

# The Alaska Model of Governance

## Resource rents for public investment and citizen dividends

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INEQUITABLE ownership and wasteful, unsustainable use of earth's resources are root causes of the unjust wealth gap between the rich and the poor and the depletion and collapse of our natural resource base.

This essay describes the form and function of the Alaska

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Permanent Fund as a model governmental institution for collection and distribution of natural resource rents, particularly oil, and offers suggestions for improvement of the Fund.

Those who received dividends each year from 1982-2000 have received a total of \$18,511. There were 582,105 citizens who received a total of \$1,143,172,725 in dividends in the year 2000, which amounted to an individual

dividend of \$1,963 per person. The dividend program has dispersed more than \$10 billion into the Alaskan economy. The principal of the Fund was nearly \$26 billion as of June 19, 2001.

Building on the lessons learned from Alaska, the author offers a global analysis of fundamental issues regarding natural resource and territorial claims. She urges the establishment of a Global Resource Agency to collect and distribute trans-national resource revenues.

**I**F YOU WERE a third grade student in the state of Alaska, one day in school you would play a game called Jennifer's Dilemma. The game tells the story of a little girl who has discovered a box of valuable coins. Her dilemma is deciding what to do with an unexpectedly large amount of money. It is a way for young children to learn about their own yearly windfall fortunes from the Alaska Permanent Fund. In the year 2000, each one received a dividend cheque for nearly \$2000.

The Alaska Permanent Fund is a case study in a new concept of the role of government – that of agent to equitably distribute resource rents to the people, thereby securing democratic common heritage rights to land and natural resources.

Purchased from Russia in 1867, Alaska became the 49th state in 1959. Under the Alaska Constitution (Article VIII, Section 2, General Authority) all the natural resources of Alaska belong to the state to be used, developed and conserved for the maximum benefit of the people. Ten years after statehood the first Prudhoe Bay oil lease sale yielded \$900 million from oil companies for the right to drill oil on 164 tracts of state-owned land. Compared to the 1968 total state budget of \$112 million, this was a huge windfall.

By legislative consensus, the original \$900 million was spent to provide for basic community needs such as water and sewer systems, schools, airports, health and other social services.

Although the oil fields were proving to be the largest in North America, Alaskans came to agree that a portion of this wealth should be saved for the future when the oil runs out. In 1976 voters approved a constitutional amendment, proposed by Governor Jay Hammond and modified by the legislature, which stated that "at least 25% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue-sharing payments, and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments."

The Alaska Permanent Fund was thus established as a state institution with the task of responsibly administering and conserving oil and other resource royalties for the citizenry.

THERE ARE TWO parts to the Fund: principal and income. The principal is invested permanently and cannot be spent without a vote of the people. Fund income can be spent, decisions as to its use being made each year by the legislature and the Governor. The Fund was established as an inviolate trust, meaning that the principal of the Fund is to be invested in perpetuity. The Fund thereby transforms non-

**An income  
in  
perpetuity**

renewable oil wealth into a renewable source of wealth for future generations of Alaskans.

Oil started flowing through the Trans-Alaska Pipeline in 1977, at the time the world's largest privately financed construction project. In February of that year, the Fund received its first deposit of dedicated oil revenue of \$734,000.

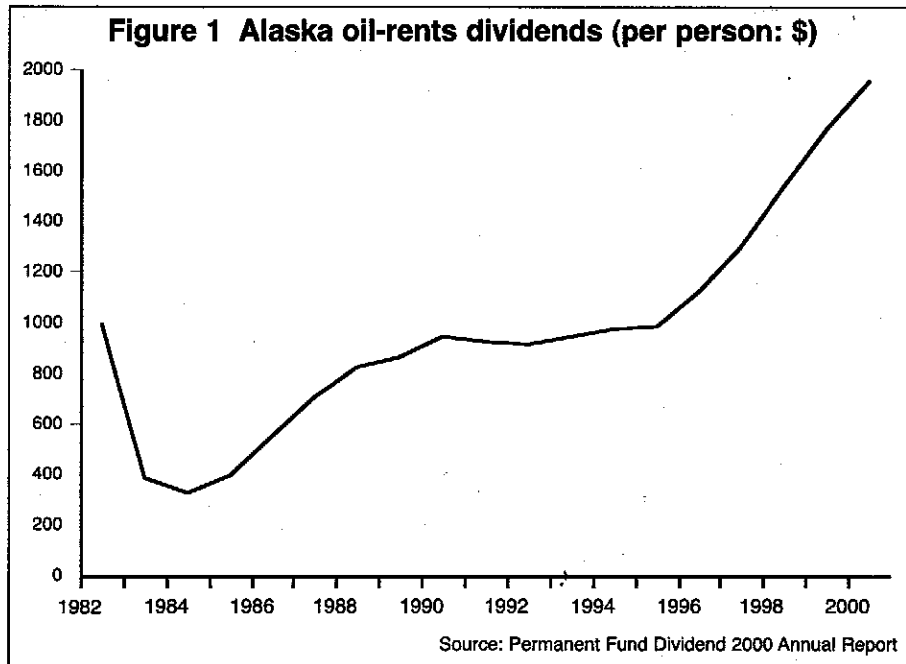
All income from the Permanent Fund was to be deposited in the state general fund unless otherwise provided by law. What to do with the earnings generated and how they would best benefit the present generation of Alaskans engaged Alaskans in debate for the two decades following the establishment of the Fund.

Like Jennifer with her box of coins, the dilemma was what to do with the growing income from the Fund. Would it best be saved for the future or managed as a development bank for Alaska's economy? After a four year debate the Alaska State Legislature decided in 1980 in favour of a savings trust for the future. The Alaska Permanent Fund Corporation was created to manage the assets of the Fund.

The same year the Legislature, also created the Permanent Fund Dividend Program, retroactive to January 1, 1979, to distribute a portion of the income of the Permanent Fund each year to eligible Alaskans as a dividend payment. By the end of 1982, after a couple years of wrangling with the U.S. Supreme Court over constitutional details, all residents of Alaska – every woman, man and child – who applied for and who were found eligible (must be at least one-year resident) received their first dividend which was \$1000. This was the historic beginning of an annual program paying to Alaskan citizens a fair and equal share of the wealth from publicly owned resources.

In 1987 the Permanent Fund Dividend Division was created within the Department of Revenue to consolidate responsibilities for the administration and operation of the dividend program. Through the dividend distribution program, the Fund puts more new money into the state's economy than the total payroll of any industry in Alaska except the U.S. military, petroleum and the civilian federal government. Compared to the wages paid to Alaskans by basic industry, dividends make a greater contribution than the seafood industry, construction, tourism, timber, mining and agriculture. For a considerable percentage of Alaskans, the dividend adds more than 10 per cent to the income of their family. This is particularly true in rural Alaska.

Those who received dividends each year from 1982-2000 have received a total of \$18, 511. There were 582,105 citizens who received a total of \$1,143,172,725 in dividends in the year 2000, which amounted to an individual dividend of \$1963 per person. Overall, the dividend program has dispersed more than \$10 billion into the Alaskan economy. The



principal of the Fund was nearly \$26 billion as of June 19, 2001.

There is strong citizen interest in the Fund's operation and investment activities. Earnings of the Fund undergo special public scrutiny since any expenditure of such earnings must be subject to the legislative appropriation process. Beautifully designed and printed literature is available which describes in detail the various components of the Fund. An Annual Report is distributed each year. Under the policy guidance of the Fund's six trustees and the executive director and staff selected to execute it, there has developed an extensive accountability program and open meetings with opportunity for citizen participation.

The Alaska Permanent Fund Corporation website ([www.apfc.org](http://www.apfc.org)) keeps current all investment and distribution activities of the Fund. The history of the development of the Fund, its incorporation, details concerning its management, along with up-to-date information on the Fund portfolio and dividend pay-out amounts can all be found on the website.

Also posted therein are lesson plans that can be downloaded for teachers to use in their classes such as Jennifer's Dilemma, other teaching stories, and puzzles and games to further education and interest in the Fund. From the website one can e-mail any questions and receive a direct reply from a knowledgeable Fund trustee or employee.

The Alaska Permanent Fund is a well-managed, transparent and democratic institution. It is a remarkable pioneering model of a fair and effective way to secure common heritage wealth benefits for the people as a whole. While undoubtedly an institution worthy of replication worldwide, there are, however, aspects of the Fund which upon close examination reveal the beginnings of another dilemma.

**The prudent investor rule** LET'S CALL THIS dilemma "Charlie's Challenge". Imagine now that Jennifer has given Uncle Charlie some of her valuable coins to invest in the best and safest way possible. Jennifer trusts Uncle Charlie to do a good job because he is an expert investor. Charlie invests in a diversified portfolio of stocks, bonds and other securities, including real estate. Having carefully explored potentially good deals for real estate investments in "the lower 4", Charlie selects several properties, including one in the City of Philadelphia. Philadelphia has low property taxes, state and federal monies pouring into the city and "free enterprise zones" so land values will surely be rising. Real estate in this city looks like a good investment for Jennifer.

However, unbeknownst to Charlie, there is a growing citizen's movement in Philadelphia that is set on capturing for the people of that city the equivalent of Alaska's oil wealth — the value accruing to a different type of valuable natural resource — the surface land sites of Philadelphia. Charlie's Challenge is this: when he becomes aware that the citizen's movement for land value taxation in Philadelphia will cut into profits for Jennifer's dividend investment fund, what will he do? Will he try to keep the resource rents of Philadelphia flowing into Jennifer's portfolio or might he decide to help the citizens of Philadelphia establish their claim to the resource rents of their own territory? Or will he simply withdraw funds from real estate investments that may not be so profitable once land values are recaptured by the city for the benefit of its citizenry?

Charlie's Challenge is quite literally the situation that is emerging for the Alaska Permanent Fund Corporation and its Board of Trustees. The Fund now owns investment property in the city of Philadelphia. There is indeed a growing citizen movement in that city to shift taxes onto the value of land sites, thereby recapturing resource rents as a common heritage right for the citizens of the territory of this municipality.

Keep in mind that the Fund is now so enormous (\$26 billion) that it has the power to grab significant amounts of resource rents from anywhere on earth. Within established foundation guidelines of the "prudent investor rule" the Trustees' goal is to earn slightly better-than-average rates of return with slightly below-average levels of risk. In other words, the Fund is managed under normal investment procedures and criteria. And under normal investment rules, there are no established ethical criteria for

socially responsible investing. In fact, the Fund makes a special point that it minimises risk and within that constraint maximises investment yield and does *not* engage in "social" or "political" investing.

In other words, mandated by law to secure the continued prosperity of the citizens of Alaska now and into the future, the Fund is in the position to make substantial profits from land and natural resources from people all over the world via Fund investments in real estate<sup>1</sup> and stocks, as profits from the latter also include substantial amounts of land and resource rent.

Thus the Fund faces this ethical challenge of global dimensions. Established to secure common heritage rights to rents and royalties from the oil and natural resources of Alaska for the citizens of Alaska, it is now beginning to extract resource rents from other territories. Unbeknownst to people elsewhere who have not secured their own rights to common heritage resources is the fact that Alaskan people are "stealing" their resource rents through perfectly legal, "responsible" and yes "prudent" investment mechanisms.

From this perspective, Charlie's Challenge is a dilemma of monumental proportions. As people all over the world begin to awaken to and indeed demand their rights to the rents of common heritage resources, investment portfolios will never again be the same. The Alaska Permanent Fund and all other public and private investment funds will have to look elsewhere to generate profits – maybe to investments in renewable energy technologies which could help *all* of us when the oil runs dry.

VIEWED HOLISTICALLY, and as a fundamental paradigm shift in property rights ethics, the Alaska Permanent Fund opens yet other important dimensions of inquiry.

**Raw deal  
for US  
taxpayers**

The state of Alaska receives federal money for substantial federal military installations. The military is established to protect the territory of the United States and this protection secures the rights to US land and resources for the people of the US as well as non-nationals who have legal title to American lands. The military, paid for by US citizens out of federal income taxes, is protecting Alaskan citizens' rights to the resource royalties they are now collecting through the Fund. Through providing protective services, all US citizens are contributing to the value of Alaska oil resources and thus to the dividends paid to Alaskans, but getting no value in return, as the federal government is not taxing Alaskan oil wealth.

Additionally, the Fund is now so large that it is a major source of loans to the US government via US savings bonds. So not only are US citizens from the other 49 states contributing through their tax dollars to the value of Alaska oil resources via military expenditures, they now have to pay interest on the federal debt to the Fund out of their own hard-earned

income taxes. And where, one might ask, are the Alaska Permanent Fund equivalents for the other oil producing and mineral mining states? Many large corporations owning these oil and mineral lands sometimes pay no taxes whatsoever. They engage in other ventures such as agribusiness at a loss, write the loss off against their oil profits, and end up with no "profits" on the books to be taxed.

**Resource  
rights and  
territorial  
claims**

LET US DEEPEN our inquiry concerning property rights in land and natural resources as it relates to the Fund, checking in again with Jennifer and Uncle Charlie. What would Jennifer do if she met up with another claimant to her valuable coins? What if someone informed Jennifer that the box of coins was originally theirs, because they had found the box first, and had simply put it on the shelf where she had found it? Now they had returned and wanted it back.

Here we confront issues of the establishment of rights to territory by discovery and prior claim. Jennifer "discovered" the coins but someone else claims them as originally theirs. If Jennifer refuses to surrender her coins to the prior claimant, the situation could deteriorate to violence and bloodshed, mayhem and murder, or even a lawsuit. Uncle Charlie better supply Jennifer with some really big guns or funds for an extensive court battle. Claim could then be determined by force in the former or cunning in the latter.

There is a miasma of problems with trying to establish territorial rights by any of these methods, either discovery or prior claim, by military force or by current legal mechanisms. The persistent conflict in the Middle East comes readily to mind, as do indigenous land issues and the wounds of historic land grabs still festering throughout Latin America. Less well-known are the raw realities of the concentration in the ownership and control of land and resources in the United Kingdom, Scotland, and the United States, all first world countries where a few individuals or corporations own massive amounts of natural wealth.

And now back to Alaska with the really big question. Upon what basis is the exclusive claim of the people of Alaska to the oil resources of Alaska? Let us consider the history of this claim.

The state takes its name from the Eskimo word "Alakshak" The "prior claim" by original occupancy would appear to be exclusively that of the indigenous people.

Russia claimed Alaska by right of discovery after it was sighted by Vitus Bering in 1741. Purchase was negotiated by the US government's Secretary of State William H. Seward who bought Alaska from Russia in 1867 for \$7.2 million, about two cents an acre. Was the purchase by the United States and thus the transfer of rights to exclusive claim legitimate on the basis of Russia's prior claim by discovery?

World War II had a substantial impact on Alaska as the United States sent thousands of workers there to build defence installments and the Alaska Highway. In 1942 the Japanese occupied several Aleutian islands, the only part of North America that was invaded during the war. "Might makes right" enables an exclusive claim to be secured and maintained and frequently is the origin of the claim itself. But does the ability to maintain a territorial boundary through military protection stand up as an appropriate basis for exclusive claim?

Is the exclusive claim of the people of Alaska to the oil resources of Alaska theirs by right of that state's constitutional law? Legally, yes, a legality that was put in place well after United States Federal and State Constitutional law was established for the "lower 48" states, and much later than the land of North America was grabbed by force of conquest from indigenous peoples. That a state constitution and a democratic vote of the people established a basis and a mechanism for equal rights to natural resources is a phenomenal and profoundly important human rights achievement and should be acknowledged as such.

Nonetheless we must question whether democratic process itself is a sufficient basis for an exclusive claim to natural resources by people residing in a particular territory. If that territory contains resources essential for the well-being of everyone else on earth, then the absolute control of that resource by the people of that territory, no matter how democratic the internal politics may be, would give those people undue and unjust power and control over the people of the rest of the world.

Thus we see that the basis upon which the citizens of Alaska stake their exclusive claim to the oil and natural resources of Alaska is a complex historical weaving of territorial claims by discovery, purchase, military might and democratic law. Interestingly, the land right due to occupancy or "prior claim," negated as a way to secure an exclusive claim of indigenous peoples to the territory by the several ensuing methods of claim by newcomers, finds its mirror in the Alaska Permanent Fund requirement that an individual must reside in Alaska for at least twelve months in order to qualify for the Fund dividend payments. Time-determined occupancy is certainly one way to stake a claim to the benefits of natural resources in a territory, reminiscent of earlier US homesteading approaches to land rights. But here again, we must ask if this is a sufficient ethical basis for an "exclusive" claim?

The essential question then is this: Is it fair and just to exclude people from everywhere else in the world from benefiting from the extremely valuable, nature created oil deposits of Alaska because of any of these territorial rights rules and negotiations? Are any of these methods of claiming territory more moral and ethical, more in alignment with truth and justice, than others? In other words, is there a moral and ethical



hierarchy, if you will, of territorial claims, some being more "right" than others?

We must conclude that while some of these means to claim may be more just or fair than others, the exclusive claim of the people of Alaska to the oil royalties of Alaska cannot be made on the basis of either prior claim, discovery, purchase, ability to maintain and secure possession, constitutional law, or length of residency.

Ultimately, the only rational, supportable, moral, just and ethical basis upon which the citizens of Alaska can assert a claim to the oil resources of Alaska is by birthright to the gifts of nature. And that cannot be an exclusive claim. The claim by birthright can only be legitimate if it is acknowledged that all other human beings have an equal claim to land and natural resources. The deepest ethical dimension of territorial rights recognises that humanity is one and indivisible in its fundamental claim to the earth as a birthright of all.

People from the rest of the world, with no oil in their territories, can only establish the right to oil by purchase or force. If they are dependent on oil to develop and advance their economies, but only are able to purchase and not profit from oil, then these people will remain in a subservient and mendicant relationship to the controllers and claimers of oil rich territories until the oil runs dry. By then the Alaska Permanent Fund will have an even larger investment portfolio by which to extract land and resource rents from people elsewhere. This is the fundamental moral and ethical contradiction of the Alaska Permanent Fund and its *modus operandi* as a "prudently" managed investment trust.

If the Fund trustees and the citizens of Alaska were to deeply consider this common heritage rights basis for their claim of oil royalties and the profit on Fund investments they would certainly come to realise the need for a broader, global, humanitarian role for the Fund – that of assisting people in other parts of the world to secure their own fair share rights to resource rents.

For instance, Africa now accounts for 14 per cent of U.S. oil imports, a number that could grow to 25 per cent by 2015.<sup>2</sup> Many African countries with oil wealth do not publish their oil revenue in the national budgets. These nations are rife with strife, civil war, corruption and poverty. Humanitarian organisations and many African citizens are calling for transparency and accountability in the management of oil funds and for the use of oil wealth for overall economic development. The Alaska Permanent Fund could play an important role by helping to establish similar funds in these nations.

Additionally, the Fund could develop a screen for its investments which would go beyond even currently established criteria for socially responsible investing. It could decide *not* to invest in land and resource

securities and instead to invest primarily in (1) the development of renewable energy technology; (2) strictly goods and services businesses and industries; and (3) in places and in ways that would support the emergence of forms of governance holding principles aligned with the primary task of the Fund, i.e., the collection of resource rents as a common heritage right for all people on an equal and democratic basis.

It would be a big step in the right direction if people all over the world awakened to their claim to the land and resources of the earth as a birthright and demanded that this right be written into their constitutions as did the Alaskans. But based on nation state boundaries, this would be insufficient to secure justice in land rights worldwide. Nation states were formed in a number of ways, but primarily through force of conquest. Consequently, some nation states are large and well-endowed with land and resources, while others are small or lack natural resources. Furthermore, former colonial states now independent did not thereby automatically gain control of their resources for their own people.

THERE IS AN urgent rational, ethical and democratic imperative for the creation of a Global Resource Agency (GRA) which would function in some ways similar to, but much more extensively than, the Alaska Fund. The Global Resource Agency would be responsible for (1) monitoring the global commons (e.g., the ozone shield, global forest reserves, fish); (2) determining rules for access to transnational resources (like the oceans, electromagnetic spectrum and satellite orbital zones); (3) issuing use permits; and (4) collecting resource royalties and revenues.

### **A global resource agency**

The GRA could also assume substantial authority for equitably distributing fees collected from common heritage resources worldwide as calculated by formulas based on population, development criteria and currency purchasing capacity. For example, a percentage of the oil rents from the Alaska Permanent Fund would be collected by the Global Resource Agency and either distributed directly to citizens in regions with no oil resources in a kind of dividend sharing program or made available as interest free loan funds for sustainable development projects in those areas.

The Global Resource Agency could fund institutions and activities needed for global environmental protection, justice, and peacekeeping, such as the World Court and the International Criminal Court. This would in turn contribute to a better and more secure quality of life for the citizens of Alaska and elsewhere who would pay a portion of their resource rents into the GRA. The principle that the earth is the birthright of all on an equal basis would also guide legal decisions made by the courts in determining just solutions to territorial disputes.

The emergence of such an institution is essential if we are to create a world that works for everyone. However it would take years for it to be accepted and created. In the meantime the responsibilities listed above could be assumed by diverse existing United Nations agencies and other intergovernmental institutions and mechanisms. While some nation states which are strongly controlled by vested interests who profit from the current system might balk at the idea of a Global Resource Agency, others would offer their endorsement if it were truly capable of promoting stability and economic fair play for their people. Seed funding and technical assistance from the Alaska Permanent Fund could be provided to work together with these nations and worldwide networks of humanitarian non-governmental organisations to establish and coordinate the various components which would then be brought together to form the Global Resource Agency.

Some people might object to the idea of a Global Resource Agency out of fear that it would add another top-heavy level of bureaucracy to an already governmentally burdened world. But those advocating strengthened global governance ask us to imagine the shape of the emerging world as a pyramid with three basic levels: a small tier at the top for global institutions, a greatly slimmed down second band of national governments, and a vast sturdy base of local government, with a primary role of governance on each tier to collect and redistribute land and resource rents and royalties as common heritage funds for the benefit of all. Thus much of the resources raised, decisions made and benefits provided would be at the local level.

**Land, life and liberty** THE OBJECT OF the 4000 year old oriental game of GO is to gain control of territory by capturing enemy stones on a board. You win by forming walls with your stones that surround more territory than do your opponent's stone walls. One of the oldest games known, GO is based on the concept that if you possess land or territory, you have an area on which to base life. You then have liberty and freedom. Without land or territory, you do not have anything to base life on and are considered without life, or dead.

Chess, probably invented in India in ancient times, was widespread in Europe in the 16th century when the rules were definitively stabilised. A more directly confrontational and combative game than GO, chess exhibits the same theme of territorial conquest and control as a life or death affair. Both are games of metaphor which mirror real life militarised territorial goals.

Consider for a moment that for thousands of years and millions of hours trillions of brain cells have been trying to take, expand or hold territory in the face of the "enemy". We now live in an age when defining

the "other" as "enemy" can lead to the annihilation of both. "Winning" by taking away the territory of the "other" now has a boomerang effect, as numerous intractable civil wars attest. Time, attention, energy and money devoted to securing or maintaining exclusive claim to particular territory now needs to be redirected to save the earth, all of humanity and other life forms from the current threat of overall ecosystem collapse.

The spirit of our age, with the image of the earth as seen from space emblazoned in our mindscape, insists that the circle now be drawn to include all, each and every one of us, as equal claimants to the whole earth itself. This quantum leap worldview can and surely will be the basis for profound changes in institutions of governance, economics and law. The right to the earth itself as a right by birth is the most fundamental human right of all. The Alaska Permanent Fund, based on the democratic constitutional equal right to natural resources, though not a perfect model, is nonetheless one of the most enlightened governmental "works in progress" at this time on earth.

- 1 The Fund's real estate portfolio consisted of 63 separate investments with a market value of \$2.5 billion as of 30 June, 2000.
- 2 "Oil for us; hope for them: U.S. trade with Africa should stress value of human rights". Ian Gary, *Philadelphia Inquirer*, 9 July, 2001.

## References

Material for this paper taken from *An Alaskan's Guide to the Permanent Fund*, 9th edition, annual reports of the Alaska Permanent Fund Corporation and Alaska Permanent Fund Dividend, and the Fund website, [www.apfc.org](http://www.apfc.org).