

## Give surplus to Alaskans; Legislature can't be trusted

GREGG ERICKSON  
COMMENT

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The burning issue for legislators in 2008 seems to be what they should do with the billions in excess money sluicing into the state treasury due to high oil prices and newly beefed up oil taxes. Gov. Sarah Palin says the state will receive \$4.7 billion more in this budget cycle than needed to keep the roads plowed, schools open and other state services flowing. She proposes diverting the surplus into an assortment of more or less temporary special purpose repositories, and labeling it "savings." Palin theorizes that the surpluses will disappear in the future, turning into shortfalls, at which time the money stashed away now will be available to tide the state over.

The idea that state government must hoard revenue windfalls so it will have a cushion to carry it through coming bad times is an article of faith to Alaska politicians, but it hasn't always been self-evident to others. Consider Oregon. For 28 years that state has had a law on the books mandating exactly the opposite principle: that the disposition of windfalls ought to be decided by Oregon households, not by Oregon's politicians. Whenever the state collects 2 percent more money than it needs to pay its bills, the excess has to be "kicked back" to taxpayers. Voters liked the principle so much that in 2000 they added the "kicker" provision to the state constitution.

State revenue has surged over the past two years in Oregon and Alaska. The result in Oregon was that before Christmas, families received checks averaging \$600, for a total distribution of \$1.1 billion. By comparison, Permanent Fund dividends distributed by Alaska in 2007 totaled \$1.0 billion.

"The kicker has proved successful in giving back to taxpayers what is theirs, and keeping government from spending more than it should," wrote Russ Walker in December on the editorial page of the Eugene Statesman-Journal. "Those are values that Oregonians believe are worth protecting."

Oregon politicians hate the kicker. Democratic Gov. Ted Kulongoski, speaking to The Associated Press, described the kicker as "lousy fiscal policy," saying he'd prefer to see the money saved for the proverbial rainy day.

The rainy-day argument sounds plausible, but rests on a shaky foundation. State governments are insulated from most events for which households must save. Governments do not lose their jobs; they are not laid off, and they cannot be diagnosed with cancer. Nor does government need to save for its retirement and old age. Governments live on.

But is Alaska a special case? In 1991 Alaska voters created a Constitutional Budget Reserve to smooth out the revenue gyrations associated with swings in oil prices. Filled with money from settlements of disputed oil revenue assessments, the CBR was to feed money into the budget when revenues were down, and automatically soak up windfalls when the state was flush.

The CBR proved to be a good cushion, sustaining spending when oil prices were temporarily in the tank, but state politicians soon figured out how to game the system. By substituting worthless IOUs for real money, politicians were able to defeat the constitutional provisions designed to soak up windfalls. That prevented the CBR from fulfilling its promise as a means of automatically stabilizing the state budget. At last count the state owed the CBR \$4.8 billion in funny money.

The key issue in 1991 was finding a way to stabilize a gyrating but-on-average adequate revenue stream. The issue now is different. The issue now is deciding what new revenue stream will be tapped when the oil flow (in barrels) declines to a trickle.

Even under the most optimistic scenario, revenue from imagined natural gas exports falls way short. If the state's plan is to use savings, or earnings on savings, one has to wonder -- how much more does the state need? Alaska already has 10 times its annual budget stashed away in the Permanent Fund and other accounts.

Alaskans should consider the Oregon plan. Kick those savings back to households, and let families decide how to use that money to prepare for the future.

When the savings are gone and oil revenue falls to the point where the state needs more money, there's another system that has also worked in Oregon, not to mention 48 other states: ask voters to ante up with taxes for the level of government services they feel they can afford.

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Juneau economic consultant Gregg Erickson is editor-at-large of the Alaska Budget Report, a newsletter covering the state budget and economy. He can be contacted at [gerickso@alaska.com](mailto:gerickso@alaska.com).

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