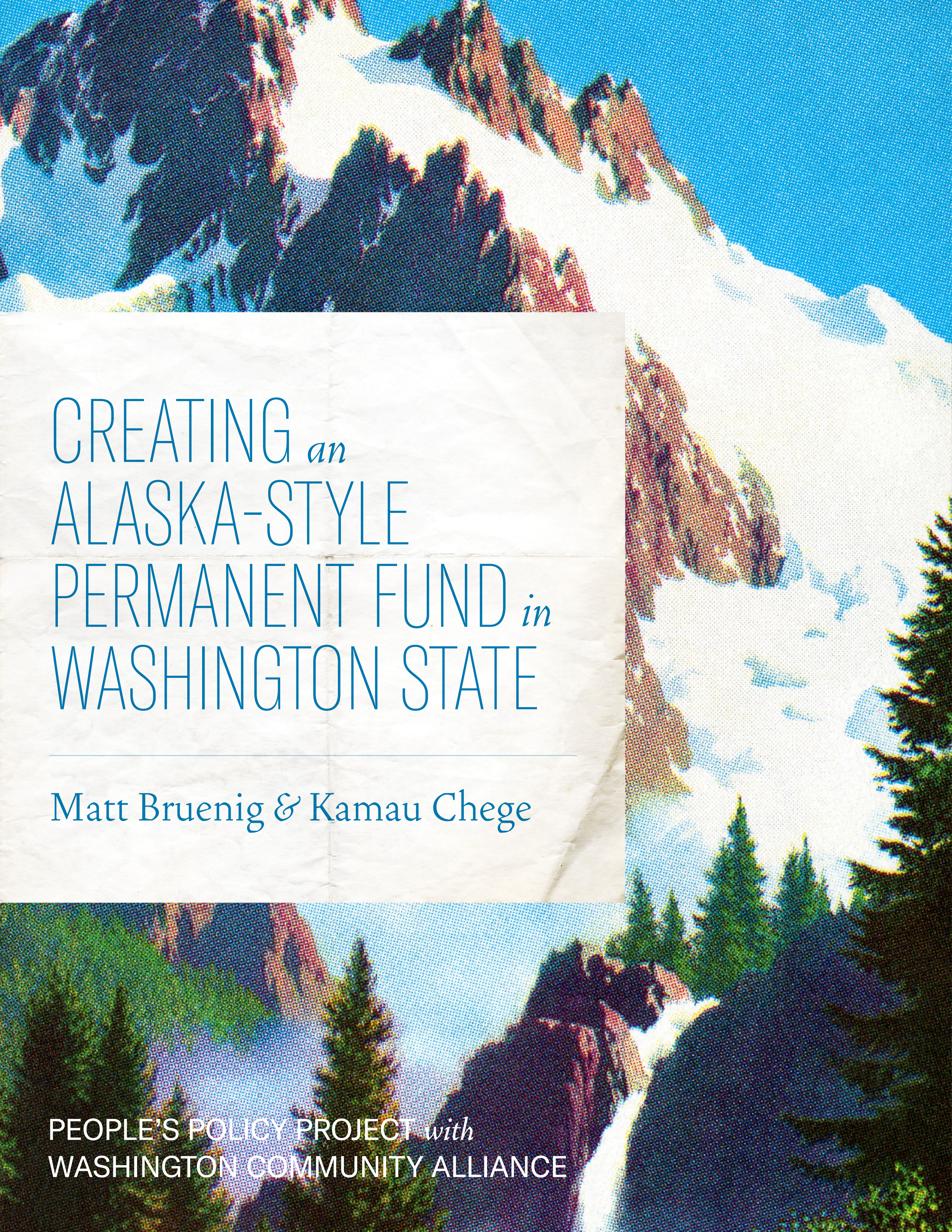


CREATING *an* ALASKA-STYLE PERMANENT FUND *in* WASHINGTON STATE

Matt Bruenig & Kamau Chege

PEOPLE'S POLICY PROJECT *with*
WASHINGTON COMMUNITY ALLIANCE

Contents

Preface

Addressing Wealth Inequality

When discussing the inadequate and unequal structure of the economy, progressives tend to focus on things like poverty, income inequality, and wages. These are seen as the stuff of people's everyday experience with the economy and as the areas that deserve our most pressing attention.

But the most unequal aspect of our economy is actually the way in which our national wealth is distributed. The top ten percent of American households own around three-fourths of the nation's wealth while the bottom fifty percent owns virtually none of it. While the precise distribution of wealth has changed a bit over time, in the data that we have, the vast majority of the national wealth has always been in the hands of a relatively small slice of the population.

Most efforts to tackle wealth inequality focus on the national level. But states can and, in at least one case, have had a huge impact on the way that wealth is distributed among residents of the state. In this section, we look at wealth inequality in Washington and propose that Washington create an Alaska-style Permanent Fund aimed at gradually reducing wealth inequality in the state.

ABOVE CELILO FALLS ON THE COLUMBIA RIVER

CHAPTER 1

MEASURING WEALTH INEQUALITY IN WASHINGTON

It is difficult to precisely estimate the level of wealth inequality in Washington state using public data sources.

The Federal Reserve's **Survey of Consumer Finances** (SCF), the nation's preeminent wealth survey, only interviews 6,500 families across the entire country and does not reveal the states in which those families reside. The Census Bureau's **Survey of Income and Program Participation** (SIPP) interviews around 24,000 households across the entire country, but only around 700 in Washington state. The SIPP also understates wealth levels at the top of the distribution through the use of topcoding and by failing to get survey participation from very wealthy households.

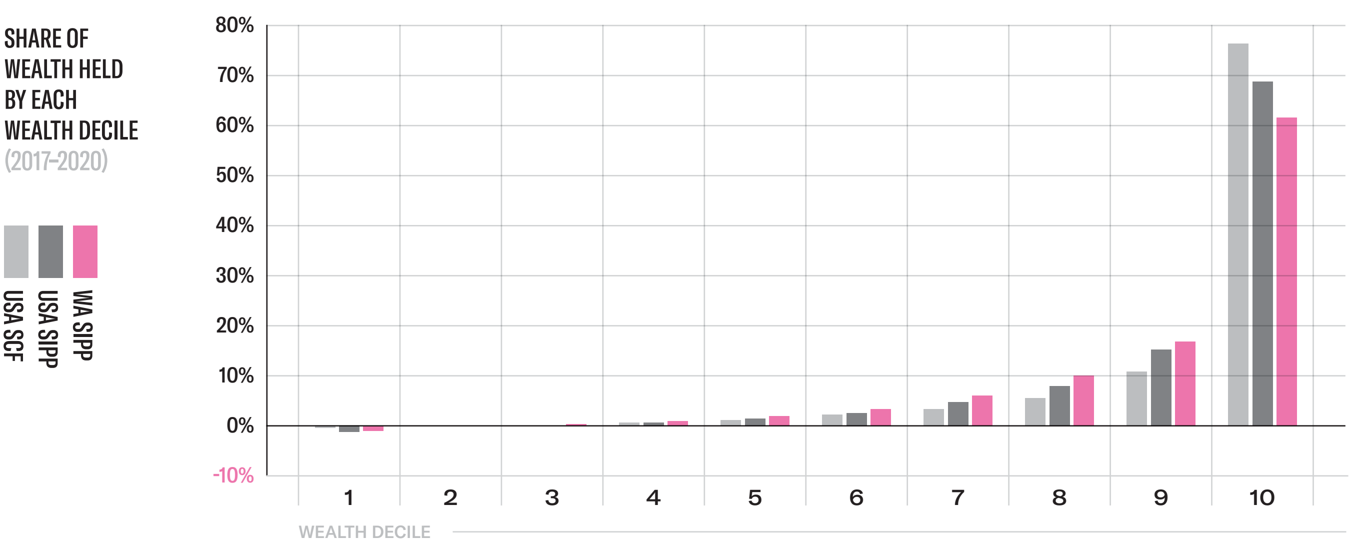
In order to overcome the limitations of these surveys, researchers are typically forced to make somewhat speculative adjustments that go beyond the survey microdata. For example, a recent WA report "hot decked" data from the **American Community Survey** (ACS) with the Survey of Consumer Finances in order to overcome the SCF's low sample size and lack of residency information. This kind of hot decking works by assuming that ACS and SCF households that are similar in some respects—such as number of vehicles, home ownership status, and age—are also similar in other respects, such as wealth.

Hot decking allows the researchers to combine the big sample size and residency information of the ACS with the wealth information of the SCF, but the method basically amounts to assuming that WA's wealth inequality is no different from wealth inequality in America as a whole. This is a reasonable assumption, but it also makes the whole exercise somewhat unnecessary. If WA's wealth inequality more or less mirrors American wealth inequality, then one could achieve roughly the same insights by looking directly at the US-wide SCF data without the intermediate hot decking step.

In what follows, we take a somewhat different approach to overcoming the limitations of these wealth surveys. In our approach, we pool all of the responses from the four waves of the SIPP survey that cover the years 2017, 2018, 2019, and 2020. Pooling these waves increases the WA sample size to around 2,400 households. As a proportion of WA households, this sample is 16 times the size of the SCF sample as a proportion of US households.

In the below graph, we compare the US wealth distribution in the 2019 SCF to the US and WA wealth distributions in the pooled 2017–2020 SIPP.

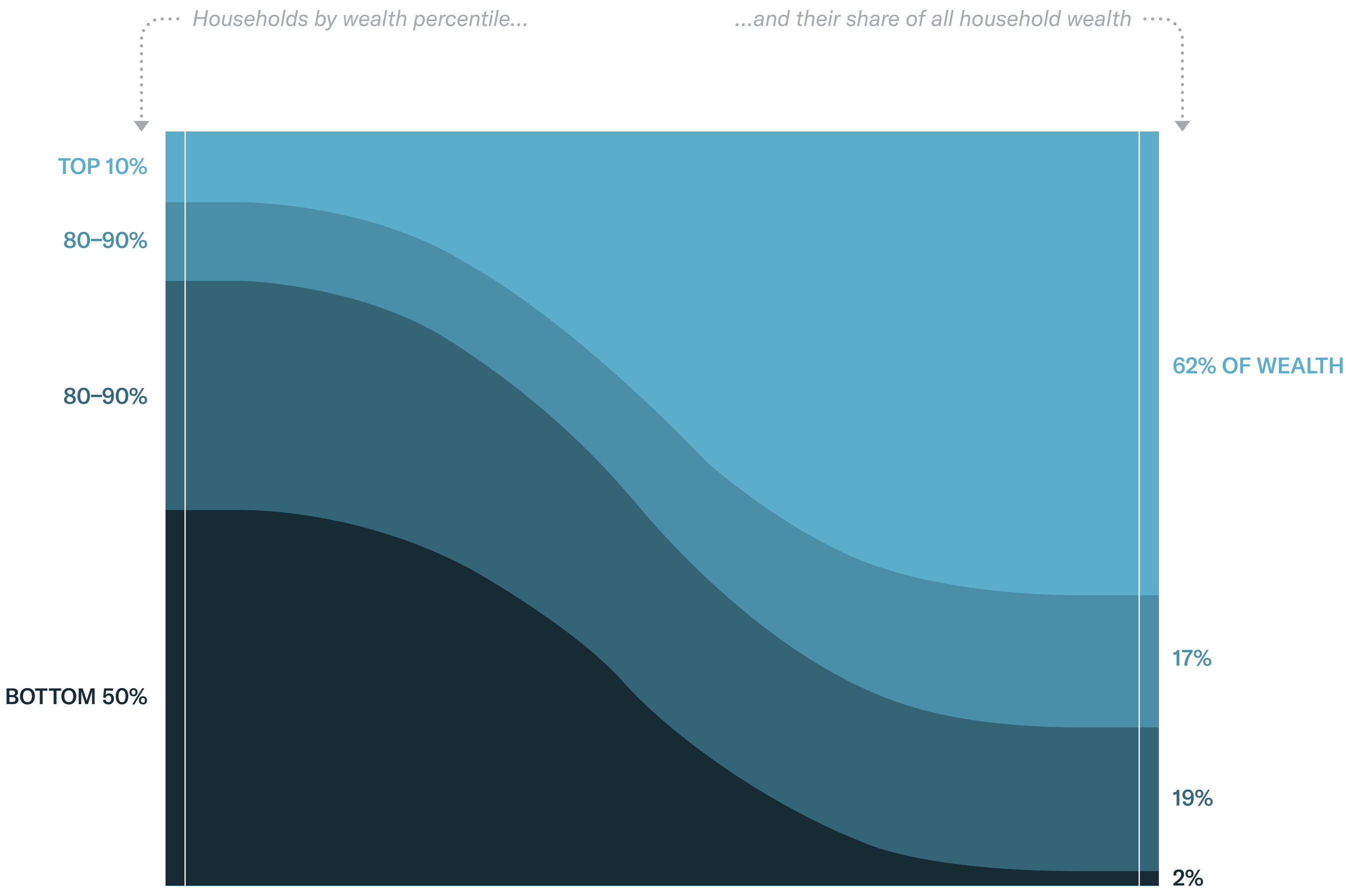
SHARE OF WEALTH HELD BY EACH WEALTH DECILE (2017–2020)



Overall, the three distributions look similar. In each, the bottom half of the distribution owns 1 to 2 percent of the wealth while the top half of the distribution owns 98 to 99 percent of the wealth. In the SCF, the top 10 percent of US families hold 76 percent of the wealth while, in the SIPP, the top 10 percent of US households hold 69 percent of the wealth and the top 10 percent of WA households hold 62 percent of the wealth.

This divergence is consistent with the fact that the SIPP topcodes its wealth variables and does not get as much participation from very wealthy households as the SCF does. The two figures may also differ because the SCF family unit is not defined the same way that the SIPP household unit is defined.

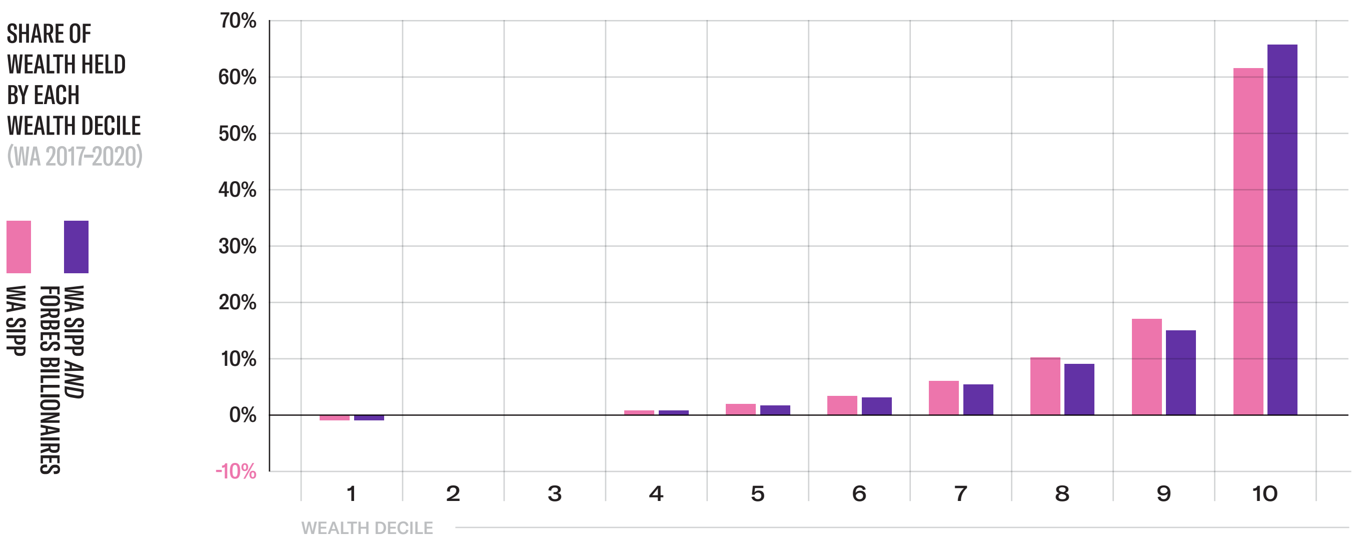
Here is another visualization of wealth inequality in WA using the SIPP, graphed as a proportion plot. ▼



Source: Census Bureau's Survey of Income and Program Participation (SIPP), 2017–2020 pooled data. Based on original proportion graph by Galen Herz.

One way to partially overcome SIPP's limitations when it comes to reporting the information of the very wealthy is to add information from lists of the wealthiest Americans, such as the Forbes Billionaires List. Adding the Washingtonian billionaires included in the Forbes list increases the wealth share of the top 10 percent of WA households from 62 percent to 66 percent.

SHARE OF WEALTH HELD BY EACH WEALTH DECILE (WA 2017–2020)



This modification helps bring the wealth distribution closer in line with reality, but the resulting distribution still likely understates the percentage of wealth held at the top.

For the remaining analysis, we will only use the data contained in the pooled 2017–2020 SIPP. Rather than try to partially correct for its understatement of top wealth by adding in a handful of billionaires or imputing higher wealth levels from the SCF, we think it is clearer to simply note that the SIPP has limitations when it comes to accurately reporting wealth at the top end of the distribution and to ask readers to incorporate that fact into their interpretation of the following SIPP statistics.

MONTLAKE BRIDGE RISES TO ACCOMODATE A FISHING BOAT PASSING FROM LAKE WASHINGTON TO PORTAGE BAY

CHAPTER 2

PERSONAL WEALTH & HOUSEHOLD WEALTH

The SCF assigns assets and liabilities to families not persons. So, for example, in the case of a married couple with two children that owns a home, the value of that home is assigned to the family as a whole, not to one or the other spouse or the children.

The demographic characteristics of each family, and thus the demographic characteristics of the wealth they own, are derived from the information of the reference person in the household. So, if the reference person in the above homeowning family is a Black, college-educated, 35-year-old man, the value of the home ends up characterized as Black wealth, college-educated wealth, millennial wealth, and male wealth, even if other members of the family unit have different demographic characteristics.

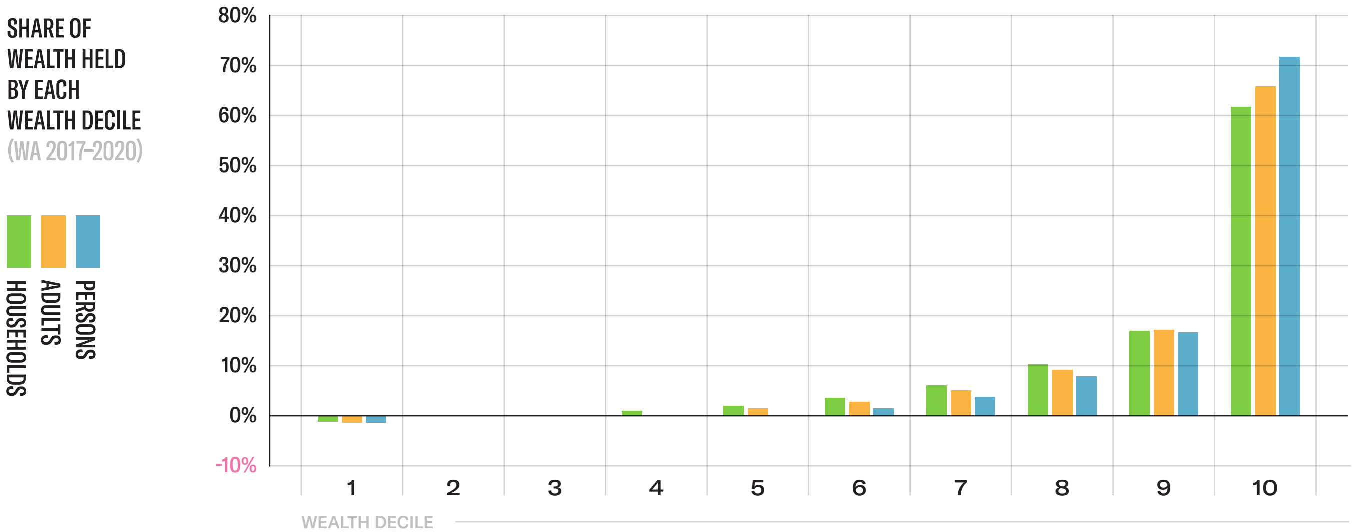
Unlike the SCF, the SIPP assigns assets and liabilities to persons, with household wealth being the aggregate wealth of the persons of each household. When assets and liabilities are owned jointly by multiple people, as in a family, SIPP assigns their values fractionally to each of the joint owners. Thus, in the example above, if the Black, college-educated, 35-year-old, male homeowner is married, half of the home's value is assigned to him, while the other half is assigned to his spouse. This means that, if his spouse has a different race, age, educational background, or gender, those demographic characteristics will show up as owning half of the value of the home.

Because wealth is almost always analyzed on the household or family level, person-level distributions of wealth are rarely reported, even by researchers who use the SIPP data. But the person-level distribution is also interesting and so we will include that distribution alongside the household-level distribution in this analysis.

FAMILY AT COLD SPRINGS, COLUMBIA NATIONAL FOREST

In the following graph, we can see the difference between the person-level, adult-level, and household-level distribution of wealth in WA state over this period.

SHARE OF WEALTH HELD BY EACH WEALTH DECILE (WA 2017-2020)



The adult-level distribution is more unequal than the household-level distribution and the person-level distribution, which includes the wealth of children, is more unequal than adult-level distribution.

The table below shows the wealth level of these three distributions at various wealth percentiles.

WEALTH PERCENTILE	PERSONS	ADULTS	HOUSEHOLDS
10	-$22	-$2,997	-$1,500
25	$0	$2,995	$15,940
50	$17,000	$71,340	$174,880
75	$215,080	$320,500	$695,500
90	$710,267	$872,880	$1,584,160

Across all persons, including children, the median wealth is $17,000. Across adults, the median wealth is $71,340. Across households, the median wealth is $174,880.

Race and Class

When comparing differences in wealth across race, it is common to look at the gap between mean and median wealth. The following table sums up these gaps for the person-level, adult-level, and household-level distribution in Washington.

	MEAN WEALTH			MEDIAN WEALTH		
	PERSONS	ADULTS	HOUSEHOLDS	PERSONS	ADULTS	HOUSEHOLDS
WHITE	$334,807	$405,514	$748,592	$46,550	$102,117	$234,225
BLACK	$105,766	$129,610	$188,734	$3,050	$7,100	$11,500
LATINO	$39,503	$63,348	$119,909	$0	$3,750	$15,460
OTHER *	$295,157	$411,556	$861,568	$12,370	$67,892	$203,140

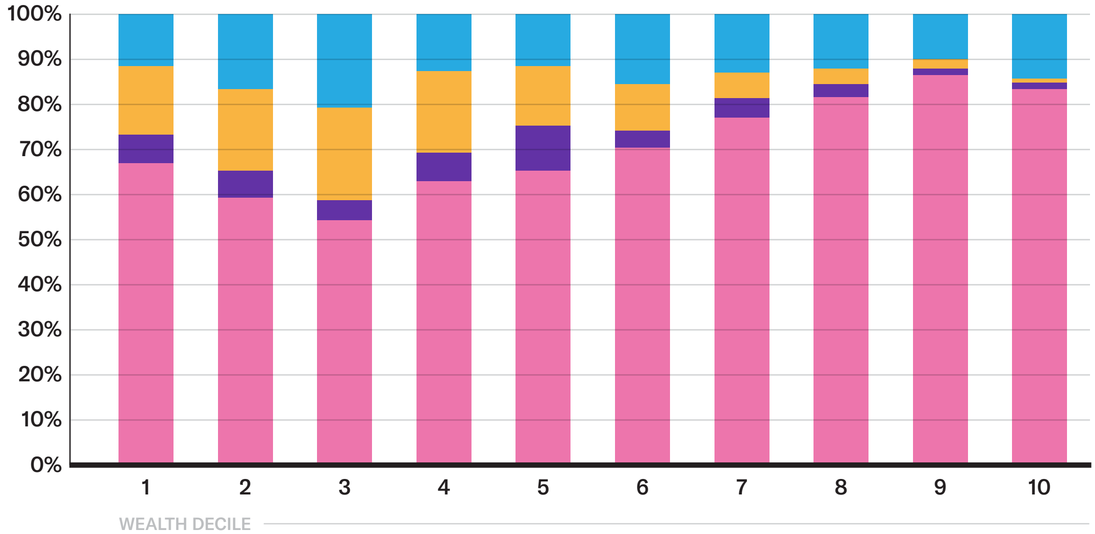
* *Combines Asian American, Native Hawaiian, Pacific Islander, Native American, and Mixed-Race persons, adults, and households.*

On all measures, Black and Latino people have far less wealth than White people have.

However, because White people are far more numerous in Washington than Black or Latino people are, the bottom of the wealth distribution still primarily consists of White people. This is true whether looking at the person-level, adult-level, or household-level distributions.

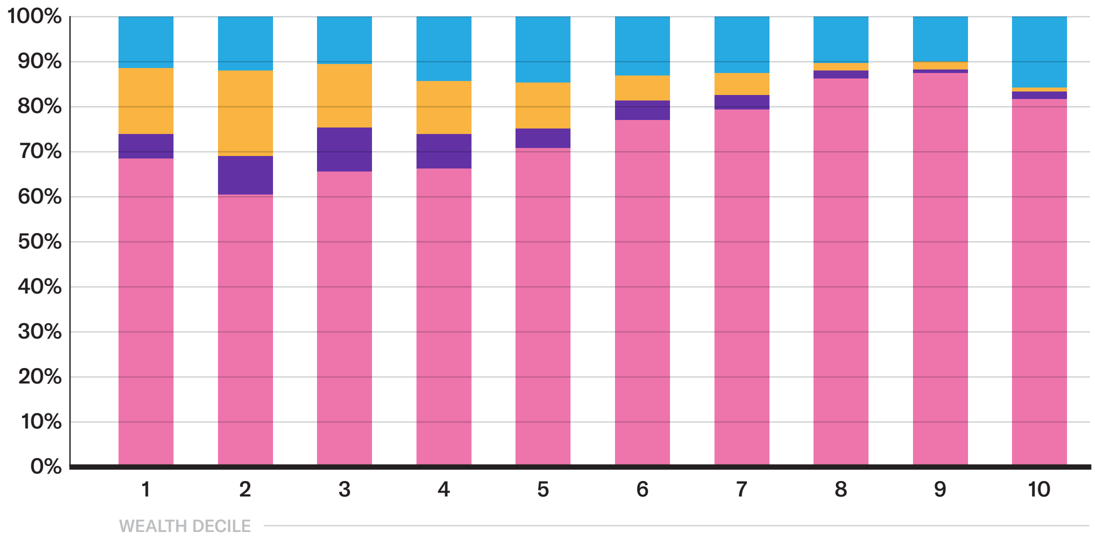
RACIAL COMPOSITION OF EACH **PERSON** WEALTH DECILE (WA 2017-2020)

OTHER
LATINO
BLACK
WHITE



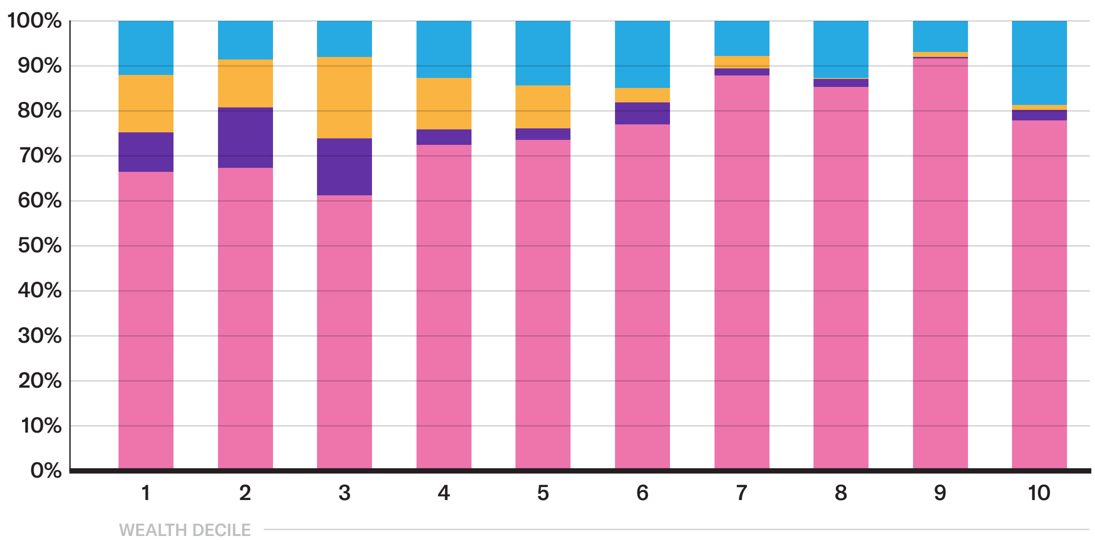
RACIAL COMPOSITION OF EACH **ADULT** WEALTH DECILE (WA 2017-2020)

OTHER
LATINO
BLACK
WHITE



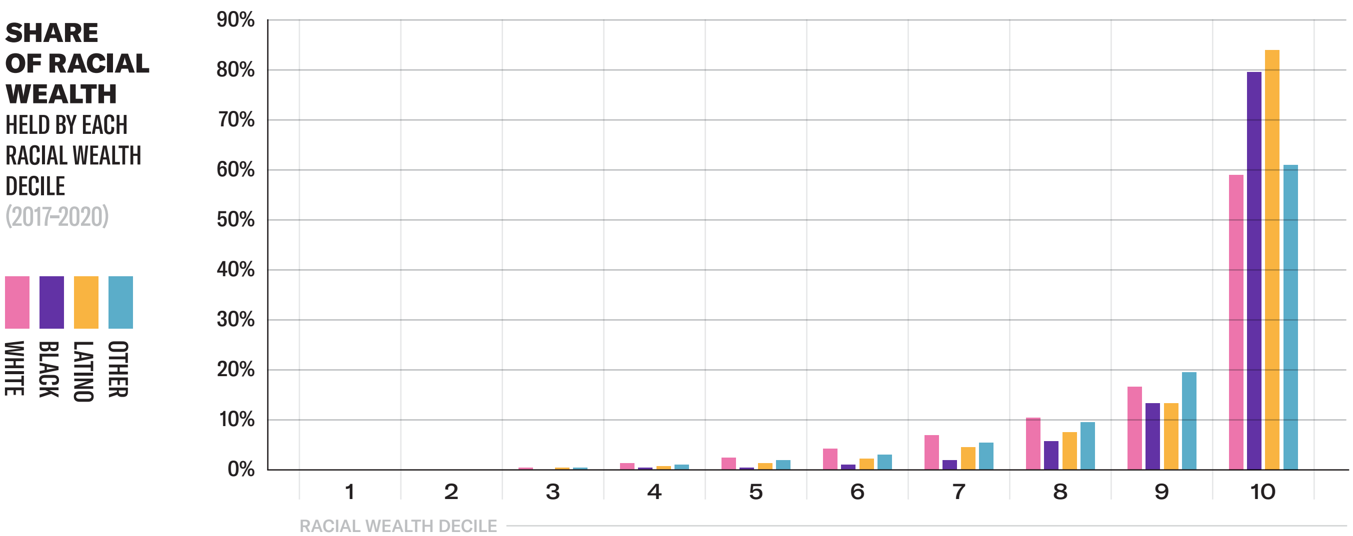
RACIAL COMPOSITION OF EACH **HOUSEHOLD** WEALTH DECILE (WA 2017-2020)

OTHER
LATINO
BLACK
WHITE



Whether measured by median wealth or mean wealth, the wealth gap between racial groups is substantial. But it's also true that, within each racial group, wealth is overwhelmingly concentrated in the hands of a select few.

SHARE OF RACIAL WEALTH
HELD BY EACH RACIAL WEALTH DECILE
(2017–2020)



In all four racial groups, the bottom half owns virtually none of the group's wealth, while the top twenty percent owns almost all of it.

CATTLE GRAZING PERMITTEE, WASHINGTON, 1949

CHAPTER 3

CUTTING WEALTH INEQUALITY

Compressing the distribution of privately-held wealth requires trimming down wealth levels at the top of the distribution and pumping up wealth levels at the bottom and middle of the distribution.

Top wealth levels can be trimmed down by compressing the income distribution, e.g. through policies that increase taxes on the rich, increase labor's share of income, and increase the wages of low and middle earners. These income-focused policies will reduce the amount of wealth that is accumulated at the top in the first place.

Top wealth levels can also be trimmed down by directly taxing wealth that has already accumulated at the top, e.g. through an annual tax on net worth or inheritance taxes.

Pumping up wealth levels at the bottom and middle of the distribution is far more difficult. In order to build up wealth, families need to put money towards paying down debt or purchasing assets. But at the lower end of the economic ladder, families often struggle to maintain an ordinary standard of living. Such families are unlikely to put additional financial resources towards building personal wealth as they would rather use those resources to increase their consumption spending on food, housing, and other daily necessities.

One way to possibly solve this problem is to give people more private resources but somehow force them to put those resources towards wealth-building rather than towards consumption. But this approach often gets caught in a double-bind. If the policy is too strict, then it results in individuals building up paper wealth that is not very useful to them. If the policy is too relaxed, then individuals can use the fungibility of money to convert the resources into consumption rather than using them to build up personal wealth.

THREE YOUNG GIRLS, ST. PAUL ISLAND, ALASKA. CA. 1885

One of the more popular wealth-building proposals of this sort is to provide individuals a lump sum of wealth when they reach adulthood. Thomas Paine was one the first people to ever make such a proposal when, in 1797, he argued in *Agrarian Justice* that individuals should be provided with a one-time payment of £15 when they reached the age of 21. In more recent years, the idea has been picked up by various academics, like Bruce Ackerman and and Anne Allstott who proposed a similarly-designed "demogrant" in their 2000 book *The Stakeholder Society* and Sandy Darity and Darrick Hamilton who are currently promoting the same basic idea under the name "baby bonds."

The latest version of this idea, baby bonds, runs into the same double-bind already discussed above. If the baby bonds are simply paid out as a lump sum of cash on each child's 18th birthday, much of the money will be spent on consumption rather than building wealth. This is not a bad outcome, but it does not reduce wealth inequality. If the baby bonds are heavily restricted in what they can be spent on—some proposals require that they be spent on education, homes, or put into a retirement account—then the "wealth" may not actually be very useful to the recipient. Indeed, we already have special accounts for education (529s) and retirement (IRAs) that people can contribute to and low-income people rarely choose to do so.

The current crop of baby bonds proposals also have other defects that are not inherently connected to the idea of providing lump sum payments to people when they reach adulthood.

For example, rather than pushing for the payments to 18-year-olds to begin in the next year or two, some policymakers advocating for baby bonds instead say that we should create an account for the next crop of newborns and only pay out the first grants to young adults 18 years from now.

FOG WOMAN POLE, STIKA NAT'L MONUMENT, ALASKA

ROBERT HILL'S SONS, ROBERT (LEFT) AND ZEBEDEE, SITTING ON A CROSLEY AUTOMOBILE IN FRONT OF HILL'S BROS. BBQ ON 21ST AVENUE BETWEEN EAST CHERRY AND EAST JEFFERSON STREETS IN SEATTLE'S CENTRAL AREA.

If wealth inequality is a serious problem, it does not make sense to wait 18 years to start addressing it. Furthermore, as demonstrated by the United Kingdom's Child Trust Fund program, a program that takes 18 years to pay out its first benefit is unlikely to survive for long as successive governments are not generally inclined to keep funding a program that has no tangible beneficiaries.

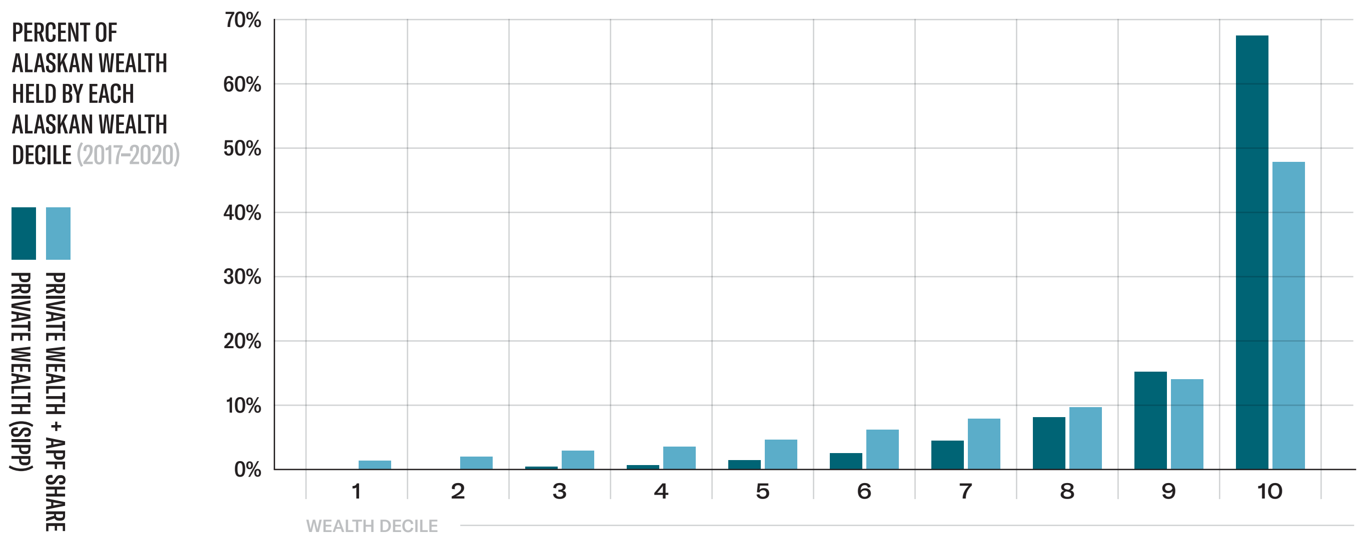
Baby bonds advocates also tend to overstate the degree to which their program would reduce racial wealth inequality in the country. As discussed already above, almost all of the nation's wealth, and each racial group's wealth, is held at the top of the wealth distribution, while none of it is held at the bottom of the distribution and only a tiny fraction is held at the middle of it. Since the middle of each racial group owns virtually none of that group's wealth, small amounts of money targeted right around the middle can cause the median racial wealth gap to plunge, at least if you assume all of the money goes towards wealth rather than consumption. And if you further constrain your racial wealth gap comparison to median young adults, who own an even tinier fraction of their racial group's wealth, you can make the median racial wealth gap plunge even more.

But these kinds of research outcomes illustrate the limitations of using the median to define the racial wealth gap. Contrary to what proponents say, they don't show that baby bonds programs generate a huge reduction in the wealth gap that separates the races.

Another way to pump up wealth levels at the bottom and middle is to focus, not on building up their privately-held wealth, but instead on building up wealth held collectively by the public. If the return on public wealth is used to deliver benefits to the public that also flow to the bottom and middle of society, then, at least in some sense, it is reasonable to describe that wealth as being partially owned by the bottom and middle of society.

The idea of using public wealth this way has been taken the furthest by the state of Alaska where, over the last 5 decades, the state government has gradually built up a collectively-owned Permanent Fund that annually pays out an equal dividend to every state resident. The **Alaska Permanent Fund** (APF), which is primarily invested in stocks, bonds, and real estate, is currently valued at $75 billion, which is equal to more than $100,000 for every resident of the state.

Even though each resident of Alaska is entitled to an individual dividend from the APF, the value of the fund is not ordinarily counted towards the wealth of each Alaskan household. But, as we see in the graph below, when we count each Alaskan's share of the fund towards their own wealth, inequality in the state winds up radically lower than any other state in the country.



BLUE GLACIER, OLYMPIC NATIONAL FOREST, 1927

Including the APF cuts the wealth share of the wealthiest ten percent from 67 percent to 48 percent while more than tripling the wealth share at the middle of the wealth distribution.

Some people will object to this approach by saying that imputing public wealth to each household like this is a conceptual mistake. Public wealth is owned by the government, not each person, and lacks certain characteristics that some private wealth has, such as the ability to transfer or sell it.

This debate about what wealth is and how to properly account for it is an interesting one. When you look closely at wealth, you find all sorts of arrangements that don't neatly fit into one particular conception of it, including, e.g., jointly-owned property, such as marital or inherited property, that cannot be individually disposed of and various kinds of investment accounts, like IRAs and 401(k)s, that are subject to strict rules concerning withdrawals. Indeed, some things we classify as private wealth are far less useful and wealth-like than implicitly owning a share of a public fund that pays out an annual dividend.

But as interesting as this definitional question is, it is of very little practical importance when it comes to the policy question of wealth inequality.

Many societies, current and historically, have managed to bring large shares of their national wealth into public ownership and then use that wealth to provide direct or indirect returns to everyone in society, including those at the bottom and middle of society. In addition to modern-day Alaska, there is also modern-day Norway and Finland, as well as mid-century Sweden, to name a few.

No contemporary society that we are aware of has ever managed to generate a low level of private wealth inequality strictly defined and no proposal to do so in the US, whether baby bonds or otherwise, would generate even a fraction of the equality achieved by the Alaska Permanent Fund.

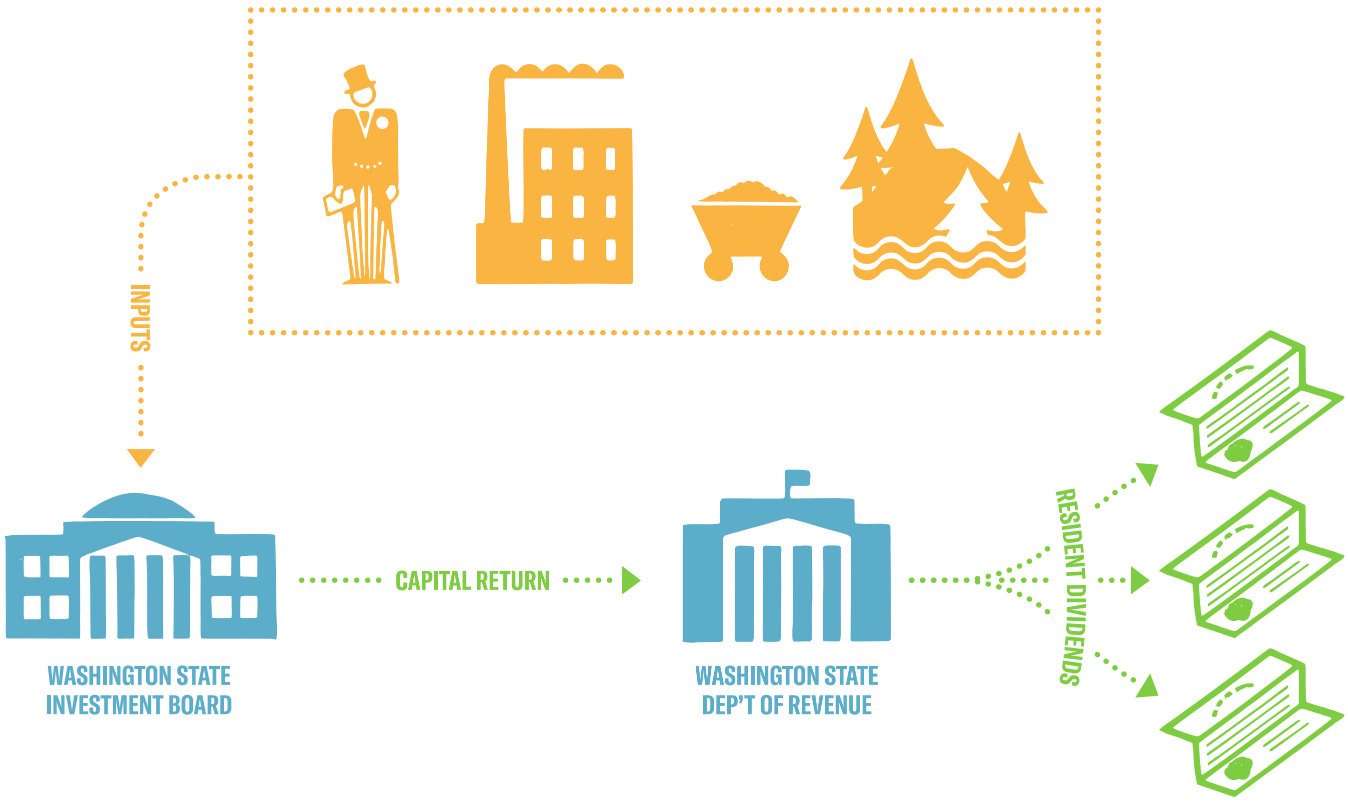
SENTIMENTAL JOURNEY OVER SEATTLE IN 1985 TO MARK THE 50TH ANNIVERSARY OF THE FIRST FLIGHT OF THE B-17 FLYING FORTRESS

CHAPTER 4

PERMANENT FUND FOR WASHINGTON

If Washington is serious about wanting to reduce wealth inequality in the state, then they should follow the lead of Alaska and create a dividend-paying **Washington Permanent Fund.**

The mechanics of setting up a Permanent Fund like this are not fundamentally different from setting up a public pension fund, which Washington has already done multiple times. In fact, the Washington State Investment Board (WSIB) currently manages, not just public pension funds, but also various permanent funds for its land grant colleges as well as four industrial insurance funds to assist injured workers. Assigning WSIB another fund to manage should not be difficult.



Insofar as the goal of this proposed Permanent Fund is to reduce wealth inequality in the state, it would make sense to capitalize the fund using wealth taxes or other taxes targeted at the top of society. The fund could also be capitalized by capturing natural resource rents, whether through taxes, fees, or public development of natural resources. Resource rents are a common source of Permanent Fund capitalization across the world and also reflect the basic idea that resource wealth should go to everyone, not a handful of wealthy landowners.

Money that comes into the fund would be broadly invested in a diversified portfolio by WSIB, with the return being parceled out each year as a dividend to every resident of the state. The administration of the dividend could be managed by the Washington Department of Revenue in the same way that the Alaskan dividend is managed by the Alaskan Department of Revenue.

Permanent Funds like this take time to develop. Absent some kind of sudden revolutionary break, any leveling out of Washington's extremely unequal wealth distribution will require decades or more. But creating a dividend-paying Washington Permanent Fund capitalized by wealth taxes and resource rents would put the state on the right path towards this goal.

COLOPHON

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