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What We Thought We Were Doing in Alaska, 1965–1972

While often neglected by nonhistorians, it is useful in policy analysis to understand what the policy participants had in mind when formulating it. This is perhaps especially the case when decades have passed since the events themselves. With that in mind, this is a personal account of a number of major policy initiatives and recommendations for policy concerning economic development in Alaska from 1965 to 1972 in which I participated. During those seven years, I held (successively) the positions of Chief Economist of the Federal Field Committee for Development Planning in Alaska (a presidential committee), Special Assistant for Regional Economic Development to the U.S. Secretary of Commerce, and Senior Legislative Assistant to U.S. Senator Mike Gravel of Alaska. In these roles, I had the opportunity to play a significant part (indeed the jobs required it) in making and shaping a wide range of projects and proposals intended to advance the economic development of Alaska. Four are treated here in varying degrees of detail: the sale of the Alaska Communications System from public (federal) ownership into private ownership; the settlement of the Alaska Native Land Claims; the disposition of the abandoned Dutch Harbor naval facilities into private hands; and the production of three studies providing fundamental economic information about the state (including the creation of its first econometric model).[1] Each one should be viewed in the time and context in which we were operating and the surrounding assumptions and motivations that guided our actions. The first part of this article will specifically identify and elaborate on these perceptions and propositions. What is intentionally omitted is any attempt to evaluate how well or badly the initiatives worked over the intervening decades. That is

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better left to others. In short, the subject is merely a retrospective on what our mind-set was at the time and just what we were trying to accomplish in each case.

OCCASION AND APPROACH

Responding to the Good Friday 1964 earthquake that struck south-central Alaska, the federal and state governments issued counterpart executive orders for the planning and administration of the immediate reconstruction efforts to rebuild the stricken areas.[2] By October of that year, President Lyndon Johnson signed a new executive order that shifted the focus from short-term relief to the larger task of providing for the longer-range economic and resource development of the state.[3] The idea really was to help bring Alaska into the Union in a *fiscal* sense (sound economic base), recognizing that *politically* it had become a state only five years earlier. The instrument established to assist in this major endeavor was the Federal Field Committee (FFC), which reported to a cabinet-level Review Committee in Washington, D.C. I was appointed Chief Economist to the three-person FFC in 1965.

We found the conventional wisdom about the nature of the Alaskan economy to be largely correct—and added to it ourselves. It was characterized by a number of structural imbalances: too "thin" a population in size and concentration in comparison to the land expanse, differential opportunities for Natives compared to non-Natives to participate in the mainstream economy, an economy that was raw material and primarily product-based compared to finished goods and manufacture, and the disproportionate availability of public capital compared to private capital. It was also characterized by a number of habits of mind and behavior hurtful to economic advance, such as price-level inflation, which could not always be explained by cost differences, a willingness to experience "bust" periods as long as they were preceded by "good booms," the relatively little use of modern marketing and managerial methods (though the commercial service sector was fairly sophisticated), insufficient detailed inquiry into the composition, interrelationships, and pressure points of the state's macroeconomy, and a tolerance (perhaps preference) for monopoly markets over competitive ones.

Against this backdrop, we considered several approaches. One was an *area* approach, in which the emphasis would be on recommending programs designed for geographic regions (for example, southeastern Alaska, northern Alaska); the second was a *time-period* approach, where the focus would be on programs for the short term (1–4 years), intermediate term (5–8 years), or

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long-term development needs; the third was a *topical* approach, designed to treat the main sectors driving the state's economy, such as power and transport, tourism, and commodity resources. The approach we chose was primarily topical in emphasis (the exception being Native Alaska issues) and the horizon a longer-range one. As to sequential development versus a parallel approach, we favored an orchestrated one where sectors with special opportunities might be brought along together, say, transportation and external trade. Finally, the then-current economic development concepts in the literature of "income and investment multipliers," "concentrated investment strategies," and "capital absorption" limitations were integral to our thinking.[4]

PROPOSITIONS AND PERSPECTIVES

A number of propositions (in some sense, guiding goals) underpinned our many research products and policy prescriptions, either directly or implicitly, but five were primary:

1. There are advantages to "coming last." There was a better chance of "doing it right" in Alaska based on the experiences of other states, other development projects, other experiments and initiatives. Moreover, new technologies and organizational models might allow the bypassing of some stages of development, or at least shortening the learning curves.
2. The national interest (though not necessarily the state's self-interest) is to have Alaska become just another state in the Union so that all policy issues facing it do not require exceptions, special federal treatment, or extraordinary responses. This is not to say, of course, that Alaska's peculiar attributes and distinctiveness should not be recognized and honored—only that Alaska should take its place alongside the other states as only "one of fifty." As might be expected, this was not a commonly held view by many of the local Alaska players.
3. Sustained and widespread price-level inflation presents a serious drag on the growth of the Alaska economy. A lack of competitiveness in many markets is a great inhibitor of development. While "transportation over Seattle" makes a handy rationale for some price differences, our working hypothesis was that any differential over 15 percent was suspect. It was hard to see why haircuts cost twice as much, for example.

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4. The longer-term health of the state, both fiscally and in terms of social justice, requires that Alaska not have two economies, one Native and one non-Native. The task here would be not to homogenize the two cultures with Natives losing valued aspects of their ethnicity, but to provide *opportunity* for Native citizens to participate in the mainstream economy, if they chose. Eskimos and Aleuts should have access to the hiring halls in the same way as other Alaskans.
5. While the disproportionate size of the public sector over the private sector was a problem in one sense, the fact that government (federal and state) is such a big player meant that a great deal of economic stimulation could come from targeted infrastructure investment and judicious agency spending. This would be particularly powerful if the major federal agencies really acted in concert with one another and in collaboration with counterpart state agencies—no small feat in the best of times.

FOUR SPECIFIC INITIATIVES

Privatizing the Alaska Communications System[5]

Calling long-distance was expensive and chancy for Alaskans into the late 1960s. (A three-minute call from Anchorage to Washington, D.C., was $7.00 and the service was unreliable.) Telecommunications service is of course a "final good" for residential users and an "intermediate good" for commercial users. We believed that advances in this sector would be very beneficial to economic activity in the state, both directly and indirectly.

At that time (1965), the U.S. Air Force owned the long-distance telephone and telegraph system, having inherited it from the Army, which built it for defense purposes in the early 1900s. ACS, besides serving the civilian community, had an especially important military role as an early warning system in Cold War days. The civilian portion of the system suffered from lack of modernization because military needs took budget priority. Indeed, many rural communities had no telephone service at all, or only intermittent marine ship-to-shore phones.

The time was ripe for privatizing this government-owned enterprise. The Air Force was willing to get out of the telephone and telegraph business and reassign its ACS personnel. The Federal Communications Commission (FCC) was prepared to add Alaska to its interstate regulatory jurisdiction. The State of Alaska and its municipalities recognized the major addition to

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the tax base that acquisition by a private buyer would entail. Business and residential telephone subscribers were eager for modernized reliable services that would be more widely available and more reasonably priced.

Our analysis indicated that ACS would be a profitable enterprise under private ownership and contribute to our development goals, if disposition was adroitly designed. There was substantial pent-up demand for telephone service by any measure—phones per household, penetration rates, usage patterns, significant price elasticities, and desired special features available elsewhere. Accordingly, in 1967, working with the Pentagon and Congress and in cooperation with the governor's office, we crafted legislation authorizing the sale of ACS into the private sector.

Central to the legislation, we felt, was an innovative provision intended to maximize the chance for a longer-term public-interest outcome. We would require a bidding process that (1) would establish a single "upset price" for the assets, which all bidders had to meet, and (2) bidding would be based on how much new investment in the system would be made and how much the carrier would lower telephone rates to customers. The winning bid, then, would be determined not on price, but rather on the "best" combination of improved service and lower charges. As might be imagined, the Treasury Department was less enthusiastic about the concept (of not getting "top dollar"), but ultimately acquiesced.[6] The beauty of doing it this way is that it allowed future Alaska telephone subscribers to pay prices *lower* than would be the case if the ACS had been "auctioned off to the highest bidder," the winning company having to recoup its higher-cost investment in higher tariffs under traditional public utility regulation. In November 1967, Congress gave approval to sell ACS.[7] Half a dozen bids were received, and a year later RCA bought it for $29 million and began its Alaska operations.[8]

The Disposition of the Dutch Harbor Naval Base

The World War II submarine base at Dutch Harbor, Alaska, had been surplus property for many years. Opportunities for economic development in the Aleutians were always scarce, and the prospect of conducting a disposal of these facilities—docks, housing, and land—in a way that would improve the lives of the Aleut population there and provide for greater long-term economic activity through private operations seemed like a good idea. One obstacle was that when federal government property is surplused, the procedure to dispose of it includes all other sister agencies having first crack at claiming it, a temptation that is little resisted in cautious bureaucracies. In this case it

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was arranged that such claims would not be made, allowing for a creative disposition. Our intervention involved designing a sale of some of the docking and storehouse facilities to large reputable fish and seafood companies, while giving access to other shore facilities to local fisherman, turning over the base housing to local families, and auctioning off the available acreage in parcels small enough that individuals could acquire them.

The intent of course was for this irregular but balanced disposition of federal assets to make a beneficial dent (more income, employment, induced private investment, better housing, and an expanded tax role) in a region of Alaska where economic success stories are hard to come by.

The Alaska Native Land Claims Settlement Act

After statehood in 1958, a significant brake on Alaska's economic development was the legal vacuum that had existed for a hundred years as to the exact status of Native claims to ownership of the land. The U.S. purchase of Alaska from Russia by treaty in 1867 contained language recognizing aboriginal rights to use and occupy the land, but it left to future congressional determination the resolution of their claimed *ownership* rights. Over time, occasional court cases arose, but the issue became really salient only when a confluence of forces pushed it to the forefront.[9] These were (1) the fact of statehood; (2) oil industry interest in investing only where clear title to the discovery lands existed; (3) non-Native Alaskans anxious to get on with orderly (or even disorderly) development of the state; (4) a newfound political unity among the Eskimo, Indian, and Aleut population; (5) national environmental groups worrying about what might happen to the pristine wilderness and the outstanding fish and wildlife habitats; and (6) a heightened awareness nationally of the need to advance social justice for the disadvantaged citizenry reflected in a willingness of the federal government to tackle such an issue.

In this context, the FFC undertook a project that turned out to play an important role in getting Congress to begin to act. Senator Henry Jackson (D-Wash.) held field hearings in Alaska and requested the chairman of the FFC, Joseph H. FitzGerald, to prepare two reports. One report became the most comprehensive, objective, and definitive study of Native Alaska. It was entitled *Alaska Natives and the Land* and contained (in chapter 7) "A Framework for Decision."[10] It served the crucial purpose of being the document that all the parties, especially the Senate and House jurisdictional committees, could point to and declare conclusively that "the Alaska Native land claims

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issue is ready for resolution." The second was "A Report on a Proposed Legislative Settlement."[11] It was clear that the endless litigation would go nowhere and a high-order political solution would be the best course available. In a personal ironic twist, I had become the legislative assistant to Senator Mike Gravel by the time the Native claims legislation was being drafted and thus had the opportunity to participate in policymaking on the matter successively in both the executive branch and on the Senate staff.

My reading of the motivations and guiding principles held by the FFC, the Alaska delegation, and those of us on the congressional staff in shaping the legislation (S. 1830 and H.R. 10362) was the following:

- The settlement should be "more than fair" to the Native people. The final combination of 40 million acres of land and $962 million seemed fair and generous. To keep out of the sticky business of determining who was an eligible Native, the government essentially let the Alaska Native organizations decide. (Their criterion was one-fourth Native blood.)
- The settlement should be a once-and-for-all ending of the land claims issue. It specifically "extinguished" all the claims that Natives had, but wisely did not diminish any existing obligations that federal agencies had for the welfare of Native citizens.
- The settlement, while inherently racially based, should point toward minimizing "racialness" over time. This is to say that features of normalization, such as establishing corporations requiring administrative and managerial skills in their running, making Natives financial shareholders with the ability (after twenty years) to alienate one's title (the opposite of traditional perpetual wardship status), and ending various protections, were a conscious part of the design of the settlement.
- The settlement, while emphasizing the prospect of economic development, should have substantial environmental safeguards that would balance the federal national interest with the immediate aspirations of the Natives and state. Alaska lands and activities permitted thereon (and thereunder, like mining) should not be "locked up," but neither should there be a "land grab" of unseemly proportions. The U.S. Secretary of the Interior would continue to have major responsibilities in Alaska. Relatedly, the orderly selection of land promised under the Statehood Act (frozen during the period) should be resumed, an outcome of great interest to the state.

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- The settlement should include a formal mechanism that would generally continue the federal/state collaborative efforts of the FFC, but with particular focus on longer-term land-use planning. We inserted in the legislation a provision establishing such a planning commission with no regulatory or enforcement functions, but with important advisory responsibilities. This helped keep environmental and conservation groups solidly behind the legislation.

AIM, APS, and Alaska–Japan Economic Relations

We established three research initiatives that were intended to better understand the fundamentals of Alaska. Perhaps the most inventive was the creation of the first Aggregate Income Model for Alaska, an econometric model that estimated the state's Gross Product and its composition.[12] The model was constructed with two main functions in mind: forecasting and policy analysis. For the former, the model allowed predicting future values for consumption, income, or employment on a quarterly basis for up to six quarters. For the latter, it allowed "feeding in" a selected change—say, the level of government spending—and observing the impact as an experimental exercise. Unexpectedly, soon after its completion, the model was put to the test with the Fairbanks flood disaster. We applied the analysis to the policy question, How large could the spending response be without merely dissipating the stimulus on local inflation (that is, what was the absorptive capacity of the Fairbanks economy)? According to the model, looking five quarters out, the boundaries for the "proper" level of response were $15 million to $30 million. While we focused on short-term effects, by altering the structural relationships of the model we could also evaluate longer-term growth policies.

The second project was to arrange for the Federal Power Commission (now the FERC) to conduct a study of the state's power resources and prospects. The result was *The Alaska Power Survey of 1969,* which became the base document for subsequent electric power development in the state. The FPC had only recently published *The National Power Survey of 1967*, but it had inexplicably omitted Alaska.

The third research product was a detailed analysis of Alaska's economic relations with its biggest foreign trading partner, Japan. The key export sectors were fisheries and forest products (especially wood pulp), petroleum products (especially natural gas), and potentially the minerals and tourism industries. We reasoned that with its geopolitical position on the North Pacific Rim, Alaska was a natural for becoming a major player there with Japan

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as a focal point. Further, Japan and Alaska seemed a classic case of economic complementarity: Alaska had the natural resources that Japan needed, and Japan had the large population and sophisticated industrial economy that Alaska lacked. The goal was to strengthen and elaborate on the commercial ties between the two. Accordingly, we arranged for and broadly oversaw a study by the University of Alaska's Institute of Social and Economic Research (ISER), funded by the U.S. Department of Commerce.[13]

And Several Proposals That Didn't Fly

I have discussed the rationale for the policies that were actually launched. Of course a number of other efforts emerged from the same set of motivations and policy perspectives on our part that never got off the ground. To round out this retrospective, I identify six:

1. We felt that phasing out the Cost-of-Living Allowance (COLA) for governmental employees in Alaska would lessen the inflationary pressure on price levels, help normalize the state, reduce agency budgets, and eliminate an unnecessary employment locational incentive. Although the Bureau of the Budget was favorable to the idea, the Alaska congressional delegation was not. Nothing happened.
2. Changing the eligibility for use of the Public Health Service hospitals in Alaska from an ethnically based one (Natives only) to an income-based criterion (those who could not afford care) seemed a sensible updating of federal policy. Not surprisingly, the Native population was opposed to the idea, as were various political factions. So nothing happened.
3. Allowing bank competition, both interstate (say, the Bank of Seattle) and international (say, the Bank of Tokyo), would provide additional lines of credit, modern bank products and procedures, and perhaps lower costs. There was little legislative (or banking commissioner) interest at the time in breaking the near-monopolies of intrastate banks in Alaska.
4. We failed to convince the three federal regulatory agencies that oversee transportation—the Civil Aeronautics Board, the Interstate Commerce Commission, and the Federal Maritime Commission—to make Alaska an experiment in real intermodal transport-coordinated regulation. Given the importance of transportation to the state, I felt this was a feasible goal as well as an

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unusual opportunity associated with the "benefits of coming last."[14] Bureaucratic resistance, however, doomed this idea for real interagency cooperation.

5. Persuading the Atomic Energy Commission and its contractors to hire Natives in the building of the underground nuclear testing facility in the Aleutians at Amchitka seemed plausible. After all, much of the task involved site clearance and ordinary construction work. However, labor union agreements supposedly were too great an obstacle to overcome for success here.
6. We attempted to persuade the Alaska government to grant long term tax exemptions very sparingly—if at all. Rarely is such an idea effective in attracting and retaining industry, surely for giant corporations whose locational decisions are made on other grounds and for whom preferential treatment of this kind harms an already-thin tax base. However, governors' offices and state legislatures, in Alaska as elsewhere, considered the offering of tax concessions for businesses nearly irresistible, and many were granted.[15]

POSTSCRIPT

As a model of analysis, a retrospective on particular policymaking, especially with a forty-year horizon, admittedly ranks somewhere in the literature of public administration and public policy alongside the "policymaking-as-argument" and "relevant storytelling" approaches. Still, I believe that when the task is finally to judge the effectiveness of a policy, taking into account its original rationale is quite useful. And in any event, it is usually interesting.

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NOTES

1. The reader may wonder why I omitted in my recitation of policy issues of the period the major public debate on the authorizing and routing of the Alaska oil pipeline for transporting North Slope oil to refineries in the continental United States. The answer is that this issue involved so many parties, was so salient at the highest levels of government, and dragged on for so long that ascribing individuals roles for virtually any one in its resolution would be overclaiming. Still, when the issue appeared endlessly stalled by litigation, and successive environmental impact statements were found faulty or incomplete by one powerful constituency or another, a frustrated Congress finally rose

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up and "declared" the requirements of the environmental statutes to have been satisfied and moved on with the authorization in November 1973. The Gravel office was a strong advocate of this strategy.

2. Executive Order No. 11150, April 1964, by the federal government and Executive Order No. 27 by the State of Alaska, 3 April 1964.

3. Presidential Executive Order No. 11182, 6 October 1964.

4. This discussion draws in part from our Report to the President, Economic Development in Alaska prepared by the Federal Field Committee for Development Planning in Alaska, August 1966.

5. For a full story of ACS disposal, see "Privatization of State-Owned Enterprises: The United States Has Done It Too," in *Critical Issues in Cross-National Public Administration,* ed. Stuart Nagel (Westport, Conn., 2000), chap. 5.

6. Also, the potential bidders would have preferred the simplicity and familiarity of straight bidding on price.

7. Public Law 90-135, 90th Cong., 1st sess., 14 November 1967.

8. Rather ironically, AT&T declined to be among the bidders in 1968, but then bought the system for a reported $365 million in 1995. The ostensible reason given to me for originally abstaining was the fear of antitrust action.

9. Many articles have been written about Native claims. An early one is Stuart French, "Alaska Native Claims Settlement Act," the Arctic Institute of North America, Washington, D.C., August 1972.

10. Alaska Natives and the Land, prepared by the Federal Field Committee for Development Planning in Alaska, October 1968.

11. Introduced in the *Congressional Record* by Senator Henry Jackson, 18 February 1969.

12. We commissioned a study by Professor Bradford H. Tuck, "An Aggregate Income Model of a Semi-Autonomous Alaskan Economy" for the FFC, 1967.

13. Arlon R. Tussing et al., "Alaska-Japan Economic Relations: A Study of the Potential Contribution of Trade with Japan to Alaska's Economic Development," Institute of Social, Economic, and Government Research (ISEGR), University of Alaska, 1968.

14. For a relevant discussion, see Federal Regulation of Transportation in Alaska: FMC, ICC, CAB prepared for the FFC by Morris Chertkov, August 1967.

15. Perhaps we had some effect on the practice in that the Alaska legislature in 1971 abolished its Industrial Incentive Act, which had provided for preferential tax treatment of businesses. For a treatment of some of the issues, see Douglas N. Jones, "Property Taxation, Land Use, and Environmental Policy: The Alaska Case," in *Property Taxation, Land Use, and Public Policy,* ed. Arthur D. Lynn Jr., Symposium Proceedings of the Taxation, Resources, and Economic Development Committee, Publication #8 (Madison, 1976).

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