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What's Alaska Got to Do with . . . Iraq?

Todd J. Moss

This book came about because of an email I received out of the blue in September 2011 from Larry Smith, an Alaska-based journalist asking if I might be interested in reading an unfinished manuscript by Jay Hammond, who served as governor of Alaska from 1974 to 1982. Of course, I knew of Hammond, famously nicknamed the Bush Rat Governor, as the political force behind the Alaska Permanent Fund dividend. Through this program, every Alaskan resident receives an annual check, which is a share of profits from the state's oil-revenue-fed sovereign wealth fund. The 2011 dividend for each resident was $1,174.

Although half of the fund's profits are distributed to residents, it has also been a boon for state finances. In fact, Alaska now earns more from its offshore fund than it does from direct oil income.

But more important than the money itself, the dividend—or more precisely, the expectation of a regular dividend in the future—has led to a huge amount of public attention and thus provided a powerful constraint on Alaska's politicians. That was Jay Hammond's vision.

Back to that email—Smith explained that Hammond had been working on a book telling the inside story of the dividend and laying out his ideas for how lessons from Alaska—including his own mistakes—might be useful to other countries struggling to find ways of holding public officials accountable for their management of oil revenues. In particular, Hammond believed that his experience was relevant for Iraq, a country

on the forefront of policymakers' minds during the period Hammond was writing, 2003–05. The governor died in August 2005, however, before completing his work. Smith explained that the Hammond family later asked him and a few others to lightly edit and publish the manuscript. In 2011 copies were printed and sent to every library in the state of Alaska—an important contribution to recording state history.

Smith asked if the Center for Global Development might be interested in distributing the Hammond text to a wider audience. CGD's Oil-to-Cash initiative is a multiyear effort exploring how one policy option may address the root mechanism of the resource curse in poor countries: using cash transfers to hand the money directly to citizens and thereby protect the social contract between the government and its people. Under this proposal, a government would transfer some or all of the revenue from natural resource extraction to citizens in universal, transparent, and regular payments. The state would treat these payments as normal income and tax it accordingly—thus forcing the state to collect taxes on the cash transfer along with any other income and providing additional pressure for public accountability and more responsible resource management. The Oil-to-Cash initiative draws from experiences in places such as Mexico, Brazil, Mongolia, and elsewhere, where large-scale cash transfer programs have been initiated, some linked to resource income. But the closest real-world example of Oil-to-Cash is, of course, Alaska. The idea owes much to Hammond's innovation and inspiration. His manuscript was thus the firsthand account of an idea that CGD is now championing.

Nevertheless, as with any unsolicited email, I was initially skeptical of Smith's offer. I did not know him and, as a rule, CGD does not normally accept or publish unsolicited manuscripts. But I was intrigued enough to agree to read the manuscript and hoped, frankly, that I might skim through it and glean a few insights into Hammond's political strategy that might be applicable today. Instead, from the very first page, I couldn't put it down.

Hammond's story walks the reader through his early experimentation—and failure—with citizen-shareholder schemes, starting in small Alaskan fishing villages through to his (mostly accidental) road to the governorship, and his ultimate success in implementing one of the world's great experiments in democratic governance. What struck me initially was the straightforward, and frequently self-deprecating, writ-

ing style. Who expects a history of a revenue management scheme to be so engaging, let alone laugh-out-loud funny?

While Hammond's raw writing style is fun to read, the real reason an economic policy think tank in Washington, D.C., is publishing this book is the power of Jay Hammond's ideas. His explanations of why he believed that giving citizens a direct stake in the state's natural wealth would help to create a virtuous cycle of accountability are particularly revealing—and prescient. As a Republican deeply concerned with equity and citizen stewardship, his ideas transcend partisan politics. At the same time, his story explains the deeply political context and the tactics he deployed to overcome entrenched interests. These provide important insights today, because any politicians trying to implement a similar scheme will face hurdles and bargaining trade-offs not dissimilar to those tackled by Hammond thirty years ago.

Perhaps most important, Hammond is reflective and brutally honest about his mistakes. He bluntly admits that his failure to veto the repeal of the state income tax was, in retrospect, wrong. Although the tax repeal was part of the deal that paved the way for approval of the Alaska Permanent Fund, he believed that without a state income tax, he allowed the state to cut "the cord that attaches the public's purse to the fingers of the politicians."

Herein lies a critical lesson for those of us who believe that a version of an oil dividend might be a useful idea for some of the new oil-producing economies: cash transfers must be accompanied by broad and transparent taxation. Indeed, for many poor countries that strike oil, building a tax base is precisely the point. Without taxation, citizens have little incentive and even less capacity to hold the government accountable for public spending. Taxation is the basis for accountability. Which brings us from Juneau to Baghdad.

Iraq is a country that relies on oil for nearly 90 percent of government revenue, and less than 4 percent comes from regular taxation. It is also a society deeply torn by regional and other divisions. In other words, it is a prime candidate for an Alaska-type dividend to help unify the nation and build a social contract. Hammond too came to this conclusion, and the final section of his chapter provides his thoughts on how Iraq might learn from Alaska's experience.

To complement Hammond's personal account, the remainder of this volume brings together recent work by scholars on Alaska and Iraq,

tackling the same issues around cash transfers from different perspectives. Scott Goldsmith of the University of Alaska at Anchorage, a leading expert on the Permanent Fund, provides a retrospective analysis of Alaska's experience (courtesy of the Revenue Watch Institute) in chapter 3. Chapter 4 is an article by Nancy Birdsall and Arvind Subramanian that appeared in *Foreign Affairs* in 2004 and originally proposed that an oil dividend be implemented in Iraq (reprinted here courtesy of the Council on Foreign Relations). Of course, despite some support at the time within the Iraqi and American policy communities, this option was not chosen. However, chapter 5, by longtime Middle East journalist Johnny West, under commission by CGD, examines the possibility that the idea could be revived soon. West argues that an expected increase in production provides a new opportunity for Iraq to try this idea in coming years. Crucially, West also identifies growing political support within Iraq for a national dividend, including some unexpected champions.

Together, the writings here provide a compelling case that much still can be learned from Alaska's experience and its visionary former governor. It is a powerful reminder that new ideas combined with determined individuals can make a tremendous difference—even with issues as seemingly intractable as the oil curse. Combating the corrosive effects of easy money on governance in both rich and poor countries is a problem that still requires much more innovation as well as inspired political leaders. I hope that this book makes a small contribution in that direction—and that readers also share the serendipitous enjoyment this book provided me.