



CASCADE UPDATE

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Oregon Budgeting 101

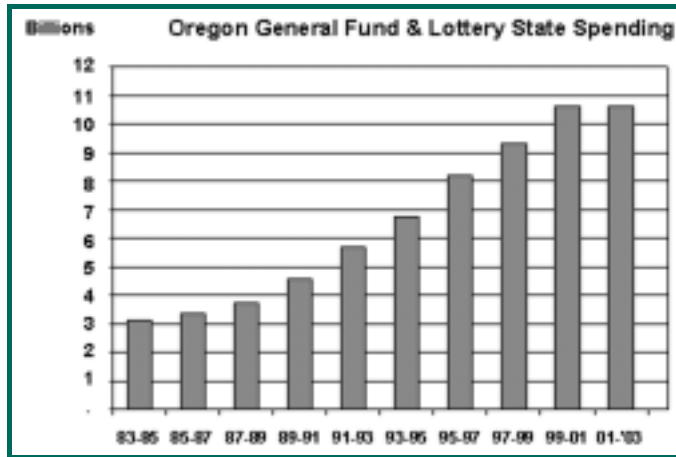
By Steve Buckstein

Oregon legislators are holding their collective breath to see if voters buy the January 28 three-year temporary income tax increase. Regardless of the outcome, state government is spending beyond Oregonians' means and legislators should reduce expenditures now.

First, let us understand what the problem is not. Call it Oregon Budgeting 101.

The state's general fund budget has grown at double-digit rates for decades. The 2001-2003 budget is the first in recent memory that has seen real spending cuts compared to the biennium before it. However, these cuts are much smaller than media reports make them out to be.

Oregon state government uses "current service level budgeting," which assumes that present spending in every agency and department is needed. Biennial budgets are then simply adjusted upward to maintain current service levels, factoring in



The graph shows actual spending from 1983 to 1999, estimated in 1999-2001, and legislatively adopted in 2001-2003 assuming that Measure 28 (the temporary income tax increase on the Jan. 2003 ballot) passes. Source: Taxpayer Association of Oregon.

inflation, growth of populations served, and so forth. The headline-making cuts are primarily reductions in the rate of growth; thus, even with so-called cuts, actual spending is often higher than before.

State spending in 2003-2005 will almost certainly be higher than in 2001-2003. Yet, due to current service level budgeting, the media reports a projected \$2 billion shortfall in 2003-2005. Spend more and call it a shortfall? Governor-elect Kulongoski pledged to end this flawed budgeting process, but this alone will not cure Oregon's fiscal woes.

Oregon's economy is simply not generating the tax revenue policy makers expected. Recovery is not going to happen quickly, and the last thing struggling Oregonians need is a tax hike. As fiscal analyst Stephen Moore wrote in *States Can't Tax Their Way Back to Prosperity: Fiscal Lessons Learned the Hard Way from the 1990-91 Recession* for the American Legislative Exchange Council, "the fiscal lessons of the 1990s confirm nearly two decades of

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PGE: Portland Government Electric?

By John A. Charles

In the midst of a lingering recession, with tax revenues down, Portland City Commissioners found half a million dollars to study a takeover of Portland General Electric, Oregon's second largest provider of electricity. Why city officials are contemplating a takeover of another utility is anyone's guess—they have yet to fix the water department's billing system and its accompanying multi-million dollar cost overrun.

To decide that a hostile takeover of PGE by the City of Portland or a new People's Utility District (PUD) makes sense, one has to first conclude that a) there are problems with the current ownership and b) public ownership would solve

those problems. Upon examination of the Portland utility landscape, I found little evidence to support either of these conclusions.

The so-called problems associated with continued ownership and management of PGE as a private company are relatively minor, but the risks of public management are substantial. The biggest single drawback to the current model—that PGE is a monopoly—will not be solved under any government takeover scenario.

It's hard to fathom why city commissioners would squander millions of dollars in transaction costs, wait years if not decades for the PUD condemnation proceedings to finish, and expose taxpayers and ratepayers to the massive risks of manage-

"The biggest single drawback to the current model—that PGE is a monopoly—will not be solved under any government takeover scenario."

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Money's not the solution, educational freedom is

The debate about school spending in Oregon is coming to a close. The numbers and analysis in Cascade's *Oregon K-12 Revenue and Expenditures, 1990-2001* were substantiated by a [report](#) just released by the Oregon School Board Association (OSBA).

Using common methods of counting expenditures, Oregon's per pupil expenditures in 2000-01 were between \$8,000 and \$9,000 according to Cascade and OSBA. This places Oregon well above the national average in education spending. With such high spending, why do our schools continue to cut programs and lay off teachers?

The best answer comes from the OSBA report's conclusion:

"After controlling for the State's economic and demographic characteristics, Oregonians elect to spend more on elementary and secondary public education relative to the average state and each of its neighboring states. This additional spending essentially

funds higher relative compensation for system staff primarily in the form of higher than average benefits. Relative to neighbor states, Oregon also has a greater number of non-teacher staff per teacher. If Oregonians believe that their school system is yielding commensurate superior performance, the additional spending is appropriate."

Believing something to be true, however, is not the same as it being true.

Substantial research has found [little correlation between more spending and higher academic performance](#)—a view confirmed with a brief look at Oregon statistics. According to the New York-based [Manhattan Institute](#) only 66 percent of Oregon public school students graduate in four years, which ties the state with California, Alabama and Louisiana for 36th place in the country. On the 1998 National Assessment of Education Progress (NAEP) reading exam, only 33 percent of Oregon eighth graders scored at or

above proficiency. In 2000 only 32 percent of Oregon eighth graders scored proficient or above on the NAEP math section.

These statistics indicate that the additional spending in Oregon has not translated into higher academic performance. The numbers suggest that spending more on education, as we've done for decades, will do little to improve learning.

On the other hand, countless studies have documented the positive role that competition, choice and freedom have on education quality. As the *Oregonian* editorialized on December 7, "[I]t's time for Oregon to question how we've managed to spend this much money on adults, and still short-changed students."



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Canaries in the coal mine

Cascade's November report, *Treatment Denied: How State Government Health Care Monopolies Care for the Mentally Ill*, illustrates why more government control of health care is undesirable. In *Treatment Denied*, author and Cascade adjunct scholar Linda Gorman, Ph.D., focuses on state mental health programs in Oregon, Colorado, Tennessee, and Utah.

Of particular emphasis is bureaucratic control of medications for the mentally ill. Gorman writes, "In the early 1990s new drugs revolutionized the treatment of schizophrenia, freeing patients from drugs that cause permanent motor dysfunction. Insensitive to patient suffering due to their narrow focus on their drug budgets, many state health bureaucracies sought innovative ways to deny patients the new drugs."

The denial of, or delay in allowing, patients' access to new drugs is done to control line item expenditures. In addition to causing human suffering, this myopic view can be penny wise and pound foolish. Gorman cites an official at the National Association of the Mentally Ill who wondered why states that routinely incurred costs of about \$66,000 a year to hospitalize schizophrenics in government institutions were opposed to spending \$9,000 a year for drug maintenance that could allow many schizophrenics to lead normal lives.

In February 2001 the Oregon Association of Hospitals and Health Systems released a study that examined the cost of Oregon Health Plan mental health services. The study found, "contrary to the goal of containing growth in costs, the new system appears to have resulted in substantial cost increases beyond what can be accounted for by medical inflation." Government-run health programs do not hold down costs; they give bureaucrats and politicians power to ration care.

Gorman warns, "The mentally ill are but the canaries in the coal mine. Although giving governments a monopoly over mental health care has resulted in reduced services and skyrocketing costs everywhere it has been tried, this is the reform model that proponents of a government monopoly on health care want to extend to every form of medical care in the United States."

To help make quality health care more affordable for all, Gorman advocates reducing the "burden of federal and state health care regulation, deregulating health insurance, and letting people save for their medical care in tax-free accounts. For those who need financial assistance, it would be far easier, and less costly, to imitate the food stamp program than to give government a monopoly over any health care system."

"Giving governments a monopoly over mental health care has resulted in reduced services and skyrocketing costs everywhere it has been tried."

Teachers unions' stealth politics exposed

By Jami Lund

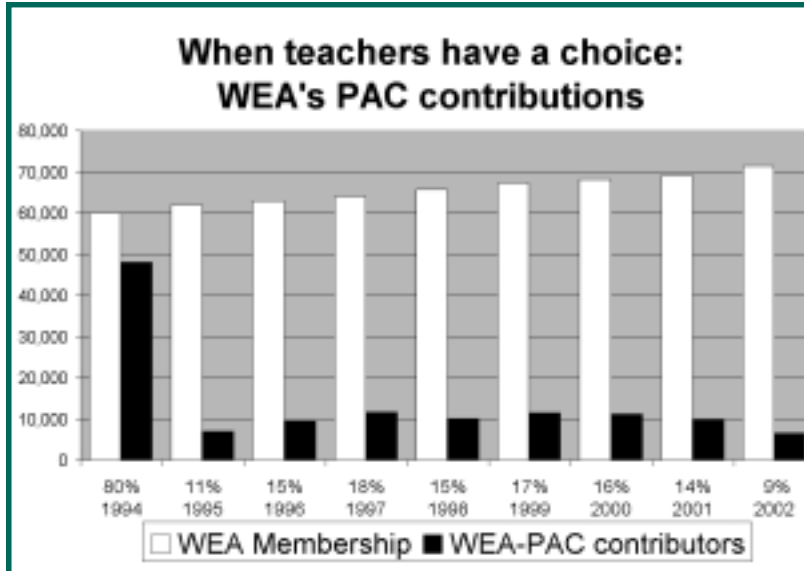
In Oregon, 112,700 government employees belong to unions. Many of these Oregonians have no choice in the matter, because union membership is a condition of employment, which means these members must pay dues to the unions. These same unions are widely acknowledged, and proclaim themselves, to be major players in Oregon politics. For example, the Oregon Education Association claims 45,000 members and during 2002 the OEA's political action committee reported more than \$1 million in political expenditures.

How much of this money is voluntarily paid by teachers or other members and how much comes from mandatory union fees is unknown. However, events in Washington state reveal the low level of teacher support for union politics as well as the union's willingness to ignore the wishes of its members.

“Exposed misdeeds have led to court orders that resulted in the Washington Education Association paying \$500,000 in fines and union officials being forced to return \$730,000 in misspent dues to teachers.”

The Evergreen Freedom Foundation (EFF) in Washington has gained nationwide recognition for shining light on the dark secrets of unions—particularly the teachers' union. Exposed misdeeds have led to court orders that resulted in the Washington Education Association (WEA) paying \$500,000 in fines and union officials being forced to return \$730,000 in misspent dues to teachers.

The chain of events began in January 1996 when a group of teachers posed a simple question to EFF president Bob Williams. He is a fiscal expert who regularly scrutinizes state budgets, government spending and tax policy. Williams was the natural choice for these teachers who wanted to know the source of funds for the Washington union's extraordinary electioneering in opposition to two school choice initiatives.



Source: Washington Education Association documents assembled by Evergreen Freedom Foundation

Not only did these teachers believe it was wrong for union officials to force them to make campaign contributions to causes they didn't support, they believed it was illegal. Washington state citizens adopted a law in 1992 stating no person "may withhold or divert a portion of an employee's wages or salaries for contributions to political committees or for use as political contributions except upon the written request of the employee." After passage of this law, the percentage of teachers who joined the union political action committee fell from 80 percent to 15 percent.

Williams was able to document that union officials were diverting mandatory workplace representation dues to political efforts. The Evergreen Freedom Foundation helped teachers lodge complaints with state authorities and restored their legal right to choose whether or not to give to political causes. To date, the WEA has:

- paid a \$100,000 penalty and returned \$330,000 to teachers for establishing an illegal "political education" assessment and concealing contributions; and,
- paid a \$400,000 penalty, \$190,000 in state legal costs and returned \$400,000 to non-member teachers because the union had illegally used their mandatory fees for election expenditures in violation of the law.

Most recently, the Washington Attorney General filed a lawsuit against the National Education Association for violations in the state similar to those by the WEA.

Public opinion has been on the side of those who resisted the union. Nearly every major pa-

per in Washington has editorially scolded WEA officials. For example, the *Seattle Post-Intelligencer* editorialized on April 5, 1998, "To the extent that the unions' political voice is based on dues from unwilling members, that voice is false." Public polls show that 81 percent of voters disapprove of union officials using members' dues to influence elections, and 76 percent support changing the law to end the practice.

Union workers are getting a glimpse of the seamy underside of union bureaucracy. No longer does the WEA claim that general dues are never used for election purposes. Teachers are learning that union officials are like well-paid bureaucrats with little accountability. The realization that union books are actually secret is beginning to sink in. Most importantly, teachers are now aware of their right to decline union membership and pay only for workplace representation.

Evergreen Freedom Foundation has helped bring about these changes by enabling teachers to speak out to their colleagues. On six occasions EFF has mailed information to nearly all teachers' home addresses. EFF has also used e-mail to deliver messages to all teachers. Polling shows that 65 percent of teachers now believe the union officials should be required to get permission before spending members' dues on elections.

Despite positive changes in awareness about union officials' electioneering with forced dues, it remains a problem. Union workers are still compelled to fund extraneous political activities. Citizens still see elections and public policy manipulated with money taken from non-consenting workers.

Information is the first step to lasting changes, and we are on the path to progress in Washington. As union workers and citizens learn more about how union officials manipulate and take advantage of power, the calls for union accountability increase. Although little is known about union finances and political activities in Oregon, the revelations from Washington provide ample reason to look further at these groups.

Jami Lund is project manager for Evergreen Freedom Foundation (EFF), a Washington-state based policy research organization, and an associate of Cascade Policy Institute. To learn more about EFF please refer to www.ewfa.org or call (360) 956-3482.

ment failure in a complex new business—just to replace a private monopoly with a government monopoly.

The \$500,000 appropriated by the Portland City Council to study a government takeover of PGE would have been better spent analyzing ways to inject more consumer choice into the utility arena. Through competition we can best drive down costs and promote technological innovation.

Wishful claims, unfounded concerns

The two issues raised most often by public power advocates are rate relief and local control. City Commissioner Erik Sten asserted early in 2002 that government management would result in a lowering of monthly utility bills by 10 to 30 percent. Other advocates have been less optimistic, but nonetheless insistent that public power will lower consumer bills.

On the local control front, concerns have been raised that “out of town” owners, including “multinational corporations,” would leave ratepayers and current PGE employees

“The \$500,000 appropriated by the Portland City Council to study a government takeover of PGE would have been better spent analyzing ways to inject more consumer choice into the utility arena.”

twisting in the wind.

Rates unlikely to decrease

A close look at the evidence shows that any potential gain through a PUD takeover would be accompanied by substantial risk. It’s true that PGE has high rates—in fact they have the highest rates of any utility in the Pacific Northwest—but the promise of lowered consumer bills by 10 to 30 percent is likely to be a Utopian dream.

The government power plan relies primarily on lower costs of capital and exemption from Federal taxes to reduce electricity rates. Unfortunately, the evidence from other public utility districts in the region shows that these advantages are not enough to bring down rates. As noted by the consulting firm EcoNorthwest, “If it were possible to lower rates based on these advantages alone, then we would have observed lower rates in exist-

ing public utilities in the region. In fact, four of the five highest rates in the Pacific NW are with public utilities rather than with investor-owned utilities.”

An assumed advantage for municipal utilities is their access to lower-cost hydropower from Bonneville Power Administration (BPA). But while BPA is required to provide municipal utilities access to its power resources, that does not guarantee a supply at a lower-than-market rate. In fact, BPA’s price advantages have been eroding in recent years. In October 2001 BPA increased its rates to all its wholesale customers by 46 percent. Consequently, the largest municipal utility districts in the region all had to increase their retail electricity rates, with increases ranging from 30 to 60 percent in 2001.

In examining this issue last June on behalf of Portland, the consulting firm Regional Financial Advisors concluded “rate reduction is the area of most uncertainty, given that the two major sources of cost savings in the past—tax exempt interest rates for asset financings and preferential power rates from BPA—are not readily available to a new municipal public power entity.”

Government power advocates suggest that additional cost savings would arise because a municipal entity would not pay million-dollar executive salaries. However, an audit of the municipally-run Los Angeles Department of Water and Power concluded that its costs of operation were higher than the other privately-run, investor-owned utilities in California. And an analysis by EcoNorthwest showed that public utilities comparable to PGE have higher operating costs than private firms when costs are measured as a percentage of revenue.

Local control: Better for whom?

Portland residents make millions of purchases every week from companies controlled by non-Portland investors. Many of these purchases are made over the Internet, in which neither the products nor its producers are local. If that were bad for consumers, they would stop doing it. But most shoppers rarely give it a thought; the location of owners is irrelevant so long as the service or product is competitively priced and of good quality.

Certainly, if local control by a political body were significant, we would see it reflected in the performance of local bureaucracies such as the Portland City Council, Metro or TriMet. They would respond quickly to citizen input and show great diligence in spending public funds. In fact, the reverse is true; those bodies are notoriously unresponsive to citizens and show little concern for the wise use of taxpayer funds.



Cascade’s John A. Charles advocates for more consumer choice in utilities at a November forum on PGE ownership.

Other takeover risks

There are a number of other risks associated with a hostile takeover. They include:

- Substantial transaction costs. NW Natural Gas reportedly spent more than \$14 million preparing a bid for PGE in what would have been a willing-seller transaction. In the case of a hostile public takeover costs could be much higher due to protracted litigation.
- The valuation of the assets to be acquired is uncertain. A 1999 report prepared by a consultant for the city cited a possible range of prices for only the distribution system within the city boundaries of \$275 million to \$2 billion.
- Major debt financing would be required. According to the Regional Financial Advisors report, “the issuance of the debt is likely to be taxable and thus carry interest rates closer to the regulated rate of return on fixed assets charged by PGE.”
- Any benefits from a municipal takeover would likely be decades in the future due to likely litigation by PGE. Sacramento, California voters decided to go public in 1923, but they didn’t receive power from Sacramento Municipal Utility District until 1947.

“Trust us”

In essence, what this debate comes down to is public power advocates telling everyone to “trust us, the benefits will outweigh the

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Why more health insurance is not the cure

By Randall J. Pozdena, Ph.D.

Health care in the U.S. has become progressively more expensive and less accessible over the last several decades. If one believed the popular press and policy makers, comprehensive insurance is the road to affordable, quality health care. This is a serious fallacy of American health policy, one that is seemingly accepted without question.

This view ignores the fact that the likely primary cause of rising health care costs is the overly comprehensive (and tax-subsidized) nature of health insurance. Policymakers have turned insurance into a system that creates the illusion that health care is costless, which has led to overutilization and excessive cost inflation.

The purpose of insurance is to share risk, and there are benefits from insuring certain medical events, but not all. Risk sharing through insurance makes good economic sense when it covers events that are rare, costly and difficult to predict. Though rare, such events can be financially devastating. Earthquakes and house fires are such events, as is treatment for leukemia or a stroke.

However, for common and minor events there is little advantage to risk sharing through insurance. Indeed, introducing the overhead expense of insurance will actually raise the cost to everyone. This is why routine house painting costs are not insured, but a house fire is. If everyday minor home repairs were covered the cost of house insurance (and home repairs) would skyrocket. That is why in most insurance markets (except health care) we pay out-of-pocket for common, routine and predictable events and insure only against catastrophic events.

When insurance coverage is broadened

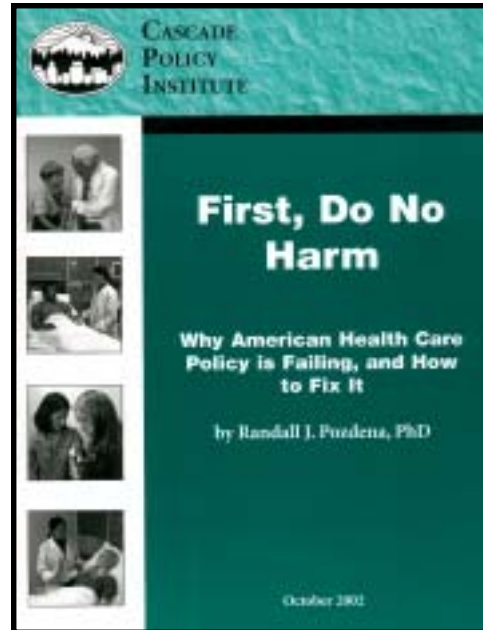
to include common, highly predictable events, no significant risk-spreading function is performed, and a powerful, distortionary force arises—a phenomenon called *price illusion*. Price illusion occurs when the perceived price of something does not reflect its true cost, and creates instead the perception of low, or even zero, cost. Unless the individual consumer cares about

margin, health care is free. The excessive demand and lack of consumer discipline fostered by this price illusion is a prime cause of rising health care costs.

Government policy precipitated the demise of true health insurance. Prior to World War II health insurance was a relative rarity and usually limited to catastrophic care coverage or insurance pools covering workers in dangerous industries. During WWII, however, the federal government placed wage and price controls on employers. To attract scarce labor, companies began offering health care benefits because such benefits did not violate the government's wage and price controls. The benefits were not considered employee income, thus they were a non-taxable form of employee compensation. The tax-exempt treatment of health care benefits stimulated rapid growth in employer-provided health insurance. By the time the federal tax authorities realized what was happening, the tax-exemption was a political sacred cow.

The tax-deductibility of health insurance helped it expand to non-catastrophic events. This has dramatically increased the price illusion in health care costs. About 80 percent of all medical visits involve relatively minor, commonly anticipated events such as care for common colds, flu, infections, minor injuries, normal pregnancy, and so forth. There is little risk sharing function performed when such events are insured, and the price illusion effect that arises gives the false perception that the service is essentially free.

Similar to a group of diners who agree be-



the price of a good or service when making a spending decision, there will be no *price discipline* in the market.

Thus, many health insurance policies today are not really insurance. Rather, with low- or no deductibles they are essentially pre-paid health care service programs. They create the false perception that, on the

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risks." However, looking elsewhere in the economy, the evidence overwhelmingly argues against the expansion of government power. Consider the results of "Underestimating Costs in Public Works Projects: Error or Lie?" a study published last June in the *Journal of the American Planning Association*, a peer-reviewed journal for professional planners. Three researchers from Denmark looked at 258 public works projects around the world—including roads, bridges, tunnels and rail construction—to analyze the extent to which estimates of future expenses were accurate.

What the Danes found, with overwhelming statistical significance, is that cost estimates used to decide whether such projects should be built are highly and systematically misleading.

Directly quoting the researchers, they found:

- In 9 out of 10 transportation infrastructure projects, costs are underestimated.
- Actual costs are on average 28% higher than estimated costs.
- Cost underestimation exists across 20 nations and 5 continents; it appears to be a global phenomenon.
- Cost underestimation has not decreased over the past 70 years. No learning that would improve cost estimate accuracy seems to take place.
- Cost underestimation cannot be explained

by error and seems to be best explained by strategic misrepresentation, i.e., lying.

The authors concluded, "The policy implications are clear: legislators, investors, media representatives, and members of the public who value honest numbers should not trust cost estimates and cost-benefit analyses produced by project promoters." Take those words into consideration as you follow the discussion about a government takeover of PGE.

John A. Charles is senior policy analyst at Cascade Policy Institute. This article was adapted from his presentation at the Nov. 18, 2002, "Public Forum on Ownership Options for PGE" held at Portland State University.

academic research. State tax policies can have a profound impact on the relative economic performance of the states. States with low and falling tax burdens—especially falling income tax burdens—outperform states with high and rising tax burdens. Most importantly, however, states that attempt to balance their budgets with higher tax rates are likely to lose jobs and businesses and thus create even larger long-term structural deficits.”

Oregon’s discussion must focus on where to reduce the state budget, which can be done in tandem with improving service delivery. With twelve years of work under its belt, Cascade has a wealth of suggestions.

Prioritize and eliminate

Cascade’s 1993 *Seven Principles of State Budget Reform* lays the foundation for moving Oregon forward. Adopting the seven principles now could balance the 2003-2005 budget without tax increases. The first principle is: prioritize state functions and eliminate non-core functions. Ending programs that do not belong in state government would save hundreds of millions of dollars. Examples include the Oregon Cultural Trust and Children’s Plan, which were created last session.

Numerous older departments and programs should be ended, including the *Oregon Economic and Community Development Department*. Cascade’s 2001 paper *Cutting the budget? Cut corporate welfare* readily identified \$32 million in selective benefits to business that could be cut. A 1994 Cascade report discusses one way to privatize the *Oregon Liquor Control Commission*. The 70th anniversary of Prohibition’s repeal will be in 2003; we should celebrate and say goodbye to this Prohibition-era relic.

“The state’s general fund budget has grown at double-digit rates for decades.”

Competitive bidding

After eliminating non-core state departments and programs, what remains should be put up for competitive bidding, and government employees should take part. During his two-terms former Indianapolis Mayor Stephen Goldsmith did this with virtually all city services. In 1998 he discussed Indianapolis’ competitive bidding successes at a Cascade luncheon attended by over 300, noting that it helped reduce city budgets, led to improved services, and increased employee morale. The principles Goldsmith employed are applicable to all

levels of government and are discussed in his book, *Twenty-first Century City*.

The Portland Public School System contracted out its janitorial services during 2002 at an estimated annual savings of \$5 million. If the school system had done that ten years ago it might have spent \$50 million fewer taxpayer dollars by now and been better able to absorb current budget cuts. Contracting out can even be extended to teachers, as highlighted in Cascade’s 1994 report, *Teacher, Inc.*

PERS

The Oregon Public Employee Retirement Fund (PERS) must be reformed. Cascade was an early voice in warning of the impending PERS implosion—and offered a solution—with our 2001 *Pension Liberation* report. The currently admitted \$15.7 billion underfunded liability locks Oregonians into spending hundreds of millions of additional tax dollars annually on benefits, which threatens to decimate state and local government services, and public schools.

Cascade chairman William B. Conerly, Ph.D., and academic advisor Randall J. Pozdena, Ph.D., recommend ending PERS immediately and moving to a defined contribution plan, thereby limiting taxpayer liability. The contract with retired PERS recipients would be honored; all PERS members would be credited with the benefits they have earned under the existing system. Taxpayers would still owe a yet-to-be-determined amount to pay remaining benefits, but this seems a better solution than tinkering with a costly, complicated system no one fully understands.

K-12 Education

Oregon spends more per K-12 student than most states. Cascade’s *Oregon K-12 Revenues and Expenditures, 1990-2001* confirms that the education funding problem is about how monies are allocated and spent. Thus, to improve education we should allow parents and students to select the schools and curriculums that best fit their needs. Eliminating central control of our school system and allowing funding to follow students could reduce spending while improving learning.

Health care

Legislators should repeal many of Oregon’s health insurance mandates. Consumers, not politicians, should decide what kind and level of coverage they want and need. A 1996 Cascade report, *Improving Oregon’s Medicaid Program*, discusses how such changes, coupled with means-tested and risk-adjusted vouchers for Oregon Health Plan recipients, could reduce tax spending per person on health care, help

“The headline-making cuts are primarily reductions in the rate of growth; thus, even with so-called cuts, actual spending is often higher than before.”

move people off welfare and increase the number Oregonians who could afford private health insurance.

The Institute’s November 2002 report, *First, Do No Harm*, and our November 2000 study, *Can Oregon Tighten its Fiscal belt?*, provide additional recommendations that could save hundreds of millions of taxpayer dollars and improve care for Oregon Health Plan participants.

Repeal “Little-Davis Bacon”

Oregon’s “Little Davis-Bacon” law requires employers to pay “prevailing wages,” that is, above market wages, on most government construction projects. Repealing this law would be a good step toward reducing the state budget. In 1993 the executive director of the Associated Builders and Contractors testified in Salem that repeal of this state law could reduce spending on state building and road projects by \$150 million that biennium. This idea is discussed in a Cascade commentary, *Repeal Little Davis-Bacon, reduce government fat*.

Opportunities abound

Oregon’s situation represents an opportunity to do things better in Salem, which generally means repealing, stopping, or getting out of the way. The suggestions here are just a start. Associated Oregon Industries just published *Fifty-four ways Oregon can save its own economic bacon*, which included ideas from Cascade, Oregon Tax Research and others.

Former Cascade speaker William D. Eggers offers more suggestions in his July publication, *Show Me the Money: Budget-cutting Strategies for Cash-strapped States*. Eggers emphasizes that his recommendations can help reduce expenditures when times are lean and transform how state governments operate in the future. If we don’t do both, we risk returning to bloated state budgets when times are fat.

Steve Buckstein is president of Cascade Policy Institute. This column is highlighted on Cascade’s website—www.cascadepolicy.org—with links to all documents cited.

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forehand to evenly split a restaurant bill, the insurance of common health care services causes us to all spend more than we otherwise would. American health care policy has virtually extinguished consumer price discipline, with the result that prices of medical services tend to inflate much more rapidly than expected. Over the years, the pressure of expanded government and private insurance coverage, and government mandated coverage of predictable events (such as normal pregnancy), has caused the price of medical services to rise more than twice the rate expected from general inflation factors.

Our health care policy is in a completely predictable cost, service and access death spiral. However, this situation is readily correctable. We should recognize that the person who generally best understands the value of and need for medical care is the individual or the family seeking it. The reassertion of individual sovereignty in health care is the only feasible means of containing health care costs while assuring that people obtain the health care services they need. We should adopt policies that limit the favored tax treatment of health insurance to catastrophic care only so that consumer discipline can be reasserted in the market for day-to-day care events. Using mechanisms such as Medical Savings Accounts, this can be accomplished while still providing equitable access to care for Americans of all income classes.

Randall J. Pozdena, Ph.D., is an academic advisor to Cascade Policy Institute and the author of the Cascade's October 2002 report, *First, Do No Harm: Why American Health Care is Failing, and How to Fix It*, from which this article is adapted.

KOIN TV news anchor Randy Querin (left) listens as Cascade president Steve Buckstein states why the private sector, not taxpayers, should finance a proposed major league baseball stadium in Portland.



John Fund of the *Wall Street Journal* (left) and Stephen Moore, president of the Washington, D.C.-based Club for Growth, discuss free market ideas with Cascade's Kurt T. Weber at a recent *State Policy Network* conference in Indianapolis.

Bruce Broussard (left), host of "Oregon Voters Digest" on Portland cable access television, and guest Bill Parish (right), debate PERS reform with Cascade president Steve Buckstein.



Announcing the Cascade Legacy Society

Recently a longtime friend of Cascade passed away. We were saddened at the sudden loss, and we have missed her constant, engaging presence at our events.

Our friend was also a modest annual donor. Shortly after her passing, we were notified that this retired community college professor bequeathed part of her estate to Cascade and other liberty-minded organizations. We were left without an opportunity to thank her.

To give thanks—privately or publicly—to farsighted individuals who plan to leave a portion of their estates to the Institute, the Cascade Legacy Society has been formed.

Through a bequest Cascade supporters can ensure that their support for individual liberty, markets, and limited government will extend beyond their lifetimes.

In addition to the supporter's benefits, which include possibly reducing taxes on a substantial estate, Legacy Society contributions can benefit Cascade in various ways. Some giving strategies can be initiated when a donor retires, providing Cascade with immediate financial support. Other strategies are based on future gifts, which allows the Institute to do more long-range program planning.

Planned giving and regular contributions enhance each other, each are needed. Cascade is a 501(c)(3) non-profit organization that relies on the generosity of individuals for much of our support. We do not solicit nor accept government funding—not now, not ever. Current gifts are tax-deductible to the full extent of the law. If you support the Institute's mis-

sion and principles, please consider joining the Cascade Legacy Society.

There was a time when you drew up a will once and put it away in a safe deposit box. Today, some individuals see the need to review their wills every few years. Estate and tax laws continually change, and professional assistance is encouraged to ensure your wishes will be honored.

Please call director of sponsor relations [Roberta Forbes](#) at (503) 242-0900 to request Cascade's IRS information before your next appointment with your estate lawyer or financial planner. Through a bequest you may become a member of the Cascade Legacy Society. And, if you allow us to publicize your intentions, your generosity may encourage others to do the same.

Events

January 16 – John A. Charles discusses land use policy with the Sea-side Rotary Club.

January 22 – John A. Charles speaks at the NAHB seminar on smart growth in Las Vegas.

January 23-25 – John A. Charles speaks at the “Preserving the American Dream of Mobility and Homeownership” conference in Washington, D.C.

Publications

- **Treatment Denied: How State Government Health Care Monopolies Care for the Mentally Ill**, Linda Gorman, Ph.D., Policy Insight No. 122, November.
- **First, Do No Harm: Why American Health Care Policy is Failing, and How to Fix It**, Randall J. Pozdena, Ph.D., Policy Insight No. 121, October.
- **Pension Liberation for Oregon: A Proposal to Reform PERS**, Peter J. Ferrara, J.D., Policy Insight No. 117, May 2001.
- **The Economic Impact of an Oregon Sales Tax**, Richard K. Vedder, Ph.D., Fiscal Insight No. 7, October 1993.
- **Shut down PERS now**, Steve Buckstein, Cascade Commentary 2002-32, December.
- **Spending billions to create more congestion**, John A. Charles, CC 2002-31, November.
- **When giving, give wisely**, Kurt T. Weber, CC 2002-30, November.
- **HRAs benefit employees and employers**, Kurt T. Weber, CC 2002-29, November.
- **First, look at school spending**, Nick Weller, CC 2002-28, November.

Publications and event details are online at www.cascadepolicy.org, or call (503) 242-0900.

Students, write for liberty & awards!

Cascade’s ninth annual Independence Essay Competition is underway, offering a total of \$5,000 to high school students who write the best essays on the foundations of freedom. This year’s students are asked to write about the threats to liberty posed by government action in the war on terrorism. Complete entry guidelines and links to short recommended readings are available online at www.cascadepolicy.org/essay.asp.

“The topic is both timely and critically important for those concerned about liberty and individual rights,” said Institute vice president Kurt T. Weber. “One of the explicit constitutional functions of the federal government is to provide for the common defense. However, this is not a blank check for any and all government activity and it is important to ensure government does not overstep its bounds.”

Weber adds, “As Robert Higgs made clear in *Crisis and Leviathan*, times of emergency lead to growth in government and once the crisis passes government does not return to its former size. Already, the *USA Patriot Act* has encroached on individual liberty and we do not know what other expansions of federal or state power are waiting in the wings.”

The entry deadline for the Independence Essay Competition is March 14, 2003. The competition is open to all Oregon high

school students, not just college-bound seniors. Public, private and home-schooled students are all invited to participate.

An independent panel of judges will select the winners, who will receive up to \$1,000 each. The judges are: Garrett Epps, J.D., University of Oregon Law School; Ayse Y. Evrensel, Ph.D., Department of Economics, Portland State University; Leslie Spencer, Former Associate Editor, *Forbes*; Zenon X. Zygmunt, Ph.D., Division of Business and Economics, Western Oregon University.

Cascade appreciates any suggestions or ideas about reaching more Oregon high school students, parents and educators about the Independence Essay Competition. To obtain guidelines or discuss marketing ideas please contact **Kurt T. Weber** at (503) 242-0900.

The 2003 Independence Essay Competition sponsors include the Bonavia Family Charitable Trust; Constructive Management Foundation; Friesen Lumber Company; and Centerpoint Graphics, Inc. To learn how you can support Cascade’s student outreach programs please contact Roberta Forbes at (503) 242-0900 or roberta@cascadepolicy.org.



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