Policy Analysis

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Oklahoma Policy Blueprint '04

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Oklahoma Policy Blueprint '04 was edited by Brandon Dutcher, with contributions by: Steve Anderson, Naomi Lopez Bauman, Chris Edwards, Joshua Hall, John La Plante, Robert Lawson, George Leef, Isabel Lyman, Barry Poulson, Brian C. Robertson, Edwin S. Rubenstein, David Salisbury, Jon Sanders, Russell Sobel, Dan Sutter, John T. Wenders, and Lewis K. Uhler.

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Introduction

"It has been my impression that conservatives do better electorally the less they flinch."

That's an astute observation from Robert Robb, a columnist for the Arizona Republic, in his recent profile of Colorado Gov. Bill Owens. Robb points out that Gov. Owens is "a philosophically grounded, principled, pro-life, anti-tax, smaller government conservative. Yet, in 2002, Owens was re-elected with 63 percent of the vote, and by the largest margin in Colorado history."

Robb notes, for example, that “Owens has benefited from his association with the Colorado Taxpayers’ Bill of Rights. He was one of just nine state legislators to support it when voters approved it in 1992. The initiative capped state spending at population growth plus inflation. Any surplus revenue has to be rebated. This helped Colorado avoid the spending spree that consumed Arizona and most other states in the late 1990s, and created such gaping deficits when revenues got whacked by the recession. The rebates also proved politically popular. More than $3 billion has been returned to taxpayers since 1997. In 2001, the last year there were surplus revenues, the rebate for a middle-class family was $440.”

In short, Robb says, “conservatives should run on their ideas and govern to implement them. Not attempt to pre-empt the other side or soften the edges of important differences.”

We at OCPA couldn’t agree more. That’s why we produced Oklahoma Policy Blueprint ’04, an action plan for policy-makers who want to implement conservative public policies.

OCPA is a public policy think tank. We’re in the idea business. But we’re not so naïve as to think legislators should fall on their swords for every bright idea conservatives put forward. Fortunately, it still holds true that good policy is good politics. This is especially true in a state whose political culture is one of the most conservative in the nation. (A whopping 69 percent of Oklahoma voters identify themselves as conservative. Only 16 percent identify themselves as liberal.) Oklahomans think taxes are too high and that government is too big, wastes too much money, and should be reined in.

Conservatives should run on their ideas and govern to implement them. This publication – solid, principled research and analysis coupled with insightful new polling data – will help conservatives do just that.

Tax Burden

The Issue
According to the Tax Foundation, the total average tax rate for Oklahomans in 2004 is 25.2 percent of their income. This is the total tax burden – federal, state, and local.

Oklahomans paid $8.2 billion in state and local taxes in fiscal 2003, or 785 percent more than 30 years earlier. Over that period state population grew by just 30.4 percent and personal income of state residents rose by 635 percent.

Despite this trend, Oklahoma is still a relatively low-tax state (relative to the other 49 states in modern-day America, not relative to earlier periods in American history before the rise of the welfare state). Per capita state and local tax collections averaged $2,441 in 2003 – ranking 41st among the 50 states. As a percent of personal income, Oklahoma’s tax burden – 9.1 percent – ranks 35th. The higher relative burden reflects the state’s below-average income.

This 30,000-foot view conceals troubling shifts in Oklahoma’s tax burden, however. Over the past three decades income tax receipts have risen nearly 30-fold, or about four times faster than other state taxes. Today more than 42 percent of state revenues are from income taxes, up from 15 percent in 1971. Retail sales taxes have also increased as a share of state taxation (though far more modestly than income taxes), while excises on motor fuel, vehicles, and cigarettes have declined in relative importance.

Personal income taxes are now the largest single source of state tax revenue. Average income tax payments of $654 per capita here exceed the national average by $11, or 1.7 percent. When measured as a percent of income the differential income tax burden is still greater – 2.6 percent here versus 2.1 percent nationally.

Interestingly, this growth in income taxes was never legislated. Instead, it is the natural consequence of a highly progressive tax structure pushing taxpayers into ever-higher tax brackets. Oklahoma’s top marginal tax rate is 7 percent – higher than 32 other states, including four bordering states (Kansas at 6.45 percent, Missouri at 6.0 percent, Colorado at 4.75 percent and Texas at zero). Of the states bordering Oklahoma only Arkansas (7.0 percent) and New Mexico (8.2 percent) have equal or higher marginal tax rates.

The state income tax has income-redistribution components beyond marginal tax rates. Credits or rebates to low-income taxpayers began in 1990. A sales tax credit is also available to compensate low-income families for the sales tax paid on food. While these features protect low-income families from paying any tax, they also increase the tax burdens on middle- and upper-income individuals.

Oklahomans have reason to be concerned. High marginal tax rates discourage investment, entrepreneurial activity, and job creation. The state's attractiveness as a location for business is tarnished far more than generally assumed, because roughly 90 percent of businesses file taxes as individuals (e.g., sole proprietorships, partnerships, and S-corporations) and therefore pay personal income taxes rather than corporate income taxes.

Research also shows a strong tendency for income taxes to spur higher government spending, especially in boom times when surpluses should be accumulated. Not surprisingly, people living in states with income taxes experience significantly lower income growth than their neighbors living in states without such taxes. During the 1990s, for example, personal income in Texas grew more than one-third faster than in neighboring states – including Oklahoma.

Personal income taxes are perceived by many to be the "fairest" of all state levies. This is not necessarily true, however. The richest taxpayers are mobile – they can simply move to a lower-tax state, thereby shifting the tax burden to lower incomes. Indeed, economist Richard Vedder found that in the 1990s a thousand people a day moved from the 25 highest-taxed states to the 25 lowest-taxed. Income taxes are the most complex of all state levies, requiring extensive record keeping and professional tax preparation. The time, effort, and money spent complying with the income tax code is another burden which falls disproportionately on low-income taxpayers.

Sales taxes are the second largest source of state tax revenue. In 2002 per capita sales tax payments averaged $438 per capita here, or about one-third less than the national average. By comparison, excise taxes on alcoholic beverages and motor fuel are more burdensome here than in the rest of the country. State gasoline taxes, for example, averaged $117 per capita here versus $110 per capita nationally. Tobacco taxes are generally lower here than in the rest of the country.

Sales and excise taxes are the most regressive of all state taxes; the proportion of income spent on taxable sales falls dramatically as income rises. Nevertheless, Oklahoma's general sales tax rates were increased in the 1980s and early 1990s to offset the loss in oil industry revenues, and further tax rate hikes have been proposed.

In Oklahoma, like in most states, the pressure on the sales tax is the result of electronic commerce, the shift to a service-based economy, and political pressure to exempt products traditionally considered taxable. Imposing higher sales tax rates on a shrinking sales tax base will only increase the burden on low-income Oklahomans, while adding little to state revenues. Extending the sales tax to currently exempt services might be preferable.

Oklahoma's business taxes are also high relative to other states. A 50-state study by Ernst and Young ranked Oklahoma 8th in state and local business taxes per dollar of capital income. (Capital income represents the returns on business investment in the state.) Ultimately all business taxes are paid by individuals – as workers, consumers, or investors.

Because Oklahoma is a major producer of oil and gas, taxes levied on the value of natural products extracted are more important here than in most other states. The high severance tax burden reflects, at least in part, the belief that these taxes can be shifted to out-of-state investors and consumers.

What to Do

- Reduce the top income tax rate. The current state personal income tax, with eight brackets ranging from 0.5 percent to 7.0 percent, is among the most progressive in the nation. OCPA's report Income Tax Progressivity in Oklahoma shows that while progressivity does little to shift the burden to upper incomes, it has a chilling effect on economic growth and job creation. By decreasing the level of standard deductions and personal exemptions, and by allowing all taxpayers to deduct Federal income tax payments from their state taxable income, Oklahoma can cut marginal tax rates without losing tax revenue.
- Broaden the sales tax base. This will give state policy-makers a choice: Either reduce the sales tax rate, keeping revenues the same, or keep the existing rate and use the added revenues to help pay for lower income tax rates.
- Eliminate the estate tax. Oklahoma is one of a dwindling number of states that impose a state estate tax on top of the federal levy. This is particularly burdensome on farmers, ranchers, and

small business owners, forcing their heirs to liquidate assets upon death in order to pay the tax.

What Oklahoma Voters Want
In 2004, the average tax rate for an Oklahoman is 25.2 percent of his/her income. This is the total tax burden for all levels of government – federal, state and local. Do you think this amount is too high, too low, or just about right?

Too high: 55%
Too low: 5%
Just about right: 36%
Undecided (vol.): 5%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources
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Russell S. Sobel, Robert A. Lawson, and Joshua C. Hall, *Income Tax Progressivity in Oklahoma: Hindering Economic Growth, Variating State Revenue* (Oklahoma City: Oklahoma Council of Public Affairs, December 2003).

Russell Sobel, Robert Lawson, and Joshua Hall, “Oklahoma Income Tax (Still) Hinders Growth,” *Perspective* (June 2004), 11.

Income Tax

The Issue
Individual income taxes are the single largest source of tax revenue in Oklahoma, and the state relies a bit more heavily on the income tax as a revenue source than do most other states. Oklahoma’s income tax is highly progressive when compared with most of its neighboring states and is well above average when compared with all other states. This high degree of income tax progressivity results in slower economic growth and more variability in state income tax revenue over the business cycle. By reforming the income tax to make it less progressive – specifically, by lowering and compressing tax rates – Oklahoma could have faster economic growth and more stable tax revenue.

One of the most important characteristics of an income tax, in terms of its economic effects, is the structure of the tax brackets and tax rates within these brackets. Typically, an income tax will have several tax brackets, and the tax rate faced by an individual rises as he moves into each higher tax bracket. How rapidly the tax rate rises with income determines the degree to which the income tax is considered “progressive.”

klahoma’s income tax is generally regarded as highly progressive given its eight tax brackets with marginal tax rates ranging from 0.5 percent (on taxable income below $1,000) up to 7.0 percent (on taxable income above $10,000). A “trigger” in state law cuts the top rate to 6.65 percent when state tax collections improve and increases it to 7 percent when collections decline.

A tax is considered progressive if the percentage of income paid in taxes rises as one’s income rises. If a family making $50,000 paid $5,000 in state income taxes, for example, they would be paying 10 percent of their income in state income taxes. This percentage is known as the family’s average tax rate (ATR). The income tax is considered progressive if a higher-income family making, say, $100,000 of income would have to pay more than 10 percent of their income (or more than $10,000) in taxes. So a tax is progressive if the average tax rate rises as income rises.

The more rapidly the average tax rate rises with income, the greater the degree of progressivity in the income tax. If, using the previous example, the family making $100,000 had to pay 20 percent of their income (or $20,000) in taxes, the tax code would be considered more progressive than if they had to pay only 15 percent (or $15,000) in taxes.

Because of the complex interactions among different features of the tax code (such as the impact of deductions), the only reasonable method that can be used to compare state income tax codes is to take a particular family's characteristics and actually compute the amount of state income tax that would be owed by the family in every different state, if the family had lived there. While this is no easy task, two studies in the mid-1990s did precisely this.

The first of these studies, prepared by the Minnesota Department of Revenue's Tax Research Division, computed these tax burdens at 10 different income levels for every state using data for the 1994 tax year. These were calculated for different representative taxpayers, including both single and married taxpayers. The second study computing tax burdens across states was jointly prepared by the Citizens for Tax Justice and The Institute on Taxation and Economic Policy. Unlike the Minnesota study, however, they computed the tax burdens only for one family type (non-elderly married couple). In addition, rather than taking a specific given level of income and computing the taxes owed on it across states, they compare the taxes owed by the average family in each income quintile.

Both studies suggest that Oklahoma has a highly progressive income tax code.

Overall, the results indicate that for every $10,000 in additional income, the average tax burden increases by between 0.195 and 0.347 percentage points. The degree to which Oklahoma differs from neighboring states such as Texas, Missouri, Colorado, and Kansas is even more striking. Oklahoma's income tax code is more progressive, by most measures, than are the tax codes of most of Oklahoma's neighboring states. Because Oklahoma competes for its tax base most vigorously with these neighboring states, this is the most important comparison. The data clearly show that Oklahoma's income tax code is very progressive relative to most of the neighboring states with which it competes.

The temptation is very strong for policy-makers to play Robin Hood, taking from the rich and giving to the poor. The problem is, the rich can simply pack up and move to another forest. Texas, which has no income tax, would be an enticing destination. Indeed, economist Richard Vedder discovered that in the 1990s a thousand people a day moved from the 25 high-tax states to the 25 low-tax states.

There are important reasons why Oklahomans should be concerned with the relatively high degree of income tax progressivity in the state. First, the more progressive an income tax structure is, the more it harms economic growth. Secondly, the more progressive a state's income tax is, the greater will be the variability of the state's income tax revenues over the business cycle. In other words, a state like Oklahoma with a highly progressive income tax code will see larger swings in income tax revenue when the economy enters recessions and booms. This means that a sudden onset of poor economic times will have a much larger impact on the state of Oklahoma's budget than on other states with less progressive tax codes.

There are three basic policy variables affecting the degree of progressivity of an income tax system: rate structure itself, the size of the standard deductions/exemptions, and deductibility of federal income taxes. First, more tax brackets (or a greater spread between the tax rates at the top and bottom) should result in a higher degree of progressivity. Second, larger standard deductions/exemptions normally increase the degree of progressivity of the tax system. Third, deductibility of federal income taxes against state taxable income, which nine states allow, effectively reduces the progressivity of the state income tax.

Oklahoma's largest newspaper recently argued that "in the long term, this state simply has to rely less on the income tax. Eliminating the tax is not realistic any time soon, but a gradual phase-down to a 3 or 3.5 percent maximum rate is possible." Based on our research, that would result in faster economic growth and more stable tax revenue for Oklahoma.

What to Do

- Compress Oklahoma's marginal tax rate structure by reducing the number of brackets or reducing the top income tax rate. From the standpoint of economic growth, lowering and compressing tax rates is clearly the preferred reform.
- Decrease the level of the standard deductions and personal exemptions.
- Allow all taxpayers to deduct federal income tax liability from their Oklahoma taxable income.

(Taxpayers who use Method 2 can already deduct federal income taxes from their Oklahoma income, but the separate tax table for this method may increase progressivity. The benefit would be achieved if federal income tax was deductible under Method 1.)

What Oklahoma Voters Want
Would you favor or oppose reducing the state income tax if it would result in a reduction in services provided by the state? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)
Strongly favor: 22%
Somewhat favor: 25%
Somewhat oppose: 23%
Strongly oppose: 19%
Undecided (vol.): 11%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources
Barry W. Poulson, “Ensuring Fiscal Discipline in Oklahoma,” chap. in *Oklahoma Policy Blueprint*, ed. Brandon Dutcher (Oklahoma City: Oklahoma Council of Public Affairs, 2002), 1.

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Russell Sobel, Robert Lawson, and Joshua Hall, “Oklahoma Income Tax (Still) Hinders Growth,” *Perspective* (June 2004), 11.

Corporate Income Tax

The Issue
All taxes create economic distortions and impose compliance burdens on the private sector. However, some taxes are particularly inefficient because they create large burdens while raising little government revenue. State corporate income taxes are perhaps the most inefficient taxes in the nation. They generate only a small share of state revenues but “consume an inordinate amount of intellectual firepower and economic resources in terms of planning, compliance, and administration,” as David Brunori has pointed out. As such, Oklahoma should consider repealing its corporate income tax as a wasteful and unneeded part of its fiscal system.

All states except Nevada, South Dakota, Washington, and Wyoming impose corporate income taxes. (Texas has a franchise tax on corporations, which is similar to a corporate income tax.) State corporate income taxes raised $32 billion in 2001, accounting for just 5.7 percent of state tax revenues and 2.7 percent of total state revenues. These shares have declined since the late 1970s partly because corporate profits are more mobile than ever and companies have been effective at reducing their tax bills. In addition, government policies have reduced the corporate tax base. For example, rule changes have led to a rise in businesses organized as limited liability companies (LLCs), which are not generally required to pay corporate income taxes.

While states are receiving relatively less revenue from the corporate income tax, the tax continues to distort business decisionmaking and impose large compliance costs on firms. One survey by Joel Slemrod and Marsha Blumenthal found that business compliance costs for the state corporate tax were about twice as high as for the federal corporate tax, relative to tax collected. The state corporate tax raises only about one-fifth as much as the federal tax, but has compliance costs that are more than two-fifths as high.

Many corporations carry out production, distribution, and other activities in numerous states. What share of a firm’s national profits should each state be entitled to tax? In the past, a three-factor formula of property, payroll, and sales occurring in each state was used to “apportion” a firm’s profits between state governments. Today, varied and inconsistent formulas are used, and the definitions of the factors are subject to much debate and dispute.

With large differences in corporate tax rules between states, companies have incentives to restructure in order to minimize their tax burden. For example, firms can save money by moving labor-intensive production to states that de-emphasize payroll in their apportionment formulas. Tax-saving opportunities also arise because of differential taxation of intangible assets. For example, Delaware does not tax the earnings from intangible assets, thus firms should move trademarks to subsidiaries in that state.

For corporations, the complexity of state tax planning is magnified because of uncertainty in the rules for “nexus.” That is, there is no clear standard for how much presence a company must have in a state before it is required to pay tax. Indeed, there is increasing litigation over nexus issues, which wastes resources and creates a roadblock to interstate commerce because businesses fear triggering new state taxes when they expand.

State corporate income taxes have all the complexities of the federal corporate tax, plus further problems:

- Different state and federal tax rules. Businesses need to keep track of different income tax rules for every state they operate in. In addition, state rules can differ from federal tax rules. For example, about 20 states did not follow the recent federal depreciation changes that allowed partial capital expensing.
- Business vs. nonbusiness income. State corporate taxes require that firms separate “business income” from “nonbusiness income.” Business income is apportioned between the states while nonbusiness income (such as interest) is assigned to the state of commercial domicile. This distinction is surprisingly complex and is subject to many legal disputes with different rules in each state. Once again, businesses have many opportunities to pursue tax-cutting ideas such as converting business income to nonbusiness income and then moving it to a low-tax state.
- Separate vs. combined reporting. Some states allow separate reporting for each company in a corporate group. Other states require combined reporting with the whole corporate group filing together. This creates many tax-planning issues for companies, such as whether to operate facilities in the various states as internal divisions or separate subsidiaries. A related tax-planning issue for companies involves how each state treats firms’ foreign affiliates.
- Other complexities. Businesses can shift profits from high-tax to low-tax states in many ways. One way is transfer pricing, which can move profits between states by altering the prices of goods shipped between related corporate entities. Holding companies are another planning tool. They can be established to carry out certain activities in states where they are not subject to tax, such as Nevada and Delaware.
  In sum, state corporate tax systems are all different, complex, and require extensive business tax planning. As corporate profits have become more mobile, states have increased their enforcement and added complex new rules to stop supposed abuses of often ambiguous laws. As an editor of State Tax Notes observes: “The only people who really make money from the state corporate income tax system are the major law firms and big accounting firms.” Rather than continuing the costly battle between corporate tax lawyers and state tax administrators, states should throw in the towel on the corporate income tax.

One might have sympathy for state governments in their losing battle to grab a share of the mobile corporate tax base if they had not turned the tax into a Swiss cheese of narrow loopholes. “Incentive packages” for favored companies and fancy credits for job creation, job training, and other activities have proliferated. Such narrow breaks are unfair to businesses that pay the full tax load, and they open up government officials to corruption as firms lobby for special deals. Also, narrow breaks add to complexity in administration. For example, there are calls for states to spend more time and money monitoring firms that receive job credits to see if they actually create jobs. The reality is that even if corporate taxes were a good idea in theory, state politicians have shown that they are incapable of enacting simple and efficient corporate taxes in practice.

State tax systems should be efficient, but they should also be transparent so that citizens can understand how much the government costs them. The corporate tax is not transparent and hence causes much confusion. For example, Virginia’s governor Mark Warner says that he wants to increase corporate taxes because “individual taxpayers carry too much of the tax burden.” But Warner should know that individuals carry the burden of all the state’s taxes, including corporate taxes. One view is that the state corporate tax burden falls on individuals based on the apportionment factors of property, payroll, and sales. Thus, as states have moved to emphasize the sales factor in their apportionment formulas in recent years, the state corporate tax burden falls increasingly on consumers.

What to Do
Repeal the corporate income tax. Politicians have created a costly and complex mess with corporate income taxes. As the mobility of corporate profits continues to rise, the corporate tax will become more

inefficient and tougher for Oklahoma to enforce. The solution is to repeal the tax, with the modest revenue loss to the state government made up with cuts to state business subsidies. The result would be a more efficient state fiscal system that did not favor any particular industry but promoted higher growth in all industries.

What Oklahoma Voters Want
If Oklahoma state government is again faced with a budget shortfall, do you think the state should:
Cut spending 73%
Raise taxes 16%
Undecided (vol.) 11%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources
David Brunori, "Stop Taxing Corporate Income," *State Tax Notes*, June 25, 2002.

Death Tax

The Issue
Oklahoma is one of only 13 states that levies an estate or inheritance tax of its own. The remaining 37 states "piggyback" on the federal estate tax by taxing only up to the amount of the federal estate tax's "state death tax credit." In these "pick-up" states, which include all of Oklahoma's neighbors, the estate tax is essentially free to the taxpayer since it merely moves some of the federal estate tax liability to the state level while leaving the total estate tax bill unchanged.

The problem is that the federal estate tax's "state death tax credit" is scheduled to be eliminated next year and will remain so for at least five more years. During this time, Oklahoma will count itself among the few states to tax estates at all. (Several states have considered adding a "stand alone" estate tax provision in order to keep this dwindling source of tax revenue, but we are unaware of any state that has actually done so.) In 2005, a $5 million estate will face an estate tax bill in Oklahoma of more than $300,000 (compared with zero in Texas).

Why should we care? After all, the state surely has important things it would like to do with this estate tax revenue. The problem in a single word is: mobility. When faced with the prospect of a higher estate tax bill in Oklahoma than in, say, Texas, we can expect some people to move to Texas or to one of the other states whose estate tax is also scheduled to disappear.

Are people this rational? Will they actually pick up stakes and move to avoid estate taxation? There is ample anecdotal evidence that elderly people are moving for exactly this reason, and there is now some statistical evidence. Jon Bakija of Williams College and Joel Slemrod of the University of Michigan find that the number of estate filings in each state is "highly elastic with respect to state inheritance and estate tax rates." They conclude, "This seems to support the notion that high-income people tended to move to states with tax systems that were more favorable to them as they grew older."

The irony is that as people leave the state before they die, or undertake other forms of tax-avoiding "estate planning," the state loses out on other forms of tax revenue, such as sales taxes, in the meantime. There is a growing consensus that estate taxes may not even represent any net tax revenue to the government. Stanford University economist Douglas Bernheim has questioned whether the federal estate tax generates any net revenue. And if there is any question about the federal estate tax, where mobility is much less of a concern, then surely there is grave doubt about whether state estate taxes actually raise any money.

Many advocates of estate taxes argue that such taxation is needed in order to prevent the rich from passing on their wealth to their heirs, thus accentuating income inequality. But the empirical evidence clearly shows that the estate tax has little impact in equalizing the distribution of income or wealth in society. Economists Alan Blinder and Joseph Stiglitz, both former Clinton appointees, argue that the estate tax is ineffectual as a tool to fight income inequality. Blinder once wrote, "Estate taxation is not a very powerful weapon in the egalitarian arsenal. … The reformer eyeing the estate tax as a means to reduce inequality had best look elsewhere." Recent research by Edward N. Wolff tends to conclude that bequests actually make the distribution of wealth more equal.

The estate tax is costly in another way. If you open the yellow pages and look under “accountants” you will see pages of advertisements for estate tax planners. How much time and money are the people of Oklahoma wasting trying to work the system to reduce their estate tax liabilities? How many bad investment decisions are driven by estate tax complications? In addition, Oklahoma’s estate tax code treats “lineal heirs,” i.e., children, differently from friends and other family members, thus creating another complication for estate planning.

In sum, the Oklahoma estate tax is a contributing cause of out migration, it raises little or no revenue and perhaps even costs the state money, it does not improve income equality, and it is a massive accounting headache for Oklahoma’s citizens. If most of the states of the United States can survive without a stand-alone estate tax, then surely Oklahoma can too.

The case for retention of the Oklahoma estate tax is extremely weak. If Oklahoma desires to enhance its competitive edge, getting rid of this tax would be a good place to start.

What to Do

- Eliminate the estate tax immediately. Imagine the kind of mecca Oklahoma could become if it was the first state in the country to have no estate or inheritance tax at all. The amount of money generated by the estate tax is a very small portion of the state budget. Furthermore, eliminating the estate tax will be an important ingredient in a larger strategy designed to combat the out migration of Oklahoma’s wealthy citizens as they near retirement. (The obvious downside to outright elimination of the estate tax is that the state would be giving up revenue to the federal government by not taxing at the level of the federal government’s state death tax credit.)
- At the very least, then, Oklahoma should eliminate its own estate tax while retaining a federal pick-up tax. Such an estate tax is essentially free to Oklahoma taxpayers and would not place the state at a competitive disadvantage with respect to other states. Of course, this will lead to the elimination of the state’s estate tax as a result of the planned phase-out the federal government’s state death tax credit between 2002 and 2004. If the federal government’s estate tax (including the state death tax credit) is reinstated in 2011, then the state would again capture some estate tax revenue via the pick-up tax.
- Equalize the estate tax treatment between lineal and collateral heirs. The differential treatment of collateral and lineal heirs by the Oklahoma estate tax violates the principles of good taxation. If Oklahoma enacts a pick-up tax based on the federal estate tax code, it should treat lineal and collateral heirs the same. Even if the state maintains its own estate tax, collateral heirs should receive the same favorable exemptions and tax rates as lineal heirs.

What Oklahoma Voters Want
Do you favor or oppose repealing the death, or estate, tax in Oklahoma? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)
Strongly favor 44%
Somewhat favor 17%
Somewhat oppose 13%
Strongly oppose 14%
Undecided (vol.) 13%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Robert A. Lawson, “Eliminating the Oklahoma Estate Tax,” chap. in *Oklahoma Policy Blueprint*, ed. Brandon Dutcher (Oklahoma City: Oklahoma Council of Public Affairs, 2002), 27.

Edward J. McCaffery, *Oklahoma’s Death Tax: Not OK* (Oklahoma City: Oklahoma Council of Public Affairs, May 2000).

Taxpayers' Bill of Rights

The Issue
Thoughtful leaders in many states are fed up with the fiscal roller coaster they have experienced and want to smooth out the ride. As a result, there is new opportunity to bring a constitutional tax-and-expenditure limitation (TEL) to many states – and to improve limits (such as Oklahoma's State Question 640) where they currently exist.

A TEL is an addition to – not a substitute for – every other fiscal restraint device extant in any state: gubernatorial line-item veto, impoundment or rescission authority, sunset laws, performance-based budgeting, etc. It will work with a part-time or full-time legislature, a biennial or single-year budget, any type of state balanced-budget requirement, etc. It will work with any type of tax structure, whether progressive or regressive. Simply stated, a TEL automatically (constitutionally) says to the governor and legislators: "Here's the total amount you may spend this year; you decide how to allocate it and how to raise it." That's the essence of a TEL.

As analysts from the Cato Institute have observed, the states' mistake was to allow rapid tax revenue growth during the go-go 1990s to fuel an unsustainable expansion in spending. For example, between fiscal years 1990 and 2001, Oklahoma's state tax revenue grew 82 percent – more than the 49 percent of inflation plus population growth. If Oklahoma had limited spending growth to that benchmark, the state budget would have been $1.2 billion smaller by FY 2001. If revenue growth higher than the benchmark had been given back to Oklahoma taxpayers in permanent tax cuts and annual rebates, those rebates could have been temporarily suspended during FY 2002 and FY 2003 to provide a cushion with which to balance state budgets.

An historical footnote is vital here. The explosion in government's size, at all levels, has been a relatively recent phenomenon. For much of the nation's history taxes and government spending were not a problem. As recently as the mid-1920s, government at all levels taxed and spent but 10 percent of the national income (three percent federal, seven percent state and local). The unwritten fiscal constitution prevailed – a limited role for government, deficits during periods of war but paid down during peacetime, and no direct taxes on the incomes of the people. All that changed with the adoption of the 16th Amendment in 1913 and the expansion of the federal government during the New Deal/Great Depression era. Following World War II, the U.S. embraced the welfare state, conforming to the intellectual orthodoxy of Western Europe and much of the rest of the world.

From experience it is clear that constitutional (not statutory) TELs are the strongest and most resistant to circumvention. Furthermore, limiting year-over-year growth in spending to population and inflation changes, as well as imposing limits on both state and local governments, provides the greatest safeguards for the taxpayers.

One TEL which has been particularly successful is Colorado's "Taxpayers' Bill of Rights" (TABOR). Since TABOR was enacted, Colorado's economy has boomed while tax cuts and surplus rebates have become the order of the day.

TABOR is currently the most stringent tax and spending limit in the country. Any increase in taxes, fees, or debt – at either the state or local level – must be approved by the voters. TABOR limits the amount of revenue growth the state can retain and spend to the sum of inflation and population growth. Revenue growth above that limit must be rebated to taxpayers. A similar limit is imposed on the growth of revenue and spending at the local level. The legislature can seek approval from taxpayers to spend surplus revenues.

In the 1990s Colorado experienced one of the most rapid rates of economic growth in the country. But state revenues increased even faster than the growth in personal income. Before TABOR kicked in, the state went on a spending spree, building highways, prisons, university buildings, and other construction projects at an unsustainable rate.

When TABOR was triggered this spending spree came to a halt. Over the three years from 1997 to 2000, TABOR limited spending growth to inflation and population increases, and generated more than $3 billion in surplus revenue that was used for taxpayer refunds, rebates, and tax cuts.

One should never underestimate the ability of politicians to circumvent tax-and-spending limits. Just as in Oklahoma (where politicians have been able to circumvent SQ 640 by raising fees and user charges, etc.), Colorado legislators have resorted to several ploys. This demonstrates the need for eternal vigilance.

What to Do

- The Oklahoma Legislature should refer to the people a proposed constitutional amendment – a Taxpayers' Bill of Rights – which limits the amount of revenue growth the state can retain and spend to the sum of inflation and population growth. Revenue growth above that limit must be rebated to Oklahoma taxpayers. Rep. Fred Morgan introduced a Taxpayers' Bill of Rights in 2004 (House Joint Resolution 1066), but committee chairman Bill Mitchell declined to give the bill a hearing in the Appropriations and Budget Committee.

What Oklahoma Voters Want
It has been proposed that Oklahoma adopt an amendment to our state constitution that would restrict the rate of growth in government spending to no more than the rate of inflation plus the rate of population growth. That is, for example, if we had three percent inflation and one percent population growth, government spending could increase no more than four percent for that year. If the state received excess revenues, they would be returned to the taxpayers or placed in a reserve fund for emergencies. Would you favor or oppose such an amendment? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose that amendment?)
Strongly favor 38%
Somewhat favor 35%
Somewhat oppose 8%
Strongly oppose 10%
Undecided (vol.) 9%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources
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Lewis K. Uhler and Barry Poulson, "How to Limit Taxes and Spending," *Perspective* (November 2003), 1.

State Budget

The Issue
Oklahoma's state budget reflects its governmental priorities. Unfortunately, over the years governors and legislators have usually chosen to add new programs to the state budget without considering the merits of existing programs and finding ways to fund higher-priority items by eliminating lower-priority items. As a result, the budget has grown by leaps and bounds. Until state leaders learn to exercise fiscal discipline, or until the people write fiscal discipline into the constitution with an expenditure limit (such as a Taxpayers' Bill of Rights), the budget will continue to expand during years of normal or superlative revenue growth, creating strong pressure on state lawmakers to raise taxes in tight years.

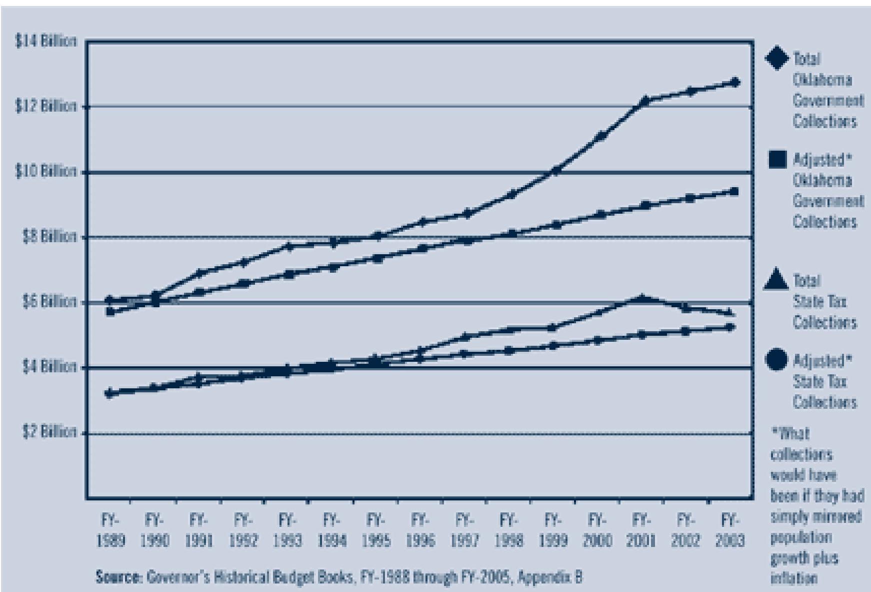
Most people would agree that state government growth should keep up with population growth and inflation. That is a reasonable benchmark. But looking back over the last 15 years, we see that state government growth has exceeded that benchmark. Regardless of which measuring device we use –

appropriations, total state tax collections, or total government collections – government growth outpaces population growth and inflation.

Our friends on the left like to use appropriations as a yardstick. But this fails to consider the money that the state removes from citizens' pockets that never enters the appropriations process. Legislators in fact divert hundreds of millions of tax dollars every year directly to government programs.

For example, the Oklahoma Teachers Retirement System (OTRS) receives nearly four percent of all sales, use, individual income, and corporate income tax revenues before those tax dollars can be appropriated. The fact that this four percent is not appropriated does not mean it has not been extracted from taxpayers. And the OTRS is only one example. Many other examples could be cited. The ability of legislators to make any tax revenue source a "dedicated, directed" funding source for their pet projects severely limits the usefulness of using "appropriations" to measure the growth in government.

A more valid yardstick for measuring growth in government would be total state tax collections. This category includes all the traditional "non-voluntary" taxes (such as income taxes, sales taxes, and use taxes) as well as the "voluntary" taxes (such as alcohol taxes, telephone surcharges, and cigarette taxes). This is a more direct way to measure the amount of money that is extracted annually from the pockets of Oklahoma taxpayers.



The Cato Institute examined Oklahoma's total state tax collections from 1990 to 2001 and concluded that in 2001 Oklahoma taxpayers coughed up nearly $1.2 billion for excess government growth (i.e., in excess of population growth plus inflation).

As the nearby chart shows, even after adding the numbers from FY-2002 and FY-2003 (the budget crunch years), the excess government growth was still $446 million. That's a lot of money – enough to eliminate the capital gains and death taxes and also make a sizeable reduction in the personal income tax rate.

Another way to measure the growth of government is to look at total Oklahoma government collections. This yardstick measures the total consumption of resources by Oklahoma state government. It comprises revenues from all sources – including taxes, licenses, fees, permits, fines, forfeits, income from property, grants from the federal government, and more. By this measurement, excess growth over the last 15 years exceeds $3.3 billion, as the chart shows.

One may reasonably ask, don't new programs and service additions – some of them necessary and reasonable – account for some of this alleged excess? Perhaps so, but these new program costs pale in comparison to items we need to account for on the other side of the equation. For example, Oklahoma's state budget is full of items, programs, or whole agencies that either fall outside the proper scope of government or are not among the highest-priority needs of the state. For proof, look no further than the 2004 Oklahoma Piglet Book.

What's worse, the state – much like former corporate giant Enron – carries billions of dollars of debt with no underlying assets. Unlike Enron, however, Oklahoma politicians know they can always count on the deep pockets of Oklahoma taxpayers to bail them out. With that knowledge, legislators often pass legislation creating current-period costs – like retirement benefit improvements for teachers and state employees – with "delayed funding." This debt-without-funding in the state pension systems alone is rapidly approaching $10 billion. And just as with Enron's Ponzi scheme, there will be a day of reckoning in the future if this hidden growth continues apace.

In sum, it is clear that Oklahoma government continues to grow faster than population growth and inflation. Policy-makers need to start evaluating state budget items more closely. They should ask themselves these key questions: Does this budget item duplicate what other state agencies or the federal government is doing in that area? Does the item benefit primarily a definable local area rather than the state as a whole? Does the item attempt to accomplish a task that is best left to private firms, charities, or families? Are direct users or beneficiaries of the service paying a reasonable amount of the cost? Does the item create or expand an entitlement that cannot reasonably be taken back in the future? Has the item received significantly more money in recent years but not used it in the most effective way? Has the item been funded in the past by deceptive or inappropriate legislative or executive actions?

Only then will we begin to get a handle on this excessive government growth.

What to Do

- Set firm fiscal priorities every year and search the base budget for items or programs to cut if new spending is needed in other areas. In particular, policy-makers should reduce or eliminate corporate subsidies, pork barrel spending, and programs best left to local governments or private institutions.
- The Oklahoma Legislature should refer to the people a proposed constitutional amendment – a Taxpayers' Bill of Rights – which limits the amount of revenue growth the state can retain and spend to the sum of inflation and population growth. Revenue growth above that limit must be rebated to Oklahoma taxpayers. Rep. Fred Morgan introduced a Taxpayers' Bill of Rights in 2004 (House Joint Resolution 1066), but committee chairman Bill Mitchell declined to give the bill a hearing in the Appropriations and Budget Committee.
- Establish a state Grace Commission to analyze every nook and cranny of the Oklahoma budget to cut waste. With private sector expertise and the help of nonprofit organizations like OCPA, such a commission would scrutinize all expenditures to ensure that every tax dollar is accountable and follow up to make sure that the waste is eliminated.

What Oklahoma Voters Want
If Oklahoma state government is again faced with a budget shortfall, do you think the state should: (Rotate)
Cut spending 73%
Raise taxes 16%
Undecided (vol.) 11%

Which would you rather see in Oklahoma? (Rotate)
A smaller government with fewer services 62%
A larger government with many services 20%
Undecided (vol.) 18%

Thinking about state government spending in Oklahoma, how fast do you think state government spending should grow in comparison to the growth of average family income? Do you think government spending should increase faster, slower or at about the same rate as family income?
Faster 6%
Slower 33%
About the same rate 55%
Undecided (vol.) 6%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources

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Lewis K. Uhler and Barry Poulson, "How to Limit Taxes and Spending," *Perspective* (November 2003), 1.

Government Waste

The Issue
The purpose of state government is to secure the liberties of Oklahoma citizens, including their economic liberties. State government does not exist so that politicians can pursue their own agenda in conflict with Oklahomans' liberties.

Government is a divinely ordained institution designed to establish justice, punish wrongdoers, and promote the public good (chiefly through securing our rights to life, liberty, and property). Unfortunately, Oklahoma's state government has exceeded its proper boundaries. As author Marvin Olasky put it, "our problem is not just that we have too much government, but that we have not enough of the right kind." It is important to repair Oklahoma's crumbling bridges and give pay raises to correctional officers and district attorneys, but that is difficult to do while simultaneously funding rooster shows and golf courses and employing thousands of excess bureaucrats (some of whom stay in $475-a-night hotel rooms).

Earlier this year, OCPA, in conjunction with Citizens Against Government Waste, published the 2004 Oklahoma Piglet Book, which documents numerous examples of government "pork," waste, and abuse. For example, the Piglet Book quoted Ronald Reagan, who once said, "Government is like a big baby – an alimentary canal with a big appetite at one end and no sense of responsibility at the other." Every year Oklahoma taxpayer dollars are divided among lawmakers who then pass them through the "alimentary canal" to their districts. These "pass throughs" – yes, that's what they're actually called – are often buried in state agencies' budgets or general funding plans.

Not surprisingly, Sulphur, Oklahoma – the hometown of then-House Majority Leader Danny Hilliard – was a big winner with $500,000 in projects funded in fiscal 2003. Records show Sulphur received: $100,000 for renovation of an American Legion building; $100,000 for the chamber of commerce for construction of a community/tourist information center; $50,000 for renovations of the historical museum; $50,000 for construction of a baseball complex with a field, road, parking lot, and rest rooms; and $50,000 for the city's Main Street project. The Murray County commissioners also received $150,000 to build a parking lot and addition to the county's Expo Center in Sulphur.

The Piglet Book also cited these questionable uses of taxpayer dollars:

- $75,000 for operations, training, and membership meetings for the Oklahoma Airport Owners Association;
- $56,100 for the Lawton Evening Optimist Association for partial construction of soccer fields;
- $50,000 for air conditioning and electric expenses for the Friends of Oklahoma Music;
- $27,645 to the Oklahoma City University symphony orchestra;
- $25,000 to the Stroud Industrial Authority for golf course improvements;
- $21,000 for the Oklahoma Shakespearean Festival;
- $10,000 to Red Earth Inc., for a film of the Indian festival;
- $8,500 for the city of Durant for a flag, pole and lights;
- $6,000 in supplies for the Western Oklahoma Poultry Club to host a rooster show in Hinton;
- $6,000 for air conditioner improvements for the Hinton American Legion;
- $5,250 for the Bryan County commissioners to purchase pagers;
- $5,000 for the Tulsa Powwow Club's festival;
- $4,700 in improvements for the USS Batfish memorial park in Muskogee;
- $4,000 to Skiatook Youth Football for field construction;
- $2,000 in operation expenses for the Turley Lions Club;
- $1,000 for street signs in Temple; and,
- $1,000 to the Eufaula Chamber of Commerce for Christmas lights.

Moreover, the Piglet Book pointed out that Oklahoma has a disturbingly high number of government employees. According to U.S. Census Bureau data released November 12, 2003, Oklahoma had 204,348 combined full-time-equivalent (FTE) state and local government employees, of which 66,341 were FTE state government employees and 138,007 were FTE local government employees.

The national average is 540.6 FTE state and local government employees per 10,000 population. If Oklahoma were at the national average, the state would have 15,481 fewer bureaucrats than it actually has, saving Oklahoma taxpayers more than a half billion dollars each year.

The bottom line is this: The money that government spends does not come from Santa Claus or the Tooth Fairy. It comes from the pockets of hardworking Oklahomans. Every dollar that goes to subsidize golf course improvements is a dollar that a struggling single mom could have used to buy new school clothes for her children. Every dollar that goes to subsidize illegitimate births is a dollar that could have gone for groceries or new brakes for the car. Every dollar that goes to subsidize a rooster show is a dollar that could have been used for the kids' dental work, new shoes, or antibiotics. Before hard-working Oklahoma families are asked to sacrifice one more dollar in taxes, policy-makers must take a good hard look at the budget and eliminate waste, fraud, and abuse.

What to Do

- Set firm fiscal priorities every year and search the base budget for items or programs to cut if new spending is needed in other areas. In particular, policy-makers should reduce or eliminate corporate subsidies, pork barrel spending, and programs best left to local governments or private institutions.
- The Oklahoma Legislature should refer to the people a proposed constitutional amendment – a Taxpayers' Bill of Rights – which limits the amount of revenue growth the state can retain and spend to the sum of inflation and population growth. Revenue growth above that limit must be rebated to Oklahoma taxpayers.
- Reduce workforce costs. Policy-makers can look to cap employment, freeze state hiring, reduce the number of government positions, eliminate phantom positions, provide incentives for early retirement, renegotiate labor contracts, and reduce retirement costs. (For more information on these and the recommendations below, see William D. Eggers' report "Show Me the Money: Budget-Cutting Strategies for Cash-Strapped States.")
- Modernize government by reforming entitlement programs. As pointed out on pages 38-39, policy-makers should adopt market-based, consumer-choice Medicaid reforms, or at least reduce costs through more targeted approaches. Use technology to reduce fraud, abuse, and overpayments. And adopt a "pay after performance" model for TANF.
- Turn capital assets into financial assets by selling or leasing government assets and enterprises. Direct a special legislative committee or executive branch unit to identify privatization opportunities, and provide financial incentives for agencies to turn physical capital into financial capital.
- Apply antitrust principles to government by introducing competition in service delivery. Do a competition review. Mandate that a certain percentage of services be opened up to competition each year. Incorporate employee incentives into competition programs.
- Fund results. That is to say, reduce or eliminate programs that perform poorly. Policy-makers should grade program performance and buy outcomes from high performers while reducing or eliminating payments to poor performers. Performance funding should even apply to higher education institutions.
- Change the incentives by rewarding state employees for saving money. Policy-makers should establish an employee incentive and gain-sharing program. Tie bonuses to meeting budget reduction targets. And replace longevity pay with performance pay.
- Reduce duplication and overlap. Use results-based budgeting to reduce redundancy. Adopt an enterprise approach to IT spending. Consolidate state data centers. Consolidate some small agencies.
- Use technology to slash overhead. Policy-makers should require agencies to procure most goods and services online, then reduce procurement budgets by two to five percent to reflect savings from e-procurement. Save money by letting customers serve themselves.
- Create cost-cutting brigades. Establish and/or strengthen periodic performance and program review. Strengthen sunset review processes.

What Oklahoma Voters Want

Out of every dollar the Oklahoma state government collects in taxes, how many cents, if any, do you think are wasted?

None 2%
Less than 5 3%
6 to 9 3%
10 to 19 9%
20 to 29 13%
30 to 39 11%

40 to 49 8%
50 to 59 19%
60 to 69 3%
70 to 79 3%
80 to 89 2%
Over 90 3%
Undecided (vol.) 22%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources

Citizens Against Government Waste and the Oklahoma Council of Public Affairs, *2004 Oklahoma Piglet Book*. Available at: http://www.ocpathink.org/ViewResearchAndIdeasStory.asp?ID=512

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Economic Development

The Issue

Economic development policies are state and local spending measures and tax breaks targeted to attract or keep businesses within a city, county or state. Subsidies and targeted tax breaks certainly help the businesses which receive them. But transferring money from ordinary taxpayers to business owners is not a legitimate function of government in a market economy.

Politicians and the businesses seeking such favors claim that the incentives serve the larger purpose of spurring the local economy. Politicians argue that the tax revenue generated or the jobs provided as a result of the subsidies will benefit the average taxpayer. But the benefits are largely illusory.

Consider a new retailer, perhaps an auto parts superstore, lured by economic development subsidies. Sales at the new store look to be a gain. The existence of a new retailer, however, does not increase people’s disposable income. Consequently, virtually all of the sales will be diverted from other retailers, mostly other auto parts stores. The new retailer benefits the economy as a whole only if it offers consumers better prices or more convenient shopping or a better selection of goods than existing retailers. If we want to limit our geographic focus, sales diverted from other jurisdictions could be considered a gain for the city. A city or county’s budget situation will improve if the taxes on sales that are not diverted from elsewhere in the city exceed the cost of the incentives. If we consider a narrow enough geographic area, almost all sales will be diverted from outside the jurisdiction. But such a beggar-thy-neighbor approach to government policy does not benefit the economy as a whole.

Even the new jobs provide little gain. The fundamental economic condition is scarcity – we cannot produce all the goods and services we desire. Labor is precious and needs to be used wisely. But political discourse assigns priority to finding jobs for people, that is, using up scarce labor as quickly as possible. Standards of living improve over time as labor moves to more productive uses. A spell of unemployment can be a personal crisis, but is not a crisis for the economy. Except for during the Great Depression, using labor has never been a problem for the economy for any extended period of time.

Who Benefits?

Location is everything in real estate, but much less important in economics. What matters to the economy is the value to consumers of a good or service, not the location of its production. A well-functioning economy produces the goods and services people want, but whether production occurs in Oklahoma City or Dallas or Yokohama matters little.

It would seem obvious that an increase in economic activity in our town or state makes all of us better off, yet this is not true. For some types of businesses, employees for the new jobs might be brought in from elsewhere. For example, if Oklahoma City were awarded a National Hockey League franchise, the team would almost certainly not field any Oklahomans. Other types of businesses hire workers from a national labor market, and thus workers from other states would move here to take jobs if salaries were to rise. Wages at fast food restaurants, for example, are unlikely to rise much even if several new restaurants open. Thus even local residents who get the jobs due to economic development subsidies may not be better off because they would have held similar jobs for the same pay elsewhere in the area.

The Unseen Costs of 'Economic Development'

As a general rule, development incentives will be either irrelevant or inefficient. Development incentives are irrelevant when the factory which receives them would have moved to or stayed in Oklahoma without assistance. Subsidies are inefficient when they induce companies to relocate to Oklahoma despite higher costs here. To the extent that businesses relocate due to state and local development subsidies, production costs in the economy increase. Subsidies can also keep failing businesses afloat, but this does not benefit the economy, either.

Development incentives substitute politicians' judgment of worthy products and practices for the market's judgment. Losses are the market's signal that a company is failing to serve consumers as well as their competitors and should release resources to others who would put them to better use.

Another hidden cost of economic development programs is diversion of entrepreneurship from productive, economic purposes to unproductive, political purposes. In a market economy entrepreneurs must produce new or improved products, get products to market faster, or lower costs to earn profits. In a politicized economy with plentiful economic development incentives, entrepreneurs may earn greater profits by devising ways to qualify for subsidies.

Consider again the example of the auto parts superstore. In the market, investors will fund this venture only if they think the large store will offer consumers better value than existing sellers. In the politicized economy, entrepreneurs could receive funding by convincing politicians that the subsidized store will generate tourism, that people from all over the region will drive there to buy oil filters. If politicians guess wrong, taxpayers bear the loss. Even entrepreneurs who seek no favors could be forced into lobbying in a politicized economy to prevent a competitor from gaining an advantage through development subsidies. As the economy becomes more politicized, successful entrepreneurs must satisfy politicians more than consumers. Attention and energy will be diverted away from finding better ways to serve consumers, slowing genuine economic growth.

A politician might readily agree with this evaluation of economic development policies but respond that, because other states and cities offer such incentives, Oklahoma has no alternative but to respond in kind or lose businesses and jobs. These politicians might oppose development subsidies and tax breaks in a perfect world, but argue that we do not live in a perfect world; for Oklahoma to stop offering development subsidies today would make as much sense as unilateral nuclear disarmament by the U.S. during the Cold War. This argument is not without merit. Given that other states do offer subsidies, it may be unwise to commit to never offer incentives to a business being wooed by another state.

But in the end, politicians and their constituents should remember that increased business does not benefit everyone, that subsidies rarely pay for themselves, and that for every example of a state economic development success there are numerous failures.

What to Do

- Limit government to its legitimate functions in a market economy and perform these functions well and at low cost. Government's legitimate functions are police (to protect citizens against criminals and terrorists), courts (to allow for the peaceful adjudication of disputes), and the provision of goods which the market cannot adequately supply. Unfortunately, as OCPA's 2004 Oklahoma Piglet Book demonstrates, the governments of our state do not limit themselves to these functions. Nor do they perform their core functions well, as congested courts and roads, crumbling bridges, and failing public schools demonstrate. Improving the quality and reducing the cost of these government services would do more to encourage economic growth in the state than dubious economic development projects. Thus lawsuit reform, school choice and privatization should be thought of as economic development measures. All businesses would benefit from better courts and schools and roads, not just those favored by politicians for economic development incentives.

What Oklahoma Voters Want

Which of the following do you believe is the best economic growth strategy for Oklahoma's government to

pursue? (Rotate)
Reducing the government driven costs of doing business by lowering taxes, reducing regulations and encouraging economic investment 37%

Increasing tax incentives and targeted tax breaks for businesses and industries 15%

Increase spending on education, infra-structure and other government services 36%

Undecided (vol.) 12%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Benjamin Powell, "Promoting Economic Development: Government Programs or Economic Freedom," chap. in *Oklahoma Policy Blueprint*, ed. Brandon Dutcher (Oklahoma City: Oklahoma Council of Public Affairs, 2002), 69.

Education Spending and Performance

The Issue
Conventional wisdom holds that Oklahoma schools are "under-funded" and that spending more money on education will result in better student performance. But does the conventional wisdom square with the facts?

Here are some simple and irrefutable facts:

- In the past half century, inflation-adjusted spending per pupil in U.S. public schools has increased by a multiple of more than six – from $1,425 in 1945-46 to $9,354 in 2001-02 (in 2001 dollars). Comparable Oklahoma data are not available, but the trends here are clearly similar: From 1959-60 to 1999-00, inflation-adjusted spending per pupil in Oklahoma rose by a multiple of 3.22, similar to the national multiple of 3.42.
- Potential student-teacher contact has increased dramatically in the last few decades. Nationally, student-teacher ratios have fallen by over 40 percent, from about 26.9 students per teacher in 1955-56 to 15.9 students per teacher in 2001-02. Student-teacher ratios in Oklahoma display a similar trend and are now actually lower than the U.S. average – 15.1 in Oklahoma versus 16 in the U.S. in 2000-01. Furthermore, student-teacher ratios greatly understate the growth in potential teacher-student contact because of the almost doubling (up 97.5 percent) of instructional aides from the period 1980-2000. In Oklahoma, school year FTE instructional aides per elementary teacher now stands at .62, meaning there are two instructional aides for every 3.2 elementary teachers. Other staff have also grown much faster than both students and teachers, likewise potentially displacing teachers for more student contact. By 2000, Oklahoma had one FTE school employee for every 8.3 students, almost one staff employee for every teacher. Given the practice of underestimating the total number of school-year employees, Oklahoma's schools now have about one employee for every 6.5 students. Our public schools might be more accurately referred to as a jobs program (reminiscent of the Depression-era WPA) rather than educational institutions.
- Comparable U.S. private and charter schools operate at a per pupil cost of about 60 to 65 percent of the public schools. Industrialized countries abroad have per pupil costs of about 65 to 70 percent of those in the U.S. The cost bloat in our public schools is endemic and irrefutable.

What have we gotten for this massive increase in resources and instructional contact? Sadly, the answer is unambiguous: Nothing. Educational attainment has been flat (at best) and productivity has plummeted. Remember, inflation-adjusted spending per pupil in Oklahoma rose by a multiple of 3.22 over the last 40 years, and yet:

- According to the National Assessment of Educational Progress, one third of Oklahoma's 4th graders cannot read at even a basic level – they cannot understand a simple paragraph in a children's story.
- The numbers are even worse for Oklahoma's minority students: Two-thirds of black 4th graders, and half of Hispanic 4th graders, cannot read at basic level.
- Despite the fact that Oklahoma has a law requiring school attendance, there are more than 421,000 adult illiterates in the state, according to Oklahoma literacy experts.

More could be said about Oklahoma's disappointing student performance – flat ACT scores, 18-year-olds who are unprepared for college or (worse yet) can't read their diplomas, the booming remediation industry in colleges and the private sector, etc. – but the overall picture is clear. Hoover Institution economist Eric Hanushek summarizes the situation well. After an exhaustive study of U.S. public education, he concluded:
"The patterns of expenditure on schools tell a fairly simple story. Real spending on schools has been increasing for a long time. The spending has in broad-brush terms been happening in the way that is commonly advocated: teacher education has been increasing, teacher experience has been increasing, and pupil-teacher ratios have been falling. Yet, at least for the past three decades when student performance has been measured, there is little indication that these increases in resources have led to discernible improvements in student outcomes.

"Consideration of other factors that might distort the resource outcome picture does not change the conclusions. Although cost pressures on teachers and special education have had some influence on the resource flows into schools, they do not change the overall conclusions. … All this suggests that resources per se are not the issue. And there is little reason to believe that future resource flows will have the desirable impact on student outcomes unless other, more fundamental factors change."

Presently, there is much discussion of the plight of the major U.S. airline carriers. Those at the top, such as United and US Air, have costs of about 11 cents per passenger mile. In contrast, the low-cost carriers, Southwest and Jet Blue, have costs of about 7 cents per passenger mile. As a result, the major carriers are struggling or in bankruptcy, while the low-cost carriers continue to grow and prosper.

What to do? For the high-cost carriers, there are three alternatives: bankruptcy, large employee pay concessions, or a government bailout. Of these, bankruptcy is clearly the better alternative, for only that will force a sufficient restructuring of the fat labor union contracts that are responsible for most of these carriers' bloated costs. Voluntary pay concessions are likely to be only a short-term solution, and a government bailout would not deal with the underlying causes of the major carriers' problems.

But no matter what solution is proposed, no one has the temerity to argue that the answer is to raise the cost structure of the more efficient carriers. The discussion centers on how the major carriers can get their costs down so they can become competitive with the low-cost carriers.
Contrast this with what goes on in discussions about public education. Traditional public schools, like the high-cost airline carriers, have per pupil costs at least 50 percent greater than comparable U.S. private and charter schools and schools abroad. Similarly, much of this cost differential is due to bloated labor costs. Average teacher compensation in comparable U.S. private schools, and for comparable teachers, is about 60 to 80 percent of that in public schools. Other public school labor costs are similarly higher than in the private sector.

But compared to the airline industry, the public education industry engages in very little public discussion of comparative costs. In the topsy-turvy world of the public school establishment, costs become "spending," with the false implication that there is a correlation between spending and student performance. When the level of public school spending is discussed, it is always to compare it among public schools, all of which have bloated costs, and rarely to contrast it with the costs of the more efficient private and charter schools, or even schools abroad.

Unlike the low-cost airline carriers, states with lower per pupil costs are not held out as models of comparative efficiency to be emulated, but instead are used, and condemned, as examples of inadequate "spending." The Oklahoma education establishment never tires of repeating that public school spending and teacher pay are well below the U.S. average. This is comparable to arguing that the problem with the U.S. airline industry is that Southwest and Jet Blue don't spend enough.

More generally, the public school establishment continually searches for differences in "spending," and then argues that each difference should be closed by spending more. It is never suggested that the high spenders should spend less. Every spending "gap" is spun as an argument to spend more.

On the other end of the cost spectrum, those states and schools with higher-than-average bloated costs and teacher pay resort to slogans, like "for the children," to support the myth that their inflated spending produces better education. When the Pentagon gets caught paying exorbitant prices for routine commodities ($400 toilet seats, $200 hammers), taxpayers are upset at sellers for "overcharging" and at the Pentagon for wasting money. But when the education establishment constantly demands more tax money and higher teacher pay, and the public schools continue to overpay for almost everything, this is considered a worthy "investment in our children."

Bottom line: There is no indication that massive increases in school spending have led or will lead to improved student performance.

What to Do

- Expand school choice by encouraging the creation of more public charter schools and providing parents with tax credits for privately educating their children. U.S. private and charter schools, and schools abroad, show better performance at lower cost because they all face much more competition. They have no monopoly. They must produce a better education at less cost or parents will take their children elsewhere. Just as the low-cost airline carriers put pressure on their high-cost counterparts, private and charter schools can play the same role in our education industry.

What Oklahoma Voters Want

Which do you believe is more important to improve public education in Oklahoma? (Rotate)
Increase funding 35%
Raising standards and accountability 58%
Undecided (vol.) 8%

If you had a school-age child and were given a voucher or a tax credit that would cover tuition to any of the following, which would you personally choose for your child? (Rotate)
Public school 45%
Church-affiliated private school 34%
Other private school 16%
Undecided (vol.) 6%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Teacher Pay

The Issue

Conventional wisdom holds that Oklahoma's public school teachers are underpaid. In May 2003 the National Education Association reported that Oklahoma is 47th in the nation in public school teacher pay, with an average teacher salary of $34,744.

Unfortunately, Oklahoma's efforts on behalf of elementary and secondary school teachers are rarely put into proper perspective. When differences in living costs, employee benefits, and working conditions are taken into account, Oklahoma teacher salaries actually compare favorably to teachers' salaries in other states, as well as to salaries of other workers in Oklahoma.

Consider, for example, that take-home pay goes further in Oklahoma than in other states. In the Oklahoma City metro area, $100 purchases goods that would cost $111 in the rest of the U.S., according to the most recent survey of the American Chamber of Commerce Researchers Association (ACCRA). Adjusting Oklahoma's teacher salaries to reflect this cost differential raises the salary average to $38,566 – an increase of $3,822.

It should also be noted that the salary data exclude fringe benefits. Virtually all public school teachers are covered by defined benefit retirement plans, which pay scheduled monthly amounts throughout the employee's retirement. Teacher retirement benefits are also usually indexed to inflation. Retired teachers often work in a new job while still receiving full pension benefits. As a result, teachers usually retire earlier than workers covered by Social Security or a conventional pension plan.

Health insurance is nearly universal for public school teachers. Federal data show that about one-half of teachers pay nothing for single coverage compared to only 20 percent of professional and managerial employees in medium and large private firms. Only 10 percent of private firms pay the full premium for family policies compared to 29 percent of public school districts.

Relative to their colleagues in surrounding states, Oklahoma teachers have generous benefit packages. Fringe benefits for K-12 instructional staff equal 21.3 percent of salaries in Oklahoma, according to Census Bureau data. By comparison, benefits average just 13.9 percent of teachers' salaries in Texas, 19.2 percent in Kansas, and 18.9 percent in Colorado.

Total compensation – salary plus benefits – is estimated at $42,134 for the average teacher in Oklahoma. That is within 5 percent of the average compensation received by teachers in every contiguous state except Colorado. And when taxes and living costs are taken into account, Oklahoma teachers are compensated better than teachers in most surrounding states.

Oklahoma's student/teacher ratio (15.1 to 1) is also below the national average (16 to 1). Smaller class size explains why, despite its low rank on teacher salaries, Oklahoma is in the top half of states (22nd) when ranked on the percent of personal income spent on teacher salaries. In 2000-01 Oklahoma spent 1.89 percent of its personal income on teacher salaries; the national average was 1.84 percent.

An even more comprehensive measure of the state's efforts on behalf of education is found by tallying up all current K-12 spending – benefits, administrative costs, and salaries. When total expenditure on these items is measured relative to personal income, Oklahoma ranks 14th highest among the states. This is hardly a sign of a state not interested in quality education.

The Great Unmentionable

There's no avoiding the fact that teachers enjoy longer vacations and work far fewer days per year than other workers. The average school year in the state of Oklahoma is 180 days. Add half a dozen or so days for parent conferences, professional development, and planning, and the annual work year for most teachers is still shorter than 190 days. By comparison, an accountant or lawyer with two weeks of paid vacation and ten holidays or personal days will work 240 days – nearly 30 percent more than public school teachers. (Yes, good teachers will sometimes stay up late grading papers, etc., but working late is hardly a phenomenon limited to the teaching profession.)

What's more, the ready availability of "substitute teachers" engenders frequent absences. A recent Department of Education Survey found 5.2 percent of teachers are absent on any given day during the school year. The absence rate for managerial and professional workers is just 1.7 percent of annual hours.

The typical teacher also has a shorter workday than most other professionals. (On average, teachers report being in school 38 hours per week.) Shorter hours are especially attractive to women who want both a career and children. Teaching is also family-friendly in that little or no out-of-town travel is required for professional advancement. This helps explain why roughly 75 percent of teachers are women.

It should come as no surprise that on an hourly basis, teachers are paid more than many other professionals. We have as evidence Bureau of Labor Statistics (BLS) compensation survey data for occupations in Oklahoma City.

In February 2003 the average hourly wage for workers in the "professional specialty and technical occupations" category was $21.90. Social scientists earned $21.88 per hour. Registered nurses earned $20.19 per hour. By comparison, elementary school teachers earned $24.14 per hour and secondary school teachers earned $23.85 per hour. Of the occupations surveyed, only college professors, executive and managerial occupations, attorneys, and private-practice engineers, architects and surveyors made more per hour than K-12 teachers in Oklahoma City.

Compensation for Selected Occupations in Oklahoma City, February 2003

Occupation	Average Hourly Compensation
All Occupations	$15.44
White Collar Occupations	$17.30
Professional and Technical	$21.90
Managers and administrators	$35.29
Engineers, architects, and surveyors	$31.71*
Elementary School Teachers	$24.14
Secondary School Teachers	$23.85
Radiological Technicians	$23.77
Registered Nurses	$20.19
Social Scientists and Urban Planners	$21.88
Management Related Occupations	$24.16
Accountants and auditors	$26.39
Electricians	$22.86**
Blue Collar Occupations	$15.96

* February 2001 (latest available); ** February 2002 (latest available)

Source: Bureau of Labor Statistics, National Compensation Survey, 2003

What's more, compared to other workers, teachers are far less likely to switch jobs or be laid off. In the 2000-01 school year, 15.1 percent of U.S. public school teachers either left the profession or found teaching jobs in other schools. The comparable job separation rate for the private sector is about 43 percent – three times the teacher rate – according to the Bureau of Labor Statistics. Most people would gladly accept lower pay in return for a reduced risk of job change or outright unemployment. This is yet another reason why teacher pay, when properly adjusted, compares favorably to that of other occupations.

Indeed, a substantial body of evidence suggests that Oklahoma teachers are not underpaid relative to other workers in the state. Consider data from the BLS Occupational Employment Statistics Survey, which collects information on all non-self employed workers. The median salary for all "Education, Training, and Library" workers in Oklahoma was $30,850 in 2001. Vocational education teachers earned $39,750; instructional coordinators earned $40,370. By comparison, the average salary for all occupations in Oklahoma was just $28,630.

As for 50-state rankings, it's true that Oklahoma teachers are near the bottom. But so are most other Oklahomans – from accountants (46th) to administrative managers (49th) to CEOs (46th). Indeed, when we look at the big picture – all occupations – Oklahoma ranks 45th.
In sum, when factors like living costs, employee benefits, working conditions, and hourly wage of other Oklahoma professionals are taken into account, a different picture emerges of teacher pay in Oklahoma. When put into proper context, it's hard to make the argument that Oklahoma's public school teachers are underpaid.

What to Do

- Experiment with ways to introduce elements of pay for performance into teacher compensation, as Denver and other places are looking to do. The Thomas B. Fordham Foundation says of pay-for-performance plans: "Increasingly, the arguments against such plans – too scary, too liable to abuse, too divisive – are being consigned to the dustbin of history." Even presidential candidate John Kerry, citing teacher support for his national pay-for-performance plan, said on May 7, "Every teacher I've talked to wants this. They want to earn more if they do better. Like any profession in America, they are judged by their performance."

What Oklahoma Voters Want
Do you favor or oppose merit pay for teachers? That is, associating a teacher's pay with the academic achievements of the students? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)

Strongly favor 44%
Somewhat favor 17%
Somewhat oppose 14%
Strongly oppose 20%
Undecided (vol.) 5%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources
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Teacher Health Insurance

The Issue
In an effort to attract and retain quality educators, Oklahoma lawmakers recently passed legislation, once again, to increase state-provided health insurance benefits for state teachers. While there is no dispute that Oklahoma teachers should have access to quality health care, lawmakers chose to further expand the state's contribution to health insurance premiums without a clear plan on how to pay for these additional benefits or a strategy on how to rein in skyrocketing premiums.

Despite a budget crunch, Oklahoma lawmakers enacted a major expansion of government-paid health care benefits for teachers and school personnel in 2002. The law increased both the state contribution and district funding for health insurance benefits. As a result, teachers are currently receiving a benefit allowance of 75 percent (58 percent from the state and 17 percent from the school districts) of the premium amount for the state's HealthChoice plan.

Beginning in July, teachers were scheduled to begin receiving 100 percent (83 percent from the state and 17 percent from school districts) of the HealthChoice premium amount. As a result of House Bill 2662, which was signed by Governor Brad Henry in April 2004, the state will begin paying 100 percent of the premium amount.

While this new legislation will have little effect on the benefits that teachers will ultimately receive, it will cost Oklahoma state taxpayers an additional $64 million this year – and more in future years as health insurance premiums increase. (The new law also excludes "hospital or medical benefits, and sickness, accident, health or life insurance" as "fringe benefits" when determining minimum salary requirements, thereby restricting districts' ability to count these benefits as part of teachers' salaries. As a result, these benefits will be provided in addition to salary.)
As written, the new law requires the state to contribute 100 percent of the total premium, regardless of future increases. If lawmakers want to peek into the future costs of this program, they need look no further than Medicaid's inability to control costs. Fortunately, lawmakers can take an important step in correcting this financially unstable approach.

Consumer-Driven Health Care
Lawmakers should embrace the same consumer-driven health care (CDHC) plans that are now available to federal employees and a growing number of privately employed Americans. Not only would this approach reduce the Oklahoma taxpayers' costs, it would give teachers more flexibility in meeting their own health care needs and preferences.

The Dallas-based National Center for Policy Analysis defines consumer-driven health care thusly: "Defined narrowly, [CDHC] refers to health plans in which employees have a personal health account such as a Medical Savings Account or a Health Reimbursement Arrangement from which they pay medical expenses directly. The phrase is sometimes used more loosely to refer to defined contribution health plans under which employees receive a fixed dollar contribution from an employer to choose among various plans. Those opting for plans with rich benefits may have to contribute significant amounts of their own money in addition to the employer's contribution. Those choosing bare-bones health plans contribute less of their own money."

Thanks to recent legislative action, personal health savings accounts, such as Medical Savings Accounts (MSAs), are now widely available. MSAs combine a high-deductible catastrophic insurance policy (to pay for high-cost or "catastrophic" health care expenses) with an individually owned savings account (to pay routine medical expenses). By allowing consumers to directly pay for medical expenses up to a specified deductible level and accumulating any unspent funds for future years, consumers have an incentive to spend their funds wisely – because they are spending their own money.

When first established under the federal Health Insurance Portability and Affordability Act (HIPAA) of 1996 and re-authorized in 2000, Congress severely limited the number of available MSAs and set many restrictions on their availability and design. They were only available to the self-employed and small employers (those with fewer than 50 employees). As of January 1, they became available to all 250 million non-elderly Americans and are now referred to as Health Savings Accounts (HSAs). Depending on the type of catastrophic plan, the Council for Affordable Health Insurance estimates that MSAs can save between 25 and 50 percent on outpatient costs and as much as 20 percent on inpatient costs. Most important, patients can avoid "gatekeepers" and obtain access to the physicians and services that best meet their health care needs.

Rather than purchasing first-dollar coverage for employees, employers can now purchase high-deductible policies and use the cost difference to fund medical spending accounts, similar to a medical savings account. Under a Health Reimbursement Arrangement (HRA), patients can choose their own doctors and prioritize their own health-care needs and preferences. Furthermore, unlike a flexible spending account (traditional cafeteria plan), unspent funds can accumulate and roll over from year to year on a tax-free basis. According to the Wall Street Journal, Humana saw an expected 19 percent increase in health-care costs drop to less than 4 percent when it offered this plan to its employees. Beginning in 2003, the Federal Employees Health Benefits Program began offering an HRA option. The option includes major medical health coverage, with a personal health-care account of $1,000 for individuals and $2,000 for families.

Allowing for HSAs and HRAs could provide a flexible, and possibly substantial, health savings account to help protect against rising health care costs for both the state and the employees in old age. Approaches that put consumers in charge of first-dollar coverage not only benefit state and district coffers in the long-run, they also give employees more direct control over their health care decisions. Furthermore, by moving towards a defined contribution approach, state officials could provide more fiscal accountability to Oklahoma taxpayers.

In light of the state's continued financial strain, state lawmakers may be forced to confront difficult decisions when it comes to teacher health care. Fortunately, there is hope. State lawmakers could immediately enact reforms that will allow for more consumer-driven health insurance options, such as health savings accounts, health reimbursement arrangements and other defined contribution plans. This step would require nothing more than making these options available under the state insurance health plan. Establishing consumer-driven health care options, such as MSAs and HRAs, for Oklahoma's public school employees would both lower the Oklahoma taxpayers' costs and give employees more flexibility in meeting their own health care needs and preferences.

The path Oklahoma lawmakers take is sure to have far-reaching effects on the state's teachers and taxpayers.

What to Do

- Base reforms on the reality that the state system is expensive and does not offer top-tier care for many of its patients.
- Offer innovative health coverage approaches, such as health savings accounts (HSAs) and health reimbursement arrangements (HRAs).
- Provide a health care benefit based on a specified dollar amount, rather than a percentage of HealthChoice premiums (which have been dramatically increasing in recent years).

What Oklahoma Voters Want

The state of Oklahoma pays 100 percent of the health insurance premiums for public school teachers that participate in the state health insurance plan. Would you favor or oppose allowing teachers to apply this funding to purchase health care plans on their own instead of having to buy one of the state-offered plans? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)

Strongly favor 33%
Somewhat favor 23%
Somewhat oppose 15%
Strongly oppose 16%
Undecided (vol.) 13%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Teacher Retirement

The Issue

Governor Brad Henry’s inaugural budget took an important step in laying the foundation for the state’s future economic security. The state currently faces a $5.5 billion unfunded liability in the Oklahoma Teachers Retirement System (OTRS). That means that the program has promised to pay future retirement benefits to the state’s teachers, but, if left unreformed, will be $5.5 billion short when the bills come due – or just under half the promised benefits. The governor’s proposal called for converting the current “defined benefit” retirement plan into a “defined contribution” plan.

Defined contribution plans are not new. For example, 401(k) plans and Individual Retirement Accounts (IRAs) are widely available in the private sector, and several state pension programs, including Nebraska, Michigan, Florida and West Virginia, are now using this approach for state employees.

While the governor’s proposal has failed to attract widespread attention, a new proposal sponsored by Sen. Mike Morgan (D-Stillwater) and Rep. Terry Ingmire (R-Stillwater), the Alternate Retirement Plan for Eligible Employees of Participating State Institutions of Higher Education Act of 2004 (HB 2226), may ignite much-needed debate over the future of teacher retirement in Oklahoma. The proposal, which passed the Legislature in 2004 and was signed by Governor Brad Henry, will create a new retirement system for the state universities and could also pave the way for a new model for teacher retirement reform.

The central criticism of the defined contribution approach is that the burden of financial risk is placed on the worker. There are legitimate questions as to how much risk is acceptable. However, this objection must be examined in light of whether investing in an individually owned account is riskier than relying on a program that can pay less than half of the promised benefits. (Federal law requires that private-sector employers hold assets of at least 80 percent of promised pension benefits. As a state-sponsored pension, the OTRS is exempt from this rule.)

It is interesting to note that, in response to HB 2226, the Oklahoma Education Association (OEA) “opposes OU and OSU withdrawal from the system without 100 percent up-front funding for all current and future liabilities attributable to employees of the two schools.” One has to wonder why the OEA would demand 100 percent funding for a new, competing plan that offers more choices and options to employees when the current plan can only meet just over half of its future commitments.

While national and state teacher unions stridently oppose a defined contribution approach to teacher retirement, teacher interest in the future of the OTRS is already strong and likely to grow. According to an informal Association of Professional Oklahoma Educators survey conducted last year, 95 percent of respondents indicated that they wanted OTRS solvency to be a legislative priority.

There is broad and growing recognition that the system’s traditional defined benefit approach to retirement is simply unsustainable. Not only is Oklahoma’s program unhealthy in financial terms, it is among the worst-performing programs in the nation. A pension fund should hold assets that are worth at least 80 percent of its total obligations. The teachers’ plan only holds about 50 percent. The state’s teachers and taxpayers deserve better.

Even though far more women have entered the workforce since the 1940s, the average woman is still, according to U.S. Bureau of Labor Statistics, far more likely than her male counterparts to leave, or spend less time in, the workforce during her child-bearing years. Furthermore, the vast majority of married working women earn less than their husbands, often (but certainly not always) placing the wife's profession in a role of secondary importance. (While there are many men in the teaching profession, the profession is still dominated by women.)

In addition, the younger generation of workers changes jobs and professions far more often than previous generations. Under a defined-contribution approach, rather than losing benefits – if a worker moves to another state, changes professions, or leaves the workforce to raise a family, for example – the retirement nest egg is portable, allowing contributions to follow the worker. These funds would also be available for medical emergencies and the employee's heirs at death.

The defined contribution approach not only provides more flexibility and options for today's modern worker, it can also provide a far more lucrative retirement nest egg. For example, using current OTRS retirement contributions, a 22-year-old woman who works for the next ten years as a teacher could expect to accumulate more than $450,000 under a defined contribution plan by the time she reaches age 62. She could then pay herself about $24,000 per year and still have almost $1,000,000 compounding in the bank by the time she reaches age 90 (assuming a three percent annual raise, a 14.05 percent contribution rate, a seven percent rate of return, and a 0.67 salary multiplier). She might also leave a nice nest egg for her heirs after only ten years working as a teacher, even after providing herself a modest retirement. Compare that to the same teacher who can expect to receive about $6,800 per year under the current OTRS plan, assuming that the full, promised benefits are paid.

Of course, the defined contribution approach does not come without risk. That is why many government-sponsored defined contribution plans have created ways to insulate workers from risk. For example, defined contribution programs such as the federal government's Thrift Savings Plan, which is available to federal employees and the military, allow workers to invest in up to five broad stock or bond index funds. While the funds' rate of return varies from year to year, investors do not face unusually high risk and have enjoyed healthy returns on their investments.

While there are strong and enthusiastic supporters of the defined contribution approach on both sides of the political aisle and inside the education establishment, the debate to convert the OTRS into a defined contribution plan should be limited to new teachers and any other teachers who wish to switch. Teachers already participating in the program who do not wish to participate in a defined contribution approach should have the option to remain in the current program. These teachers have been promised a retirement pension and should not be forced to switch mid-career if they do not choose to do so.

Established in 1943 when few would have predicted the enormous progress women would make in the work force or the dramatic shift to the "free agent" economy, the teacher's retirement system has not kept pace with today's modern workers. The teaching profession was once one of the few avenues for educated working women at that time; today's Oklahoma teachers are finding that the state's outdated pension system is limiting their opportunities.

What to Do

- Let teachers control their own retirement money. Converting the current defined benefit plan into a defined contribution plan would provide more flexibility and control for teachers and make program costs far more stable for taxpayers.

What Oklahoma Voters Want

Currently, public school teachers in Oklahoma participate in a state-operated teacher retirement system. Would you favor or oppose a voluntary program in which teachers could invest their retirement contributions in an individual retirement account instead of participating in the state system? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)
Strongly favor 44%
Somewhat favor 25%
Somewhat oppose 9%
Strongly oppose 12%
Undecided (vol.) 11%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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School Choice

The Issue

"School choice" can be defined as any education policy which gives families the freedom and ability to choose for their children the safest and best schools, whether those schools are public or private.

There was a time when Oklahoma parents had very few school choices for their children. Bureaucrats simply assigned children to a school in the government's monopoly system. (Affluent families, of course, have always had school choice: They can afford tuition at a private school or simply move to a neighborhood near a better public school.) But times are changing.

"We are three years into the 21st century – we left behind the Industrial Age long ago," U.S. Secretary of Education Rod Paige said at a Harvard speech last year. "Ours is a highly mobile, confident nation that has the greatest range of personal choices ever in the history of mankind. … The world is moving toward more choice, not less."

"Americans will not allow themselves to be boxed in by a monopoly," says Dr. Paige, the son of Mississippi public-school educators. "In the 21st century, choice is not the exception – it's the rule. Only in education would choice and competition be viewed as 'innovative' or 'radical' or 'risky.' Our education system must change to reflect these times."

To some extent, Oklahoma's education system is changing. "We have a lot of choice already in Oklahoma," state Superintendent Sandy Garrett has rightly noted. For example:

- Oklahoma now has about a dozen charter schools, government schools that are authorized by a school district and financed by the same per-pupil funds that traditional schools receive, but which rely on families' voluntary choice for their enrollment.
- Enterprise schools, such as Columbus Enterprise Elementary School in Oklahoma City, also operate more independently than traditional government schools but remain accountable to the local school board.
- Interdistrict choice allows Oklahoma families to choose for their children any government school in the state.
- Intradistrict choice (open enrollment) allows families to choose for their children any government school in their resident district.
- Magnet and specialty schools are district-operated government schools which attract students from a variety of attendance areas.
- Informed estimates place the number of homeschooled students in Oklahoma at 20,000 to 25,000. That's at least one homeschooler for every 31 public-school students in the state.
- Private K-12 scholarships – privately funded vouchers, if you will – began on a large scale nationally in 1991 and are growing in popularity.

Tuition-assistance organizations like the Oklahoma Scholarship Fund and the Children's Scholarship Fund provide lower-income families with privately funded financial assistance to help them attend private schools.

It's small wonder then that Superintendent Garrett would say, "School choice is a reality, and we should just get used to it."

Indeed, we should actively embrace it. For as Secretary Paige points out, "under the current monopolistic system, public schools have no incentive to embark on substantial reforms or make major improvements because no matter how badly they perform, their budgets won't be cut, their enrollment won't decline, and the school won't close down. But when parents are allowed to remove their children – and the money that comes with them – from failing schools, public schools are forced to respond. … If students have choice, schools will begin treating them like customers instead of taking their enrollment for granted. … School choice turns the static education monopoly into a marketplace that is responsive to consumer demand."

Secretary Paige believes "all parents deserve the right to choose schools for their kids, just like the right to choose their own health care, retirement plans, or family auto. Because all parents, no matter what their color, no matter how rich or poor, understand that education is the key to success."

"Competition works," Secretary Paige says, "and I can speak from experience. I ran the nation's seventh largest public school system and I didn't shy away from choice. I embraced choice. I knew that competition would make our system stronger. And it did. And I knew that our public school system could compete with charter schools and private schools, and win. And it did.

"I chartered the first KIPP academy in the nation in Houston that takes under-achievers and turns them into scholars. I also launched a program that allowed students to attend private schools in their neighborhood instead of getting bussed all over town to overcrowded public schools.
"We strengthened our system in Houston and won a national award for closing the achievement gap. So I know choice can make a difference. And there's early evidence, thanks to Dr. Paul Peterson, that choice programs that allow children to attend private and parochial schools can improve student achievement. The findings were particularly strong for African-American students."

It is imperative that Oklahoma has an educated citizenry. But just because government provides education doesn't mean government has to produce all of it. Just as Medicaid dollars flow to private health-care providers, publicly funded tuition grants are used at private colleges, and public subsidies are used at private day care centers, policy-makers can use vouchers or tax credits to increase access to private K-12 schools in Oklahoma.

Some Oklahoma educators and union leaders like to argue that school choice is a non-starter in Oklahoma because Oklahomans choose public schools over private schools by a ratio of 9 to 1. But as education reporter Mike Antonucci asks, "If the government, under the force of law, takes money from my paycheck every month to supply me and every other citizen with a Yugo, and I choose not to spend additional personal income on a Chevy, am I 'choosing' the Yugo?" As the polling data below make clear, many Oklahomans would choose a Chevy if they could afford it.

ifty percent say they would choose a private school, versus 45 percent who say they would choose a public school. Among those Oklahomans who have children under 18 in the home, a full 58 percent would choose private schools.

What to Do

- Provide tax credits for donations to tuition-assistance organizations. School-choice plans in Arizona, Pennsylvania, and Florida allow individuals or businesses to take a dollar-for-dollar tax credit for donations to organizations which give tuition assistance to low-income students. OCPA's 2002 study, The Oklahoma Scholarship Tax Credit: Giving Parents Choices, Saving Taxpayers Money, explains how this will work for Oklahoma. Rep. Kevin Calvey (R-Del City) has introduced legislation to enact this sort of scholarship tax credit.
- Create a non-refundable tax credit for middle-income families who assume the cost of their children's education. Since wealthy families can already afford to participate in the education marketplace, the tax credit would not immediately be extended to them. Rather than cutting off the entire credit when parents reach a certain income level, the credit should be decreased gradually as income increases. This would take account of the fact that families' incomes typically rise as their children get older. Allowing the credit to decrease gradually as income rises would avoid a sudden loss of several thousand dollars in credits from one year to the next, as would be the case with a hard income cut-off.

What Oklahomans Want

Which of the following comes closest to your beliefs? (Rotate)

• Parents should be allowed to send their
child to the school of their choice. 53%

Children should be required to attend
schools in the district in which they live 44%

Undecided (vol.) 3%

• If you had a school-age child and were given a voucher or a tax credit that would cover tuition to any of the following, which would you personally choose for your child? (Rotate)
Public school 45%
Church-affiliated private school 34%
Other private school 16%
Undecided (vol.) 6%

• Some companies and individuals make donations to fund scholarships so children can attend non-public schools. Would you favor or oppose providing tax credits to companies or individuals who make donations that provide scholarships for children to attend non-public schools? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)
Strongly favor 26%
Somewhat favor 26%
Somewhat oppose 15%
Strongly oppose 28%
Undecided (vol.) 5%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Improving Education

The Issue
In an attempt to improve public education, Oklahoma has undertaken many of the same reforms and policies that have swept through the rest of the country over the past two decades. Among the most high profile are increased spending, smaller classes, revised teaching methods, and new teacher training programs. Yet after a decade of smaller classes, higher spending, and curriculum reform, there is no sign of substantial improvement in the performance of Oklahoma’s students. Nor do recent efforts at improving teacher quality promise dramatic gains.

Had we taken even a cursory look at education history, we could have foreseen these results. Over just the last 75 years, inflation-adjusted per-pupil spending rose by a factor of 14 (yes, 14). Average class sizes are now vastly smaller than in the early 1900s. And the whole twentieth century was filled with an endless succession of curriculum and teacher training reforms. Nevertheless, student achievement did not improve significantly over that period, and it appears to have actually gotten worse – at least over the last 30 years – in terms of literacy.

So if more spending and smaller classes won't improve public education, what will? Interestingly enough, research shows that school choice improves public schools.

School choice opponents, of course, claim that choice harms public schools. Research, however, shows the opposite. A new study published by Harvard economist Caroline Hoxby addresses the question: "Do public schools respond constructively to competition induced by school choice, by raising their own productivity?" The answer: Yes, they do, and the benefits are greatest where large numbers of students are eligible for choice.

The fact that choice benefits public schools – not just students who switch to private schools – is a key aspect of school choice. Because public schools improve due to competition, school choice benefits reach beyond those students who take advantage of the opportunity to attend a private school with a voucher or tax credit scholarship. Because competition forces both public and private schools to improve, choice is like a rising tide that lifts all boats. Even students whose parents don't shop around for a private school will benefit because their existing public schools will get better.

It's true that some studies have shown no productivity gains for public schools when choice is introduced. But these have examined programs where choice is limited to only a small number of students or where the program is too new for effects to be visible. Hoxby, in contrast, looked at those programs that have existed for awhile and which are large enough to produce real competition.

In Milwaukee, for example (where children receive vouchers worth up to $5,783), the improvement in the public schools has been impressive. Students in public schools where at least two-thirds of students were eligible for vouchers scored 8.1, 13.8, and 8.0 national percentile rank points higher in math, science, and language, respectively. Although still positive, achievement gains were somewhat smaller for students in public schools where fewer students were eligible for vouchers.

The story in Michigan and Arizona is similar. In both states, public schools raised achievement in response to competition. The largest achievement gains were in those public schools that faced the most competition.

Hoxby also points out that there is plenty of room for improvement in our nation's public schools. Using economic analysis and a historical examination of spending as it relates to achievement, Hoxby shows that public schools currently operate at about 50 to 65 percent of their achievement potential. Much of their productivity is currently lost due to hard and fast rules that dictate hiring practices, pay scales, and investment in philosophically appealing but unsuccessful educational methods. Dissatisfied parents who are able to move their child and money to another school create pressure for public schools to become more effective and efficient. That positive pressure benefits those students who remain in those schools.

Even when it comes to money, school choice benefits public schools. U.S. private schools cost, on average, 60 percent of what public schools do. That means students can switch to private schools and pay less than what the state spends to educate them in public school. States and localities would continue collecting the same tax revenues they do now, but would have fewer students to spend it on, so students in public schools would enjoy more funding, not less. If smaller class sizes in public schools are a good thing, allowing more students to use private schools is the most cost-effective way to achieve it. Instead of vilifying school choice as an attack on public schools, school leaders should embrace choice as a way to get more resources for their students.

One of the best things for public schools is to open them up to competition from private schools. Without the positive pressure of outside competition, any industry will remain content with the status quo. Everywhere we look in our economy, competition and consumer choice provide the engine that fuels change. It has always been this way and it always will be. The rules of economics are as natural as breathing, and basic economics tells us that choice matters.

The low academic quality of many of our public schools is neither flattering nor comfortable. If we are going to change things, we will have to accept this basic economic fact: Consumer choice lifts all boats.

What to Do

- Provide tax credits for donations to tuition-assistance organizations. School-choice plans in Arizona, Pennsylvania, and Florida allow individuals or businesses to take a dollar-for-dollar tax credit for donations to organizations which give tuition assistance to low-income students. OCPA's 2002 study, The Oklahoma Scholarship Tax Credit: Giving Parents Choices, Saving Taxpayers Money, explains how this will work for Oklahoma. Rep. Kevin Calvey (R-Del City) has introduced legislation to enact this sort of scholarship tax credit.
- Create a non-refundable tax credit for middle-income families who assume the cost of their children's education. Since wealthy families can already afford to participate in the education marketplace, the tax credit would not immediately be extended to them. Rather than cutting off the entire credit when parents reach a certain income level, the credit should be decreased gradually as income increases. This would take account of the fact that families' incomes typically rise as their children get older. Allowing the credit to decrease gradually as income rises would avoid a sudden loss of several thousand dollars in credits from one year to the next, as would be the case with a hard income cut-off.

What Oklahoma Voters Want

Some companies and individuals make donations to fund scholarships so children can attend non-public schools. Would you favor or oppose providing tax credits to companies or individuals who make donations that provide scholarships for children to attend non-public schools? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)

Strongly favor 26%
Somewhat favor 26%
Somewhat oppose 15%
Strongly oppose 28%
Undecided (vol.) 5%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Homeschooling

The Issue
Homeschooling is a growing phenomenon in Oklahoma. "Educating children under the supervision of parents instead of school teachers" is how Patricia M. Lines of the Discovery Institute has defined homeschooling. Brian D. Ray, president of the National Home Education Research Institute, adds, "Some families organize homeschools like a conventional school, with structured daily activities. Others view all of life as an opportunity for learning and use a very flexible schedule. Most families provide educational experiences outside as well as inside the home."

Indeed, in an age of unprecedented technological innovation and a robust free market, there are numerous ways to provide learning experiences for children. Online classes, education cooperatives, tutors, community college courses, apprenticeships, field trips, volunteer work, travel, and even the great outdoors have been used by home educators to create a highly personalized education for their students.

What about results? On achievement tests, homeschoolers score, on average, at the 65th to 80th percentile. Dr. Lawrence M. Rudner's landmark study, "Scholastic Achievement and Demographic Characteristics of Home School Students in 1998," revealed an interesting fact: By the eighth grade, the typical homeschooled student is performing four grade levels above the national average. That is not a misprint.

Writing in the Washington Times in 2000, Andrea Billups made a comparison between the scores of home scholars and those of conventionally schooled students. Reports Billups: “Homeschooled students have scored higher than their traditionally educated peers on the ACT, one of the nation’s two major college-entrance exams, for the third consecutive year. While the average ACT assessment score was 21 nationally, home-educated students scored an average of 22.8.” For its 1999 competition, the National Merit Scholarship Corporation selected 137 homeschoolers as semifinalists, and their numbers have steadily risen each year. In 2004, there were 250 homeschooled students selected as semifinalists.

Given their small numbers (there are approximately 1.5 million taught-at-home students in the United States), homeschoolers also perform exceptionally well in national competitions. Rebecca Sealfon, a 13-year-old from Brooklyn, New York, won the 1997 Scripps Howard National Spelling Bee. David Beihl, also 13, of Saluda, South Carolina, became the 1999 National Geographic Bee champion. George Thampy, a 12-year-old from Maryland Heights, Missouri, won the National Spelling Bee in 2000. Calvin McCarter, a 10-year-old, won the 2002 National Geographic Bee. The following year, James Williams, a 14-year-old from Vancouver, Washington, won the 2003 National Geographic Bee.

Homeschoolers are also regularly admitted into colleges, from the small religious schools to the Ivy League. As a sign of keeping up with the times, the University of Oklahoma’s Web site includes information about admission requirements for high school students who have participated in “home study.” In fact, it has become commonplace to spot college scouts hosting information tables at homeschool conventions and fairs, as the University of Oklahoma and other colleges did at this year’s homeschool convention in Oklahoma City.

Oklahoma law is considered by national home education experts to be one of the best in the nation. There are no requirements for parents or legal guardians to initiate contact with local or state officials to begin homeschooling. According to the Home School Legal Defense Association (HSLDA), “Oklahoma is the only state with a constitutional provision guaranteeing the right to home school.”

According to Article 13, Section 4 of the Oklahoma Constitution, “the Legislature shall provide for the compulsory attendance at some public or other school, unless other means of education are provided, of all the children in the State who are sound in mind and body, between the ages of eight and sixteen years, for at least three months in each year” (emphasis added). During the Oklahoma Constitutional Convention, delegate J. S. Buchanan, a Democrat from Norman, suggested that the “other means of education” language be added. Delegate J. A. Baker from Wewoka, another Democrat, agreed: “I think Mr. Buchanan has suggested a solution. A man’s own experience sometimes will teach him. I have two little fellows that are not attending a public school because it is too far for them to walk and their mother makes them study four hours a day.”
“People ought to be allowed to use their own discretion as to how to educate their children,” he argued.

The motion to add the “other means of education” language was seconded by none other than convention president William H. “Alfalfa Bill” Murray.

Although the Oklahoma Department of Education does not collect data on homeschooling, Brian D. Ray estimates that there are between 14,000 and 19,000 homeschooled students in Oklahoma. Sarah E. Mehrens of the National Center for Home Education provides a 2003 estimate of 16,882. By paying for their children’s education (and not asking taxpayers to pay for it), homeschool parents are saving Oklahoma taxpayers tens of millions of dollars a year.

Even in a society with an open flow of ideas and travel, homeschoolers – more than any other group of students – are labeled isolationists. Many strongly dispute that stereotype. Researcher Patricia M. Lines has stated, “The hard evidence suggests that the vast majority of homeschooling families are more active in civic affairs than public school families.”

Oklahoma could single-handedly showcase example upon example of such engaged citizens. Jason Murphey, a homeschool graduate from Guthrie and a political activist, is campaigning for a seat in the state legislature. Fifteen-year-old Kyle Williams of Cashion is a political columnist for WorldNetDaily, an Internet news site. After his book, Seen and Heard, was published last year, Williams defended his views in television interviews with Bill O’Reilly, Pat Buchanan, Bill Press, and Judy Woodruff. Emoly West, who was crowned Miss Oklahoma Jr. Teen 2002, hosted a fundraiser earlier this year for an Oklahoma political action committee.

Among parents, sophisticated networking occurs via support groups. The Oklahoma Christian Home Educators Consociation, Inc. (OCHEC) of Oklahoma City, for example, organizes an annual convention which features over 100 exhibitors. HERO (Home Educators’ Resource Organization) of Enid makes telephone and e-mail support available. Christian Home Educators Fellowship, headquartered in Tulsa, circulates information about testing, curriculum, and group activities.

Policymakers who are anxious for good news from the educational frontlines might consider the words of Martin Luther King III. At a homeschooling convention, the son of the famed civil rights activist stated, “The kind of things homeschoolers are doing may be the saving grace of our nation.”

Homeschoolers exemplify the American can-do spirit, and they thrive when government leaves them alone.

What to Do

- Continue to safeguard Oklahomans’ constitutional right to educate their children.
- Pass a resolution declaring “Home Education Week” in Oklahoma. This statement of support can be modeled after a homeschool resolution passed by the United States Senate in September 1999 (see http://www.hslda.org/docs/nche/000000/00000088.asp). The resolution could note the achievements of Oklahoma homeschoolers, the contributions of their parents, and past “homeschoolers” such as George Washington, Patrick Henry, John Quincy Adams, and Pearl S. Buck.

What Oklahoma Voters Want

Do you favor or oppose the right of parents to home school their children? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)
Strongly favor 40%
Somewhat favor 29%
Somewhat oppose 11%
Strongly oppose 15%
Undecided (vol.) 6%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Child Policy

The Issue

Conventional wisdom holds that there has been an “under-investment” in early childhood education in Oklahoma. Greater investment in this “early childhood education” (i.e., preschool day care) is viewed as a panacea for a remarkable variety of social problems.

But there are two major problems with this “under-investment” theory. First, the truth is that a great deal of public money has already been spent on child-care and education programs for Oklahoma’s preschoolers – with little discernable result. Oklahoma is among the nation’s leaders in per capita spending on early childhood care and ranks first in the nation in the percentage of 4-year-olds enrolled in preschool. And yet, there is virtually no evidence that this spending has improved the behavior or academic performance of Oklahoma's children.

Second, and most importantly, there is compelling evidence that it is precisely the increase in nonparental care for preschoolers over the last two decades that is responsible for declining indices of child well-being – not an "under-investment" in preschool programs. In fact, greater investment in and use of such programs would likely only exacerbate the risk factors to the healthy development of Oklahoma's preschool children. Rather than enacting policies that emphasize more government spending on nonparental care and more educational time for preschoolers – policies that do not reflect the preferences of Oklahoma parents – policy-makers should take measures that would help parents in their efforts to spend more time raising their own children at home.

When analyzing the threats to the well-being of children, we often neglect what is in many ways the most insidious threat: the establishment as a social norm of the dual-career family and its necessary corollary, preschool children who are cared for by individuals who are not family members. It is unquestionably the case that the use of out-of-home care has expanded greatly in recent years. When day care becomes a social norm, parents have less influence in their children's development. Despite fashionable notions of "quality time," most parents are keenly aware that there is no way around the true dynamic of childrearing: The less time they spend with their children, the greater the role of secondary influences on their children's beliefs and behavior. Something has to fill the time void, and if the parent is not there to transmit his or her values, competing messages will proportionately hold more sway.

It is odd that Oklahoma's professional "child advocates" should be emphasizing more spending on nonparental care and education for preschoolers just when studies are showing that the greatest detriment to cognitive development and academic preparedness for preschoolers is lack of time and interaction with their mothers. A recent study based on data from the National Institute of Child Health and Human Development showed that maternal time and interaction with children is one of the best predictors of school readiness, and that the intellectual development of young children is adversely affected by time away from the mother. The study found that maternal employment of 30 hours a week or more by the time a baby was nine months old was associated with significantly lower scores on school readiness tests at age three.

Too many activists and policy-makers are interested in encouraging nonparental care, despite what numerous studies show about the detrimental effects of such care and despite parents' wishes. Even the compelling evidence in favor of the "attachment theory" of child development – that young children require an intensive bond with one primary caregiver for the sake of their normal emotional, intellectual, and even physical development – is used not to argue that we should make it easier for parents to raise their own children, but that the government should invest more heavily in subsidizing commercial day care to improve its "quality and affordability." It is clear that the "child development experts" have an agenda that differs greatly from that of parents.

This is abundantly illustrated by all the existing survey data. Interestingly, despite massive increases in the number of dual-career families and the use of institutional day care for young children, there is every indication that the vast majority of parents are not happy with the situation.
And what about parents' preference in child-care options when, for whatever reason, they choose nonparental care? Again, the evidence is unambiguous: Parents try to avoid commercial day-care centers. And yet, perversely, only parents who choose to put their children in commercial child-care facilities are eligible for the federal child care tax credit – a policy that overtly favors the one choice that parents want to avoid, that has seriously detrimental effects on the development of children, and that erodes the vital bonds between parents and children. This aversion to day care is confirmed when we look at the policy options that parents prefer.

In sum, there is a huge constituency of parents who reject both the ideology and the reality of commercial, institutionalized day care for children. The problem is that this constituency has virtually no representation in the academic, political, or media elite. This leaves the advocates of commercial day care largely unopposed in the public debate – and with an influence out of proportion to their actual numbers.

This explains why child-care policies on both the federal and state level are far from reflecting the preferences of parents. The federal child-care tax credit is available only to those parents who use commercial day care; the same is true for the Oklahoma child-care tax credit, which is equal to 20 percent of the federal credit. That we are subsidizing the one choice parents wish to avoid – the use of out-of-home care for their preschool children – is positively perverse social policy.

What to Do

- Create an Oklahoma per-child tax credit worth some portion of the federal credit.
- Universalize, and expand, the current Oklahoma child care tax credit (which is now equal to 20 percent of the federal credit), making it available on a non-discriminatory basis to all families with young children instead of just those who put their children in commercial day care. This is a fairly easy case to make in political terms: Why should Oklahomans be subsidizing the child-care choice that is least popular among parents while providing no equivalent subsidy for the more popular options (less formal day-care arrangements or at-home care)?
- Reduce the tax burden on Oklahoma families. The average Oklahoman has to work more than three months a year just to pay for state, federal, and local taxes, and the increasing tax burden over the past several decades has fallen hardest on families with children.
- Educate the public about the risk factors associated with overdependence on institutional day care and the value of parental involvement, marriage, and worship to healthy child development.

What Oklahoma Voters Want

Now thinking about a child's first years, which do you think it is more important for public policy to encourage? (Rotate)
Making quality childcare more affordable for working families 37%
Making it easier for one parent to stay at home 58%
Undecided (vol.) 5%

Who do you think should be primarily responsible for ensuring that families have access to child care? (Rotate)
Government 13%
Employers 18%
Individual families 61%
Undecided (vol.) 9%

Which of the following do you believe is the best childcare situation during a child's earliest years?
One parent at home 70%
Both parents working different shifts 5%
Being cared for by close relatives 5%
Being in a quality daycare center 9%
Staying with another mother in the neighborhood 1%
Having a babysitter in the child's home 5%
Undecided / Depends (vol.) 6%

Assuming there is a limited amount of money, which is more important? (Rotate)
Having the government give tax breaks to working families when they use professional childcare so it becomes more affordable 24%
Having the government give tax breaks to working families when one parent stays home with children when they are young 60%
Undecided (vol.) 16%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Higher Education

The Issue
In recent years Oklahoma lawmakers have actively sought ways to improve Oklahoma’s system of higher education, even loosening their traditional tight control over tuition.

Tuition
In the states that subsidize higher education very heavily, students (or their parents or other financial supporters) pay only a very small fraction of the total cost. For example, in California tuition payments cover less than 20 percent of the cost. At the other end of the scale are states where tuition payments cover a large percentage of the cost of education. Vermont is a high-tuition state, with tuition paying for about 75 percent of the cost.

Oklahoma falls somewhat below the median, with tuition payments covering about 30 percent of the cost.

In-state tuition at the University of Oklahoma, for example, is $115 per credit hour for freshmen and sophomores and $120 per credit hour for juniors and seniors. Assuming a normal course load of 15 credits per semester, this means students pay roughly $3,500 per year. At other public universities in Oklahoma tuition is lower. By way of contrast, in-state students at one of the best-known of the high-tuition schools, the University of Michigan, pay $6,400 per year.

The tuition-setting debate is an old one. Proponents of low (i.e., heavily subsidized) tuition contend that the societal benefits of extending higher education to the largest number of students is worth the cost to taxpayers. Proponents of high tuition respond that the educational benefits chiefly accrue to the students who partake of it and that there is no reason to tax the majority of taxpayers in the state who do not have children attending a state university in order to subsidize those who do, especially when it is the more affluent citizens who on the whole are most likely to have children enrolled in the universities.

The better argument is to charge higher tuition, but then discount it for students who cannot otherwise afford to attend. Oklahoma should announce that it will gradually raise tuition, but do so in steps so that families can increase their savings to pay the higher cost. Oklahoma legislators should also investigate a newly passed plan in Colorado, the College Opportunity Fund, which creates stipends for Colorado students enrolling in in-state higher education, public or private. In the Colorado program, state money flows to the students rather than the institutions.

Remediation
A serious problem that plagues colleges and universities in Oklahoma (and indeed across the entire nation) is that of students who are not prepared to do college-level work. According to data compiled by the Oklahoma State Regents for Higher Education, more than 41,000 students in the public universities needed to enroll in at least one remedial course last year. Such remedial education is costly.

Even with remedial courses, many students still cannot handle college work. Students with great academic deficits in math and English cannot make up for them with just a course or two. Many drop out, and those who don’t often struggle with the work and exert downward pressure on academic standards.

Colorado has developed a plan for dealing with remediation. Beginning in 2008, students intending to enroll in a public university will have to have completed a pre-collegiate curriculum. The curriculum will consist of 15 units: 4 in English, 3 in math, 3 in natural science, 3 in social science, and 2 academic electives. These will have to be serious courses. Expressly excluded as counting toward the curriculum are such courses as yearbook, consumer math, marriage and family, and environmental studies.

Oklahoma could begin reducing the cost of remedial education by adopting requirements that meet or exceed those in Colorado.

Lottery
Oklahoma voters will vote in November on a referendum to establish a state lottery. Under the proposal,

net proceeds from the lottery would go toward public education as well as college scholarships and faculty endowments. Gov. Brad Henry has said the lottery "isn't the magic bullet that will solve all of our revenue challenges, but it will help generate some much-needed funding for our schools."

Oklahomans should scrutinize this proposal according to its aims. While the majority of states now have "education lotteries," few have realized the lotteries' aim of buttressing education funding, and none have been able to maintain it. Numerous studies have shown that state lottery sales almost always fall after the first few years. In many states with lotteries, as the initial proceeds came in, other money that would have gone to education was spent elsewhere and was "replaced" with lottery revenue. Once the lotteries' novelty wore off and proceeds fell, however, state legislatures faced budget "shortfalls" not only in education, but in other areas as well, leading to tax increases. In the long run, those states were left with lower per-capita spending on education than states without lotteries.

This "replacement" problem was something that Georgia's lottery, with net proceeds earmarked for Georgia's HOPE scholarship program, was designed to avoid. For a while it appeared to succeed in doing so, and many states subsequently patterned lotteries after Georgia's.

klahoma's proposed lottery, with its constitutional "lock box," follows this pattern. Georgia, however, only succeeded in delaying the inevitable. Right now Georgia lawmakers are scrambling to address a projected shortfall in the program – a $434 million deficit by 2008.

Georgia's problems are beginning to be seen in imitators Florida and Louisiana, each experiencing a similar pattern. During the initial "lottery euphoria" stage, lawmakers expanded the scholarship program funded by the lottery, but when revenues flatten they are politically unable to restrict them again and the programs begin to project deficits. Lottery proceeds flatten not only because their novelty fades, but also because residents initiated into gambling branch out into other forms of gambling, including online gambling and anything offering quicker payoffs than lotteries.

The latter effect also underscores concerns some have over the morality of state lotteries. Those concerns include more than just the idea that the state is promoting a "vice." By far the biggest purchasers of lottery tickets are minorities, the poor, elderly, and high school dropouts. Lottery commissions know this, which is why more lottery advertisements and sales outlets target low-income neighborhoods. Revenue from those sales generally support upper-income, college-bound students. A study of Georgia's lottery sales and HOPE scholarship recipients by the Atlanta Journal-Constitution illustrated this disparity: Household income levels in the 20 ZIP codes with the most lottery winners were all below the state median income level, and household income levels in the 20 ZIP codes with the most HOPE scholarship recipients were 72 percent higher.

If there is truly a need for more higher education funding – a debatable proposition – there are better ways of raising the money than instituting a lottery.

What to Do

- Charge higher tuition for public colleges to place more of the burden on the families receiving the benefits. This shift should be gradual, not dramatic, to allow those families time to plan and save for paying the higher tuition. Furthermore, Oklahoma's public colleges should be discounted for the poorer families in the state more adversely affected by the higher rates. With tuition receipts responsible for a larger share of the funding for public higher education, these discounts can be offset by savings in the amount of state appropriations necessary for higher education.
- Attack the costly problem of remedial education. High-school students who plan to enroll in college should be required to complete a rigorous, college-preparatory curriculum to ensure that they will be fully equipped with the mathematical, language and scientific skills necessary to tackle collegiate work.
- Provide tuition grants directly to students rather than paying for the production of educational services at public universities and colleges. This is in fact the ultimate solution to the problem: Have the state change from providing and producing higher education to merely providing higher education for its citizens. As Nobel Prize-winning economist Milton Friedman has written, "Restricting the subsidy (for higher education) to schooling obtained at a state-administered institution cannot be justified on any grounds. Any subsidy should be granted to individuals to be spent at institutions of their own choosing." On May 10, 2004, Colorado Gov. Bill Owens signed into law a college voucher plan which is the first of its kind in the nation. "Quality education isn't about institutions," Gov. Owens said, "it's about the future of our students."

What Oklahoma Voters Want

Do you believe that Oklahoma high schools should be held accountable for high school graduates who require remedial classes at Oklahoma's universities?
Yes 70%
No 22%
Undecided (vol.) 9%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Health Care

The Issue

Rising insurance costs and fears of losing coverage. Increased payments for prescription drugs. Frustration with managed care. Doctors leaving their practice and hospitals closing their doors. These are some of the major concerns that Oklahomans have with health care today.

In an attempt to keep competitive in a world economy, employers are asking employees to pay more and more of their insurance premiums. Employers and insurance companies use managed care and other restrictions to keep costs under control. Employees push back, trying to maintain some semblance of freedom of choice – that is, if their employers still offer affordable insurance.

State officials, meanwhile, try to tweak Medicaid rules to maximize their take of federal dollars, which lets them shift the costs elsewhere. Wealthy non-profit advocacy groups push for more insurance regulation and more government spending on health care. Government programs, though, are imploding from high costs, and they also compete with private sector companies by giving overly generous, no-cost coverage.

Behind most of these problems lies a single cause: Health insurance isn't health insurance anymore. It's a battle between those who pay for health care and those who benefit from it.

True insurance is protection against unpredictable, catastrophic events. But health insurance as we know it has also come to mean third-party payment for routine and predictable events such as childbirth and bouts of the flu. The fiscal discipline that people use in every other area of spending disappears when "somebody else" is paying much of the bill. There is little incentive for the patient to be a wise consumer of health care dollars or even take an active management in his own health. Patients spend more than they should because "someone else" is paying the bills. All the paperwork floating around only adds to the cost.

A related problem is that patients are conditioned to be merely passive recipients of the decisions of others, including doctors and state bureaucrats. In short, our current reliance on employer-paid insurance for most people – and government programs for everyone else – leads us to purchase too much health care, and in the wrong way.

It is time for patients to have a greater stake – and a greater say – in their health care and its financing. In short, public policy should encourage the use of true insurance, and should encourage the use of cash to pay for predictable, routine expenses.

A recent change in federal law allowing for Health Savings Accounts (HSAs) could be a big step in the right direction – if policy-makers give them time to work and don't regulate them to death. These accounts, which improve upon and replace Medical Savings Accounts, are combined with high-deductible insurance policies. The high deductibles (a minimum of $1,000 per person, $2,000 per family) make the insurance policy more affordable. The money saved on premiums can be put into an HSA, where it can earn interest before it is used to purchase medical care. Money is put into the accounts on a tax-free basis. The earnings are also tax-free. So is the money taken out for medical expenses.

Tax-free contributions, tax-free earnings, and tax-free withdrawals make for an attractive combination. A majority of people purchasing the old medical savings accounts were previously uninsured; the new HSA should find even greater acceptance as insurance companies enter the market.

The next significant step is for the federal government to expand the tax deductibility for insurance premiums from employers to everyone. That way, people's insurance coverage would not be tied to their employment.

While the federal government is a very significant influence on health policy, there is still room for state lawmakers to act, and there are traps to avoid. The desire to "do something" about health care costs and access is understandable. The record to date, however, suggests that most "somethings" cause more harm than good. Rather than imposing more and more regulations, and bringing more people into government programs, policy-makers should weed out harmful regulations and bring more patient power, and control, to health care.

What to Do

- Promote the use of high-deductible insurance plans. As anyone who buys automobile or homeowners insurance knows, a sure way to get lower premiums is to accept higher deductibles. First-dollar coverage, by contrast, leads to much higher premiums – premiums that may price insurance out of the reach of some people. Unfortunately, state insurance laws can result in very high premium costs. State officials should promote the use of high-deductible plans through educational materials, tax credits, and other means.
- Scrutinize mandated-benefit laws. When government says that insurance policies must cover treatment for this or that condition or disease, it creates a mandated benefit. The costs for those services are passed along to everyone in the insurance pool through higher premiums – anywhere from 4 to 22 percent higher. These higher costs can contribute to employers dropping or not offering insurance to their employees. One result: More people turn to Medicaid, causing further problems for policy-makers and taxpayers. Health insurance regulations are a textbook case of how government seeks to "solve" a problem with its left hand, only to create a problem that the right hand must deal with. The state should repeal existing mandated benefits, and let insurers (whose business it is to understand the market for insurance) decide what coverage people are willing to pay for.
- Publicize the use of prescription drug cards. Rather than follow the temptation to enact a costly new drug benefit program, Oklahoma should take advantage of what already exists. Pfizer and Lilly, among other pharmaceutical companies, offer discount programs for low-income people. Some people, in fact, can get certain drugs free of charge. The state should promote the availability of such programs. These private-sector solutions demonstrate the value of voluntary action.
- Facilitate the increased use of cash payment for medical care. The Wall Street Journal reports that a small but growing number of physicians are finding that it is in their interest to lower their prices and simply take payment in cash for many services. This model is especially useful for routine office visits. Not only do the physicians avoid many of the aggravations of dealing with endless paperwork delays, they spend less money on overhead. This enables them to lower their prices, which could be a boon to the uninsured. The state can promote the use of cash payments in several ways. It can, for example, offer tax credits for individuals who establish health savings accounts. It can introduce cash accounts to insurance policies that the state carries for its employees. Finally, by combining the accounts with vouchers, it can help Medicaid beneficiaries build wealth, and keep program costs under control.
- Resist the lure of "cheap" prescription drugs. States are starting to help their citizens break federal law by importing prescription drugs from Canada, or making plans to use them in government employee health plans. The lure? The drugs purchased in Canada cost less than those purchased in the U.S. But these prescription drugs are actually not cheap. For one thing, the drugs may not be pure enough to work. While it is possible to overstate the danger of counterfeit drugs, they do exist. Drugs that come "from Canada" can actually be fake drugs from third-world nations without adequate controls or legal systems to ensure safety. The long-run danger from Canadian importation is even more important, however. U.S.-developed drugs are cheaper in Canada because that country imposes price controls through its program of socialized medicine. Since the Canadian market is relatively small, the effects of these price controls on pharmaceutical research are insignificant. But if applied to the U.S. market through massive importation, price controls would fundamentally alter the incentives of pharmaceutical companies whose pursuit of profit has

led to an amazing century of scientific breakthroughs.
- Enact lawsuit reform. Governor Henry proposed a bold lawsuit-reform package in 2004, but the bill ultimately signed into law fell woefully short of the mark.

What Oklahoma Voters Want

Who do you think should be primarily responsible for ensuring that families have access to affordable health care? (Rotate)
Government 31%
Employers 32%
Individual families 31%
Undecided (vol.) 7%

Some people say that Oklahoma government should increase mandates on health insurance. They say that insurance providers should cover health issues like mental health and drug and alcohol addictions. Other people say that while health insurance companies can obviously offer coverage for issues such as mental health and drug addiction, mandating this coverage is wrong. They say this increases the cost of insurance and can cause employers to stop offering insurance to their employees because it becomes too expensive. What do you think? Do you think the State of Oklahoma should increase health care mandates on insurance carriers?
Yes 44%
No 47%
Undecided (vol.) 9%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Medicaid

The Issue

Medicaid, or SoonerCare as it is called in Oklahoma, is a federal-state health program providing health care insurance for the poor, disabled, and other groups specified by law. Medicaid reform can be defined as making the program more market-based and consumer-focused.

Created as part of the Great Society in 1965, it was originally meant to provide some help for those in poverty. Today, it is now extensively used by the middle class as well. Medicaid is now almost literally a cradle-to-grave program; it funds one-third of all births in the country, and nearly half of all nursing home stays. Nationally, Medicaid has tripled since 1994, and in 2004 total spending will reach more than $304 billion.

In this state, Medicaid is administered by the Oklahoma Health Care Authority (OHCA). The authority is responsible for some 600,000 people, or roughly 17 percent of the state’s population. In the name of offering insurance to the working poor, Governor Henry proposed adding to those numbers and to the $2.5 billion spent in the state each year.

Over the years, expanding the program has been a popular vote-getter. For one thing, it can be done with a lot of “free money.” Federal matching funds give Oklahoma roughly $2.45 for every $1 in state funds. But when severe economic downturns require cuts, Oklahoma loses $2.45 in federal money for every dollar in state cuts.

Why Is Reform Needed?
Medicaid’s continued budgetary growth threatens the viability of every other government department, from corrections to education. In particular, the aging of the baby boom generation could cause the use of long-term-care dollars to quadruple by 2030. Already, an overly ambitious, ill-designed plan called TennCare has done much damage to the fiscal condition of Tennessee. A similar condition awaits Oklahoma.

Economic growth in the 1990s helped bring down the number of people in government health care. But in 1997 the legislature increased the income limit for some SoonerCare programs to 185 percent of the federal poverty level. (In 2004, that would be $34,872 for a family of four.)

ven an income three times the poverty level is not enough to disqualify some individuals. Contributing to the financial strain is fraud, estimated at 10 to 30 percent nationally. It is no wonder that Medicaid spending has increased at a rate of nearly nine percent a year since 1988.

Not only is Medicaid expensive, it does not work very well for patients or the medical profession. Physicians complain about payments that are slow to come and fail to cover the cost of treatment. Some have given up on Medicaid entirely, causing patients to have to search for new providers. Hospitals make do with reimbursements as low as 60 percent of the cost of actually delivering service, an unsustainable situation.

Aside from the fiscal problems of SoonerCare, the moral case for reform is strong. It is not unusual for a patient to be shuffled by bureaucrats from doctor to doctor without the patient’s prior knowledge. The most vulnerable members of our society are ill-served by an expensive program that has not been fixed by cosmetic changes, while middle-class Oklahomans have come to expect low-income workers to meet their long-term-care needs.

What Is the Solution?
Medicaid needs to move beyond this model of HillaryCare on the installment plan. It must become a system of defined contributions, vouchers or tax credits, and a consumer-oriented market.

For the state, the costs are hard to predict; they depend on the number of people who sign up, how often they use services, and what kind they select. The people in the system, by the way, have no incentive to spend the money wisely, since they never see it.

The move towards defined contributions, or subsidizing insurance rather than running an insurance program, is already well-underway in the private sector. Defined contribution benefits got a start in retirement financing, as 401(k)s replaced some old-style pension plans. They are moving forward in health care financing as well, as employers are giving employees more options in addressing their health insurance needs. Government financing of health care should look, learn, and follow.

Under a defined contribution approach, the money already spent on Medicaid is turned into vouchers (or tax credits) that are distributed to beneficiaries. In turn, they obtain insurance of their own choosing from the private market. A voucher can be combined with a health savings account to pay cash for minor, routine expenses. The Medicaid patients select physicians and services, and most importantly, finally have a financial stake in the wise use of health care dollars that come from the taxpayers.

There is already a model for this approach: the health insurance program that covers most members of Congress and federal employees. They receive a subsidy for insurance and choose from over a dozen plans vetted by the Office of Personnel Management. They are not stuck in a one-size-fits-all program.

Already vouchers are used in some parts of Medicaid itself. Every state, including Oklahoma, uses vouchers in small portions of its Medicaid program. The Home and Community-Based Services Waiver (HCBS) gives certain people funds which they can use to select the care providers of their own choosing.

Florida uses an approach popularly known as “cash and carry,” which combines a cash voucher for personal care and other health services along with a state-sponsored counselor who helps beneficiaries choose among competing services. Patient satisfaction in this program is nearly universal. While the program has not been in use very long, there is every reason to expect that it will save taxpayer dollars.

Under this consumer-oriented approach, beneficiaries gain stability in health care. The working poor won't have to change doctors if they change employers. They will also be able to purchase insurance policies that are more tailored to their needs and interests. The prospect of getting paid cash – instead of waiting for the OHCA to pay – will also make physicians more willing to serve the Medicaid population.

By selecting their own insurance plans, Medicaid enrollees could select whatever level of services, co-payments, and deductibles are suitable for them. A health savings account has an added bonus: It becomes a welfare program that actually helps people save their way out of poverty, and perhaps out of Medicaid itself.

Equally important, taxpayers benefit as well. Because enrollees will be wielding dollars in their own behalf, they will be more careful in health care purchases and have a financial incentive to pursue healthy choices in life. The use of health savings accounts for minor expenses can bring the use of cash back into health care delivery – a move that allows doctors to lower prices and still make more money than the paperwork-driven approach allows.

Finally, a defined contribution approach helps improve the insurance market for all. When government expands its programs to offer direct coverage to more people, it can have a "crowding out" effect. That is, private sector companies lose customers to the government, which increases the costs for everyone else. On the other hand, premium supports give the private insurance market more customers, which can benefit everyone.

What to Do

- Many solutions to the problems of Medicaid depend on reforms in federal law and in health care financing in general. Even so, Oklahoma's policy-makers can do their part by moving towards a system (outlined in the paragraphs above) of defined contributions, vouchers or tax credits, and a consumer-oriented market.

What Oklahoma Voters Want

Medicaid, or SoonerCare as it is known in Oklahoma, is a federal-state health program providing health care insurance for the poor, disabled, and other groups. As you may or may not know, an Oklahoma family of four earning up to $34,782 a year qualifies for Medicaid. This program is currently facing financial difficulties. Which of the following do you think is the best solution to this problem? (Rotate)
Increasing taxes so there is enough money to provide coverage 23%
Lowering the amount a person or family can make in order to be eligible for coverage 60%
Undecided (vol.) 18%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Workers' Compensation Reform

The Issue

Oklahoma businesses and lawmakers are looking for ways to attract new business investment and development to the state, as well as foster a hospitable climate for the state's more than 85,000 private employers with paid employees. (When including establishments with no paid employees, Oklahoma has over 300,000 private establishments.)

The state's workers' compensation (WC) system remains an area of much-needed reform. The workers' compensation system is intended to provide insurance coverage for employees who suffer workplace injuries and resulting lost income, while protecting employers from high litigation costs and tort liability. Today, some fear that Oklahoma's WC system is becoming prohibitively expensive for employers and, absent reform, could discourage new business formation and expansion in the state.

Even though there is no federal requirement to do so, all 50 states and the District of Columbia have WC systems. (The federal government administers WC programs for federal employees, coal miners and longshoremen.) Oklahoma law requires that employers provide WC insurance for all their employees. Exempt from this requirement are employers with five or fewer total employees that are all related to the employer, either by blood or marriage, and business owners who are not employees, such as in sole proprietorships and partnerships. Certain workers in several categories, such as domestic, agricultural and real estate workers, are also excluded.

Oklahoma employers have three options for obtaining WC coverage for their employees: (1) Purchase insurance through a state-licensed agent, (2) participate in the state's WC fund, CompSource Oklahoma (formerly known as the Oklahoma State Insurance Fund), or (3) self-insure through a self-insured group association.

According to the Washington, D.C.-based Small Business Survival Committee, in 2003 Oklahoma had the 12th-hghest workers compensation costs in the 50 states and District of Columbia. Only one adjacent state – Missouri – had higher costs (9th-highest). Among the five other bordering states – Texas, New Mexico, Colorado, Kansas and Arkansas – all ranked among the 20 lowest-cost states. Fortunately, recent legislative proposals are bringing much-needed attention to this issue.

Dozens of proposals have been introduced, and some have made their way through stages of the legislative process. Many of these proposals aim to provide much-needed relief to Oklahoma businesses, as well as improve the state's competitive standing in attracting new businesses. Though no reform was enacted in the 2004 legislative session, reformers have vowed to try again in 2005. Fortunately, there is a renewed interest in reforming Oklahoma's WC system to meet the needs of both Oklahoma businesses and injured workers.

Comprehensive reform of the state's WC system will not only provide much-needed relief to the state's employers and promote safety, it will also send a strong signal to the rest of the country: Oklahoma is open for business.

What to Do

- Allow open competition in the workers' compensation insurance market. The Oklahoma Insurance Commission sets loss cost rates, a major component of the insurance premium rate. Evidence from around the nation suggests that allowing open competition – deregulation of insurance rates – could both reduce coverage costs and further reduce worker injury rates.
  Economist Bill Conerly, who has spoken and written for OCPA, recently observed that "the workers' compensation system has two success stories in recent statistics. First, the rate at which workers are injured has been falling steadily over the last decade. Second, the cost of workers' compensation coverage per $100 of payroll has also declined in the last decade." (Insurance companies set their own administrative expenses. Premiums are determined by both the stop loss

rate plus administrative expenses.)

Conerly continues: “Lower accident rates are likely to be a result of decreased regulation in the workers’ compensation market. When insurance rates are more heavily regulated, insurance costs are a less accurate reflection of the risk of injury for a particular employer. For example, an employer in the residual market may be having accidents costing $5 per $100 of wages. However, the ceiling on insurance rates might limit the employer’s cost to $4 per $100 of wages. The employer would see no benefit from a 20 percent reduction of accident costs because such a reduction leaves the insurance rate at $4 per $100 of wages. It would not make economic sense for the employer to spend money on safety improvements in that situation. If workers’ compensation insurance rates were not regulated, the employer would be paying the actual cost of $5 per $100 of wages, and thus have a strong incentive to provide a safer workplace.”

CompSource Oklahoma, the state’s workers’ compensation fund, currently holds about a 40 percent share of the state’s total WC market. Nationwide, the “residual market” for WC has dramatically declined and represented about four percent of total premiums in 1998. Oklahoma’s mammoth residual market, as well as insurance rate regulation, could be artificially increasing insurance costs for some employers while artificially shielding others from the true costs of their workplace injuries.

Nationwide, there has been a general trend to allow open competition in the WC insurance market. Contrary to conventional wisdom, open competition is reducing coverage costs and worker injury rates. This has occurred in a climate of robust open competition, where private insurers set their own rates. In fact, open competition states increased from one in 1980 to 37 last year.

- Ensure record confidentiality. Form 2, the employer’s first notice of injury, is filed with the state’s Workers’ Compensation Court when, due to a workplace injury, a worker needs medical attention away from the worksite or when a worker’s lost time exceeds his shift. This form is now publicly available. It is believed that unscrupulous lawyers are using these records to “chase down injured workers” and encourage them to file lawsuits against their employers. Lawmakers should make Form 2 confidential for six months and impose fines and/or jail time for improperly releasing the records.
- Make mediation compulsory prior to filing Form 3, “Employee’s First Notice of Accidental Injury and Claim for Compensation,” with the Workers’ Compensation Court. Currently, mediation is voluntary. If a satisfactory resolution could not be reached, the case would enter the court system.
- Combat fraud. Allow employers to file civil suits in district court against employees suspected of workers’ compensation fraud. Currently, fraudulent workers’ compensation claims can only be brought forward by the Attorney General in criminal cases.
- Limit attorney fees on awards for disability to 20 percent of the “amount in dispute.” The amount in dispute would be defined as the percentage of the amount awarded to an injured employee in excess of what the employer offered prior to trial.

What Oklahoma Voters Want

Which of the following comes closest to your beliefs? (Rotate)
While lawyers should not be eliminated, Oklahoma’s workers’ compensation system has too many lawyers involved.
This costs jobs and keeps legitimately injured workers from receiving all of the benefits they deserve. 50%
Without such a strong lawyers’ presence in Oklahoma’s workers’ compensation system, Oklahoma businesses would
unfairly take advantage of workers 29%
Undecided (vol.) 21%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 400 registered voters in the state of Oklahoma, May 10-12, 2004. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.9 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

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Lawsuit Reform

The Issue
America's civil justice system is broken.

Dr. Wayne T. Brough, chief economist for Citizens for a Sound Economy, points out that America has become the most litigious nation in the world. "According to the National Center for State Courts, 15 million civil cases are filed annually in the United States," Dr. Brough writes. "The American civil justice system is the most expensive in the world, with costs running more than twice that of other industrialized nations. Yet despite the high costs of the system, it provides a poor return on the dollar – only 20 cents of each dollar goes to compensation for economic damages.

"By conservative estimates, the direct costs of the mushrooming legal profession are roughly $180 billion annually or almost 1.8 percent of GDP. These measures refer only to the direct costs of the legal system, and do not include other consumer costs, such as higher prices for the goods and services they consume, as well as the reduced availability of goods and services that are taken off the market for fear of lawsuits. "Medical care is a perfect example of this. Research into AIDS vaccines by some companies was delayed or abandoned altogether due to liability concerns. In addition, patients in some areas are having difficulty finding doctors in some fields, because those specialties increase the threat of lawsuits. In other cases, entire industries were shut down due to excessive litigation."

Indeed, as former labor secretary Robert B. Reich noted ominously in 1999: "The era of big government may be over, but the era of regulation through litigation has just begun."

Fortunately, more and more Americans are starting to become aware of lawsuit abuse. "The 'litigation crisis,' million dollar verdicts, and massive class action suits are all symptoms of the changes that have occurred in the courtroom since the 1960s," Dr. Brough writes. "The law of contract and individual responsibility have been minimized in favor of creating a social safety net aimed at compensating victims with little regard to fault. Individual assumption of risk – such as driving with a hot cup of coffee or eating too many fatty foods – is often downplayed in favor of pricey lawsuits against manufacturers. This shift in attitude has been accompanied by procedural changes that have facilitated increased litigation and increasing damage awards."

In light of all this, it's small wonder states are starting to reform their legal systems. Just last year, Texas passed legislation which the Wall Street Journal hailed as "Ten-Gallon Tort Reform." For its part, Oklahoma passed a watered-down tort-reform measure in 2003 which will do very little to relieve the burdens of our dysfunctional tort system.

On December 19, 2003, the Wall Street Journal published an editorial which referred to Oklahoma as "a state that just can't say no to jackpot justice." Oklahoma's unwillingness to implement meaningful tort reform "means average Oklahomans are likely to continue to see higher insurance costs, fewer doctors, and all of the other troubles that come with an out-of-control tort system," the Journal pointed out.

Largely as a result of that editorial, the political climate at the state capitol changed. Gov. Brad Henry proposed a bold, comprehensive lawsuit-reform plan, and for a while it appeared that 2004 might be the year that Oklahoma would adopt meaningful lawsuit reform. Alas, it was not to be. The legislature passed a watered-down bill again in 2004.

Much remains to be done in the areas of joint and several liability, product liability, punitive damages, attorney fees reform, collateral source rule reform, and more. Most importantly, Oklahoma needs class-action reform, summary judgment reform, and noneconomic damages reform.

What to Do

- Enact class-action reform. "Once considered a tool of judicial economy that aggregated many cases with similar facts, or similar complaints into a single action, class actions are now often considered a means of defendant extortion," the American Tort Reform Association (ATRA) explains. "Today, some class actions are meritless cases in which thousands, or millions, of plaintiffs are granted class status … In many of these cases, the victimized consumers often receive pennies, or nearly worthless coupons, while plaintiffs' counsel receives millions in legal fees." Oklahoma should: (a) guarantee that both parties to a lawsuit will have a right to an immediate appeal of any order certifying a class or refusing to certify a class (as Alabama has done); (b) provide for a stay on all proceedings during appeal of class certification (Texas); (c) reform the award of attorney fees whereby fees are based on time and cost expended rather than a percentage of recovery (Texas); (d) require that if any portion of the benefits recovered for the class are in the form of coupons or other non-cash common benefits, the attorney fees awarded in the action must be in cash and non-cash amounts in the same proportion as the recovery for the class (Texas); (e) require that all administrative relief be pursued and exhausted before the court may certify a class action, which limits the potential for class action lawsuits against the state (Texas); and (f) strengthen the forum non conveniens doctrine by providing that the court must decline jurisdiction if there is a better forum for the suit.

- Enact summary judgment reform. One of the most important problems afflicting our civil justice system is the flood of unwarranted, and even frivolous, litigation arising from disputes in which one party – whether the plaintiff or the defendant – is clearly in the wrong and refuses to settle the dispute. The legal device that is supposed to prevent this is the power of the trial judge supervising the case to grant, before the costs of preparing and conducting a trial are incurred, summary judgment to the party who can demonstrate, based on the evidence already gathered, that the other side has no genuine case on the facts or the law. This authority is designed to end unwarranted litigation quickly and cheaply. For reform in this area, Oklahoma needs to look to the federal judicial system. Federal trial judges have developed legal rules that are friendlier to the award of summary judgment than those developed by state court judges. States (e.g., Oregon) seeking to encourage the grant of summary judgment, rather than waiting for judges to reform themselves, have implemented the federal rules through legislation.
- Enact noneconomic damages reform. “Damages for noneconomic losses are damages for pain and suffering, emotional distress, loss of consortium or companionship, and other intangible injuries,” ATRA explains. “These damages involve no direct economic loss and have no precise value. It is very difficult for juries to assign a dollar value to these losses, given the minimal guidance they customarily receive from the court. As a result, these awards tend to be erratic and, because of the highly charged environment of personal injury trials, excessive.” Oklahoma took an important first step in 2003 by limiting the award of noneconomic damages to $300,000 in cases involving pregnancy and emergency care, and extended the limit to all medical specialties in 2004. Oklahoma should now permanently extend the limitation on the award of noneconomic damages to include all civil actions, and index it for inflation. Also, ensure that the $300,000 limit does not apply if there is a judicial determination that there is “clear and convincing evidence” of negligence (as Nevada has done).

What Oklahoma Voters Want

Would you favor or oppose placing a cap on punitive damages that a client can receive in lawsuits such as personal injury cases? (After response, ask: Would you say you strongly favor/oppose or only somewhat favor/oppose?)
Strongly favor 48%
Somewhat favor 19%
Somewhat oppose 10%
Strongly oppose 13%
Undecided (vol.) 10%

Would you favor or oppose reducing the percentage of the money awarded that attorneys can collect from their clients down to 20 percent? (After response, ask: Would you say strongly favor/oppose or only somewhat favor/oppose?)
Strongly favor 72%
Somewhat favor 12%
Somewhat oppose 4%
Strongly oppose 4%
Undecided (vol.) 8%

Some people say … While other people say … (Rotate arguments)

… tort reform, such as capping punitive damages awarded in lawsuits and reducing the percentage that attorneys can receive from awards, is necessary. They say that frivolous lawsuits and lawsuit abuse have caused health care costs to increase, kept businesses from locating in Oklahoma, and have increased the costs of consumer goods and services. They say that the only beneficiaries of the current system are the personal injury attorneys and their friends. They say that real tort reform will stop exorbitant damages and frivolous lawsuits that are harmful to our businesses and our economy, but will allow deserved lawsuits to keep going forward.

… tort reform is not necessary. They say that the courts are the only way to protect the people, and that such tort reform would disallow the "little person" his day in court and that there would be no check on big corporations that would continue to take advantage of us. They say that if punitive damages are limited, big corporations will no longer have an incentive to make safe products and could just count lawsuits as a cost of doing business. They also say that capping lawyers' contingency fees will keep lawyers from taking complicated cases and that corporations could more easily put up roadblocks for attorneys working for a smaller fee.
After hearing these arguments, do you think that tort reform is needed or is not needed?

Is needed 71%
Is not needed 12%
Undecided (vol.) 16%

Source: Cole Hargrave Snodgrass & Associates, telephone interviews of 500 registered voters in the state of Oklahoma, August 2003. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within +/- 4.3 percent of the true values, i.e., the results obtained if it were possible to interview all the qualified respondents.

Resources

John Brock, "Trial lawyers say 'drop dead,'" *The Oklahoman*, June 2, 2004. Available at www.newsok.com

Lawsuit Reform: Solutions for Oklahoma (Oklahoma City: Oklahoma Council of Public Affairs, January 2004). Available at http://www.ocpathink.org/ViewResearchAndIdeasStory.asp?ID=509

Mike Seney, "The jury's still out on real legal reform," *The Oklahoman*, May 31, 2004. Available at www. newsok.com