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Resource rents, universal basic income, and poverty among Alaska's Indigenous peoples

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ABSTRACT

The Alaska Permanent Fund Dividend (PFD) program provides universal basic income (UBI) to all residents from investment earnings of a state sovereign wealth fund created from oil rents. This paper evaluates the effect of the PFD to mitigate poverty among the state's rural Indigenous (Alaska Native) peoples: a population with historically high poverty rates living in a region with limited economic opportunities. Errors in recording PFD income in data used to calculate official poverty statistics cause them to misrepresent poverty in Alaska and understate the effect of the PFD. Estimating poverty rates with and without PFD income therefore requires reconstruction of family incomes from household-level data. Estimated poverty rates from reconstructed income show that the PFD has had a substantial, although diminishing mitigating effect on poverty for rural Indigenous families. The PFD has had a larger effect on poverty among children and elders than for the rural Alaska Native population as a whole. Alaska Native seniors, who receive additional sources of UBI derived primarily from resource rents besides the PFD, have seen a decline in poverty rates, while poverty rates for children have increased. Evidence has not appeared for commonly hypothesized potential adverse social and economic consequences of UBI.

1. Introduction

Universal basic income (UBI) – a cash grant awarded periodically without conditions – is an old idea (Van Parijs, 2004) that has attracted new interest in recent years. A number of experiments are currently underway in Europe, North America, and elsewhere (Matthews, 2017; Freedman, 2016; Segal, 2016; Kela, no date). Most UBI initiatives arise in the specific context of poverty alleviation: i.e., as a conversion of conditional transfers to unconditional cash payments (Garcia, Moore, & Moore, 2012). Because recipients are limited to identified low-income beneficiaries, it is difficult to evaluate the ability of UBI to reduce the incidence of poverty. Segal (2011) estimated that converting resource rents to universal cash transfers could reduce extreme poverty globally by one-fourth to two-thirds, depending on assumptions used. Despite the potential for reducing poverty and income inequality, attempts to distribute even a portion of resource rents in the form of UBI are rare.[1]

The Alaska Permanent Fund Dividend (PFD) program represents a unique case, in which a significant portion of resource rents has been distributed as an unconditional cash payment to all residents annually for several decades. We evaluate the effect of the Alaska PFD program on poverty alleviation, focusing on the state's rural Indigenous people, an economically disadvantaged minority population with historically high poverty rates. We begin with a brief description of the Alaska Permanent Fund and the history of the PFD, providing the social and political context. Next, we discuss the problems with the data sources for evaluating poverty in Alaska, and detail methods for constructing historical household-level income and poverty data with and without the PFD. Then we present estimates of poverty rates for the rural Indigenous population over the past 25 years excluding and including PFD income, and compare these reconstructed estimates to poverty statistics based on official data. The results include estimates over time for the overall population, as well as for children and seniors. A discussion section considers the cost of the PFD program, effects on labor force participation, and other issues raised in the UBI literature. The conclusion notes the limits of the study and the outlook for the PFD program.

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[1] Oil-rich countries typically distribute some resource rents in the form of subsidies to fuel and other consumer products rather than as universal cash transfers. An exception, although arguably short-lived, took place recently in Iran (Salehi-Isfahani, 2016). The Iranian program started in 2011 as a relatively large cash transfer (29 percent of median family income) to soften the impact of reducing costly energy subsidies, but subsequent inflation quickly eroded its real effect.

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2. Background

2.1. Alaska state resource rents and the Permanent Fund dividend program

When Alaska gained status as a state in 1959, it was permitted to acquire 104 million acres (43 million hectares) of unreserved U. S. public lands (Public Law 85–508, 72 Stat. 339) as well as near-shore submerged lands granted to other coastal states.[2] Fortuitous land selections and subsequent petroleum discoveries on state-owned lands provided the relatively small Alaska population an opportunity to realize resource rents matched by few jurisdictions worldwide. Citizens voted in 1976 to amend the state constitution to create the Alaska Permanent Fund as a state sovereign wealth fund, to save a portion of nonrenewable oil revenues for future public needs (Alaska Constitution, Article IX, Section 15). The constitutional amendment allocated at least one-fourth of royalties and other payments the state realized in its role as resource owner to the Permanent Fund. In addition, the Alaska Legislature may, and has appropriated additional revenues to the fund during years when the state accumulated a large budgetary surplus because of temporarily high oil prices.

In 1980, the Alaska Legislature enacted the PFD program to distribute a portion of the Permanent Fund earnings to residents. In addition to satisfying populist demands for sharing the rewards of publicly owned wealth, the PFD program generated political support for conservative management of the fund, increasing the likelihood that the principal would be protected and grow over time. Annual contributions from oil revenues, combined with reinvested earnings enabled the Permanent Fund balance to grow to nearly $60 billion by July 1, 2017, or approximately $80,000 per resident. Since 1982, a portion of earnings from the Fund's investments has been distributed in equal annual PFD payments unconditionally to all Alaskans who meet residency requirements.[3] Residents send a simple application form with information to verify residency by mail or internet during the first three months of year. Awareness of the enrollment deadline is greatly enhanced by media advertising from non-profit groups alerting potential donors to the option to donate a portion of their dividend to a designated charitable organization.

One-half the Permanent Fund earnings are reinvested to protect the principal from the effects of inflation, with the other half available for dividends. The formula for determining the size of the annual PFD ties the annual amount to the average of fund earnings over the previous five years. Although the five-year average smoothes the PFD somewhat, volatility in the securities markets and associated Permanent Fund earnings has caused the dividend to vary substantially over time. Fig. 1 shows the annual PFD amount since the program's inception in 1982, along with the percentage of per-capita personal income that it represented each year. The figure shows percentages under two definitions of income: the U.S. Census Bureau definition and the Bureau of Economic Analysis (BEA) definition. The Census Bureau definition represents self-reported cash income, available for a more limited time series, for rural Alaska Native people and for the state population as a whole. BEA income includes in-kind household receipts such as employer-provided health care and pension contributions and imputed rent from owner-occupied dwellings, and is available every year, but only for the state population as a whole.

As the Permanent Fund and its associated earnings grew over time, the number of Alaska residents and their incomes increased as well. Recent PFD payments, although generally larger than those in earlier years, have lagged inflation, and therefore represent a smaller percentage of per-capita personal income than during much of the 1990s.

2.2. Alaska Native people and land claims

According to the 2010 U.S. Census, 138,312 American Indian and Alaska Native (AIAN) people, the official term for the North American Indigenous population, resided in the state of Alaska, constituting about one-sixth of the state population. About half this total, including 80 percent of the 33,441 reporting a mixed AIAN and other identity, lived in urbanized areas and are mostly integrated into the modern economy characteristic of high-income nations. About 60,000, however, remain in isolated small communities in rural areas of the Alaska that are not connected by road to larger population centers. Economic opportunities in this region are limited. Most of the available jobs are in public administration or in scattered resource extraction enclaves staffed with shift workers (Goldsmith, 2007). Few AIAN residents possess the skills for these jobs, and many continue to practice mixed cash and subsistence fishing and hunting livelihoods (Wolfe & Walker, 1987).

Persistent economic and social disadvantage for rural AIAN people is manifest across a broad range of economic and social indicators. Barely half of working-age adults were employed in 2015, per capita income was only 52 percent of the national average (American Community Survey data, PUMA 400 region), with the cost of living much higher (Fried, 2017). Many predominantly Alaska Native rural school districts show performance on standardized tests in the bottom 20 percent of schools nationally, and associated low high school graduation rates (Alaska Department of Education, no date). Mortality rates for Alaska Natives statewide are 40 percent higher than the state and national averages, driven by injury death rates 3–4 times the national average (Day, Provost, & Lanier, 2009). Suicide rates for rural Alaska Native young males are particularly high (Berman, 2014).

The United States had acquired Russia nearly 100 years earlier without negotiating treaties with the Indigenous population, leading to land claims conflicts with the state. The discovery of oil in 1968 on state-selected lands near Prudhoe Bay spurred the U.S. government to resolve these claims in December 1971 through the Alaska Native Claims Settlement Act (ANCSA) (43 U.S. Code, section 1601 et seq.). ANCSA awarded mineral rights to 44 million acres (18 million hectares) of Alaska to 12 regional for-profit corporations owned by Indigenous residents of record at the time of enactment. Congress attempted to mitigate inequity in regional resource endowments by adding a clause (section 7(i)) in ANCSA that required each corporation to share 70 percent of resource revenues with the other regional corporations; yet large wealth disparities remain. Table 1 shows dividends paid annually by each of the 12 ANCSA regional corporations between 2005 and 2015 to a typical shareholder owning 100 shares of stock.

Ownership of regional corporation shares was originally limited to beneficiaries enrolled at the end of 1971. The original shares may only be passed on to others by gift or inheritance. However, shareholders of several regional corporations have voted over the years to create additional shares for descendants, with varying rules for voting rights and payment of dividends. Regional corporations also distribute additional special dividends of varying amounts to elders. These complications, combined with the lack of public information on residence of shareholders, make it impossible to

[2] The Submerged Lands Act of 1953 (43 U.S. Code § 1301-1356b) awarded all coastal U.S. states title including mineral rights to subsea lands offshore to three nautical miles (5.6 km).

[3] Generally, eligibility for the PFD requires one calendar year or more of legal residence, and no more than 180 days absence from the state during the previous calendar year (see https://pfd.alaska.gov/Eligibility/Requirements). Individuals convicted of serious crimes who are sentenced or incarcerated during the year are also ineligible for that year's dividend.