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A Conference on the Future of Alaska – Netzer

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John says that in the overall program put together describing the conference, the current session is called "Dealing with Strategies and Alternative Futures for Alaska." He discusses Ylvisaker's way of dealing with institutions. Fiscal policy is mentioned regarding the discussion of fiscal policy in the opening session. The topic is described as "The Evolution of the Fiscal Policy of Alaska." The man introduces Dick Netzer as the Dean of the Graduate School of Public Finance at New York University. He says Dr. Netzer is like George Rogers and Paul Ylvisaker, a product of Harvard University. Netzer is a foremost scholar of public finance. Netzer has been consultant to a number of municipalities and states and countries. He recently worked with Colombia and Venezuela. He is a consultant to the State of New York.

At 6:00 Dick Netzer steps to the microphone. He says he is going to give some background of some elements of a future fiscal strategy. He says in his presentation tomorrow he will present a strategy. He says in reading all of the materials that John's office had sent him and reports of policy discussions, Netzer says he was struck by the unique opportunity to devise a sensible fiscal strategy. He says Alaska has a simplified state local government structure compared to other places. In 1967 and 1968 all the states and governments combined had revenue of a little over 300 million dollars and about 90 million came from taxes. He says the largest of all options for Alaska is the opportunity to choose alternative goals in the use of public funds. He doesn't think many states are in the position that Alaska is in. He says all of the options lead to demands of Alaska people. Netzer says one serious danger is not choosing options by certain dates. Netzer says that this will lead to Alaska stumbling into the same kind of problems other regions have experienced. One of the things he noticed from reading the summary of policy decisions is that there is just a fair number of cases where there seems to be unawareness of mistakes elsewhere. He says fiscal policy can't be summarized in simplistic terms. He says each step has to be evaluated in each step for a larger goal. He says he would like to focus on a few issues or factors that are self-evident. He says the factors have an important bearing on the fiscal strategy. He says there are extremely large economic differentials between ethnic and geographic locations of people. Netzer says he doesn't want to think just of the oil money but if people think in terms of oil money, a \$500 dollar per capita is a very large portion of money income. He says if there is concern about the distribution of income, the state government must have a really dominant role in the fiscal affairs of Alaska, not the local governments. He says most states in the southeastern part of the country, local governments have more share in fiscal affairs than state governments.

At 18:35 Netzer begins discussing Alaska's isolated rural areas. He says there are very few geographic spillovers in Alaska. Netzer says it is very possible for a very large scale state revenue sharing program. He says a second basic factor is different in form but not substance. The factor is the central importance on how the land is used. Property tax is subsequently discussed. Netzer then begins to write on a chalkboard and explain to those in attendance the numbers going into property tax and land usage. Netzer says as urbanization proceeds it's easier to get caught in higher and higher property taxes because tax increases by increments. One of the things he says he discovered in doing some background work was that in the urban parts of the south [Alaska], the importance of property tax was rapidly rising unlike other places. Netzer mentions business costs and how that affects state decision making. Netzer says Alaska's future development does not rest much on the state's ability to attract industry that might otherwise locate outside. He says there's been discussion of jumping over manufacturing and the manufacturing discussed for Alaska has to do with its natural resource endowment or Alaska is producing for its own market. Netzer says that costs are high in Alaska and unless there is a good reason for doing so, Alaska should take advantage of its option not to heavily tax business. Netzer says Alaska has the option of not following the path of taxing business strongly. Netzer says taxation for oil companies is another matter because natural resource taxation has a different character. Netzer says the consequence of ignoring alternatives

At 31:25, public expenditures such as transportation, water supply, and sewage are discussed. Netzer says many services have been financed at least in part by charges imposed on the users. A strong case is made for subsidizing such services on the grounds that they do in fact promote development. As in most developing places, there is a fair amount of subsidizing in the state and local government. Netzer says he thinks it's important to discuss subsidy policies in a larger perspective. Netzer wonders if subsidy policies really promote what people want to promote, or if they are conflicting. Netzer says one subsidy can be used easily to offset another. Netzer starts giving subsidy policy examples. There is a passage on Dr. Roger's book on future of Alaska about highway policy. He says the great bulk of expenditure of highways was used to improve highway transportation facilities in the already open areas. Netzer says in terms of the structure of user charges employed, the way governments ordinarily impose charge is in connection with pollution. Netzer says his favorite example is in large cities where the usage of property tax is used to finance water pollution control expenditures. This results in very substantial parts of the tax being raised from office buildings. The office buildings are expensive so they bear property taxes. He says there is another issue related to the question of charges with broader implications. This issue is a question of the capital intensity. State and local government is undercapitalized in the sense that using more labor and less capital investment structures because they do very little to seek the advancements of technology that are only slightly more inaccessible. Netzer says Alaska is a high cost place mostly because the labor is scarce. Netzer says the kind of decisions in which public service is provided should be distinctive ones and not like the ones others states do. He says having money in a large amount that's not committed can lead to significant long term savings. He says it is striking to look out a window of the hotel and see a single story parking lot with a man who is removing snow and also parking meters that have to be monitored by attendants. All of these things in this high labor cost climate, there are any number of different ways to accomplish jobs. Netzer says there are all ways of investing in greater use of electric energy as a substitute for manpower. He says electricity is high cost if there are difficult

transportation problems with fuels and so on. He mentions nuclear energy which he says has immense initial capital cost and little running cost. In Alaska's circumstances it seems a very high capital investment in technology might make a lot of sense. What usually happens when services is produced under conditions of heavy capital intensity, there is a lot of capital and a little labor involved in the production process, the cost of producing additional services tends to be low. He says more can be produced with very little. If there is a rational system of pricing, people will only get charged for the cost of producing the unit. This means that one's big slugs of capital get put in; it becomes cheap to produce additional units. Netzer gives an example of the process he is explaining. Economic principles are discussed for approaching the public in Alaska. Water supply operations are discussed. If a performance art is priced on the basis of the average cost of producing that given performance you will have one set and attendance. The story trails off. He says he will discuss the specific elements of a design of Alaska fiscal policy with components of the package tomorrow. He says he is starting off with the ingredients that might be called an "ideal fiscal system characterized by being more or less neutral with regard to larger public policy." Most state and local fiscal policies are blindly, morally, and ignorantly un-neutral and whatever ones goal, the likelihood is you're going to approach it a lot more closely if there is a more neutral fiscal system. There is subsequent clapping and the recording ends.