Cascade Policy Institute

Can Oregon Tighten its Fiscal Belt?

Benchmarking Oregon government spending

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Executive Summary

This report benchmarks Oregon state and local government spending on five major public service areas against like spending in other states. The purpose of benchmarking is to help determine whether Oregon government is under- or overspending in these areas relative to its peers. The answer would help ascertain whether Oregon public services could accommodate a 15 to 20 percent reduction in anticipated levels of spending in the next biennium.

Going beyond simple per capita comparisons, demographic factors that can significantly affect the level of program spending are considered. Controlling for these factors produces, at a minimum, comparisons that better respect the uniqueness of Oregon. Combined spending patterns of state and local governments are studied to avoid measurement problems associated with a myopic focus on the state alone. Also, aggregate categories of spending are utilized to limit the differences that arise from varied agency responsibilities from state to state.

In summary, given Oregon's economic and demographic makeup, when compared to other states:

- Health care spending by Oregon's public sector is 30 percent higher than would be expected;

- Welfare spending is 13 percent higher than expected;

- Education spending is 14 percent higher than expected;

- Spending on corrections and police is 19 percent higher than expected;

- Highway spending is 3 percent lower than expected; and,

- Overall spending is 19 percent higher than expected.

These figures suggest that reductions in spending on the order of 15 percent or so would not put Oregon out of line with other states. To help mitigate the impact of such a reduction, specific policy suggestions are offered. These suggestions may improve service efficiency, and should be considered whether or not voters or the Legislature mandate budget reductions.

In summary, Oregon should create or improve competitive forces in the delivery of public services. This can be accomplished in two ways:

· Lower barriers to competitive and private provision of public services; and,

· Increase reliance on user charges rather than broad based tax schemes

The benchmarking results and suggestions in this report are meant to be valuable tools that can help voters and policymakers make better decisions about the cost and effectiveness of public services in Oregon.

The popularity of revenue and spending caps may be an indication that the public is skeptical that the political process always yields up the correct mix or level of spending.

Introduction

Ballot measures have become a popular way to directly influence the amount or rate of growth of state and local government spending. In recent years, Oregon voters have passed initiatives affecting the level and growth of local property taxation. Two measures on the November 2000 ballot aim to reduce income tax revenue by increasing the deductibility of federal income taxes in the calculation of State income tax obligations. Another measure would limit total State spending from all sources to 15 percent of personal income. Similar measures are likely to appear on future ballots.

The precise impact of this year's measures is in dispute. However, estimates by the Oregon State Legislature's Fiscal Office suggest that they may result in 15 to 20 percent reductions of revenue and/or spending below anticipated levels in the next biennium.[1] These impacts are largely one-time in nature, although the spending limitation would also constrain future spending growth slightly below its current rate of growth.

This paper does not evaluate this year's proposed measures, or evaluate whether a smaller public sector generally would be better for the Oregon economy. Rather, this report addresses the issue of whether the State of Oregon could accommodate reductions in spending and taxation of the order implied by such measures. Specifically, this report answers the following questions:

· Would cuts of this magnitude seriously affect the provision of public services in Oregon?

· If so, are there things that Oregon policy makers can do to mitigate these impacts? Might some of these things be worth doing anyway?

These questions involve fundamental principles about the demand, supply and finance of public services. Ultimately, the decisions about how large the public sector should be, and how that sector should be financed, will rest with Oregon voters, now and in the future.

Is Oregon Over- or Underspending on Public Services?

Whether Oregon could reasonably weather a significant, one-time reduction in revenue and spending depends partly on whether it is spending more or less on public services than it would if fully compliant with citizens' wishes. In an ideal world, of course, the taxation and spending decisions made by the political process would be fully consonant with citizens' wishes, and the services produced as efficiently as possible. In such a case, the question of too much or too little spending would be moot. By definition, the observed level of spending would be the ideal level at all times, and any cut in that level would be inappropriate.

The popularity of revenue and spending caps, however, may be an indication that the public is skeptical that the political process always yields up the correct mix or level of spending. There are some theoretical reasons to expect such dissonance, even in a democratic setting. As the economists Milton and Rose Friedman, among others, pointed out many years ago, policy making tends to be dominated by factions whose aggregate stakes in a particular policy are sufficiently large for them to bear the cost of influencing policy makers.[2] In contrast, for many individual voters, any one policy's impact is generally too small to justify the expense of lobbying and monitoring policy decisions. Consequently, a series of policy decisions can accumulate over time to form policies that satisfy a few vocal special interests, to the ultimate dissatisfaction of many individual citizens.

Because interest groups are often looking for special expenditures on their behalf, the Friedmans argued that the bias of such a process tends toward larger, rather than smaller, government budgets. Viewed from this perspective, ballot measures are popular because they give voters a cost-effective opportunity to "correct" or contain the perceived distortion in policy that emerges from the legislative process. This view is consistent with the fact that so many fiscally-oriented ballot propositions deal with *reducing* spending and taxation, and *eliminating* special treatment of certain groups, rather than the opposite.

Benchmarking Oregon Spending

Let us accept, for the sake of argument and the theoretical reasons described above, that Oregon's current level of spending on public services is not ideal. The question then becomes, how do we define and properly measure over- or underspending?

It is impossible to know exactly what the true, ideal level of spending should be, from the public's perspective. A first step in understanding the extent of over- or underspending of Oregon's public sector, however, is to benchmark Oregon's spending to that of other states. Though not perfect, such benchmarking might provide a lower-bound estimate on the extent of overspending.[3]

Simplistic Benchmarking of Spending

The pattern of State revenue and spending in Oregon is at least superficially consistent

Because Oregon ranks above the median state in many functional categories of spending, even a simplistic analysis suggests that Oregon stands out somewhat as a high spending state.

Table 1: State Revenue, 1998

	Total, $B.	Per Capita	Share of Total	Adj. Oregon Rank	Adj. Oregon % of Average State	Memo: US Per Capita
Total Revenue	$ 15.69	$ 4,780	100%	12	126%	$ 4,062
General revenue	$ 11.27	$ 3,435	72%	21	114%	$ 3,206
Intergovernmental revenue	$ 3.36	$ 1,025	21%	18	123%	$ 893
Taxes	$ 5.00	$ 1,523	32%	39	92%	$ 1,758
General sales	$ -	$ -	0%	47	0%	$ 578
Selective sales	$ 0.67	$ 205	4%	44	83%	$ 265
License taxes	$ 0.51	$ 154	3%	12	150%	$ 110
Individual income tax	$ 3.44	$ 1,048	22%	1	188%	$ 596
Corporate income tax	$ 0.28	$ 85	2%	33	79%	$ 115
Other taxes	$ 0.10	$ 32	1%	38	36%	$ 95
Current charges	$ 1.32	$ 402	8%	14	152%	$ 283
Miscellaneous general revenue	$ 1.59	$ 484	10%	6	190%	$ 272
Utility revenue	$ -	$ -	0%	19	0%	$ 16
Liquor stores revenue	$ 0.20	$ 61	1%	5	505%	$ 13
Insurance trust revenue	$ 4.21	$ 1,284	27%	6	165%	$ 828
Memo: Per capita pers. Income		$21,968				$23,436

Source: U.S. Census

Although Oregon imposes an extremely high income tax burden, it does not have a sales tax. Instead, Oregon relies relatively more than other states on intergovernmental transfers and other sources of general funds.

with the notion that Oregon is a relatively high-expenditure and high-revenue state. Tables 1 and 2, constructed from U.S. Census data, illustrate that per capita state spending in Oregon is considerably above national levels. Indeed, when adjusted for the relative per capita personal income levels of the various states, Oregon is eleventh highest in total expenditure and twelfth highest of all states in total revenue.

Closer inspection of the pattern of revenue and expenditure, however, makes it clear that there may be greater *concentration* of spending authority at the State level in Oregon (versus at the local level) than in other states. State expenditure by *type*, for example, is dominated by intergovernmental transfers while state expenditure by *function* is dominated by education spending. This is reflective of the fact that the State has recently assumed relatively greater responsibility for K-12 education finance in Oregon than in other states.

Not all categories of spending, of course, are

Table 2: State Spending, 1998

	Total, $B.	Per Capita	Share of Total	Adj. Oregon Rank	Adj. Oregon % of Average State	Memo: US Per Capita
Expenditure by type						
Total expenditure	$ 13.47	$ 4,103	100%	11	127%	$ 3,447
Intergovernmental expenditure	$ 3.71	$ 1,129	28%	11	117%	$ 1,034
Direct expenditure	$ 9.76	$ 2,973	72%	17	131%	$ 2,414
Current operation	$ 5.98	$ 1,821	44%	20	117%	$ 1,655
Capital outlay	$ 0.78	$ 238	6%	28	106%	$ 239
Insurance benefits and repaymer	$ 2.38	$ 724	18%	2	228%	$ 338
Assistance and subsidies	$ 0.30	$ 92	2%	18	123%	$ 80
Interest on debt	$ 0.33	$ 99	2%	24	103%	$ 102
Exhibit: Salaries and wages	$ 1.90	$ 580	14%	23	119%	$ 519
Expenditure by function						
Total expenditure	$ 13.47	$ 4,103	100%	11	127%	$ 3,447
General expenditure	$ 10.97	$ 3,342	81%	17	116%	$ 3,068
Intergovernmental expenditure	$ 3.71	$ 1,129	28%	11	117%	$ 1,034
Direct expenditure	$ 7.26	$ 2,212	54%	22	116%	$ 2,034
General expenditure, by function:						
Education	$ 4.21	$ 1,282	31%	18	125%	$ 1,093
Public welfare	$ 2.35	$ 716	17%	22	99%	$ 771
Hospitals	$ 0.47	$ 143	3%	13	142%	$ 107
Health	$ 0.37	$ 113	3%	26	93%	$ 130
Highways	$ 0.99	$ 303	7%	18	137%	$ 236
Police protection	$ 0.14	$ 42	1%	10	151%	$ 30
Correction	$ 0.47	$ 144	4%	5	135%	$ 113
Natural resources	$ 0.26	$ 81	2%	13	171%	$ 50
Parks and recreation	$ 0.03	$ 10	0%	34	67%	$ 17
Governmental administration	$ 0.66	$ 201	5%	6	189%	$ 113
Interest on general debt	$ 0.33	$ 99	2%	22	106%	$ 99
Other and unallocable	$ 0.68	$ 207	5%	38	71%	$ 309
Utility expenditure	$ 0.00	$ 0	0%	24	1%	$ 31
Liquor stores expenditure	$ 0.12	$ 37	1%	13	378%	$ 10
Insurance trust expenditure	$ 2.38	$ 724	18%	2	228%	$ 338

Source: U.S. Census

affected by the intergovernmental transfer issue to the same degree as education. Because Oregon ranks above the median state in many functional categories of spending, even a simplistic analysis of spending suggests that Oregon stands out somewhat as a relatively high spending state.

In contrast, Oregon stands out as a somewhat below average state in terms of taxation. Although Oregon imposes an extremely high income tax burden, it does not have a state sales tax. Instead, Oregon relies relatively more than other states on intergovernmental transfers and other sources of general funds, such as the lottery.

Nevertheless, simplistic benchmarking of State spending patterns alone is not sufficient to determine the extent to which the State of Oregon truly stands out in public spending, for at least two major reasons. First, public spending by its very nature is affected by the particular demographics of the individual states. The ideal level of education spending per capita, for example, is likely to be very different in a state with a high proportion of young people, such as Utah, than in a state with a high proportion of the elderly, such as Florida. Oregon cannot be benchmarked to other states without consideration of such factors.

There is good reason to expect simplistic benchmarking of Oregon's public spending to be misleading, because Oregon is very different from other states in a number of ways that may be relevant to spending levels:

- The proportion of Oregonians living in non-metropolitan areas is 50 percent greater than the national average;
- The rate of foreign immigration is 33 percent lower than the national average;
- The growth of Oregon's population and economy has been over 70 percent higher than in the nation on average;
- Average annual wages and salaries in Oregon are the nation's 22nd lowest;
- Oregon's minority population is 64 percent lower than the national average; and,
- The Oregon poverty rate is 18 percent higher than the national average.

Oregon also has significantly greater female labor force participation, a lower smoking rate, a slightly lower dependency ratio,[4] etc. One must respect that variations in these factors affect either the need for, or the fiscal effort required to support, public services. Variations in such factors cannot be ignored, therefore, in making comparisons between Oregon and other states.

Second, simplistic benchmarking of public spending is problematic because it typically only focuses on spending by the state or local governments individually. In contrast, funding today is passed through one layer of government to another, and one layer of government may mandate the spending level of other layers of government. Consequently, focusing on a single government layer of spending can lead to misleading implications about relative public spending levels.[5]

This report attempts to avoid the most serious problems of simplistic benchmarking in three ways. First, instead of relying on simple ratios to compare Oregon with other states, a statistical procedure is used that controls for differences in *multiple* demographic factors across states.[6] This produces, at a minimum, comparisons that better respect the

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Although this report focuses on state spending policies, combining state and local spending avoids the measurement problems associated with a myopic focus on the state alone.

uniqueness of Oregon. Second, this report examines the *combined* spending patterns of state and local entities. Although the report focuses on state spending policies, combining state and local spending avoids the measurement problems associated with a myopic focus on the state alone. Finally, the report only examines fairly aggregate categories of spending, thereby limiting somewhat the differences across states that arise because of differences in agency responsibility for various functions.

The *percent over- or underspending* is calculated by comparing Oregon's actual level with the level predicted by its underlying demographics, using the all-states relationship. The *benchmark accuracy* is the percentage of variation, across states, explained by the underlying statistical procedure.

The disadvantage of this technique is that it requires consistent data across all states, for both state and local spending. The U.S. Census Bureau assembles this information, but only with great delay. Hence, the latest comparisons that are possible use 1997 data sources. With this caveat, however, the technique provides a way of benchmarking Oregon's spending patterns more reliably than the simplistic calculations presented earlier.

The results of this statistical benchmarking are summarized in Table 3. It presents an estimate of the relative overspending or underspending by Oregon for each of the selected, major spending categories.[7]

The estimates presented in Table 3 suggest that, on a comparative basis, Oregon has been spending more than would be expected. Specifically, given Oregon's economic and demographic makeup:

- Health care spending by the public sector is 30 percent higher than would be expected;
- Welfare spending is 13 percent higher than expected;
- Education spending is 14 percent higher than expected;
- Spending on corrections and police is 19 percent higher than expected;
- Highway transportation spending is 3 percent lower than expected;
- Overall spending is 19 percent higher than expected.

Though only benchmark estimates,[8] these results suggest a consistent pattern of somewhat greater spending by Oregon at the state and local level than one might otherwise expect. The key question, of course, is whether this pattern is good or bad.

Evaluating Oregon's Spending Patterns

The estimates presented in Table 3 are consistent in a broad way with what we know of Oregon's public policy stances in each of these policy areas. Though these calculations do not necessarily imply that Oregon is spending too much relative to its taxpayers' wishes, they do reveal that, statistically, it is spending more than like-situated states. The question then becomes whether these levels of expenditure are yielding results that Oregon taxpayers value.

Education Spending

Education is the largest single item in the Oregon public sector budget, and spending

Table 3: Benchmark Estimates of Oregon's "Overspending," 1997

Spending Category	Over(under) spending	Benchmark Accuracy	Key Demographic Determinants
All Expenditures	18.7%	98.2%	Personal income, economic growth, school age children, poverty rate, education level
Selected Sub Categories of Total Expenditures			
Education	14.1%	98.7%	Personal income, school age children, racial composition, education level
Health	30.1%	91.4%	Personal income, dependency ratio, racial composition, poverty rate
Corrections/police	19.1%	97.9%	Personal income, economic growth, rural population share, poverty rate, youth population share
Highways	(3.2%)	94.4%	Personal income, economic growth, rural population share
Welfare	12.5%	96.9%	Personal income, poverty rate, economic growth

in this area has a significant impact on the capacity to spend in other areas. One possible factor contributing to the higher spending level is the relative compensation levels of Oregon teachers in the K-12 system versus teachers in other states and other workers in Oregon. Specifically, average teacher salaries in Oregon are 7 percent higher than the average American teacher's salary, whereas the annual average pay of Oregonians is about 8 percent lower than the pay of the average American. Consequently, on average, teacher salaries are about 15 percent higher in Oregon, in relative terms, than in the average state.[9] Teacher salaries are not the only component of K-12 spending, of course, as variations in class size and other factors cause the cost per student to vary. Nevertheless, costs appear to have been higher than they otherwise should be given the national relationship between these costs and demographic and income factors.

A key question, of course, is whether Oregonians are receiving a correspondingly higher quality education as the result of this higher spending. There are many ways to measure educational outcomes. However, there is consistent data available for all states on only a few measures. On measures such as SAT exam performance Oregon ranks very highly; on the other hand, Oregon also has one of the highest dropout rates in the country. Some out-performance on SAT tests persists even when likely demographic factors are included. Unfortunately, the relative dropout rate is not easily explained by such factors. Consequently, it is not easy to conclude that Oregon is receiving (or not receiving) the quality of education services consistent with its level of spending.

The other factor influencing education spending in Oregon is the State's emphasis on a subsidized, public sector higher education (community college and university) system. A much larger proportion of Oregon students are enrolled in public institutions than is the case nationally (85% vs. 77%), and tuition constitutes a smaller share of uni-

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Oregon's stringent regulation of the health insurance market may be depressing private market coverage, putting a greater burden on the Oregon Health Plan.

versity operating costs in Oregon than at the average public institution (63% vs. 69%). In other words, Oregonians support through public spending what is more generally a private burden elsewhere. The public subsidy to higher education is about 18 percent higher on a per student basis, even when this relatively larger commitment to public enrollment is abstracted from the calculation.[10]

Health Care[11]

The higher-than-expected spending on health care is consistent with Oregon's recent health care policy initiatives. A series of laws first adopted in the 1989 to 1995 period formed the basis of the Oregon Health Plan (OHP), which is essentially an enhanced Medicaid program operated under a federal policy waiver. General fund and federal spending is augmented by State revenue from high levies on tobacco products and other sources.

The stated purpose of the OHP is to expand health insurance coverage to a greater proportion of Oregonians, while controlling spiraling costs. Relative to the prior Medicaid program, OHP lowered the criteria for eligibility, while rationing the types of procedures insured (currently there are 743) and embracing a managed-care delivery model. In addition, Oregon has embraced regulations of private sector health insurance plans that are intended to ensure adequacy and equity of coverage. These regulations are very stringent from a national perspective.[12]

In evaluating the nominal overspending on health care in Oregon, one must examine relative effects of the OHP and the State's insurance regulations. Oregon Health Plan officials believe that the OHP is the reason for the reduction in the share of Oregonians without public or private insurance coverage from 18 percent at the start of the OHP to 10 percent in 1998.[13]

Alternatively, one could examine what Oregon's uninsured population *would have been* if, instead of the OHP, individuals with the same demographics lived in the "average" state, with the "average" health care policy and "average" insurance regulations, spending 25 percent less than Oregon. Employing the same statistical techniques used in Table 1, controlling explicitly for Oregon's demography relative to other states, the share of individuals that would have been without insurance in Oregon would have been 12.5 percent in 1997 without Oregon's extraordinary efforts. Comparing this with the actual level of 10 percent in 1998 indicates that the net effect of Oregon's particular approach, over the "average" approach, is 2.5 percentage points.[14] Voters may well value this 2.5 percentage point reduction in uncovered individuals, but it is less than one third of the eight percent improvement implied by comparing current and pre-OHP uninsured levels.[15]

One of the reasons that Oregon's statistical performance in this area may not be better is that Oregon's stringent regulation of the health insurance market may be depressing private market coverage, putting a greater burden on the OHP. Indeed, Oregon is one of 16 states identified by the U.S. General Accounting Office as having implemented stringent health insurance regulations in the 1990s.[16] Analysis suggests that the policies in these 16 states caused their private coverage rates to decline (get worse) relative to other states that had not embraced these restrictions.[17] These restrictions have limited the availability to Oregonians of low cost, catastrophic care and "bare bones" policies, and kept Oregonians from being able to buy health insurance over the Internet.[18]

Corrections and Police

Table 3 suggests that spending on police and corrections is about 14 percent higher than would be expected in a state with similar demography. Although Oregon has a lower violent crime rate on a simple per capita basis than the national average, this lower violent crime rate is still much higher than would be expected given Oregon's demographics. Oregon's overall crime rate (i.e., total crimes per 100,000 persons) is much higher than the national average, both with and without demographic adjustment.

A simple test of whether overspending in this area is effective is whether, controlling for the demographic factors that typically predispose criminality, Oregon's crime rate is lower than would be expected. That is, if Oregon's policies on crime are having the desired effect, then the crime rate should be lower than we would expect if Oregon followed the average policies. The results of this test suggest that Oregon is actually *less* successful in containing crime than other states, despite its higher spending levels. Specifically, violent crime rates are 6.8 percent higher and total crime rates are 27 percent higher than one would otherwise expect given the demographic makeup of Oregon. It is hard to find evidence that additional spending has had the intended effect.

From the benchmarking exercise, it would appear that Oregon policy has yielded the unenviable result that the state is spending relatively more than other states, with smaller effect. There may be other more benign explanations, of course. For example, there may be some unique feature of Oregon's population or society that explains its relatively high level of criminality, but which is not captured by the benchmarking procedure used here. Oregonians may also report crimes more than in other states (although violent crimes are typically well reported everywhere). Alternatively, the data may be only partially capturing the effects of recent sentencing reform. In 1995, Oregon began implementing mandated minimum sentences for serious, violent crimes.[19] Oregon also implemented repeat property offender minimum sentencing in 1997. These laws have required higher rates of incarceration, but may not yet have affected criminal behavior.[20] That is, these activities may, to date, have more quickly affected costs than criminal behavior.

Highways

Spending on highway transportation is the one category in which Oregon underspends relative to the average sister state. This finding is at least superficially consistent with the stated policy of Oregon to reduce dependency on the automobile, and the reluctance to date of Oregonians to support increased gasoline taxes. However, it is not clear that the alternative path that Oregon's major regions have chosen—emphasizing local transit service, regulating land use patterns, limiting downtown parking, etc.—is having the desired effect of reducing commitment of resources to highway transportation.

There is no clear evidence that Oregon roads are safer or less congested than elsewhere, or that commute travel generally is easier for Oregonians than for people in other, like-situated metropolitan areas. For example, person-hours of delay on freeways in Portland are higher than the average American city of similar size, and Portland's rank among cities in this regard has been steadily deteriorating, rising from the 17^{th} to the 9^{th} highest congestion region in seven years.[21] In addition, the land use policies that were designed to contain economic activity so as

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to obviate highway transportation spending, have had the effect of making housing more expensive, so that Oregon now has the 43rd lowest homeownership rate in the nation.[22] Oregon's major metropolitan areas now rank among the top 10 least affordable regions of the 173 regions studied by the National Association of Home Builders.[23]

Public Welfare Spending

Oregon's spending on social services, when benchmarked against all states, appears to be about 13 percent greater than would be expected. The welfare spending category includes spending associated with a variety of anti-poverty, nutrition and family service programs. The State administers many of these programs, with federal funding underwriting much of the operations and some of the administration of these programs.

Extensive federal reform of welfare programs has created incentives for Oregon to overspend in this area. Specifically, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) was passed in 1996, and the former Aid to Families with Dependent Children (AFDC) program became the Temporary Assistance to Needy Families (TANF) program. The federal government provides Oregon with a block grant to support TANF and other social service programs. The size of this grant is linked to 1994 state spending levels.

Until fiscal year 2002, states are expected to maintain the historical level of spending under the previous programs. As TANF needs have declined, Oregon has maintained these historic spending levels by increasing support for other social service programs. The states are given more latitude to set benefit and eligibility terms, but they must comply with requirements regarding the duration of benefits and the work participation goals of recipients. If Oregon fails to maintain its previous level of effort, it risks loss of some portion of the block grant. Consequently, Oregon's previous generosity in this spending area has carried through to the post-PRWORA setting.

Implications and Remedies

The findings regarding overspending described above suggest that Oregon may be able to accommodate a one-time reduction in spending on the order of 15 percent or so without getting too far out of line with the "average" state facing similar conditions. In most spending categories, a reasonable person could also question whether the overspending has provided commensurately superior services. Nonetheless, it is not possible to definitively appraise the appropriateness of current public spending in Oregon. Only Oregon voters can make the determination of the wisdom of current spending policy.

However, it is always good policy to consider ways to improve the productivity of public spending. This section of the paper addresses the question, are there things that Oregon could do to provide the same (or better) services with fewer resources? Put more formally, are there ways to make the provision of services more efficient?

Table 4 presents the legislatively adopted budget for the 1999-2001 biennium, arranged by major program and by funding source. It is not possible to evaluate the operations, programs and staffing of the State in a report of this brevity. However, the field of economics is clear on the *general* prescription for improving efficiency, namely the creation of, or improvement of, competitive conditions in the relevant marketplaces.

In competitive markets, the buyers of goods and services have sovereignty, and can choose the vendor who provides the best combination of quality and prices. These competitive forces exert price and cost discipline. Such competitive forces demonstrate their effectiveness every day in conventional markets for consumer goods, communications services, agricultural products, et cetera. However, they are seldom allowed to demonstrate their effectiveness in markets for government services.

In the public service arena, enhancing competition involves two general types of reforms:

- Lowering barriers to competitive and private provision of public services; and,

- Increasing reliance on user charges rather than broad based tax schemes.

The following are a number of specific ways that Oregon could harness these same forces to more efficiently produce public services. If adopted, they might help the State to weather a reduction in resources. In addition, reforms that enhance consumer power would also likely reduce the risk of future taxpayer intervention through voter initiatives.

K-12 Education Reform

The K-12 education system in the United States is virtually devoid of any competitive discipline that might encourage efficiency. In Oregon, a centralized and spending-equalized school funding policy involves the State legislature in determining the amount of funding that each school district receives. The districts then pass these funds through to the schools. Parents pay taxes to the State[24] to fund the schools, but they exercise virtually no consumer sovereignty. They are therefore not an effective force for improving the quality or cost-effectiveness of schools.

The State has adopted a variety of school evaluation and student testing instruments as a way of monitoring school performance. Although these instruments may provide some useful information for parents in evaluating their schools' performance, they provide no way for parents to address their concerns. In practice, Oregon parents cannot abandon bad schools or press schools to get rid of bad teachers. Parents cannot select the school that is best for their child, they cannot determine the level of spending on their child, and they cannot select the curricular approach that best suits their child. Moving to a new school district has become a much less practical option, as district unification has reduced the number of independent districts, and equalization and State curricular mandates have reduced curriculum diversity.[25] The alternative of enrolling children in private school requires parents to pay twice because they are not relieved of their tax obligations for the public schools. In essence, the parents must pay full tuition for any increment of improvement offered by the private school. Neither of these "escape valves" is practical for the average family, and competitive discipline is thereby seriously weakened.

An economist would argue that the structure of school finance is such that K-12 educational services are almost certainly being provided inefficiently.[26] This inefficiency may be manifested in higher costs and/or lower quality education than might otherwise be obtained. If one subscribes to this view, the logical reform, therefore, is to reintroduce competitive forces into K-12 education. This could be done easily by having the State pro-

The State could provide parents with a stipend for each student that could be used at any school the parent feels is compatible with their child's needs. This basic approach has been in use in The Netherlands for 80 years.

Oregon has chosen to underwrite higher education services by subsidizing a system of publicly run institutions. It would be much less expensive to provide need-based assistance and/or to support assisted student loans than to provide ubiquitous subsidies to the institutions.

vide parents with a stipend for each student that could be used at any school the parent feels is compatible with their child's needs. This basic approach has been in use in The Netherlands for 80 years and, more recently, in New Zealand. It is associated with academic progress, a system that is tailored to the diverse needs of its students, and a high level of parental satisfaction.[27] In theory, the efficiency effects of such a structure would permit Oregonians to enjoy higher quality education at the current spending level, or maintain current quality at a lower spending level.

Higher Education Reform

Oregon has chosen to underwrite higher education services by subsidizing a system of publicly run institutions. By subsidizing the institution, rather than the student, Oregon's higher education system enjoys greater insulation from competition than would be the case if students could carry that subsidy to the school of their choice.[28] In addition, the subsidy has to be larger than it needs to be to induce any given level of college enrollment. Students or families that could easily finance their education enjoy a subsidy nonetheless. It would be much less expensive to provide need-based assistance and/or to support assisted student loans than to provide ubiquitous subsidies to the institutions.

A logical reform in this realm, therefore, is to provide assistance to students in the form of student loans, with need-based underwriting criteria and terms. Students would be free to take this assistance to the school of their choice. In this way, Oregon could be sure that students would seek the best alternatives and proceed through their degree in a timely fashion at the lowest cost to Oregon taxpayers. Indeed, under a well-managed student loan program, the State's financial involvement in higher education could be limited to scholarships for the very needy and the operational and bad-loan costs of the student loan program.

Health Care Reform

The Oregon Health Plan addresses the issue of access to health care by expanding health insurance coverage. Health insurance coverage, whether provided by an employer or the State, has the unfortunate side effect of making both the consumer and provider of services indifferent to the cost of service. In essence, as a side effect of protecting the consumer from the costs of care, cost *discipline* is lost. In the United States, even normal, predictable and minor medical expenses (e.g., normal childbirth, treatment of colds and flu, minor broken bones, etc.) are "insured."[29] From a theoretical viewpoint, such comprehensive insurance is not actually insurance at all, of course, but rather an expensive form of *price illusion*, i.e., the creation of the illusion that someone else is paying for the common elements of care that we all need.

The adverse effects of expanded, comprehensive insurance coverage are manifold. By using insurance systems to cover common medical care expenses, additional administrative costs are added to the cost of providing the care.[30] More importantly, comprehensive insurance coverage has the effect of increasing consumer complacency about cost, and providers and suppliers of medical supplies and services need be less cost conscious. This inevitably has the effect of raising the unit cost of service over time and with it the cost of insurance, however provided.

Ironically, the price illusion effect is greatest

Table 4: Oregon's 1999-2001 Budget (all figures $Thousands)

Spending Category	General and Lottery Funds	Other State Fun	Federal Funds	Total
Education				
K-12	4,560,949	174,594	-	4,735,543
Community College	431,213	10,917	95,969	538,099
Higher Education	749,021	1,970,803	-	2,719,824
Other	398,314	208,810	581,001	1,188,125
	6,139,497	2,365,124	676,970	9,181,591
Human Services				
Adult and Family Services	219,684	51,595	957,740	1,229,019
Mental Health and Dev. Disabilities	653,269	89,846	633,633	1,376,748
Medical Assistance	628,071	310,269	1,425,092	2,363,432
Senior and Disabled Services	445,873	73,705	685,394	1,204,972
Other	337,323	182,283	654,412	1,174,018
	2,284,220	707,698	4,356,271	7,348,189
Public Safety				
Corrections	759,913	257,789	8,041	1,025,743
State Police	167,764	113,399	57,455	338,618
Other	256,382	73,616	78,552	408,550
	1,184,059	444,804	144,048	1,772,911
Economic and Community Development				
Economic Development Department	83,950	203,331	53,255	340,536
Employment Department	3,906	1,129,430	144,224	1,277,560
Housing and Community Services	14,984	780,287	127,714	922,985
Veterans' Affairs	2,415	888,447	-	890,862
Other	6,491	14,454	-	20,945
	111,746	3,015,949	325,193	3,452,888
Natural Resources				
Environmental Quality	39,039	228,829	32,169	300,037
Fish and Wildlife	19,958	87,072	88,053	195,083
Forestry Department	32,946	157,191	3,295	193,432
Parks and Recreation	43,472	61,718	3,253	108,443
Other	98,579	150,600	17,834	267,013
	233,994	685,410	144,604	1,064,008
Transportation				
Department of Transportation	24,460	1,971,162	66,057	2,061,679
Consumer and Business Services				
Consumer and Business Services	-	534,415	5,388	539,803
Other	13,907	76,671	1,560	92,138
	13,907	611,086	6,948	631,941
Education				
Administrative Services	6,355	51,591	-	57,946
Public Employees Retirement System	-	3,228,952	-	3,228,952
Other	133,069	127,964	3,554	264,587
	139,424	3,408,507	3,554	3,551,485
Legislative Branch				
Legislative Branch	54,361	4,927	-	59,288
Judicial Branch				
Judicial Branch	363,027	7,838	840	371,705
Miscellaneous				
Miscellaneous	81,900	-	-	81,900
Statewide Totals	10,630,595	13,222,505	5,724,485	29,577,585

Source: Various figures in the Oregon Legislative Fiscal Office "Budget Highlights Legislatively Adopted 1999-01 Budget," August 1999.

Medical Savings Accounts could help lower administrative overhead throughout the delivery system, enhance competition, and allow insurance to focus on truly catastrophic, uncommon and unpredictable health events.

on the remaining uninsured and those with catastrophic care needs. As the fraction of the population insured has increased, so has the unit cost of health care (that is, the cost of a particular procedure or service) that uninsured individuals must pay themselves. As unit costs rise, of course, the cost of even day-to-day health care—let alone catastrophic care—falls even further out of the reach of the uninsured.

The reaction of policy makers to the deterioration in cost-effective access has progressively made the problem still worse. Specifically, policy makers have reacted to the problem of the uninsured by expanding insurance coverage still further, by mandate, incentive or public provision, which only worsens the price spiral. This occurs both because additional spending further fuels the cost spiral, and because regulations often have the effect of causing health care providers to withdraw from the market to constrain their risk. Policy makers try to contain this inevitable price spiral by then rationing services or adopting so-called managed care delivery systems. Though established with the best of intentions, such systems fail because the care of patients is put in the hands of administrative personnel who run the rationing or managed care system. In reaction, policy makers then advance "patient bill of rights" policies, and so on.

From an economist's viewpoint, the American health care policy is in a completely predictable cost and service death spiral. American policy fails to recognize that the person who generally best understands the value of and need for medical care is the individual (or the family) who is seeking it. Rationing and managed care solutions to cost control are doomed to failure because they inherently require the provider to antagonize the consumer. The logical reform, therefore, is to only provide insurance against catastrophic medical costs, and to find a way for consumers to conduct the 80 to 85 percent[31] of their transactions with the medical profession on a cash, or quasi-cash basis. This lowers administrative overhead throughout the delivery system, enhances competition, and focuses insurance on truly catastrophic, uncommon and unpredictable health events.

The device preferred by many economists that can accomplish the above goals is the medical savings account (MSA).[32] It is used in Singapore and available in a limited form as an experiment in the United States. The MSA gives consumers a special, tax-protected account out of which they may pay their out-of-pocket health care costs or allow the account to grow for retirement or (in Singapore) for first-home purchase. This approach provides a way of making sure that adequate funds are available for the consumer to make necessary payments, while giving the consumer an incentive to husband the funds carefully.

Where such remedies have been applied, there is a dramatic reduction in the unit costs of care. In Singapore, for example, the share of gross domestic product that goes to health care is a mere 25 percent of the U.S. level, without significant differences in outcomes.[33] Indeed, the American system is a target of official scorn in Singapore, where the adopted policy is to "…avoid unrestricted and open ended medical insurance as practiced in the US, which leads to the provision of unnecessary medical services and escalating premiums."[34] Hong Kong has elected to adopt the same approach to containing its health care costs.

Oregon, out of its own budgetary self-interest, should be aggressively supporting such remedies, both in Oregon and in Congress. Instead, both federal and Oregon policy has been very hostile to MSAs, subjecting them to regulations that have made them more expensive, less attractive and less flexible than they otherwise would have been.

In addition, if prior studies of Oregon's health insurance regulations were correct, Oregon would benefit from *easing* health insurance regulations. Such eased regulations would encourage employers and insurers to expand private coverage to those that they could profitably insure. Today, there are undoubtedly some workers who are uninsured because regulations require insurers to make all or nothing choices in private insurance markets. If Oregon could reinvigorate private insurance, the burden on the OHP would be reduced.

Highway Policy Reform

The financing of highways in Oregon needs relatively less substantial reform to improve the cost-effectiveness of this public activity. Indeed, recent Oregon legislatures have passed into law the key provisions that are needed to effect very meaningful highway finance reform.[35]

The key elements of improved highway reform are twofold. First, the existing system of user charges (gasoline taxes and truck weight-mile charges) needs to be reformed so that it is more sensitive to the actual costs that the user is imposing. In Oregon, it costs the same per-mile to operate a vehicle on an expensive road as on a cheap road. And it costs the same when the demand for the road is strong (the peak hour) or when demand is weak (at night, say). In essence, we undercharge for expensive and congested facilities, and overcharge for inexpensive and uncongested facilities. The system consequently always appears to need more of the expensive facilities, since there is no incentive to economize on their use or to rearrange travel or living arrangements to limit the need. A cost-effective policy here would be to replace the existing user charges with ones whose level varied with the particular road and/or the time of use. This would sensitize users better to the public cost burden they were imposing, and reduce the need for highway spending over time.[36]

Second, Oregon might benefit from private development and ownership of roads. Oregon bids competitively for new construction projects, which is helpful in keeping highway costs down. However, the initial decision to build or improve a road or not should incorporate a careful evaluation of whether the improvement is worth the cost. One way to ensure this is to partly or fully privatize the development of roads, a policy being considered in New Zealand. Private owners only build roads if they are likely to yield benefits that users would be willing to pay for. In this sense, private ownership (or public-private partnerships) may help avoid spending scarce public funds on roads that users are not willing to pay for.

Oregon's highway financing system has certain attractive features, including rigorous accounting of cost responsibility by vehicle type, and the use of a weight-mile tax on truck travel to properly assess the differential burdens of various truck types. In addition, highways are financed by users, rather than general taxes, albeit by a fairly crude pricing device. Nonetheless, Oregon, like most states, could benefit from the adoption of a more refined, user-focussed financing system.

A cost-effective highway finance policy would be to replace the existing user charges with ones whose level varied with the particular road and/or time of use. This would sensitize users better to the public cost burden they were imposing, and reduce the need for highway spending over time.

Today, 85 percent of child support enforcement in Oregon involves wage garnishment of individuals whose children are not a public burden. Oregon taxpayers might reasonably ask why they should subsidize the collection of debts on behalf of people who are not a public burden.

Corrections Services Reform

As Table 2 indicates, Oregon spends more than most other states on its corrections system. Whether or not this general over-emphasis is consistent with the public's preferences, Oregon should aggressively pursue means of lowering the cost of delivering corrections services. One solution that has been sought by other states (especially California and Texas) is to enlist private providers of prison services. Oregon stands out in its reluctance to engage the services of private providers of prison services.

Privatization of prisons is a hotly debated topic, with strong political forces on both sides of the issue (i.e., prison workers' unions on the one hand, and providers of private prison services on the other). States that have aggressively persued this strategy, however, appear to enjoy five to 20 percent lower capital and operating costs, and equivalent or better outcomes.[37]

Welfare Policy Reform

The federal block grant policies, as discussed earlier, give Oregon an incentive to overspend on welfare services. Consequently, despite a 60 percent reduction in caseloads, there has been no concomitant cut in Oregon's welfare spending. Certainly by the end of 2002, however, when the federal block grant policy constraints are removed, Oregon could cut its welfare spending significantly if it wished.

In addition to savings in welfare spending that should be forthcoming from reductions in welfare rolls, other savings may be possible through the elimination of inefficient or ineffective programs. In addition, restructuring some programs so as to better encourage work effort by able workers may have positive fiscal effects.

Child support enforcement is one area where the public sector's involvement is questionable and likely counter productive. Child support enforcement involves the garnishment of the wages of non-custodial parents. The public sector's original interest in such activity was to offset the public's cost of providing welfare support to the children of such non-custodial parents. Today, however, 85 percent of child support enforcement in Oregon involves wage garnishment of individuals whose children are not a public burden.

Oregon taxpayers might reasonably ask why they should subsidize the collection of debts on behalf of people who are not a public burden. More importantly, however, it is also clear that child support enforcement, even for its original purpose, is simply not cost-effective. In 1997 in Oregon, for example, the state and federal governments spent a full dollar to collect only 69 cents of child support to offset TANF expenditures.[38]

In addition, the wage garnishment procedures themselves likely have serious, adverse effects on the work effort of poor, non-custodial parents. Child support payments are not tax-deductible by the payer. In addition, a special exception in consumer credit regulation allows up to 65 percent of a non-custodial parent's income to be garnished for child support. [39] Consequently, the effective tax rate on the income of even poor, non-custodial parents can easily exceed 65 percent, notwithstanding the burden of social security and other taxes. Such high tax rates undoubtedly have the counterproductive effect of thwarting work effort and limiting the amount of support forthcoming from such parents.

Other welfare policies may be having similar effects on recipients. Cash welfare assistance has declined significantly under PRWORA, and the adverse effects on work of the old AFDC program have diminished. But the remaining child care and food stamp programs also create strong incentives to "lock" an individual into poverty. According to a recent Oregon study, for example, a person earning $6.50 per hour who enjoys these benefits has little incentive to raise her salary, even to as high as $12.50 per hour. This is because the potential loss of the child care and food stamp benefits exposes her to an effective tax rate of 83 percent. [40]

The lesson of the welfare policy practices of the last 40 years is that it is difficult to provide assistance to some people without adversely affecting either their willingness to work, or their willingness to invest in their own future. Oregon would be well advised to direct its policy efforts at those behaviors that unnecessarily create welfare need, since a benign way of providing welfare assistance after the fact probably does not exist. Such policies would improve the self-sufficiency of the able-bodied, and allow the available public resources to be better directed to those truly in need.

Other General Reforms

Some reform possibilities are applicable to a variety of spending programs. The State of Oregon has adopted policies that affect the cost at which it acquires a variety of services and products. Two of the most important are the policies affecting the price the State pays for new construction and the price it pays for its labor. As Table 2 indicates, these items together constitute 20 percent of the State's own spending, and spending policies in these areas contribute to the cost of services that the State supports through intergovernmental transfers, such as education.

The Cost of Capital Outlays: "Little Davis-Bacon"

The Davis-Bacon Act is a controversial federal act that requires that capital projects funded with federal money be built using labor paid the "prevailing wage" in the relevant labor market. It was passed in1931 to protect high-wage construction labor in the northeast from the competition of low-wage labor migrating to the region at that time from the south.[41] Oregon adopted its own version of this law in 1959 as the Oregon Prevailing Wage Law. Under Oregon's prevailing wage law, wages and benefits paid on public projects are established for Oregon by the Secretary of Labor of the United States, pursuant to the federal Davis-Bacon Act, and the Oregon Labor Commissioner. Oregon's Bureau of Labor and Industries implements the Oregon Prevailing Wage Law (OPWL). Because of its direct link to federal Davis-Bacon policies, Oregon's law is frequently referred to as "Little Davis-Bacon."[42]

In the context of this report, the important feature of such a policy is that it compels government to pay more than the competitive price for capital projects, by definition. Consquently, State expenditures are greater than they would otherwise be. Schools are more expensive, highways are more expensive, and state buildings are more expensive as a consequence of this policy.

Calculating the effect of the policy on the cost of public capital expenditures is complex, because the stipulated "prevailing" wage must be compared with the competitive wage of equal labor productivity, the share of wage expenses in total capital expenditures must be determined, etc. Both of these

Schools are more expensive, highways are more expensive, and state buildings are more expensive as a consequence of the Oregon Prevailing Wage Law.

The field of economics is clear on the general prescription for improving efficiency, namely the creation of, or improvement of, competitive conditions in the relevant marketplaces.

factors are variable over time, and vary with the type of projects undertaken by government at any particular time. In a study performed by the author in 1994, the presence of the OPWL had the effect of increasing the costs of capital outlays by about 11 percent.

The Cost of Labor

The State of Oregon's payments to labor are approximately $1.9 billion per year, inclusive of the current cost of benefits (see Table 2). Although total wage and salary compensation of public workers in Oregon is 20 percent higher than the U.S. average, total expenditures are similarly larger. Hence, the *share* of labor in total expenditures is approximately similar to other states.

The nominal level of compensation per State worker in Oregon is virtually identical to the average across all U.S. state workers (at about $35,200 in 1997 dollars). However, because per capita personal income is approximately seven percent lower in Oregon than in other states, one could take the position that State workers in Oregon enjoy higher real compensation than state workers in other states.

Proper comparison of the cost of labor also requires comparisons of the funded status of employee retirement systems. If current charges for the retirement of current employees are less that what is needed to fully fund the retirement program, then the accruing unfunded liability is an additional implicit expense of labor. Because of certain features of its benefit structure and gain/loss reserve accounting, Oregon's public employee retirement system faces the real prospect of increases in unfunded liabilities or increased employer retirement costs.[43] Because the scale of this effect is not fully known at this time, it is not possible to determine the significance of this in comparing the cost of labor services in Oregon versus other states.

Conclusion

This report's findings suggest that Oregon has a relatively large public sector, generally, and State sector specifically. It is difficult to explain existing spending levels based on the demographic characteristics of the state. Oregon consequently stands out, at least in comparison with other states.

Reductions in spending on the order of 15 percent or so would not put Oregon out of line with other states. However, Oregon's spending pattern is not an accident, but rather the consequence of a series of individual program spending decisions. Therefore, if spending were reduced these programs would either have to be scaled back or efficiency measures as discussed in this report would have to be adopted.

Voters faced with decisions about various revenue and spending ballot measures, now and in the future, must evaluate whether Oregon's higher-than-average spending is consistent with their preferences for public spending. If they determine that it is not, the policy suggestions in this report may be helpful in finding ways to adjust to reductions in resources or spending capability. Even if voters determine that they are happy with the current level of spending on public services, the suggestions in this report may stimulate interest in more efficient provision of those services.

Notes

[1] Memorandum, "Fiscal Analysis of Appropriation Limit Initiative," Joint Legislative Budget Committee Members, May 31, 2000. Memorandum, "Budgetary Impact of Federal Tax Deduction Measures," Joint Legislative Budget Committee Members, May 31, 2000.

[2] Milton and Rose Friedman, *Free to Choose*, (New York: Harcourt Brace Jovanovich, 1979), Chapter 10.

[3] If all states suffer to some degree from the tendency toward overspending that the Friedmans and other theorists allege, benchmarking Oregon to other states can only measure the relative level of overspending, and not the absolute level. Nevertheless, across the various states the problem of biased policy drift may be contained, to varying degrees, by differences in the influence of special interests, the effectiveness of ballot propositions, the size and accessibility of government, and other factors. In this sense, benchmarking at least provides a "lower bound" estimate on overspending.

[4] The dependency ratio is the proportion of the population under 18 or over 65 years of age.

[5] Oregon was criticized, for example, for its relatively high rate of State spending growth in the 1990s. (See, for example, Stephen Moore and Dean Stansel, "A Fiscal Report Card on America's Governors, 1998,"Cato Institute, September 3, 1998. Oregon received an "F" in this study.) During this time period, however, the locus of much of education finance responsibility was shifted from local governments to the State as the result of property tax limitation measures.

[6] This procedure is called regression analysis. Using regression analysis, spending levels across states can be associated with multiple demographic factors.

[7] The five categories tabulated separately—education, health, highways, corrections/police, and public welfare—are the largest categories and constitute approximately 75% of direct spending, and 62% of total spending in Oregon. The other categories (natural resources, sanitation and sewerage, housing and community development, parks and recreation, public transit, financial administration, etc.), though not discussed explicitly, are included in All Expenditures benchmarking.

[8] The statistical relationships were estimated using information from 50 states and the District of Columbia in a log-log regression formulation.

[9] Source: U.S. Census Bureau data

[10] This calculation is made by a separate benchmarking calculation across all states, using information on tuitions shares and public school enrollment shares to explain per student spending.

[11] The health spending category includes hospitals.

[12] *Private Health Insurance: Continued Erosion of Coverage Linked to Cost Pressures*, U.S. General Accounting Office, July 1997.

[13] "The Oregon Health Plan and Oregon's Health Care Market," Office for Oregon Health Plan Policy and Research, August 2000, p. 5.

[14] The Oregon Health Plan reports measures of the share of uninsured individuals from Oregon's own special Oregon Population Survey. My analysis relies on the statistics reported by the U.S. Census Bureau for all states. The latter data are not yet available for 1998.

[15] This result suggests that the OHP, while expanding public coverage, may have retarded the expansion of private coverage by reducing workers' demand for such coverage. Although private coverage is relatively high in Oregon (again, primarily because of Oregon's favorable demographics) it would have been higher without OHP.

[16] Specifically, in 1996, Oregon passed numerous regulations including guaranteed issue, portability and pre-existing condition regulations. Oregon also regulated premiums, dictating maximum premium ranges and the types of factors that can be included in ratemaking considerations.

[17] Melinda Schriver and Grace-Marie Arnett, "Uninsured Rates Rise Dramatically in States with Strictest Health Insurance Regulations," Galen Institute (Alexandria, VA), August 11, 1998.

[18] The Internet service eHealthInsurance, for example, offers hundreds of inexpensive plans for Californians, but none for Oregonians.

[19] Voters approved these mandatory minimum sentences through Measure 11 in 1994. Certain minimum sentences were later relaxed by the passage of SB 1049 in 1997.

[20] This is particularly a problem with the benchmarking technique used in this report, because demographic data for all states is only available with a lag.

[21] "Roadway Congestion in Major Urban Areas," Texas Transportation Institute (College Station, TX), various issues, 1990 and 1997.

[22] *Housing Vacancies and Homeownership Annual Statistics*, U.S. Census Bureau.

[23] National Association of Home Builders, *Housing Opportunity Index: Second Quarter 2000*.

[24] Parents also pay local property taxes, but only to the extent permitted by Measure 5, a Constitutional amendment approved by voters in 1990.

[25] There were 104,000 school districts in the United States in 1940. Today there are approximately 12,000. In this time, the U.S. population has nearly doubled. Hence, each student has approximately 1/20th the choices of 60 years ago. Oregon, with 198 districts, has experienced a parallel trend toward unification.

[26] The K-12 education "industry" is monopolized, subsidized, politicized, run by a centralized administrative process and subject to monopsonized labor supply. To an economist, this is a inevitable prescription for inefficiency.

[27] "Education in the Netherlands," Netherlands Ministry of Education, Culture and Science, Information Department, February 1998. In New Zealand, the ownership and governance of schools was transferred to parent-elected boards, and funding is based on a per capita formula. For a detailed discussion of New Zealand's

education reforms, see Edward B. Fiske and Helen F. Ladd, *When Schools Compete: A Cautionary Tale* (Brookings Institution: 2000)

[28] For more discussion on this topic, refer to Randall J. Pozdena, Ph.D., "Power to the Student: An Alternative to Higher Education Funding Increases," Policy Insight No. 101, Cascade Policy Institute (Portland, OR), Jan. 1997. http://www.CascadePolicy.org/pozdena.htm.

[29] In 1995, for example, approximately 80 percent of all insured individuals filed claims of $2,000 or less per year, and only 1.8 percent of insured individuals filed claims exceeding $25,000 in one year. These rare, but very large claims are the appropriate realm for insurance coverage. Source: American Academy of Actuaries, "MSAs: Costs and Design Issues," May 1995.

[30] Administrative costs are in excess of 15 percent of insurance costs, not including the administrative burden borne by the patient and the provider.

[31] See endnote 29.

[32] Briefly stated, medical savings accounts involve placing funds in special accounts out of which consumers buy health services (other than insurance) directly. Consumers are allowed to use funds that they do not spend on health care as part of their retirement income. This gives consumers the incentive to use the funds wisely, and to buy health care services in a cost-conscious way. This introduces consumer sovereignty and the forces of competition into the health care marketplace.

[33] According to the *World Health Statistics Table,* published this year by the World Health Organization, Singapore equals or outperforms the U.S. is virtually every measure of health care system performance: child mortality rates, maternal mortality rates, life expectancy, immunization rates, child malnutrition, and youth death rates. It achieves this performance while spending 4% of GDP on health care vs. 14% in the United States. Singapore's per capita income is approximately 70% of the U.S. level.

[34] <http://www.gov.sg/moh/mohiss/afhltcr.html>

[35] ORS 383.001, ORS 383.021 and ORS 366.292 permit establishment of tollways, provide for public-private partnering, etc.

[36] Electronic billing technologies exist to levy such fees. One such system is in use in Texas by a private insurance company (Progressive Insurance) that has chosen to charge for its auto insurance based on the time and place of use of the vehicle.

[37] Charles W. Thomas, Director of the Private Corrections Project, University of Florida in Gainesville, testimony before the subcommittee on crime of the U.S. House Committee on the Judiciary, June 8, 1995.

[38] "Annual Report to Congress," U.S. Office of Child Support Enforcement, 1997.

[39] Title III, Consumer Credit Protection Act (15 USC §1671 et seq; 29 CFR 870).

[40] John Tapogna and Ed Whitelaw, "Reforming Welfare Reform," *Oregon Quarterly*, Autumn 1999, p. 21.

[41] Many of these low-wage migrants were black, and the assertion persists today that the Davis-Bacon Act is discriminatory in its effect, and violates constitutional provisions of equal protection.

[42] ORS 279.348 to ORS 279.365

[43] "Pension System Mulls Pooling To Ease Woes," *The Wall Street Journal*, August 30, 2000.

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