

# ANCSA and Rural Alaska: An Economic Reality Check

remarks presented to Commonwealth North  
April 6, 1993

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Good Morning. Today I wish to put to rest 5 myths about rural Alaska which over the past 8 years I have either heard from others or harbored myself. The common thread that ties these myths together is my own research on energy economics and Native regional corporations, which has helped to shed some light on them.

## **Myth #1: ANCSA corporations made the Natives rich.**

ANCSA was a billion dollar, 44 million acre deal. The lawyers, lobbyists, consultants, and top corporate executives made lots of money implementing the act, but the shareholders have so far received few financial benefits.

[FIGURE 1] Here are the cumulative dividends received per shareholder from ANCSA regional corporations, from inception through 1990. The average shareholder received a total of about \$1600, or \$100 per year. But this average conceals a tremendous disparity: Koniag shareholders received zero while if you were lucky enough to belong to Cook Inlet, you made almost \$10,000. CIRI's performance is so spectacular that it warps the average: without CIRI the average cumulative dividend is cut in half, to \$867, or about \$50 per year.

More illuminating is the comparison of ANCSA dividends with Alaska Permanent Fund Dividends. Though payments only started in 1982, cumulative per-capita dividends from the Permanent Fund topped \$6,000 as of 1990 and are still going strong.

While at first glance it seems that CIRI beat the Permanent Fund in delivering dividends, we must remember that ANCSA pays dividends only to shareholders, while the Fund pays them to everyone. If you are a family of five with two shareholders and three kids, this distinction is very important.

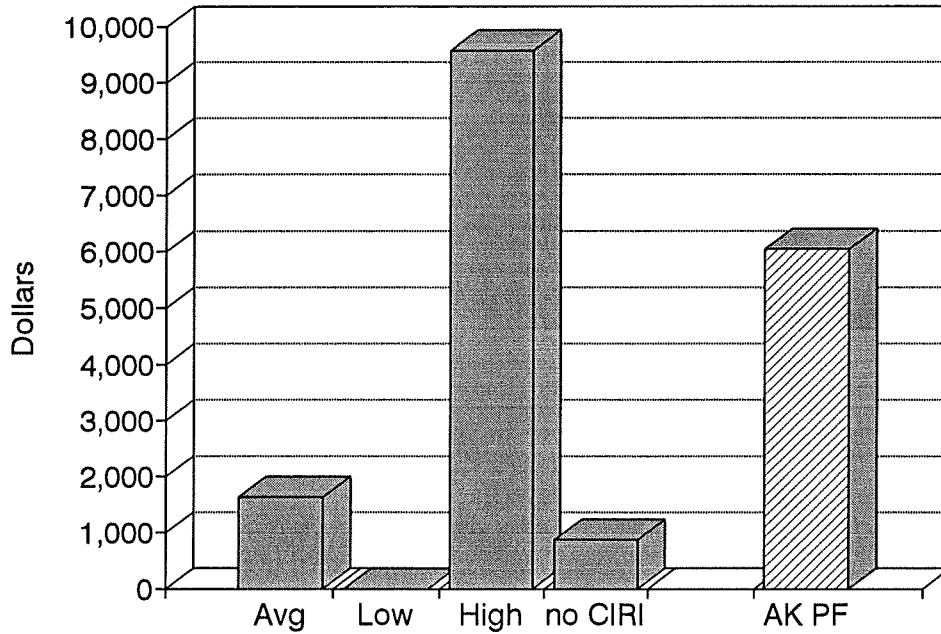
[FIGURE 2] When we express dividend payments on this per-household of 5 basis, the Permanent Fund swamps even CIRI's performance by delivering over \$30,000 of cumulative dividends compared to CIRI's \$19,000 and the non-CIRI average of \$1,734. Thus,

**Reality #1: ANCSA corporations did not make the Natives rich. Instead, oil made us all rich.**

FIGURES 1 and 2

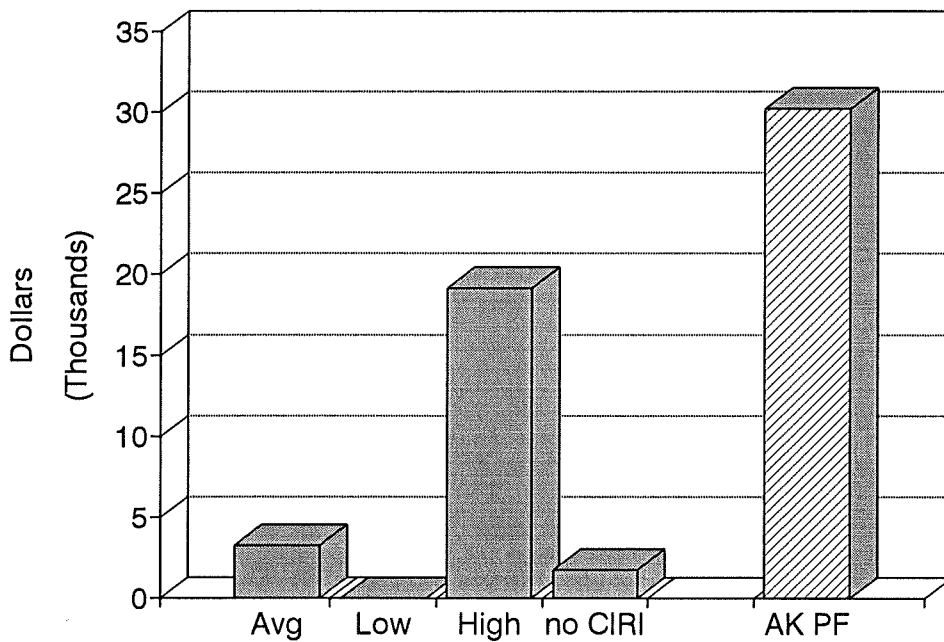
# Cumulative Dividends per Shareholder

ANCSA Regional Corps. 1974-1990



# Cumulative Dividends per Household of 5

ANCSA Regional Corps. 1974-1990



**Myth #2: ANCSA lands made the Natives rich.**

[Figure 3] ANCSA returned 44 million acres of land to Alaska Natives, and they spent hundreds of thousands of dollars selecting the best lands they could get. Still, during the 17 years from inception through 1991, ANCSA regional corporations made only \$398 million in "section 7i" resource profits from all oil, gas, coal, gravel, mineral, and timber development on their lands.

Now \$398 million may seem like a big number. But it is only about 1 percent of the \$36 *billion* in royalties and severance taxes which the State of Alaska has earned from Prudhoe Bay Oil. This 2 orders-of-magnitude difference ought to serve as a wake-up call to those who think unspecified "resource development" can replace Prudhoe, but that argument is for another day.

[FIGURE 4] Putting the numbers together from the viewpoint of a household of 5, we can see that Prudhoe Bay oil has to date delivered over \$330,000 per household, while ANCSA lands have delivered less than \$11,000 in "7i" resource revenues, much of which never made it to the Native shareholders as dividends. And unless you are a CIRI shareholder, your ANCSA dividends are barely noticeable compared to the benefits of being a part owner of Alaskan oil on state lands. Thus,

**Reality #2: ANCSA lands did not make the Natives rich. Instead, Prudhoe Bay lands made us all rich.**

**Myth #3: Thanks to oil wealth and federal hand-outs, rural Alaskans are just as well off as urban Alaskans.**

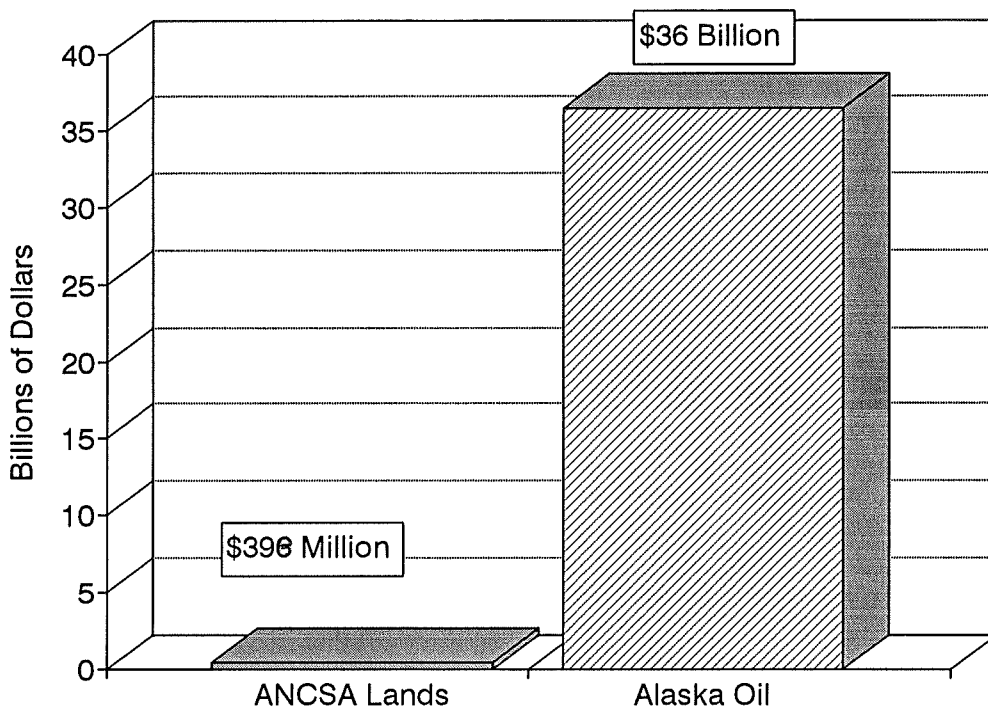
[FIGURE 5] Lumping all non-urban Alaskans in the same "rural" basket conceals tremendous variation in economic welfare. In 1988 my colleague Gunnar Knapp distinguished among 3 distinct regions of rural Alaska. The *North Slope Borough* was and still is rich from oil property taxes. *Maritime Alaska*, stretching along the Southeast and Gulf Coast, has a relatively secure economy based on fishing, timber and tourism. What Gunnar called *Village Alaska* had a per-capita income of only \$11,000 in 1984, compared to \$15,000 for maritime Alaska and \$19,000 for Urban Alaska.

Those numbers haven't changed much. When we adjust for inflation and measure in 1982 dollars, real income in 1989 is still close to \$12,000 in Western Coastal Alaska, according to my colleague Lee Huskey's reckoning. That's 38 percent below the statewide Alaska average of \$19,000. And even these averages hide the fact that much of the cash earned in this area goes to urban transplants providing skilled labor. Thus,

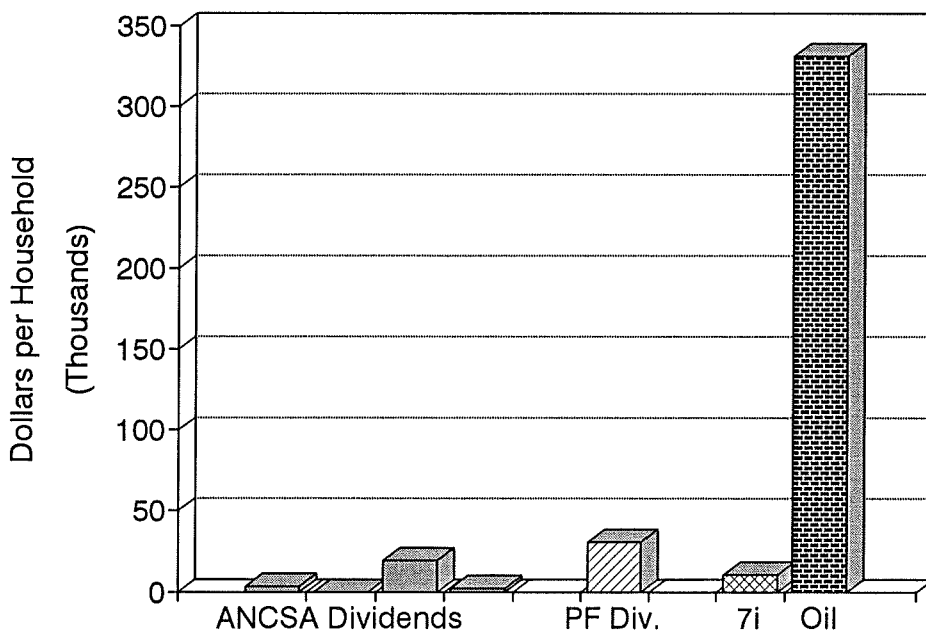
**Reality #3: Rural Alaskans outside the North Slope and the maritime zone remain far poorer than their urban counterparts, and have made almost no gains in per capita real income since 1984.**

FIGURES 3 and 4

### Cumulative Resource Profits, 1974-1991

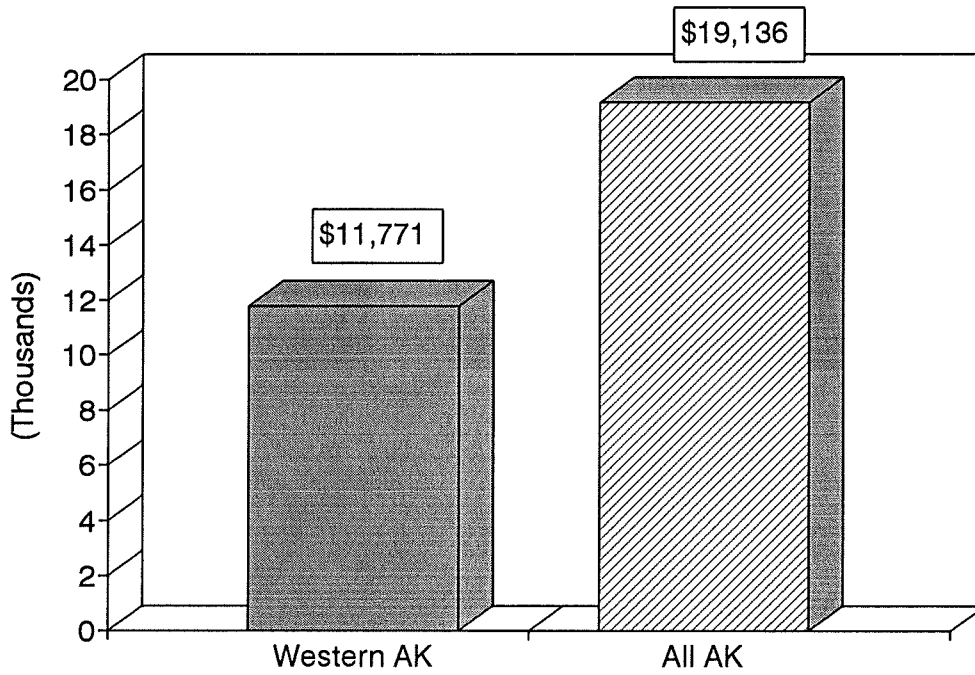


### Cumulative Income per Household of 5 1974-1990

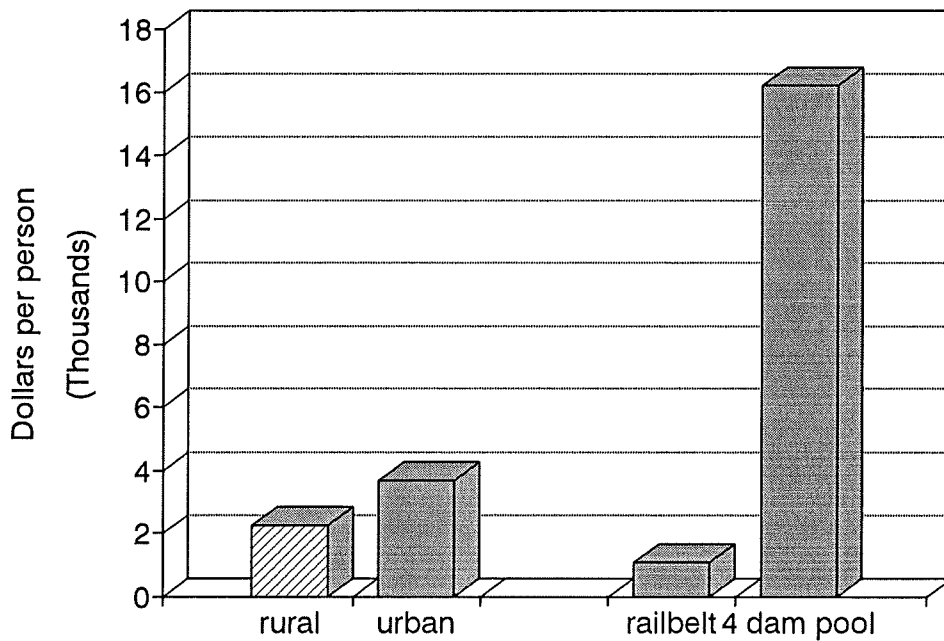


FIGURES 5 and 6

### Real per Capita Income, 1989 (In 1982 \$)



### Per-Capita Energy Subsidies Cumulative 1977-92



**Myth #4: Rural Alaskans enjoy extravagant subsidies which artificially depress the price of living and encourage wasteful habits.**

[FIGURE 6] Even I, a war-weary critic of pork barrel state power projects, was chastened to review these cumulative per-capita energy subsidies compiled by the House Research Agency in 1988. I have updated the 1988 figures to account for ongoing Power Cost Equalization payments to rural areas and for the imminent subsidy of about \$125 million for the Healy Coal plant, which benefits Fairbanks.

Four dam pool customers received an astonishing \$485 million in state grants and loans for hydro projects -- about \$16,000 per beneficiary. To bring some coherence to my talk, that's more money than all the regional corporations received from ANCSA. Rural Alaskans have garnered \$2,200 each, mostly from PCE.

[FIGURE 7] Because rural power prices are quite high even after PCE, it really should not come as a surprise that rural residential consumption averages about 4,500 kWh per year, about half the level of Southcentral and only 42 percent as much as that of Southeast. The average use of rural residential power has been flat for the past 6 years and dropped from FY90 to FY91. Thus,

**Reality #4: Rural Alaskans enjoy modest energy subsidies compared to the extravagant outlays made to the lucky users of the Four Dam Pool.**

**Myth #5: Rural areas get more than their fair share of capital project dollars.**

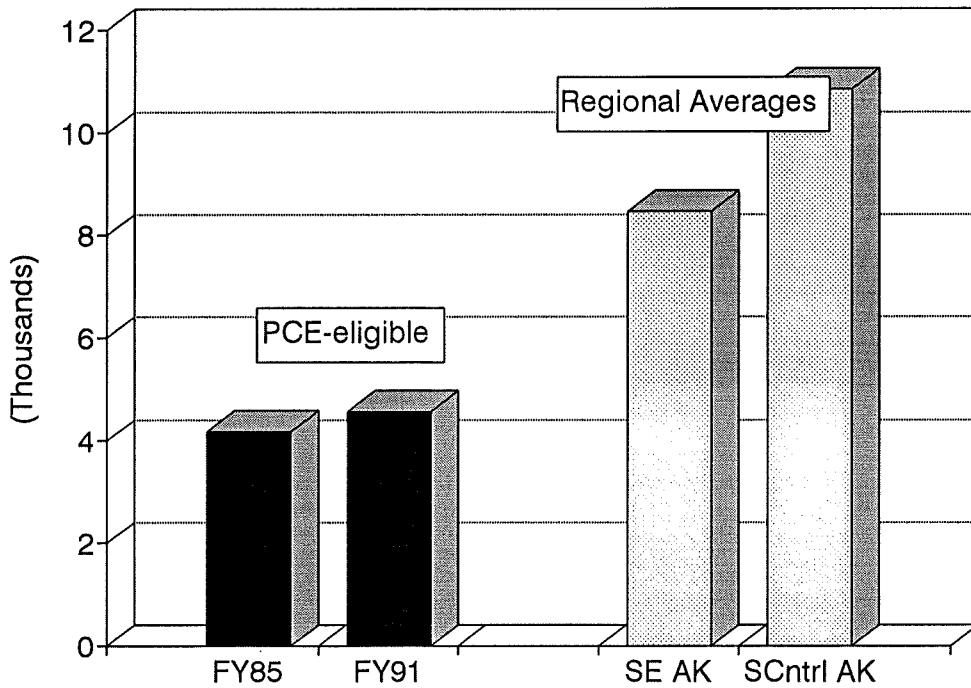
[NO FIGURE] I must admit that I have shaken my head in amazement at some of the capital improvement projects lavished on small rural communities. What really amazed me, however, was some detailed research I did which traced the flow of state dollars spent on one such capital project.

[FIGURE 8] I looked at the Low-Income Weatherization Program, one of the more labor-intensive projects going, and one which appeared to use plenty of local residents for the work. I found that for a \$1 million outlay for weatherization, about \$500,000 ended up as payments to labor, after all multiplier effects were accounted for. Of this, only \$44,000, or 9% went to local village residents. Under generous assumptions about purchases from regional hub communities, hub residents got \$61,000, or 12%. A whopping 80% of the total labor income from this rural capital project went straight to urban Alaskans-- everyone from the insulation salesman to the project accountant to the Costco clerk who served the villagers when they came to shop with their project wages. Thus,

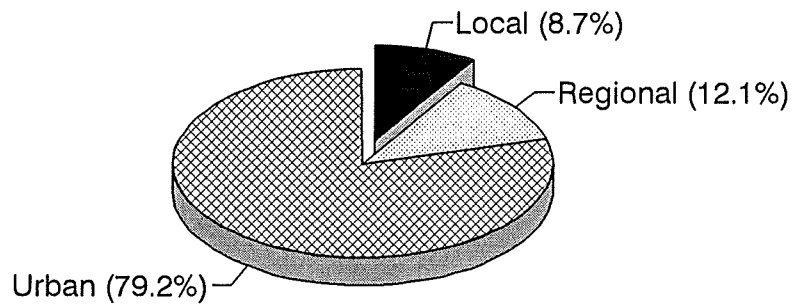
**Reality #5: Although they benefit from the actual improvements made, rural Alaskans never even see most of the jobs and dollars spent on Bush capital projects.**

FIGURES 7 and 8

## Rural and Urban Power Use: kWh/yr



## Income Shares from \$1 Million Weatherization Project



Direct and Indirect Labor Income: Total = \$500,000

**Conclusion**

Well, there you have them. Five stylized myths about rural Alaska, all debunked with simple economic statistics. If you spend enough time with these numbers, something interesting is bound to pop up. In preparing this talk, what surprised *me* most was that the obscure hydro projects of the four dam Pool cost the public fully one half as much as the "great social experiment" of ANCSA. I hope *you* learned something equally surprising, and perhaps useful. Thank you for listening.

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