

Show Us the Money!

Public Finance Explained

M I N D - B L O W E R :

Event Series Wrap-Up Session

Moderated by:

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Over five Mind-Opener breakfast sessions, the Citizens League heard from some of Minnesota's most knowledgeable experts on economics, demographics and public finance.

Too often, issues are framed within the constraints of "tax more/spend more" or "tax less/spend less." It is imperative that the framing of our public finance choices move beyond this dynamic and focus on the best ideas to get the results that we can all agree on.

To wrap up our public finance event series, the Citizens League gathered 10 roundtables to have moderated discussions. (see separate document: "Mind Blower Discussion Topics" at www.citizensleague.net). We generally asked those gathered:

- What are the facts that stick out?
- What are the proper ways of framing these issues?
- Are there fundamentals about the topics that need to be changed?
- What are the priorities for these topics?

Discussion Results

Public Finance

We started talking about the size of government, whether or not it's about right. We talked a lot about how to arrive at whether we are getting value. What are the outcomes? Are we getting the right outcomes? We thought the revenues were about right, but that they weren't generating outcomes in the right places.



One of the important facts that we discussed was demographics – the number of elderly people compared to the number of younger people – and what that means.

We talked about the difficulty in getting people to think about the long-term. Our whole dynamic now seems to be heavy competition and short-term focus on what we spend money on and balancing the budget in the near term. How can we get people to think together about the long-term impact of decisions that are being made now? We talked about setting something aside exclusively for long-term investments. When we looked at the pros and cons of spending, we all agreed that investment in human capital and health care spending are the most important factors to address for continued economic health.

Increasing state wealth gives us the opportunity to invest new money in public programs. Changes in the state mean that we will face new challenges in the coming decades, but today's circumstances give us the opportunity to reevaluate the way in which we direct public money.



We should use this opportunity to build a sensible approach to social and economic issues such as health care, education, and public safety, and to construct a vision that brings these issues together in more comprehensive goals.

Education

The largest part of our discussion was about education – how it was being handled, how it was being financed, and the number of disparities in classrooms.

We think that early education has potentially the biggest “bang for the buck,” so that has to be a priority. We also think that the best resource of the state is people, so the more you invest in education, the better outcome you will have economically. Increased diversity is a challenge. If investment in education is made early, then the disparities won’t be as glaring and issues will be addressed when they are most affordable. There is a definite sense that we are not really paying attention to our educational needs, especially in terms of how and what we fund. Simply increasing spending on education is not enough; we must focus on quality and allocate spending in a way that will produce results.

We had a fair amount of discussion on things like early childhood investment as a way to spend money and get some pay-off that is long term, as well as some benefit in the near-term.

We talked about investing in human capital. We explored the idea of going beyond early childhood and K-12 and talking more about public education of adults in health and lifestyle choices.

- *We should focus on raising the performance of minority students.* Minnesota’s economy is dependent on the productivity of increasing immigrant populations, but we are now seeing poor performance in the very groups that are expected to grow the most over the coming decades.
- *We have the potential to increase our revenue if we align education priorities with current economic development initiatives.* Many local firms are relying on talent from overseas, particularly in science and engineering, because international students are outperforming Americans in these subjects. Investing in education in areas that are in high demand by American businesses, like engineering, could further increase the economic benefits of education.
- *Investments in early education give the greatest returns.* We should focus on early education, especially as a way to close achievement gaps.

Health Care

Today, the health care system is changing. It has traditionally been centered on insurance provided through employers. However, recent years have seen a decrease in employer-sponsored coverage. More costs and responsibility are being transferred to individuals, as insurance coverage decreases and with the introduction of health savings accounts and the new Medicare reform. Yet consumers do not have a functioning market in which to operate.

Also, we discussed health care information. How much will health care be impacted with diabetes costs and the obesity epidemic, and what can we do to reduce health care costs by trying to change lifestyle? We discussed moving the center of gravity of health care to “wellness” instead of “illness.” We talked about communicating to the public at large about how to become healthier; do we need an enhanced public service announcement to get the message out to people to change and take care of themselves?

The observation was made that decisions about health care will never be made in a rational economic model. A lot of health factors depend on our behavioral social control, but

some do not. We discussed environmental consequences to our health, and how we don't really look at the total costs. We all agreed that we need a broader set of goals with regards to health care. One is that health care is to improve overall health. Another is that everyone has coverage. A solution that was brought up is that the state could help get everyone insured by creating "purchasing pools" that individuals and small employers can join. We also need to look at redefining health care at the federal and state level. We are somewhat confused about why we are continuing to rely on getting health care through employers when we know that employer-distributed health care has been eroding. We need to have a discussion about the "public good" versus the "private good."

A key fact is that the government is a major consumer of health care with all of its programs and employees. We think that most medical care is distributed unequally due to "cherry picking" and competition. It seems that we put too much focus on extraordinary care and not enough on ordinary care. We would like to see greater transparency for consumer decision-making, a higher priority on prevention, environmental incentives to influence behavioral choices that effect health, and more of a balance between affordable health care and quality health care.

We do not have best health care system in world, we need to stop saying we do and we need leaders to stand up and recognize this. An employer-based system doesn't make sense in a global marketplace. We should compare our health care system internationally. We are concerned about cost-shifting given current income inequalities. Complexity in the current system is overwhelming. We need to reframe the health care system as an international system that is pro-economy and pro-business.

In order to get more from our health care dollars, we need to make some fundamental change to our system.

- *We should define the purpose of health care.* The goal of the health care system should be to provide affordable and quality care for everyone. To achieve this goal, we may need to think about the balance between access for all and quality care, and between the individual and community good.

- *Prevention could make a profound difference.* Investing money to provide preventive care and to improve social, economic, and environmental factors could reduce chronic conditions and improve health status. Putting a priority on preventive care, planned housing, transportation, education, and economic policies could both cut costs and improve the health of our communities.
- *We need greater transparency in decision making.* Health care consumers, providers, and regulators need access to more complete information about services and results in order to make sensible decisions.



- *We should rethink the basis for health coverage.* Employer-centered coverage is eroding, and providing health coverage to the individual as a citizen rather than as the employee of a particular firm could provide stability.
- *Coalitions will be necessary to take on the politics of changing resource distribution.* Fundamental changes may be necessary to build a well-functioning system, but any solution must both support and be supported by our businesses.

Public Safety

We discussed the fact that public safety is mainly funded through property taxes and state aids. It was very interesting to learn that almost a quarter of Minnesota cities do not have 24/7 public safety coverage by police.



We discussed the effectiveness of having block watches and the different perspectives of urban and rural areas, and how your sense of safety might be different if you are in the metro area or the rural area, or within different areas of a city.

Maintaining public safety is an ongoing challenge, and changes in the composition of neighborhoods and towns are creating new issues for security.

- *Public safety is more than police and fire departments.* Economic, housing, education, and family issues can all affect crime and other factors in public safety. Just as with education and health care, social and environmental factors can have a significant impact on public safety.
- *We may need to rethink funding for public safety.* We should think about the impact of different taxes on our changing communities. Police and fire departments are primarily financed by property taxes, which currently account for about one-third of taxes collected. The proportions of funds collected through property tax, sales tax, and income tax may have to shift.
- *Before moving forward on investment in public safety, we need information about what works.* We should examine information on the effectiveness of various strategies, including programs like neighborhood watch.

- *We need to define the measures of success* and we should examine the connection between citizen sense of security and actual data on public safety.

Series Comments

- *Too much emphasis on averages.* Facts need to be reframed focusing on outliers.
- *Issue of intergenerational equity of the next generation.* We need myths to aspire to: for example, “Minnesota should be the most fit state in the nation.” The Citizens League should think about myths (ideals).
- *Citizens League should frame good questions.* Without good questions, you cannot get good answers. How do we allocate our resources to the places that need it the most?
- *Good series.* How does the Citizens League take the intellectual capital created from this series to influence policy?
- *Should we pay more or less?* And where does the revenue come from? The three main taxes are not created equally in terms of burden. Who pays it? And who benefits?
- *Focus on the relationship between social capital and human capital around education.* Can we have a strong public education without strong social capital?
- *Concern about the lack of diversity at the series.* How do we represent more citizens?
- *There are more upstream strategies we can use.* It is a question of approach. Focus on where and how we address issues. Instead of reform done incrementally, create a radical change with a fresh vision.

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