

Lawmakers do Right by Alaskans, Adopt POMV and Protect Dividend

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Thanks, Anchorage Daily News, for asking the public to express opinions on the Permanent Fund, the Permanent Fund Dividend, and the plan for annual “Percent of Market Value” draws from the Permanent Fund that would provide for both government services and dividends (POMV).

In answer to ADN’s request, here are some highlights from Alaska’s history as a state that may provide guidance for the future. After all, one definition of insanity is making the same mistakes repeatedly and expecting different results.

Surprisingly, unexpected disasters have been instrumental in breaking the grip of major economic recessions in the past. Both the 1964 earthquake and the 1989 Exxon Valdez oil spill occurred during serious recessions. Expenditures to recover from both disasters injected enough money into the economy to overcome the economic doldrums. We never hope to be “lucky” again because of disaster, but the lesson is clear that recovery from a recession can be boosted by spending. Cuts in spending have an opposite effect.

There is no doubt that Alaska is now in a recession. The two recent times since statehood when the rate of population growth declined are the late 1980s and today. According to the Department of Labor and Workforce Development, Alaska’s unemployment rate is currently the highest in the nation. Also, like the 1980s, crime rates have soared, especially for theft. Ask businesspeople you meet how they’re doing, and they may say things like “there’s nothing out there” or “I’m just hanging on.”

Uncertainty increases recession by slowing business investment.

The Legislature could address uncertainty and help stabilize the economy by enacting legislation establishing a disciplined POMV process for spending. This system – the same system as that used by many major corporations to protect endowments – has been recommended by the Alaska Permanent Fund Corp. since 2003.

Given the need to stabilize the economy, it is alarming to hear that some legislators are planning to bypass the discipline imposed by POMV, and simply adopt a budget that would spend directly from the Earnings Reserve Account of the Permanent Fund. Legislative spending needs the restraint of POMV to provide stability and protect the dividend.

A look at Alaskan history gives a clear warning of what could happen without spending sidebars. In 1969 when Alaska received a fiscal windfall of \$900 million from the oil field lease, legislators competed to fund new projects in their districts. If one district got approval for a library or a community hall, other districts needed similar things. Some economic development projects were clearly boondoggles.

Public alarm at the rapid spending, together with leadership from Gov. Hammond and wise legislators like Hugh Malone, resulted in the constitutional amendment that created the Permanent Fund in 1976. Four years later Hammond urged legislators to adopt a bill creating Alaska's Permanent Fund Dividend program. He wanted to give the public a vested interest in protecting the Permanent Fund, and to assure that both rural and urban communities benefited from Alaska's new oil wealth.

Alaskans received their first dividend checks in 1982. This was fortunate timing, but it did not prevent the recession that occurred because of a fall in oil prices, and expiration

of the \$900 million construction boom.

The state income tax had been repealed in 1980, and the shortage of funds for essential state services led to further cuts in employment which, in turn, added to the negative ripple effect. The recession was severe.

Hammond ultimately realized that the only solid protection for Alaska's dividend program was an ongoing source of state income. In 2004 at the Conference of Alaskans in Fairbanks he argued strongly for an income tax, saying his biggest mistake as governor was not to have vetoed the bill repealing the income tax in 1980.

A year later, Gov. Jay Hammond died, having made an enormous contribution to Alaska by leading the establishment of the Permanent Fund and the Permanent Fund Dividend. He was a Republican who saw the big picture, perhaps Alaska's greatest governor.

[Read the full article here.](#)