

# Way of Spending Lease Sale Funds Suggested

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Beginning with the first indications that Alaska was going to realize a considerable sum from the North Slope oil lease sale, many suggestions have been put forward about what we should do with "all that money." While there have been some notable exceptions, all too many have been spending ideas. Having observed the State's fiscal management and financial judgment since statehood, and much of it with less feeling of awe than "awful," I am becoming concerned. There seems to this Alaska citizen-by-choice a very real danger that we may "blow" this possibly once only modest bonanza and wind up a few years hence sadder, no wiser, and once more a semi-welfare case.

With the indulgence of the reader, I would like to offer some thoughts on this oil money. My views are the product of many years relaxed familiarity with large figures, some financial and economic perspective, and a lot of thinking. They are offered in the public interest as it appears to me and the only axe I have to grind is good government.

The very first essential in planning for the care and best use of this money for the people of Alaska is that we recognize at the outset that 900 million dol-

lars is not forever. It is actually not even very much money and it will disappear like snow under a summer sun if utilized for fun and games in any guise instead of being locked up tight and out of harm's way right from the start. A million dollars is only a thousand thousand and \$900,000,000 is only nine hundred million. The gross public debt of the federal government is around three hundred and sixty billion dollars right now, and the State of Alaska in its bare ten years of statehood has gone through about two billion dollars already.

It is also vital in planning for the use of the oil lease money that those having this initial responsibility in both the legislative and executive branches of the State government appreciate fully that this money is coming to us in return for permission to take from the ground of Alaska a non-renewable natural resource. Oil is a capital asset in the fullest sense of the term and once depleted it will never grow again. For this reason it is imperative that we start our planning on the basic iron-clad policy that we are going to replace one capital asset with another and that therefore this oil lease bonus money is to be preserved completely intact and invested in the safest and most productive manner possible. I know that

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# Spending of Lease Sale Revenues . . .

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under any commonsense reading of the State Constitution revenues of this kind can be placed in a permanent trust fund for the permanent benefit of the State.

Only in this way can we keep faith with the Alaska citizens of today and of future generations. We are selling part of Alaska in these oil leases and the State will shrink in total value as the oil is drained away. To sell our State piecemeal (as we have been doing, for small potatoes) and then to fritter away the proceeds on spending programs under whatever heading would be indefensible financially and morally. Under a spending binge, however rationalized by those seeing momentary financial or political benefit, this modest windfall will disappear in a few years, leaving behind regrets, recriminations, and a lot of empty holes where our capital assets used to be. For centuries one of the soundest maxims in the financial world has been "Never touch your capital!"

For many years, both as a territory and as a state, Alaska has been doing just exactly this, expediently and irresponsibly and with no discernible thought

to the future. Some natural resources are automatically self-renewing, either in short term or long, but oil is not. Once taken from the ground it is gone forever. One recent and continuing example of a wasted State capital asset is offered by the billions of cubic feet of natural gas which the State has permitted to be blown into the air or burned off at the Cook Inlet oil fields in the past decade without royalty, tax, or return of any kind. This was inexcusable mismanagement of Alaska's natural resources, and yet the State administration of the early years allowed this waste to start and to continue in ever-increasing volume as an accepted corollary to the avid pursuit of the inadequate dollar which came from the oil. It should be noted too that the capital asset equivalent dollars which came from all of the previous oil lease sales went right out in current expenditures of the State, thus compounding the poor management. This waste of natural gas still goes on and it should either be summarily stopped or taxed at such a high rate as to force its productive use or restorage for future sale.

However, the many millions of dollars in irreplaceable State resources which has been permitted to vanish into thin air with nothing to show for it is not the subject of this private citizen's "position paper." The waste has been criticized by responsible citizens for years and the whistle is going to have to be blown on it soon, by someone.

Our concern here, rather, is that the mistakes of the past not be made the pattern for the future. I would like to help assure that the \$900 million coming from the sale of a part of Alaska is kept inviolable and intact, and invested for the highest possible safety of principal, the maximum return in earnings and appreciation, and to the greatest overall benefit of the State of Alaska and its citizens. This primary determination to maintain the principal sum untouched and fully invested and to use for State purposes only the income therefrom is the most important decision the State will make on the oil money and the first one it should make. Invested prudently for safety first and other considerations second, \$900 million in principal can return fifty to sixty million dollars per year in perpetuity, which will be long after the time when all the oil companies will have folded their tents and derricks and departed from Alaska's emp-

tied oil fields.

It is recognized that no administration or legislature can bind a future one. However, an announced decision now to hold this fragile sum in permanent public trust for the benefit of present and future generations will so commend itself to thinking people (and most of our fellow citizens are) that it would be a rash administration or legislature indeed that would consider tampering with the Oil Permanent Fund in the future. A fifty-to sixty-million-dollar running start on every annual state budget extending without foreseeable end into the years to come should certainly be enough for any state administration and any legislature. A decision for an Oil Permanent Fund will be the single most important step Governor Miller can take during his time in office and I commend it to him. This initial decision should be accompanied by a companion recommendation that all future lease bonus money also go into the Oil Permanent Fund, as well as at least the greater part of the oil and gas royalty revenues.

If our State is wise enough to adopt this course, we can have on the finest terms in any money market all the good things we need and still keep our nest egg and its great earning power intact for future generations. To spend even a dollar of our capital is to lose forever both the dollar and its earning power.

If there were no other way to obtain the things Alaska and its citizens need, then the reasonable and prudent man would have to weigh the present benefit against the future. However, in our fortunate situation the very existence of this fund will always guarantee that we can borrow the money we need for capital improvements or other public purposes at a far lower interest rate than the invested fund will earn. In another context, this is the fundamental principle of the banking business and a very good principle it is. Any individual who spends his high earning

capital for purposes a low cost loan can accomplish should have his head examined, and this applies with even greater emphasis to a state or other local government.

By leaving the Oil Permanent Fund as the continuing backup of the State's credit standing, our State bonds will carry a prime rating and we can readily borrow the money we sensibly require at one, two, and even three per cent lower interest rates than the most cautious and prudent investment of our Oil Permanent Fund will return in interest, dividends, and appreciation. With the exercise of some financial wisdom and foresight now, we can actually have our cake and eat it too, indefinitely into the future.

In addition to the foregoing sound and sensible reasons, the preserving of our oil lease bonus money wholly intact and fully invested would be an act and example of such excellent financial acumen and responsibility that it would command the admiration, respect and interest of the world, financial, economic and political. The benefits here would be great, continuing and of infinite variety. To mention just a few in this already lengthy paper, the economic climate can be made vastly more attractive to business, industry, and the individual, including those already here and those to come. With a sixty-million-dollar-and-up head start on the State budget every year, accompanied by responsible common sense financial planning and some overdue tax law changes in the public interest, it will also be quite possible to lessen and eliminate some of the tax burden and annoyance for the hundred thousand individuals and thirteen thousand businesses that have been paying numerous and substantial taxes for a long time now with admirable forbearance and stoicism.

Another very great benefit would be found in the psychological uplift and confidence a permanent state surplus would

bring to all Alaskans, now and in the future. In fact, the more one considers this closing thought, the more profound and valuable the continuing impact looms.