\$56.2	\$260.5	\$316.7	\$322.7	(\$5.9)	\$0.0
81	\$137.1	\$395.7	\$532.8	\$333.4	\$199.1	\$96.6
82	\$171.6	\$451.0	\$622.6	\$356.2	\$266.1	\$202.2
83	\$153.3	\$553.0	\$706.3	\$382.5	\$323.6	\$374.9
84	\$148.4	\$584.1	\$732.6	\$401.2	\$331.7	\$364.7
85	\$159.7	\$616.6	\$776.3	\$416.0	\$360.1	\$519.1
86	\$156.7	\$641.4	\$798.1	\$420.9	\$377.2	\$241.0
87	\$119.5	\$571.8	\$691.3	\$413.3	\$278.0	\$197.2
88	\$112.2	\$583.9	\$696.1	\$408.1	\$288.0	\$98.8
89	\$111.1	\$590.7	\$701.8	\$410.4	\$291.4	\$0.0
SUM 80-89	\$1,325.9	\$5,248.6	\$6,574.5	\$3,864.7	\$2,709.2	\$2,094.5

NOTE: INCLUDES REVENUE SHARING, MUNICIPAL ASSISTANCE, AND SHARED TAXES
IN GENERAL AID. INCLUDES FOUNDATION PROGRAM,
DEBT REIMBURSEMENT AND TRANSPORT AID IN EDUCATION.

While secondary school construction in the small rural school districts was financed by direct appropriation through the state capital budget (not shown in Table 11.), the construction of schools in those areas with a property tax base was assisted by another state program which began small in the 1970s and grew large in the 1980s. This was a program whereby the state reimbursed local school districts for a portion (varying between 50%-90%) of the interest expense of bonded debt for school construction .

Another temporary transfer program was the municipal capital grant program. At one time this provided a \$1000 per capita grant for capital purposes to each community. The total expenditure level under various municipal capital grants was \$2.1 billion.

In addition to these large programs there are in the operating budget numerous smaller grant programs to local government or to non-profit agencies providing government services at the local level, or to private contractors providing services at the local level. In the capital budget there have traditionally been large numbers of projects of a purely local nature. This is the result of a capital budgeting system which evolved in the early 1980s whereby the governor, the Senate, and the House each were allotted 1/3 of the capital budget to spend as they saw fit. In the legislature these were generally allocated among legislatures on a per capita basis--subject of course to whether a legislator was a member of the majority or minority.

vii. PERSONNEL EXPENDITURES

The ratio of state government employment to state population remained fairly constant during the decade at about 37 employees for every 1000 residents. However total personnel expenditures increased at a much faster rate than inflation and population parity would warrant. Table 12. shows that \$1.3 billion was spent during the decade on personnel expenses over and above this parity amount--either in the form of higher average annual earnings or higher benefits per employee.

viii. MAINTENANCE LEVEL OPERATIONS AND CAPITAL EXPENDITURES

The sum of expenditures during the decade on the categories of new and expanded program expenditures discussed in the previous sections was \$24 billion while the available revenues after the funding of preexisting programs was only \$23.5 billion. The real percapita level of the budget in 1979 was not quite maintained through the decade. This analysis suggests that there was no increase in the size or complexity of the state government aside from the categories listed above because there was no surplus over and above a maintenance level budget after the new expenditure categories are netted out.

TABLE 12. STATE GOVERNMENT PERSONNEL EXPENDITURES

	PERSONNEL EXPENDITURES (MILLION \$)		DIFFERENCE		STATE GOVT EMP EMPLOYMENT (THOUSAND) (THOUSAND)	POPULATION (THOUSAND)	EMP/POP
	ACTUAL	79 REAL PER CAPITA	NOMINAL	89\$			
79	\$387.7	\$387.7	\$0.0		14.977	413.7	36.2
80	\$448.0	\$429.5	\$18.5	\$23.8	15.36	419.8	36.6
81	\$519.9	\$478.1	\$41.8	\$50.1	16.606	433.8	38.3
82	\$638.0	\$539.8	\$98.2	\$111.2	18.007	463.4	38.9
83	\$734.7	\$583.7	\$151.0	\$169.8	18.86	497.6	37.9
84	\$787.2	\$636.6	\$150.6	\$163.0	19.305	522	37.0
85	\$834.7	\$679.1	\$155.6	\$163.7	20.469	541.3	37.8
86	\$879.6	\$699.3	\$180.3	\$186.4	20.184	547.6	36.9
87	\$804.8	\$688.0	\$116.8	\$120.5	18.731	537.8	34.8
88	\$815.9	\$681.9	\$134.0	\$137.8	19.382	531	36.5
89	\$883.9	\$704.7	\$179.2	\$179.2	NA	534	0.0
SUM 80-89			\$1,226.1	\$1,305.5			

In fact a detailed review of state spending reveals a large number of smaller new activities were initiated by the government. The analysis suggests however that these new programs were funded at least partially by less than proportional growth in funding of at least some preexisting government activities. A much more detailed analysis will be necessary to characterize the change in the structure of the this part of the budget.

State agency operating expenditures have traditionally been above levels in other states for three reasons. First more functions are concentrated at the state level in Alaska than in most states. These functions include such activities as the court system, justice system, and transportation.

Second, some basic functions are more costly because of either the small population, which means each citizen must share a larger percentage of the fixed costs of government than in a more populous state, or because the larger area and related diversity of geography means that even the most cost effective delivery of services, which is the primary product of government, is more costly than the overall price level differential would suggest. For example each state must have a public utilities commission and although its size varies with the population served there are some fixed costs independent of size. The presentation of a case before the commission can be very difficult logistically for a utility from a rural part of the state because of the cost of trips to Anchorage which usually must be by air, the very real possibility of weather related delays in travel, and other less obvious factors.

Third, there are some functions of government which cost more in Alaska because of the extensive public ownership of resources. These functions are primarily in the natural resource area and although not unique to Alaska they are larger because of the large amount of land and other resources in public ownership.

Capital expenditures have historically been at a high level because the state is relatively underdeveloped and because the population has been growing rapidly. In addition the cost of construction is relatively higher than other goods and services compared to the rest of the US, particularly in the rural parts of the state, because of logistical costs (transportation, weather, seasonality), unionization, design problems, and risk.

If the capital budgeting system were operating to maximize the economic efficiency of the delivery of government services, one would expect an allocation toward projects in the larger communities where economies of scale could be taken advantage of and also, in light of the certainty of declining revenues, allocation toward projects with high capital expenses in exchange for very low

operating and in particular maintenance expenses. Table 13. and Figure 4. show that in fact just the opposite has occurred in recent years. Per capita capital expenditures are heavily concentrated in the smaller, rural parts of the state.

4. WHAT DOES THIS REVIEW TELL US

First, the amount of money which the state received in the 1980s was so vast both in relation to previous experience and in relation to the needs of state and local government as defined by reference to other states and maintenance level budgets, that normal procedures and rules of allocation did not apply. The institutions of government were not set up either to prepare or administer a budget based on such revenues, and the agencies were not in a position to absorb such vast sums of money. In 1981 and 1982 in particular large amounts of revenues were allocated to savings in the Permanent Fund and investments in entities such as the Alaska Housing Finance Corporation at least partially because they offered convenient places to "park" large sums of money. A major bottleneck existed in the Department of Transportation and Public Facilities throughout the decade since this agency was not able to spend money on project construction at the rate at which the legislature was appropriating money into its budget.

Quickly however the citizens and politicians developed the ability and imagination necessary to deal with the problem of expending the large amounts of revenues. New needs which the public sector could satisfy were identified. Quickly too the rudimentary processes and procedures in place for weighing the benefits of public expenditure against the costs were ignored. The cost of a public expenditure was no longer the opportunity cost of the foregone private sector expenditures in Alaska as reflected by the taxes paid by households or businesses. It was commonly the benefits derived from spending the funds on an alternative government program. Since every citizen could easily think of several programs which to him had at most a zero and more likely a negative value (although these were obviously not the same programs for all individuals) this generic comparison made every program and expenditure look appealing. Basically it was the idea that if the money were not spent on ones favorite program, the legislature would just spend it on something of less value. There was also a form of "crisis" atmosphere which argued that the revenues needed to be spent as soon as possible because of the urgency of current needs, the "obvious" value of investments, and because inflation would presumably increase the costs of any delay.

Since the criteria of economic efficiency, measured by a comparison of economic benefits and costs, no longer applied, the allocation of spending was largely done on the basis not of need but rather of equity--each citizen, group, and region should get its fair share of the wealth being distributed. As long as funds were available for a program it was not felt to be proper to restrict access to the

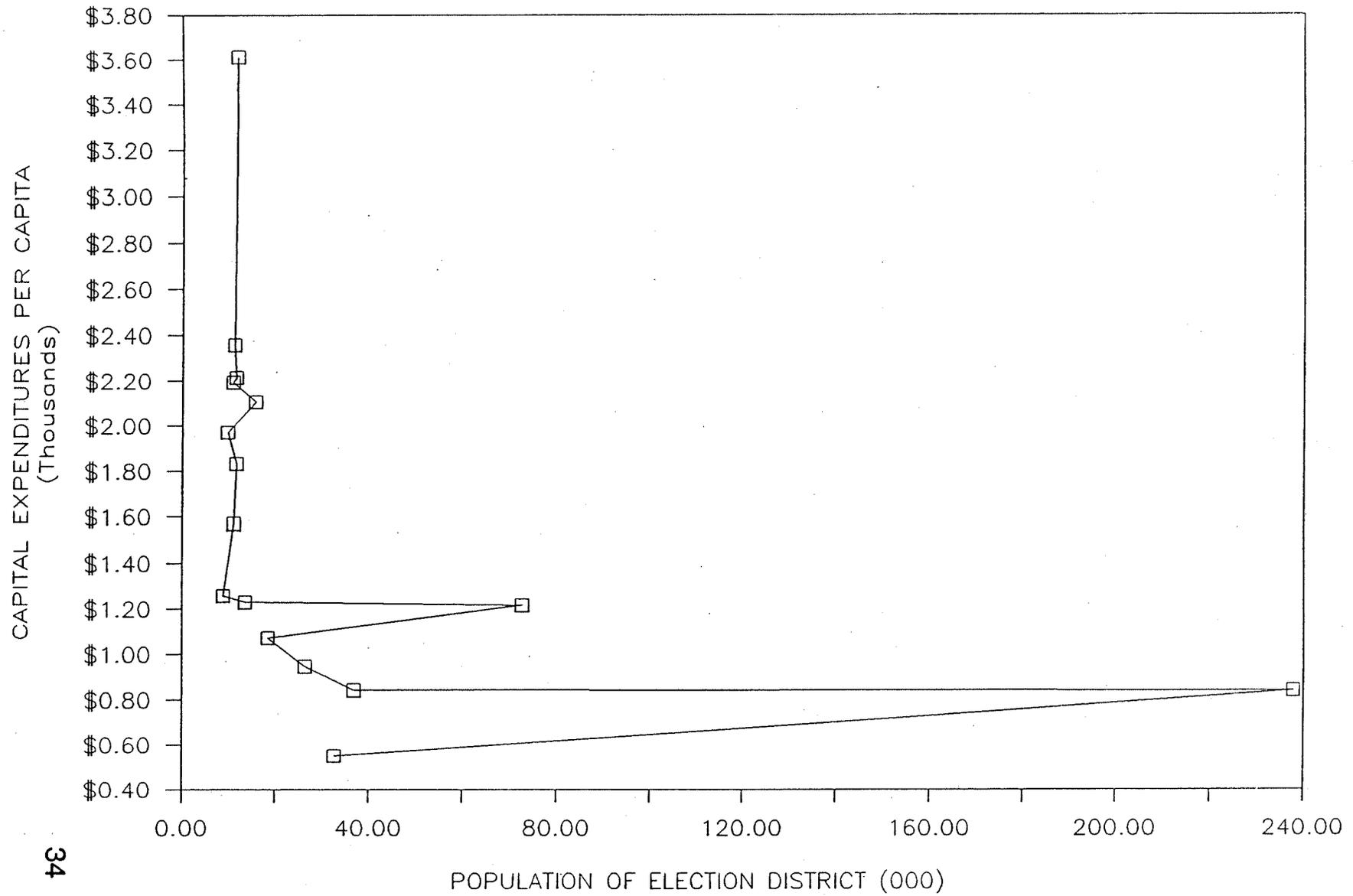
TABLE 13. REGIONAL DISTRIBUTION OF CAPITAL EXPENDITURES
ANNUAL AVERAGE PER CAPITA FY 1984-1989

ELECTION DISTRICT	EXPENDITURE (\$)	PERCENT OF AVERAGE	1985 POP (000)
17	\$3,612	316.01%	11.737
23	\$2,357	206.21%	11.104
22	\$2,214	193.70%	11.454
2	\$2,193	191.86%	10.782
26	\$2,105	184.16%	15.563
6	\$1,970	172.35%	9.717
24	\$1,833	160.37%	11.503
25	\$1,571	137.45%	11.018
3	\$1,259	110.15%	8.77
27	\$1,231	107.70%	13.483
18-21	\$1,215	106.30%	72.614
1	\$1,073	93.88%	18.397
4	\$947	82.85%	26.27
16	\$843	73.75%	36.833
7-15	\$840	73.49%	237.796
5	\$551	48.21%	32.67
AVE.	\$1,143	100.00%	

SOURCE: STATE OF ALASKA EXPENDITURES BY ELECTION DISTRICT,
LEGISLATIVE RESEARCH AGENCY

Figure 4.

CAPITAL EXPENDITURES PER CAPITA VARIATION BY SIZE OF PLACE



program on the basis of a need criterion. It proved to be impossible for budget makers to say no to a citizen on the basis of an admittedly arbitrary income, wealth, or other need criterion.

Since it was not politically palatable to distribute revenues to individuals and groups in lump sum payments (with the exception of the Permanent Fund) programs had to be devised to perform this function. To a large extent existing programs were utilized by broadening the criteria for eligibility, or as in the case of the Longevity Bonus, by essentially eliminating all restrictive criteria.

A large portion of the \$48.6 billion, over and above the amount necessary to continue to fund existing programs at higher population levels, was actually saved, invested, or distributed to individuals either directly or through transfers to local governments which in turn reduced local tax rates. There was a suspicion of the ability of government to spend funds on agency operations efficiently. In addition there was a conscious effort, in the establishment of some programs such as the Alaska Housing Finance Corporation, to fund them with lump sum payments, so that they would not add to the size of the General Fund operating budget.

Finally a large portion of the surplus went to local government both as operating and capital assistance. This was a reflection of the inability of most local governments, with the notable exceptions of the North Slope Borough and the city of Valdez, to share directly in the tax base provided by the petroleum bonanza.

TRACING THE GROWTH OF ALASKA STATE SPENDING SINCE 1979

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