Alaska’s Cockpit Standoff and the Need to Land the Plane

Cliff Groh, Opinion Piece in the Anchorage Daily News, July 29, 2021

The Alaska Legislature has created a Comprehensive Fiscal Plan Working Group to produce a fiscal plan before the Legislature convenes again in a special session currently set to start August 2. Unusually, this informal joint committee includes equal representation from each caucus in the House and the Senate. Depressingly, there is a substantial chance that the Legislature will either do nothing or something very short-term this year.

Either outcome would be unacceptable. It is difficult to solve the State of Alaska’s yawning structural deficit, and it is also urgent to do so.

It’s hard to come up with a fiscal fix largely because Alaska appears to have the nation’s most complicated fiscal politics. The fiscal policy here on the Great Land is pretty complicated by itself. The law that the Legislature adopted in 2018 to spend Permanent Fund earnings sustainably in the budget is a novel—and little-understood—concept for a state government. That legal change three years ago created a system called Percent of Market Value (POMV). Under the POMV system, Permanent Fund earnings now provide more than 60 percent of the State of Alaska’s revenues—making Alaska more of an endowment state than an oil state. The details of oil taxes are complex as well.

But it’s the politics of paying for what the State of Alaska does that are really complicated.

In every other state, deciding how to pay for the budget is basically like a two-sided wrestling match between people who
mostly see themselves as budget beneficiaries and people who mostly view themselves as taxpayers.

In Alaska, by contrast, it’s all different. The Permanent Fund Dividend, the Permanent Fund, and oil taxes combine to make it much weirder on the Last Frontier. In Alaska, fiscal politics resemble a movie scene where five people are pointing guns at each other in the cockpit of an airplane—and the airplane is running out of fuel. Instead of a straightforward two-wrestler match, Alaska has a hopped-up cross of Reservoir Dogs and Snakes on a Plane.

As is usually true in politics, the people with guns in the cockpit are defined by what they fear the most. Let’s go through them one by one—and put a face on each person holding guns.

One person pointing pistols is someone who most fears additional cuts to the conventional budget. Think of a parent activist in Great Alaska Schools concerned about the education of that parent’s children, given that the State of Alaska pays close to 75 percent of the total costs of K-12 education in Alaska and K-12 spending is more than a fifth of the State budget.

The second person with guns up is someone who most fears the restoration of broad-based taxes in Alaska, particularly a graduated personal income tax like our state had from 1949 to 1980. That second person might be a surgeon—I’ve met one who made $5.5 million in net income from work in our state in one year without paying a penny of broad-based taxes to the State of Alaska.

The third person holding guns is someone most afraid of more cuts to Permanent Fund Dividends from what they would be under the Dividend formula created in the 1980s. That person could be lower-income and happy about how Dividends help pay the bills.
The fourth person with handguns out is someone most afraid of increased taxes on the oil industry. Think of an oil company executive—or maybe an oilfield worker—here.

And the fifth person pointing guns at the others is someone most concerned about the Legislature overdrawing from the Permanent Fund earnings so that there is less money to pay for what the State of Alaska’s government does in the future. This person probably plans to live in Alaska a long time and counts on there being good roads and public safety in 2041 as well as in 2021.

So if it seems like Alaska’s fiscal politics are unusually paralyzed, all those gun-pointers in the cockpit help explain why.

The reason that the cockpit standoff wasn’t a problem before the last seven years or so is that the plane used giant wads of oil money for fuel without much need for choices among the diverse collection of passengers. For about 35 years—starting around 1980—the State of Alaska essentially paid the bills with the big annual revenues from oil taxes and oil royalties. But that system stopped working due to the combination of declines in Alaska oil production, drops in world oil prices, and a new oil tax system. Unless oil prices shoot up—and, crucially, stay up—well above recent highs, that old world of oil money financing the State of Alaska is not coming back.

The State of Alaska has responded to the dramatic fall in oil revenues since 2014 by spending most of its savings outside the Permanent Fund as well as by cutting spending to a level below that seen in the 1970s after adjusting for population growth and inflation. (The calculations in this piece are based on Unrestricted General Fund (UGF) dollars, the most common definition of the budget in Alaska.)

I have set out in detail elsewhere my comprehensive proposal for fixing our state’s structural deficit. Briefly, I favor
amending the Alaska Constitution to include the POMV system and guarantee the Dividend at a sustainable level; the reinstatement of broad-based taxes focusing on higher-income Alaska residents and non-residents (which means that I prefer the personal income tax over a statewide general sales tax); a moderate increase in taxes on the oil industry; and a continued emphasis on searching for efficiencies in the budget (while recognizing that the budget might need to go up in certain areas, such as the capital budget).

Your opinions may differ, and I am always willing to discuss potential solutions with Alaskans. Getting to an agreement on a long-term fiscal fix is tough in Alaska, mostly for the reasons laid out above. What is completely unacceptable, however, is going with no or little action over and over. Folks, let’s put down the guns, go big and get creative, and land this aircraft safely.

Cliff Groh has studied Alaska’s fiscal system over the past four decades, and his work has included service as the legislative assistant who worked by far the most to develop and get passed in 1982 the bill that created the Permanent Fund Dividend. He plans to go to Juneau for the next special session on the big-picture fiscal issues.