Capitol Crude: The Impact of Oil on Alaska Politics

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"Wherever the [oil] industry has functioned, its concentrated economic power, the most massive of any industry in the world, has been forged into political power over the community law, the tax structure, the public bureaucracies, and the political machinery."

Professor Robert Engler, Twentieth Alaska Science Conference, 1969

INTRODUCTION

Alaska is an oil state. Since the 1957 oil and gas find on the Kenai Peninsula in southern Alaska and the 1968 discovery of the massive Prudhoe Bay oil field on the North Slope, oil has seeped into every aspect of Alaskans' lives. Through the decades since the first oil strike, oil revenue funded public education, public safety and the judicial system, health care, the state university, and hundreds of thousands of jobs, both public and private. Oil revenue helped build schools, hospitals, roads, airports, docks and harbors, and community and sport facilities. Oil revenue paid for ferries and plumbing and electric systems serving Alaska's remote communities. And Cook Inlet natural gas provided reasonably priced energy for Southcentral Alaska. It's hard to imagine where the state would be today without its oil and gas resources. However, like most good things, Alaska's dependence on oil came with a price.

The corporations that developed Alaska's abundant oil and gas resources did so with one goal – to profit. Due to the nature of oil and gas production, it takes an enormous amount of expense and effort to be profitable. Oil and gas resources are found in some of the most challenging environments in the world, including barren deserts, deep seas, and freezing Arctic tundra. To get the rights to explore for and develop the resources, oil and gas corporations contend with all types of governments, from democracies to dictatorships. Oil market prices often fluctuate wildly due to a variety of factors, including geopolitical conflicts and national and international economic conditions. To maintain profitability in such a volatile and risky business, oil and gas corporations seek low taxes and a light regulatory regime from their host governments. The problem for Alaska and other oil and gas states is that in their quest for limited taxation and regulation, corporations use their considerable economic power and financial resources to control the host state's political affairs and governing policies, often without regard for the welfare of its citizens.

Even before oil became Alaska's primary commodity, Alaskans knew the power of outside corporations to control their political affairs. For the decades before statehood, outside interests, primarily salmon canneries and mining companies, employed resident lobbyists who successfully influenced enough of Alaska's territorial legislators to thwart any attempts at enacting taxes that would impact their bottom line. The result was a territory rich in resources yet still lacking the funds for its own economic development. This state of affairs began changing in 1949 when, after eight years of effort, territorial Governor Ernest Gruening succeeded in getting the legislature to pass a comprehensive tax system that included an income tax and a general property tax. Until his success in that year's legislative session, Gruening said of his time as governor, "I believed I was governor, but found the chief lobbyist for the canned salmon industry was the actual governor."[1]

Taxation helped Alaska's finances but, as a territory, the federal government controlled development of Alaska's natural resources. Alaskans lacked the political clout needed to influence regulatory decisions made by a distant Congress and federal bureaucrats. The cannery and mining corporations however, had experienced lobbyists in the nation's capital and plenty of economic and political power to sway federal decisionmaking to benefit corporate interests over Alaskans. Many Alaskans believed that gaining statehood would give them greater control over their own affairs and resources.[2]

In 1955, as part of Alaska's bid for statehood, a constitutional convention of delegates from all around the territory with varying political backgrounds sought to counter corporate control by crafting a state constitution with fundamental principles protective of Alaskans' interests. When it came to natural resources, the delegates adopted provisions requiring that the state's resources be developed for the maximum benefit of the people of the state and consistent with the public interest. Following Alaska's admission into the Union in 1959, the Alaska Constitution's policy and public interest provisions stood as a bulwark against the type of resource exploitation that plagued the Alaska territory since its inception.[3]

Statehood offered Alaskans a chance to do things differently when it came to developing the state's natural resources, especially its oil and gas resources. Recognizing that mineral resources were the main source of potential revenue for Alaska, Congress gave the new state all mineral rights on any federal lands granted to the state. Under the Alaska Statehood Act and the Alaska Constitution, state mineral rights could not be sold, and mineral resources could be developed only with a lease granted by the state.[4]

The first Alaska state legislature established a leasing system for oil and gas where companies would have to compete for the privilege of exploring for and producing Alaska's oil and gas resources from state land. Under the leasing system, the state would receive payment of a bonus or fee at the time of the lease sale, rent during the life of the lease, and royalty and taxes once resource production commenced. Unlike during territorial days, Alaskans would finally have the opportunity to benefit economically from the production of its natural resources, and be able to control where, when and how development occurred.[5]

In 1969, as Alaska embarked on its journey as a major oil state, Robert Engler, a New York political science professor and author of "The Politics of Oil," warned Alaskans of the power of oil corporations to take over and influence their governing institutions. In the years since Engler's message, oil corporations have in fact had a significant impact on Alaska's political affairs and on shaping the policies and institutions that govern theirs and other extractive industries' activities in Alaska.[6]

From campaign donations to outright bribes, oil corporations and their lobbyists persuaded lawmakers to pass laws benefiting oil industry interests. They poured money into campaigns opposing citizen ballot initiatives aimed at fairer oil taxation and natural resource protection. Their employees and former employees held positions of power in the state legislature, the governor's office and state agencies. National and international oil and gas corporations used their control over development and production of North Slope natural gas as a bargaining chip to get tax and regulatory concessions from the state in exchange for vague commitments to build a pipeline for shipping Alaska gas to outside markets.

Starting in the 1980s, oil corporations began influencing Alaska elections through monetary contributions to legislative candidates that supported industry interests. Their contributions went mostly to Republicans because the Republican Party platform best suited the corporations' desire for lower taxes and limited regulation. Following the involvement of oil corporations in its political affairs, Alaska shifted from a Democratic leaning electorate to one that leaned Republican.

The Democratic Party platform was rooted in President Franklin Roosevelt's 1930s' New Deal governing philosophy of using government to help provide for a sound economy and the health and welfare of the nation's people. Democrats sought regulation of businesses to protect consumers and the environment, and taxes from individuals and corporations to fund a basic social safety net and public infrastructure that benefited community interests. In keeping with Democratic principles, Alaska Democrats generally supported higher oil taxes to help pay for public services and infrastructure and more stringent regulation of the industry to protect Alaskans and the state's natural resources. This made Democratic candidates targets for defeat by the oil companies and those who supported the companies' anti-tax, anti-regulatory agenda.

Following the lead of President Ronald Reagan first elected in 1981, the Republican party platform took the position that economic growth and opportunity required cutting taxes and deregulating businesses, and drastic limits to government spending. Republican politicians advocated for tax cuts, theorizing that by reducing the costs of doing business, companies would make more money and as wealth accumulated upward, it would "trickle down" and fuel the economy and provide jobs. Republicans believed that the country would thrive by allowing business owners to run their businesses as they saw fit without interference from the government. The party called for less environmental regulation, instead promoting streamlined resource permitting and quick government approval of development projects with few restrictions. Most

Alaska Republican politicians and their supporters embraced this free market version of governance. Since Republicans maintained legislative majorities for most of the years of oil industry domination in the state, their view often prevailed.

The Republican anti-tax, anti-regulatory philosophy melded with an overarching anti-government ideology at the foundation of the national Republican Party platform. In Alaska, this ideology created a disconnect between Alaskans and their representative government, shut out Alaskans and local and tribal governments from natural resource development decisions affecting their communities, and put in place lawmakers who weakened the government's power to improve the quality of Alaskans' lives.

Capitol Crude: The Impact of Oil on Alaska Politics chronicles how oil corporations' efforts to limit taxation and regulation of their industry influenced and changed Alaska's governance and political ideology. The story covers legislative oil tax battles, fights over control of the 800-mile TransAlaska oil pipeline from the North Slope, and how the unfulfilled quest for a natural gas pipeline contributed to the unlikely national rise of former Governor Sarah Palin. There are tales of legislators standing up to industry pressure and legislators corrupted by the lure of oil money, and how oil company influence led to the silencing of Alaskans' voice in resource development decisions that affected their lives and livelihood.

The story is set in Juneau, Alaska's capital city. With a population of 30,000 and accessible only by air and water, Juneau nestles under steep coastal mountains on the shores of the Gastineau Channel at the eastern edge of Southeast Alaska's Alexander Archipelago. Behind the mountains is a vast ice field extending over the border into Canada. Every January, legislators from across the state make their way to the capital city by flying through winter storms, taking a ferry across roiling seas, or making a harrowing drive on icy roads through the wilds of western Canada. During each legislative session, legislators, staff, lobbyists, reporters and the public crowd into the ninety-three-year-old six-story brick capitol building sitting halfway between the downtown cruise ship docks and Mount Juneau towering above. In that unassuming building, forty House representatives, twenty senators and the governor write the laws that affect every Alaskan and everyone visiting or doing business in the state.

For decades, oil and gas taxation, regulation and other industry issues dominated legislators' attention. In recent years, declining oil revenue has divided Alaskans between those who would use earnings from the state's oil savings account, the Alaska Permanent Fund, to fund a functioning government to benefit the state population as a whole and those who would cut or underfund public services in exchange for larger Permanent Fund dividends paid to Alaska residents for their individual use. The debate is taking place against the backdrop of a new election system of ranked choice voting and open primaries that shows promise for moderating the impact of the oil industry on Alaska politics and bridging the chasm between partisan governing philosophies. As the North Slope oil fields continue their inevitable decline along with a reduction in oil companies' hold over Alaska politics, the question for Alaskans is, what's next?

AUTHOR'S NOTE

I moved to Juneau in April of 1980 for a summer job as a forester with the U.S. Forest Service. I was twenty-four years old with a forestry degree from Southern Illinois University and clueless about politics. After that summer traipsing through Alaska's Southeast rainforest, my career path took an abrupt and opportune turn when I met Representative Sam Cotten, then the Alaska legislature's House Finance Committee chair, at a party in Juneau in March 1981. I mentioned I was looking for a job and Cotten surprised me by offering a one-week trial period as an assistant in his legislative office. When he didn't fire me at the end of the week, I kept coming back.

The jobs that followed, along with a law degree, gave me a front row seat to Alaska oil politics. As a Democratic legislative aide for a total of fourteen legislative sessions and as a state attorney in oil and gas and coastal management, I witnessed and participated in the tumultuous years when the oil industry made its biggest impacts on Alaska politics and policies.

This book draws on my years of experience to develop a comprehensive political history of oil's impact on Alaska. It is my hope that understanding our past will help both Alaskans and others see a path to a healthy and prosperous future.

PRELUDE TO OIL

In 1939, long before commercial oil production began in Alaska, territorial Governor Ernest Gruening found Alaska to be a land of both promise and problems. The promise lay in the people, the land and the territory's abundant natural resources. Among the territory's problems was the lack of any sort of taxation system that would provide revenue from the exploitation of Alaska's natural resources for the improvement and welfare of the territory and its people. For decades, outside corporations mined, logged, fished, and trapped in Alaska without being burdened by much in the way of local regulation or taxation. Gruening thought it time for a comprehensive tax system, one that would attain lasting value from the territory's natural resources. Taxing both individuals and corporations, the governor reasoned, would provide the revenue needed to develop a better quality of life for Alaskans and give the people more control over their political affairs.[7]

Corporate interests, primarily salmon cannery and mining companies, weren't giving up a part of their profits without a fight. Starting in 1940 and for the next nine years, the companies used their considerable influence over territorial lawmakers to defeat every major tax measure that Gruening put forward. In a 1981 interview, Steve McCutcheon, who served as a territorial legislator in the late 1940s, recalled how easy it was to buy a legislator's vote in those days. He recounted how a legislator voted no on tax legislation that would affect the salmon industry in exchange for a case of whisky, an overcoat, a suit of clothes and a ticket to Seattle.[8]

The territory's financial condition deteriorated to the point that bills could not be paid and the University of Alaska was on the brink of collapse. Finally, in 1948, Alaskans voted out most of the sitting legislators, including the staunchest tax opponents. During the 1949 legislative session, the new crop of lawmakers passed a comprehensive tax system that would raise revenue for the territory and help fund needed public services. Gruening praised the legislators, saying they represented the desire of the people to "plow back" the wealth derived from Alaska's resources into the development of Alaska and to making the territory their home.[9]

Major components of Gruening's 1949 tax system were an income tax paid by individuals and corporations and a general property tax. The income tax included a levy on outside corporations and seasonal workers to help the territory retain value from the extraction of its natural resources. The general property tax remedied the situation where businesses and individuals located outside incorporated towns paid no local property tax towards the support of community facilities and services.

Gruening remained governor until April 10, 1953, long enough to see a cornerstone of his hard-fought victory for a comprehensive tax structure dismantled in the 1953 biennial legislative session.

In 1953, the legislature swung from a Democratic majority to Republican. Many of the newly elected Republicans had campaigned on repeal of the general property tax. True to their campaign promises, the new majority introduced a bill to repeal the property tax on the second day of the legislative session. Rep. Julien Hurley, a Republican from Fairbanks, described the tax as "the most vicious and unjust tax ever imposed in the territory." In the Senate, property tax opponents called it "nefarious, unjust, hastily drawn, unholy, discriminatory, and too costly to collect in the vast spaces of the territory." Property tax supporter, Anchorage Democrat Rep. Wendell Kay, said the repeal was "a bill to soak the poor" and the biggest beneficiaries would be the big canning and mining concerns holding property outside towns. Tax opponents, including Democrats from mining regions, prevailed and the repeal measure passed easily in both the House and Senate.[10]

Governor Gruening made one last attempt to salvage his legacy and vetoed the property tax repeal. The House voted almost immediately to override the veto on a party-line vote of 20 to 4. The Senate soon followed suit, overriding the veto by 11 to 4.[11]

And so, the general property tax was gone. But not forgotten. In two years, the attempted resurrection of the property tax would play a major role in establishing Alaska's first oil and gas production tax.

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