

The Flint Hills Center for Public Policy.

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by

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The Flint Hills Center for Public Policy is a Kansas think tank created as an independent voice to help political decision makers make informed policy choices. To understand the importance of such an entity one must first understand the relationship between policy and politics.

Charles Koch, CEO Koch Industries, Wichita, KS. suggested several years ago a parallel between manufacturing and politics. Both have a structure of production. The manufacturing structure of production is raw material, capital goods and consumer goods. These raw materials are often thought of as elements found in nature. The capital goods are the man-made tools and equipment that convert these raw materials into consumer goods, such as food, clothing, cars and appliances.

In the political structure of production ideas are the raw materials. Policy is the capital good and a vote for a particular political candidate is the consumer good. Capital goods (policy) convert raw materials (ideas) into the consumer goods(candidates) that we buy at the store. Simply put, policy converts abstract ideas into political issues that we vote on at the polls.

The framework that Mr. Koch described is helpful because it shows the dependence of politics on policy and the dependence of both politics and policy on ideas. Ideas are important. John Maynard Keynes, the renowned English economist, asserted that, in fact, "The world is ruled by little else".

Scholars and professors who work with ideas are found in the academic arenas of colleges and universities as well as in research laboratories. They develop the philosophical, economic and political ideas that influence society.

Political types are active in the political arena. They are found running for office, working on election campaigns, in public debates, lobbying the legislatures and involved in their party's political activities. They give voice to the ideas after the ideas have been formulated into policy.

Policy "works", as they are called, are the middle link. They are neither activists nor scholars. They are middlemen applying the academic ideas to formulate political proposals.

Those of us working in one arena are not always complimentary and appreciative of those in another arena. Politicians are criticized for being too willing to compromise, while academics are criticized for being too theoretical.

People find political debates to be more interesting than policy reports or research studies. And there is much more political activity than policy activity. Politicians are always in demand as speakers. They are active in campaigns, rallies, elections and all types of public events.

Politics gets a disproportionate share of the attention. In fact, it gets the bulk of the funding. www.tray.com. lists campaign contributions that have been reported to the FEC. Searching this site one can find the names of over 200 Kansans who make campaign contributions of \$20,000 or more in each election cycle. In Kansas alone, thousands of dollars go to policy while millions of dollars go to politics. Yet, I firmly believe that there is more leverage in policy than politics, especially in the long run. Those of us in the policy arena like to characterize politicians as actors playing out a script that a policy expert has written. Script writing is where the leverage is.

Policy Institutes

Legislators need good information. The two primary sources of information for state and federal legislators are their personal staff and the lobbyists that the politicians see daily. Legislators depend upon staff to keep them informed about an overwhelming flood of legislative proposals and bills. Staffers working in the political arena have chosen public sector employment and are paid with tax dollars. We should therefore expect staffers to be predisposed to government solutions to economic problems.

Legislators also rely on lobbyists for information. Lobbyists represent the special interest of a particular client. Lobbying has grown into a major industry at both the state and federal levels. We expect lobbyists to support the special interests of their clients as opposed to the general interests of the public. Very seldom does one find a lobbyist devoted to the promotion of the general interest.

Think tanks, on the other hand, offer an independent voice to political decision makers. Some of the better known think tanks in the United States are the Brookings Institute, the Heritage Foundation, the Cato Institute and the American Enterprise Institute. But think tanks are not unique to this country. They are making an impact in Eastern and Western Europe, Central and South America and many places in Asia.

Policy think tanks such as the Flint Hills Center for Public Policy are skeptical of the claim that government is the solution to every major and, increasingly, minor problem. Both liberal and conservative think tanks appreciate that government action has side effects that need to be considered. It is also important to note that the lobbying limitation imposed on nonprofit organizations such as think tanks keep them from being caught up in the political fever that often infects politics.

Think tanks address a variety of issues. Flint Hills presently focuses on three issues: **Education, Taxes and Health Care.**

In recent years, Flint Hills, formerly the Kansas Public Policy Institute, published the K-12 average per student cost of education. Knowing the true cost of education is important for voters as well as political decision-makers. Knowing the costs will affect the way one votes. To illustrate this point let me pose a few scenarios.

If one believes that the average per student cost of K-12 education in Kansas is \$1000, one might consider voting for an increase in spending. However, if one believes that the schools have allocated \$20,000 per student, an increase in spending would most probably be defeated.

When reporting on education costs the Wichita Eagle invariably refers to the state's share of the per student cost. In the case of USD 259, that amount is almost \$4000 per child. This is the amount that the state remits to the district for each K-12 student in the district. But the state's share is only a fraction of the total cost. Local property taxes and federal government money are also directed to K-12 education. The total cost when all funds are counted is well over \$8000 per student.

More of us would vote to raise taxes for education if we believed that the per student cost was \$1000 versus \$20,000. Furthermore, I daresay that more of us would vote to raise taxes if we believed that the per student cost was less than \$4000 as opposed to what it actually is, over \$8000.

For intelligent voting and good political decision-making it is critical to know the per student cost on education issues. A think tank's job is to provide the correct information.

Taxes is another Flint Hills issue. We acquired a tax model produced by Beacon Hill Institute. It is a dynamic model that is loaded with Kansas specific data. When the legislators propose to raise or lower the sales tax, this model will project the increase or decrease in the revenue stream to the state. The state Budget Office has a model that also makes these projections, as does the Kansas Legislative Research Council. In fact, the state Budget Office is required by statute to put a "fiscal note" on every tax bill.

What is unique about the Flint Hills model is that it also projects the impact of a tax increase or decrease on employment level in the state, the investment level in the state and the state's gross product. This is additional information that the legislative decision makers do not get from the models that they are now using.

In 2004 the legislature will be looking at a tax increase to finance increased education expenditures. The Governor's office is studying a report prepared by consultants hired by the state. In this report the consulting firm Augenblick & Myers recommends educational expenditures that, if approved, would cost the state \$853 million.

The Flint Hills model can project the sales tax, property tax or income tax increases that would be needed to generate that additional \$853 million of revenue for the state. The model can even compare the impact of getting the funds by increasing our state sales tax, the state income taxes or property taxes. (This information is available at the Flint Hills web site : www.flinthills.org.)

It is the challenge of a state think tank to examine these tax issues, find the less apparent, less predictable impact, and offer an independent perspective.

The third focus area is **health care**. This is a very difficult issue. With run away Medicare and Medicaid costs the state and nation are at a crossroads. The political question is whether we will have a national health program or whether we can reverse the diminishing role of market forces in health care.

There is a split on this issue even within the medical profession. Some physicians believe that health care would best be served if the government were the single payer for health services. About an equal number of health care providers believe that physicians and patients should have a direct relationship without third party intervention. This approach is referred to as consumer driven health care.

With policy analyses as a primary tool, information is gathered, evaluated and offered to the public and the political decision makers. In offering this information Flint Hills is trying to look at health care issues in a fresh and constructive way. With health insurance we ask why market forces do not seem to work. When we analyze this issue we realize that we do not really have health insurance, we have prepaid medical care.

We insure our homes against big losses such as fire, hail damage, tornado damage, burglary, accidental injury, etc. But we do not insure for maintenance and repair. We do not have insurance for the cost of having our house painted, or our lawn cut, or our driveway patched. Why? Because premium costs are higher when deductibles are lower, the tendency is to opt for higher deductibles. To have one's house routinely maintained is not considered a major cost nor would it be considered a major loss or set back.

In its policy work Flint Hills tries to understand the difference between these two protections, health insurance and home insurance. Why is politics more involved in the health insurance arena than in the home insurance arena? We note that where there is government involvement

in housing, it is limited to low income families but not to all. In Medicare the very wealthy are directed into the same program as the very poor.

There is a similarity between government solutions to a troubled economy and a physician's prescription to a sick patient. A physician prescribes a drug for a specific illness. The impact of the drug on the illness is fairly predictable and immediate. The side effects are less predictable and immediate. Almost all government actions, like medication, have side effects. Think tanks analyze the side effects.

Economic Development

On a final note I think it is important to address Economic Development as it pertains to the vision presented by the present state administration. While it is a thoughtful vision it is at odds with the Flint Hills vision.

Government has become a self appointed leader in economic development. It has taken on the responsibility for leading the state out of our economic down turn. Government will lead by first drawing resources out of the economy and then committing those resources to projects that the governor and legislature determine will help the state's economy. The state government officials will choose which businesses and industries will get state support.

These economic development decisions are made in a political arena, guided by government officials and subject to the pressures of politics and special interests.

Government participation in the economy is justified on the basis of retaining jobs and creating new jobs. The job of a think tank is to analyze the impact of this government involvement in the economy. Think tanks question if there are other effects that may not have been considered or anticipated?

Let's look at some recent economic development projects and proposals.

The largest may be the \$500,000,000 of bonds for Boeing. After the success of the 707, the 747 and the 737 why does Boeing now need help with the 7E7? What has changed? Is it that competitors such as Airbus are getting subsidies? Is that a justification for Kansas to subsidize Boeing?

Since Federal and State government help to a major industry is not a new practice we should be able to learn from the experiences of others. It is a think tank's job to analyze a proposal in light of what has happened to other industries. For example, the steel industry needed tariffs 20 years ago to fend off foreign competition. And those tariffs are still needed today.

Chrysler needed a bail out 15 years ago and certain airline carriers need bailouts today. And yet, not all car companies or all airlines are unprofitable. One must assume someone somewhere knows how to be profitable without government help.

We know that a subsidy tends to make a company dependent, when it stymies the innovation that comes with competition. We can't know whether in a given case a subsidy will strengthen or weaken the company.

What about the recently proposed Wichita River Walk development on the bank of the Arkansas River in downtown Wichita? Is the River Walk the best use of the city's limited resources? What signal does a city subsidy send to competing developers? What are the consequences when the city channels resources to one development over another?

What about the hotel business? Doesn't the subsidized and city owned Wichita Hyatt hotel affect the profitability of the Wichita Marriott Hotel? And other hotels?

In its effort to maintain affordable airfares out of Wichita, does it make economic sense for the city to subsidize new carriers to Wichita? Would it make more sense for the city to subsidize passengers instead of airlines? These are questions for policy institutes.

What about a new city arena, in any city? As a rule consulting firms hired to study the viability of arenas do not question the concept of city financed arenas. Studies done by think tanks are more skeptical. They question the private public partnerships formed by cities and teams. Here are some of their findings.

* Most studies justifying municipal arenas give overly optimistic projections. They also calculate all projected economic activity as new activity. But surely some of those dollars that were expected to be spent at the new arena would have been spent at some other venue in town.

* The multiplier effect is often overstated. If the economic impact calculation is too optimistic then the multiplier effect will also be overstated.

* Studies of large arenas in major cities have found that team owners and players are the beneficiaries of new arenas. The market value of the team increases, sometimes in direct relationship to the cost of the arena.

Each economic development project is considered on a case by case basis. The consulting firms that have endorsed economic development projects in other cities are hired and expected to justify an arena in the next city. But when has the city of Wichita or the state of Kansas hired a consulting firm to ask what the economic benefit to the business climate would be if taxes were reduced?

The aforementioned projects have or would have visible and tangible results.

But, what we do not see and what we cannot measure are the benefits of leaving the money in the private sector of the economy. What we do not see is how the cost of that subsidy or benefit impacts the other businesses and individuals who pay marginally higher taxes. The benefits are concentrated on one development, on one hotel, on three airlines and so forth. The costs are widely spread among all taxpayers. The costs of one of these economic development projects may not be significant. The cost of many economic development projects can be damaging to the whole economy.

Money spent on economic development projects must first come from the productive economy. Because we do not know how to calculate the economic benefit when those same dollars are left with the taxpayer, or spent elsewhere, we tend not to consider it.

Our economy is mixed with both political and market decisions, but as more and more decision making moves to the political arena, market pricing that indicates peoples' preferences is displaced.

As more businesses get subsidies, more businesses turn to the resources of the city or state asking for subsidies. Surely the displacement of market decisions with political decisions is a move away from the market and a move in the direction of larger government.

Economic development is a crucial issue. We can continue as we do now, accepting some proposals; rejecting others; or, we can return to the market philosophy that allocates resources

based on markets. Less government/ lower taxes is an overlooked strategy for stimulating economic development.

Informed decisions cannot be made without all the facts. Unbiased information is needed for sound policy adaptation. Thinks tanks are an invaluable resource. Be they liberal or conservative they do understand that government action has side effects and these effects should always be considered.