

# On the Alaska Permanent Fund Dividend

What is it and what do we know about it?

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# Outline

Background

What do we know?

- Poverty

- Children's health

- Employment

- Crime

- Spending

Budget crunch and the future of the PFD

## What is the permanent fund?

- ▶ The state's financial windfall tied to the discovery of the large Prudhoe Bay oil resulted in the establishment of the Alaska Permanent Fund (APF) in 1976 to save a portion of the revenues. The fund receives a percentage of Alaska's revenue from oil production as an investment and has grown substantially in value, reaching 65 billion dollars in November, 2019.
- ▶ It is now well diversified with assets in stocks, bonds, and real estate. The returns of the fund have very little connection to the Alaska economy.
- ▶ As of July 31st, the value of the fund was 63.3 billion. Of that amount 53.3 billion is in the principal and another 10 billion in the earnings reserve.

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## What is the permanent fund dividend?

- ▶ The per capita dividend was adopted in 1982 as a result of a bill that served as a backup -or backstop- for the original “the longer you’re here, the more you get” dividend created by a law passed in 1980 that quickly became stalled in litigation.

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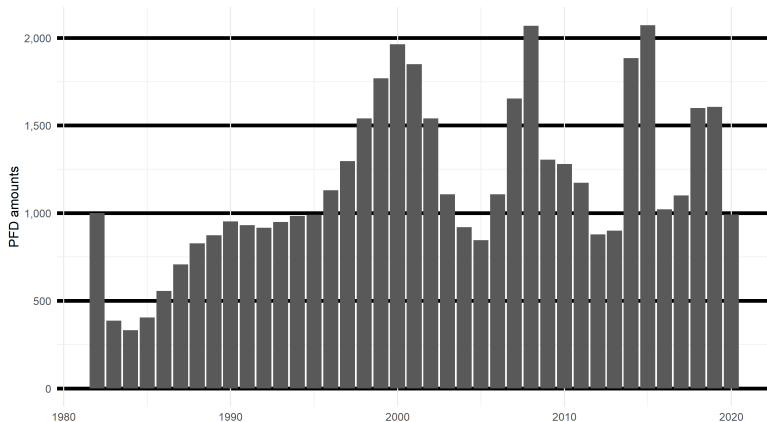
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# PFD amounts since inception

PFD amounts in nominal dollars between 1982 and 2020



## Five original arguments

- ▶ Paying dividends out of the Permanent Fund's income or earnings would build a political constituency to protect the Permanent Fund's principal against raids by special interests.
- ▶ Paying dividends would provide greater economic “bang for the buck” than spending the same amount of money on the operating budget, capital projects, or loans to residents.
- ▶ Permanent Fund dividends would deliver benefits more equitably than alternative uses of the surplus oil money.
- ▶ The repeal of Alaska's personal income tax in 1980 further tilted benefits towards higher-income people, some of whom were non-residents.
- ▶ Universal direct distribution of a portion of the Permanent Fund's income would fortify the safety net for low-income Alaskans

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# Has there been much research on the effects of the dividend?

As of 2019, there were **only** eleven papers that have examined different aspects of the PFD. They fall into six different categories: employment(3 papers), income inequality(1), health(2), spending(2), poverty(1), and crime(2).

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# Poverty

The PFD has resulted in **substantial poverty reductions** for rural Alaska Natives. These effects have been particularly pronounced for the elderly. Interestingly, the poverty reducing effect of the PFD has declined as regional corporation dividends have increased in size over time.

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- ▶ **Birthweight:** The evidence indicates that the PFD has a positive, but modest effect on birth weight. This effect is particularly pronounced for low income mothers.
- ▶ **Childhood Obesity:** A recent paper finds that the health benefits extend beyond birth weight. For three-year-olds, there is strong evidence that the PFD reduces obesity.

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Three papers have examined the effect of the Permanent Fund Dividend on employment and hours. The findings across papers show that the PFD has not had a negative influence on the labor market. In fact, there is evidence of small positive demand responses.

Overall, however, the **employment-related effects of the dividend are fairly small on annualized basis.**

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# Crime

- ▶ In the weeks following the PFD distribution, substance abuse related incidents increase while property crime related events decrease. Additionally, both substance abuse and medical assist instances are increasing in the payment size but there is no evidence that property crime is responsive to fluctuations in the amount.
- ▶ These fluctuations are, however, **small** on an annualized basis.



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Early research showed that Alaskans do not change their consumption patterns in the months after the distribution. More recent work using a detailed data set shows that Alaskans spend significantly more on non-durables and services in the month when they receive the dividend payment, and this excess consumption persists over the first quarter after the dividend payment

## Ongoing work

- ▶ I am currently examining the relationship between the distribution and hospital usage.
- ▶ We are also hoping to begin a project on Child maltreatment and resource availability.

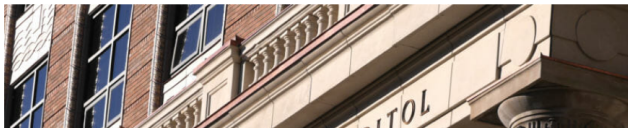
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## Challenges ahead

Conservative candidates won Alaskans' votes Tuesday with big PFD promises. Now comes the hard part: delivering.

By Nathaniel Herz, Alaska Public Media - Anchorage - August 20, 2020



***Thank You***

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