The Alaska Permanent Fund Dividend Program: Economic Effects and Public Attitudes

How do Alaskans feel about the Permanent Fund Dividend Program and what have been its economic effects? Researchers at the University’s Institute of Social and Economic Research recently addressed these questions in a new report for the Alaska Permanent Fund Corporation. They found that:

- About 60 percent of Alaskans think the dividend program is a good idea, 29 percent have mixed feelings, and 10 percent think it a bad idea.
- The “average” recipient saved $200 of his 1982 dividend, paid $200 in federal taxes, paid off $50 in debt, and spent $550 ($450 for day-to-day expenses such as food, heat, clothing and $100 for special items such as airline tickets and video recorders).
- Dividends create more spending money and jobs—and result in more population growth—than other ways of spending the same amount of public money, including bigger operating and capital budgets, tax reductions, and subsidizing economic activity.

Alaskans’ Attitudes Toward the Dividend Program

Based on a telephone survey of 1,016 households, most Alaskans prefer the dividend program over such alternatives as local construction projects, reduced property taxes, subsidized loan programs, or saving the dividend money in the Permanent Fund. Given the choice, however, 71 percent would now choose to end the dividend program rather than bring back the personal income tax, and a majority would support using part of the dividend money to pay for the state’s longevity bonus program.

Most persons interviewed thought they were entitled to a share of the earnings of the Permanent Fund and had no problem with receiving money directly from the state. Most emphatically believed that how they used the money should not determine whether or not the program continued. Most respondents also thought that the dividend program helped to protect the principal of the Permanent Fund and was a better use of the money than legislative appropriations. In addition, they thought that the dividend program had made them pay closer attention to how the state spent the money it received.

Respondents widely supported the dividend program, particularly those from lower income groups, rural residents, recent immigrants, persons with relatively less education, and younger and older Alaskans. However, even 45 percent of those from high-income households (receiving over $60,000 income in 1983) supported the program.

Respondents were much more likely to favor dividends if they felt that: (1) residents were entitled to a share in the state’s wealth; (2) Alaska residents were better able to decide how to spend the state’s money than the legislature; and (3) dividends were an important source of income in their communities.

Attitudes toward Alaska’s fiscal future also influenced respondents’ views. Those who expected state revenues to decline in the next 10 years were likely to oppose the dividend program in favor of increased state savings, while the reverse was true for those who firmly believed revenues would not decline.

Impact of the Dividends on Income

More than 458 thousand 1982 dividend checks of $1,000 and more than 430 thousand 1983 dividend checks of $386.15 were distributed to Alaskans under the Alaska Permanent Fund Dividend Program. The impact of these dividends on income varied widely among Alaskan households. For 35 percent of Alaskans, 1982 Permanent Fund dividend income represented less than a 5-percent increase in their families’ after-tax incomes. For another 47 percent, the dividends represented an increase in after-tax incomes of 5 to 20 percent.* For the remaining 17

*Adults paid 28.4 percent of their 1982 dividends as federal income taxes. Since 31 percent of the dividend income went to children, most of which was not taxed, the average tax rate for all dividend income was about 20.2 percent. Total federal income taxes were $98 million on 1982 dividends and $32 million on 1983 dividends.
percent of Alaskans, the dividends represented more than a 20-percent increase in family incomes. The contribution of dividends to family income was relatively greater in rural Alaska, and especially so for rural Alaska Natives. Nineteen eighty-two dividends represented more than a 20-percent increase in family income for over half of rural Alaska Natives. Since the 1983 dividends were smaller than those of 1982, their contribution to after-tax income was also smaller.

How Alaskans Used Their Dividend Income

Based on the survey, Alaskans spent about 10 percent of their dividend income on special purchases, the most common of which were airline tickets (one-fifth of all special purchases), furniture, houses, home additions, televisions, appliances, bicycles, snow machines, and three-wheelers. They spent 45 percent for day-to-day purchases such as food, heat, clothing, and rent. Based on the survey, they saved about 20 percent of their dividend income and used about 5 percent to reduce debt. They paid the remaining 20 percent to the federal government in taxes.

Lower-income and rural households used less of their dividend income for taxes or savings and more for debt reduction and special purchases.

Parents decided how their children's dividends would be used in over one-half of all households, while children made the decisions in less than one-tenth. In the remainder of households, the decisions were made jointly. The greater the children's say in the use of the dividends, the more was spent, while the greater the parents' say, the more was saved or used to reduce debt.

Economic Effects of the Dividend Program

The dividends have provided one of the most important sources of growth in disposable (after-tax) personal income in Alaska since the current economic boom began in 1980. The dividends directly accounted for 17 percent of the increase in disposable income for the years 1981-1983. They also created 5,000 new jobs by 1983. People moving to Alaska to fill these new jobs increased the state's population by 4,000 by 1983, resulting in higher government expenditures and private investment. In addition, earnings from the new jobs further increased disposable income by 23 percent in 1983 over and above the direct amount of the dividend.

The dividend program has not noticeably affected inflation. Few, if any, people have left the labor force as a result of dividend income. There is no evidence of substantial migration to Alaska by people hoping to receive dividends, although some people may have postponed their departure from Alaska for that reason. The secondary economic effects of dividends were felt most in the support industries of trade, services, and finance, which are concentrated in the urban parts of the state. Private holdings of wealth increased modestly and tended to be concentrated among the higher-income groups. The availability of funds resulted in a small amount of capital investment for business purposes.

The dividends produce larger increases in before- and after-tax income than spending an equivalent amount for other public purposes. In the long run, the dividends also cause larger increases in employment and population. While the employment growth from dividends takes place in the support sector, other public expenditures produce more jobs in government or construction-related industries.

Because nearly all state revenues come from the production of finite petroleum reserves, total public spending—in the form of dividends or for other uses—cannot be sustained at its current level. If current public spending patterns—including paying of dividends—continue, significant and continuing reductions in government expenditures will become inevitable early in the next decade, cutting per capita real public spending to half its current level by the turn of the century. Thus, any use of public funds involves a trade-off not only between different uses but also the timing of use. Permanent Fund earnings spent as dividends produce the largest effect on economic growth in the present but reduce the level of future public assets in the same way as other public spending.

In contrast, saving Permanent Fund earnings has no effect on the economy in the present but increases future opportunities for public or private spending by enlarging state fund balances in the future—augmenting future public revenues that are projected to be much smaller than those of today.


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