

Palin's plan fails common sense tests

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COMMENT

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Gov. Sarah Palin wants to take \$1.2 billion out of the state treasury and put it on the street to help Alaskans deal with soaring energy costs. It's a significant amount of money -- about \$2,000 per Alaskan if it were distributed as a Permanent Fund dividend. There is no doubt that Alaska households are suffering from high energy prices, and that those same high prices are enriching the state government beyond any conceivable need for services or savings. But Palin's proposal fails common sense tests.

Palin would create two new programs. The bigger of the two, the fuel card program, gives every PFD recipient a debit card allowing them (or their parents) to charge \$100 per month, supposedly only for fuel -- gasoline, natural gas, etc. It would cost \$730 million for one year.

A smaller subsidy program covers electricity; the state would send \$475 million to Alaska electric utilities who would pass it on to all consumers on a pro-rata basis, those with the biggest bills getting the most subsidy.

Whatever your notions of fairness, you'll find examples in these programs of unjust enrichment of the undeserving. A friend of mine notes that the debit card program will only benefit consumers if fuel retailers don't respond to the subsidy (and the resulting increased demand) by jacking up prices. Another notes that a nursing home resident would get no benefit from either program.

My nomination for the most egregious example is the subsidy the Kennecott Greens Creek Mining Co. would receive on its electric bill. The silver mine, one of the world's largest, buys interruptible surplus hydro power at 35 percent below the normal residential rate in Juneau, and 62 percent below the rate in Fairbanks. The company will receive a \$404,000 annual subsidy. Kennecott will be delighted, but -- with the lowest electricity rate in the state -- it doesn't need it.

These examples also illustrate how inefficient Palin's subsidies are at putting money into household checkbooks where it is needed. None of the subsidies paid to Kennecott will help anyone's family. Neither will the \$22 million coming off the top to cover the 3 percent debit card fee charged by JPMorgan Chase, the state's current bankcard issuer. Add to that what it costs to hire a gaggle of lawyers to write regulations and clerks to send out debit cards. Honest people will limit their purchases to fuel, but dishonest ones will use it for anything they can buy at the gas station's convenience store or repair shop, so be sure to include the costs of auditors to chase down cheaters.

But the most troublesome aspect of these programs is the incentives they create for us to increase our energy use. Higher prices convey a powerful message of conservation. Even well crafted subsidies, like Alaska's rural power cost equalization program, muffle that message.

Palin's programs would supposedly sunset after a year. "We didn't want to create an entitlement," she emphasized Thursday. Yet by suppressing conservation during that year these subsidies will make the pain caused by shutting them down all the more wrenching and make the political task of ending the subsidies all the more problematic.

So why not distribute the \$1.2 billion as a special PFD? Politicians have two answers to this question; first, they say it's wrong to give money to rich folks who don't need it. PFDs go to everyone, rich and poor, it's true, but that's their beauty. Nobody gets special treatment, and nobody has to make value judgments about relative need.

The second argument is that a special dividend could never be ended, because the public would come to think it is entitled to it. Maybe so, but any special dividend would have to be renewed every year by each Legislature. To me that creates a healthy tension. If oil prices stay high and the state government continues to be enriched beyond any conceivable need, why shouldn't some portion of the windfall be shared directly with citizens? And if oil prices crash and government becomes impoverished, why do the politicians think the majority of Alaskans wouldn't recognize that fact and act accordingly?

In the end, no matter how much they fear the idea of a special PFD, perhaps legislators and Palin will recognize that it's better than the alternatives. It's better than creating anti-conservation subsidies that may be even more difficult to end, and it's better than letting Alaska families suffer as their government gets richer and richer.

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