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Steve Cowper

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Ron Clarke, interviewer

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Steve Cowper, a member of the Alaska Permanent Fund Board, talks about the Permanent Fund. Ron Clarke asked how the permanent fund was started. Cowper said going back some years ago when it became apparent that Alaska might realize a lot of revenue in a relatively limited period of time. It was suggested that they set aside a certain percentage of that money in a savings account to take care of needs that would arise after the oil money was gone. That idea was carried through to the Legislature that met in 1975-76. There was a bill from Hugh Malone to establish the permanent fund and the Hammond administration vetoed that bill on the theory that it would set aside an illegal dedication of revenues. Instead they put forth a constitutional amendment which establishes the permanent fund. That amendment went on the ballot in 1976 and passed. Representative Hugh Malone is more responsible for that fund as well as Jim Rhode who was an aide to Malone. Clarke asked what the major objectives of the permanent fund are. Cowper said the reason why the idea was put forth for the public to vote on was everybody realized there was a very large surplus that would occur. It would be very tempting for the Legislature to spend every cent. It was best to have a savings account from a certain amount of money and invest it. The principle would not be used, but the income would be used from time to time. As it turned out the money going into the permanent fund was a lot more than envisioned in 1975-76. They thought there might be two billion dollars over the life of the fund. There is actually over twice that much in the fund right now. He thought it might go as high as 10 billion dollars. He said what was going to happen in 8, 10, or 12 years is the state will begin to drop off revenue. If there isn't another way of getting money either government services will be cut to nothing or they will have to raise taxes. It makes sense to put aside enough money so they can fund fifty percent of government expenses from the revenues.

Clarke asked who is in charge. He talked about the duties of the Permanent Fund Board. Cowper said the board of trustees was set up by the Legislature, perhaps in 1980. He said there are six of them on the board. All of the members are appointed by the governor and they serve at the governor's pleasure. Their job is to select proper investments for the fund. It is a big job. Even now the permanent fund is larger than the Ford Foundation. The investment decisions they make today will have an effect on the future of Alaska. The income they are able to realize from the investments are appropriated by the Legislature. It goes into the general fund. The Legislature decides from one year to the next what it plans to do with the money. It has in the past decided to hand out checks to citizens in Alaska. It is used for several other purposes. The board doesn't have anything to say about what the Legislature does with the income. Cowper said the board members have specific terms. Cowper said he replaced Peter

McDowell who resigned when he was made head of the state Office of Budget and Management. George Rogers is the current chairman of the board and is scheduled to leave on the first of July.

Clarke asked if the citizens of Alaska have any recourse if they don't like what the board is doing with the principle. Cowper said if most of the people wanted the board to put the money some other place they can go to their legislators to have a bill controlling investments. They haven't had that kind of activity because most people think the board is doing just fine.

Clarke asked how the board decides how to invest the money. Cowper said they are required to invest conservatively. That is in keeping in the nature of the trust. It is public money and they have to treat it as such. They have invested in short-term government paper. It has given them a large amount of money over and above inflation. The interest rate is going down somewhat and they are in the process of investing a relatively small amount in common stocks which is permissible. They are buying stock of established firms. Mostly firms which have a history of giving out dividends. They do have some professional advice. He thinks they are doing OK. Clarke asked about restrictions on investing. Cowper said they are not allowed to buy stocks of companies owned outside the country. They are only constrained by the rule of investing in income producing securities. There is argument about capital appreciation being the same as income producing. They are having that debate among the board members. They only invest 15 percent of the fund's money in common stocks.

Clarke asked how much of the permanent fund was being invested out of state. Cowper said it is hard to tell because of the nature of some investments like Alaska Airlines. As a practical matter it will become more and more difficult to make that distinction. He said Tom Fink and some of his followers have misrepresented the nature of the investments. Cowper said it makes for hot political rhetoric.

Clarke asked about the current health of the permanent fund. Cowper said they have around four and a half billion dollars now. There is a statutory requirement that fifty percent of rents, royalties and those sorts of payments would go into the fund. They are getting more money all the time. In the past week there was a legislative attempt to get into the money set aside to inflation proof the fund. The legislature dug into the money and spent every nickel of it. There was an outcry over this. The permanent fund board of trustees made a statement about this. George Rogers was highly critical of the state senate for doing this. The board does not get involved with the political discussion that goes on about the permanent fund. They thought this was a time to come to the defense of the fund. Their appeal is to the public and not the Legislature. Any raid on the permanent fund will be taken to the public. Clarke asked if threats are becoming more common. Cowper said the Legislature can be counted on to spend anything it can get its hands on. This wasn't the case when Cowper served in the Legislature. It has changed a great deal since he was there mainly because of the surpluses that exist. When he was in the Legislature in 1978 they didn't have surpluses. He said if you want to save any for later on you are going to have to fight for it and that is what they are trying to do. Clarke said it seems the fund is secure for the future. He asked Cowper if he could foresee any problems trying to keep the money in a proper direction to benefit the most people. Cowper said he does and so do the members of the board. Two dangers exist. One will be a direction by the Legislature to invest in Alaska mortgages and he doesn't believe it will work. He thinks it will drain the fund in about a year and a half. He thinks it is better if the Legislature wants to subsidize home loans to take it out of the general fund. He talked about changes to the interest on home loans. He said a lot of people look at the permanent fund as money they should have. The second threat to the fund is a dedication of the revenues for some specific

purpose. Cowper said there is no way of knowing what is going to happen in the state in ten years. He thinks it is foolish to dedicate revenues from the permanent fund today that might not even exist in ten years. You have to dedicate the revenues through a constitutional amendment. If you find in ten years that you don't need it there is a lot of money going someplace where you don't want it and there would have to be an appeal. He thinks it is smarter to appropriate the money through the Legislature and through the governor's office year after year. It is hard to predict needs in ten to twenty years.

Clarke asked if this was going to be the last year of permanent fund dividends. Cowper said speaking as a citizen he would like to see it abolished. He doesn't think it is good practice. It looks terrible from a national standpoint. It makes everyone in the Congress see red. He doesn't think that is something the government should do. If it is surplus to the needs of Alaska it should be put back into the principle. He said people don't realize is that in a few years we are not going to have enough money to run the government. The more money saved today the less we will have to tax ourselves or tax our children in another ten or fifteen years. The history of Alaska is full of examples of the fight between people who came up for a quick buck and the people who came here to make a home and have a stake in the future. He doesn't want to spend all the money now. He said that is the sort of decision they have to make. He said when the oil money runs out we will either be able to afford almost no government services or we will have to tax ourselves. Either way you can't attract people or industry because the living standards will be on the decline.

Clarke asked again if the dividends will disappear. Cowper said the board will have nothing to do with it. That is a disposition of the income of the fund. It will be a joint decision of the Legislature and the governor. He doesn't know if the governor will veto. He would hope that the governor would veto it. Clarke asked where he would like to see the permanent fund go. Cowper said he would like to see the board gain the kind of knowledge they will need to make intelligent decisions about where the profitable centers will be in this country. They are investing for the long run. They have to worry about the trend of events in this country. He would hope the board would invest in industries that are upcoming and have a future. He said with the proper advice they can do that. What they have over the years is a very good return on their money invested with a minimum of risk. They want to invest in ventures that will be safe, but yield a high rate of return. The return will be lower than risky ventures, but it will still hopefully be high enough to support a large part of the government in a few years.