

Here's how forces acting on the Alaska Legislature led to failure on the fiscal gap

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Whatever happens over the next week in Juneau, we can predict confidently that some politician will declare it a success. And for some people, it will be.

Political prospects seem poor for a fair solution to Alaska's crippling fiscal gap. But fairness is not what everyone wants.

Eighteen months ago, I wrote about Cliff Groh's analysis of the four-way stalemate in Alaska society as we move from days of free government services to paying for some of what we use.

Groh, chair of the nonpartisan Alaska Common Ground, proved to be exactly right. The result shows who has power in Alaska.

The four corners of the standoff correspond to the four main ways to balance the budget. One corner is held by kids and seniors, another is held by Alaskans who earn less-than-average incomes, a third is held by high-income Alaskans, and a final corner belongs to the oil industry.

The corner belonging to children and seniors is state spending. Education and health are the state's biggest expenses. Big budget cuts the state Senate threatened this year largely hit schools and the University of Alaska.

Cutting came first, and came hard — but now it looks like budget cuts are mostly done. Something akin to what Gov. Bill Walker originally proposed appears most likely to pass.

Key senators probably never intended to go through with their additional cuts to education. They were a bargaining chip and a way to appear to have a fiscal plan.

Alaska state spending has been reduced enough. There may be efficiencies left to wring out of the budget, but that takes time, study and grit. Unhappy parents and inviolate seniors have brought politicians vowing to make more big cuts to a standstill.

The 50 percent of Alaskans who earn less-than-average incomes are constituents for the Alaska Permanent Fund dividend. While richer Alaskans don't care much about the annual check, it means a lot to those who work by the hour.

Who knew that such a large group would be so weak politically?

A cut to the Alaska Permanent Fund dividend was the second thing to happen after budget cuts, when Gov. Bill Walker vetoed half the annual check last year. A consensus has developed in Juneau that the right dividend would be \$1,000 to \$1,250, about half of what it would be under the old formula.

The House included a full-sized dividend in the budget Wednesday, but that was a political move. Boxed by a looming government shutdown and undercut by a compromise plan offered by Walker, the House turned the tables. Walker may have to veto the dividend again to avoid the shutdown.

It's possible a citizen initiative could bring back the full dividend. But for elected representatives, reducing the dividend has already proved a path of less resistance. Money is power and many legislators listen more to their wealthier constituents, who prefer lower dividends to higher taxes.

The income tax drama this year was an interesting lesson in hypocrisy.

Some business leaders said last year that everyone would have to give and begged for any balanced solution. But when a Democratic coalition in the House passed an income tax, the call from those public-spirited business leaders changed to, "Anything but ..."

The Senate voted down the graduated income tax. A substitute that would raise much less money and be much kinder to the rich — making sure they paid less than a fair share — showed signs of life.

Walker included such a tax in his compromise plan, but it was so small as to be symbolic. No broad-based tax is likely to pass this year.

The final corner of the standoff belongs to the oil industry. It has proved more powerful than constituencies for schools and the dividend, but now seems to be losing out to wealthy income tax opponents.

Senate Finance Co-chair Lyman Hoffman, D-Bethel, and House Speaker Bryce Edgmon, D-Dillingham, handled negotiations for a fiscal package between the two bodies. Several insiders told me talks were close to agreement when Walker's compromise blew them up.

Hoffman supposedly had agreed to higher oil taxes, which Walker didn't include in his compromise. Without an oil tax increase or a meaningful broad-based tax, the only achievement left for the House would have been a halt to budget cuts — but that had been assumed.

If that story is true, it means Senate Republicans figured out — correctly, I think — that they had more to lose by going against their oil industry patrons than by supporting a graduated tax on high earners. They had already abandoned the industry on most of the oil tax credit issue.

So the winner in the four-way fight is (drum roll please): those with the most money.

Of course, there's more to it than that. The income tax was not popular. Many of the people who opposed it had incomes too low to have paid it.

It's hard to campaign for any tax. Castor oil may be good for you, but you still don't want it.

At the moment, the outcome, as the legislative session drags on into summer, looks once again like total failure, with the state sliding toward financial calamity. But that doesn't mean no one is happy.

Income tax opponents won. And unless the session is extended or Walker brings the legislature back for a revenue session in the fall, the oil industry will probably get another year or two without higher taxes.

After this year, further progress will be unlikely until 2019. Several Senate leaders face significant opposition in the 2018 election and won't want to make hard votes in next year's regular session.

But this isn't all about them. It's our problem. Their deadlock is Alaska's deadlock.

"I'm not really surprised by what's occurred," Groh said. "I identified the forces and the incentives more than 20 years ago, and it has played out as I thought it might."

He continued, "I have hoped for years, and worked hard, to try to get people to think about this more clearly. We've spent way more savings in the process."

Charles Wohlforth's column appears three times weekly. A lifelong Anchorage resident, he is the author of more than 10 books, and hosts radio shows on Alaska Public Media. More at wohlforth.com.